# POSCO
# and Subsidiaries

**Consolidated Financial Statements**
**December 31, 2013 and 2012**

**(With Independent Auditors' Report Thereon)**

## Table of Contents

**Page**

**Independent Auditors' Report** ..... 1

**Consolidated Financial Statements**

Consolidated Statements of Financial Position ..... 3

Consolidated Statements of Comprehensive Income ..... 5

Consolidated Statements of Changes in Equity ..... 6

Consolidated Statements of Cash Flows ..... 8

Notes to the Consolidated Financial Statements ..... 10

**Independent Auditors' Report**

Based on a report originally issued in Korean

The Board of Directors and Shareholders
POSCO:

We have audited the accompanying consolidated statements of financial position of POSCO and subsidiaries (the "Company") as of December 31, 2013 and 2012 and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended. Management is responsible for the presentation of these consolidated financial statements in accordance with Korean International Financial Standards. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2013 and 2012 and its financial performance and its cash flows for the years then ended, in conformity with Korean International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to the following:

The procedures and practices utilized in the Republic of Korea to audit such consolidated financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying consolidated financial statements are for use by those knowledgeable about Korean auditing standards and their application in practice.

KPMG Samjong Accounting Corp.

Seoul, Korea
February 25, 2014

This report is effective as of February 25, 2014, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

# POSCO and Subsidiaries
## Consolidated Statements of Financial Position
## As of December 31, 2013 and 2012

| *(in millions of Won)* | Notes | | December 31, 2013 | December 31, 2012 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | 4,5,23 | ₩ | 4,208,562 | 4,680,526 |
| Trade accounts and notes receivable, net | 6,17,23,28,29,38 | | 11,492,601 | 11,037,973 |
| Other receivables, net | 7 | | 1,890,423 | 1,997,152 |
| Other short-term financial assets | 8,23,38 | | 2,970,665 | 1,849,281 |
| Inventories | 9 | | 9,798,381 | 10,584,646 |
| Current income tax assets | 36 | | 32,417 | 17,168 |
| Assets held for sale | 10 | | 2,494 | 1,190 |
| Other current assets | 16 | | 1,270,668 | 1,398,180 |
| **Total current assets** | | | 31,666,211 | 31,566,116 |
| Long-term trade accounts and notes receivable, net | 6,23 | | 97,000 | 142,204 |
| Other receivables, net | 7 | | 797,455 | 808,903 |
| Other long-term financial assets | 8,23 | | 4,465,730 | 3,860,966 |
| Investments in associates and joint ventures | 11 | | 3,808,693 | 3,039,261 |
| Investment property, net | 13 | | 425,229 | 521,191 |
| Property, plant and equipment, net | 14 | | 35,760,119 | 32,276,379 |
| Intangible assets, net | 15 | | 5,929,840 | 5,662,361 |
| Deferred tax assets | 36 | | 1,139,932 | 994,684 |
| Other long-term assets | 16 | | 365,198 | 393,786 |
| **Total non-current assets** | | | 52,789,196 | 47,699,735 |
| **Total assets** | | ₩ | 84,455,407 | 79,265,851 |

*See accompanying notes to the consolidated financial statements.*

# POSCO and Subsidiaries
## Consolidated Statements of Financial Position, Continued
## As of December 31, 2013 and 2012

| *(in millions of Won)* | Notes | December 31, 2013 | December 31, 2012 |
|---|---|---|---|
| **Liabilities** | | | |
| Trade accounts and notes payable | 23,38 | ₩ 4,231,322 | 4,389,195 |
| Short-term borrowings and current installments of long-term borrowings | 4,17,23 | 10,713,646 | 10,509,348 |
| Other payables | 18 | 2,128,854 | 1,834,904 |
| Other short-term financial liabilities | 19,23,38 | 135,904 | 92,741 |
| Current income tax liabilities | 36 | 358,930 | 559,328 |
| Provisions | 20 | 107,329 | 77,831 |
| Other current liabilities | 22,29 | 2,565,174 | 2,311,654 |
| **Total current liabilities** | | 20,241,159 | 19,775,001 |
| Long-term trade accounts and notes payable | 23,38 | 559 | 2,593 |
| Long-term borrowings, excluding current installments | 4,17,23 | 15,532,959 | 14,412,085 |
| Other payables | 18 | 206,634 | 243,922 |
| Other long-term financial liabilities | 19,23 | 260,021 | 117,713 |
| Net defined benefit liabilities | 21 | 273,160 | 345,688 |
| Deferred tax liabilities | 36 | 1,711,762 | 1,461,519 |
| Long-term provisions | 20 | 146,272 | 100,098 |
| Other long-term liabilities | 22 | 260,851 | 377,814 |
| **Total non-current liabilities** | | 18,392,218 | 17,061,432 |
| **Total liabilities** | | 38,633,377 | 36,836,433 |
| **Equity** | | | |
| Share capital | 24 | 482,403 | 482,403 |
| Capital surplus | 24 | 1,078,266 | 1,104,814 |
| Hybrid bonds | 25 | 996,919 | - |
| Reserves | 26 | (23,076) | (88,150) |
| Treasury shares | 27 | (1,579,124) | (2,391,406) |
| Retained earnings | | 41,090,649 | 40,346,481 |
| **Equity attributable to owners of the controlling company** | | 42,046,037 | 39,454,142 |
| **Non-controlling interests** | 25 | 3,775,993 | 2,975,276 |
| **Total equity** | | 45,822,030 | 42,429,418 |
| **Total liabilities and equity** | | ₩ 84,455,407 | 79,265,851 |

*See accompanying notes to the consolidated financial statements.*

# POSCO and Subsidiaries
## Consolidated Statements of Comprehensive Income
## For the years ended December 31, 2013 and 2012

| *(in millions of Won, except per share information)* | Notes | December 31, 2013 | December 31, 2012 |
|---|---|---|---|
| **Revenue** | 28,29,38 | ₩ 61,864,650 | 63,604,151 |
| **Cost of sales** | 29,31,35,38 | (55,004,591) | (56,142,892) |
| **Gross profit** | | 6,860,059 | 7,461,259 |
| Selling and administrative expenses | 30,35 | | |
| Administrative expenses | 31 | (2,231,805) | (2,129,463) |
| Selling expenses | | (1,632,120) | (1,678,688) |
| **Operating profit** | 32 | 2,996,134 | 3,653,108 |
| Share of loss of equity-accounted investees, net | 11 | (179,809) | (22,702) |
| Finance income and costs | 23,33 | | |
| Finance income | | 2,380,838 | 2,897,063 |
| Finance costs | | (2,829,253) | (2,797,638) |
| Other non-operating income and expenses | 34,38 | | |
| Other non-operating income | | 229,073 | 448,120 |
| Other non-operating expenses | 35 | (650,806) | (809,465) |
| **Profit before income tax** | | 1,946,177 | 3,368,486 |
| Income tax expense | 36 | (590,997) | (982,879) |
| **Profit for the period** | | 1,355,180 | 2,385,607 |
| **Other comprehensive income (loss)** | | | |
| Items that will not be reclassified subsequently to profit or loss : | | | |
| Remeasurements of defined benefit pension plans | 21 | 6,224 | (62,527) |
| Items that are or may be reclassified subsequently to profit or loss : | | | |
| Capital adjustment arising from investments in equity-method investees | | (183,836) | (130,836) |
| Net changes in the unrealized fair value of available-for-sale investments | 23 | 412,346 | (81,471) |
| Foreign currency translation differences | | (220,464) | (363,088) |
| **Other comprehensive income (loss), net of tax** | | 14,270 | (637,922) |
| **Total comprehensive income for the period** | | ₩ 1,369,450 | 1,747,685 |
| **Profit (loss) attributable to:** | | | |
| Owners of the controlling company | | ₩ 1,376,396 | 2,462,081 |
| Non-controlling interests | | (21,216) | (76,474) |
| **Profit for the period** | | ₩ 1,355,180 | 2,385,607 |
| **Total comprehensive income (loss) attributable to:** | | | |
| Owners of the controlling company | | ₩ 1,444,262 | 1,911,506 |
| Non-controlling interests | | (74,812) | (163,821) |
| **Total comprehensive income for the period** | | ₩ 1,369,450 | 1,747,685 |
| **Basic and diluted earnings per share** | 37 | ₩ 17,409 | 31,874 |

*See accompanying notes to the consolidated financial statements.*

# POSCO and Subsidiaries
## Consolidated Statements of Changes in Equity
## For the years ended December 31, 2013 and 2012

| *(in millions of Won)* | Attributable to owners of the controlling company | | | | | | | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Capital surplus | Hybrid bonds | Reserves | Treasury shares | Retained earnings | Sub total | | |
| **Balance as of January 1, 2012** | ₩ 482,403 | 1,150,452 | - | 405,426 | (2,391,406) | 38,709,475 | 38,356,350 | 2,373,570 | 40,729,920 |
| **Comprehensive income:** | | | | | | | | | |
| Profit for the period | - | - | - | - | - | 2,462,081 | 2,462,081 | (76,474) | 2,385,607 |
| Net changes in accumulated comprehensive income of investments in associates, net of tax | - | - | - | (112,974) | - | - | (112,974) | (17,862) | (130,836) |
| Net changes in the unrealized fair value of available-for-sale investments, net of tax | - | - | - | (86,661) | - | - | (86,661) | 5,190 | (81,471) |
| Foreign currency translation differences, net of tax | - | - | - | (292,015) | - | - | (292,015) | (71,073) | (363,088) |
| Remeasurements of defined benefit pension plans, net of tax | - | - | - | - | - | (58,925) | (58,925) | (3,602) | (62,527) |
| **Total comprehensive income** | - | - | - | (491,650) | - | 2,403,156 | 1,911,506 | (163,821) | 1,747,685 |
| **Transactions with owners of the controlling company, recognized directly in equity:** | | | | | | | | | |
| Year-end dividends | - | - | - | - | - | (579,333) | (579,333) | (19,751) | (599,084) |
| Interim dividends | - | - | - | - | - | (154,489) | (154,489) | - | (154,489) |
| Changes in subsidiaries | - | - | - | - | - | - | - | 35,870 | 35,870 |
| Changes in ownership interests in subsidiaries | - | (41,924) | - | - | - | - | (41,924) | 715,148 | 673,224 |
| Others | - | (3,714) | - | (1,926) | - | (32,328) | (37,968) | 34,260 | (3,708) |
| **Total transactions with owners of the controlling company** | - | (45,638) | - | (1,926) | - | (766,150) | (813,714) | 765,527 | (48,187) |
| **Balance as of December 31, 2012** | ₩ 482,403 | 1,104,814 | - | (88,150) | (2,391,406) | 40,346,481 | 39,454,142 | 2,975,276 | 42,429,418 |

*See accompanying notes to the consolidated financial statements.*

# POSCO and Subsidiaries
## Consolidated Statements of Changes in Equity, Continued
## For years ended December 31, 2013 and 2012

| *(in millions of Won)* | Attributable to owners of the controlling company | | | | | | | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Capital surplus | Hybrid bond | Reserves | Treasury shares | Retained earnings | Sub total | | |
| **Balance as of January 1, 2013** | ₩ 482,403 | 1,104,814 | - | (88,150) | (2,391,406) | 40,346,481 | 39,454,142 | 2,975,276 | 42,429,418 |
| **Comprehensive income:** | | | | | | | | | |
| Profit for the period | - | - | - | - | - | 1,376,396 | 1,376,396 | (21,216) | 1,355,180 |
| Net changes in accumulated comprehensive income of investments in associates, net of tax | - | - | - | (166,787) | - | - | (166,787) | (17,049) | (183,836) |
| Net changes in the unrealized fair value of available-for-sale investments, net of tax | - | - | - | 412,453 | - | - | 412,453 | (107) | 412,346 |
| Foreign currency translation differences, net of tax | - | - | - | (180,839) | - | - | (180,839) | (39,625) | (220,464) |
| Remeasurements of defined benefit pension plans, net of tax | - | - | - | - | - | 3,039 | 3,039 | 3,185 | 6,224 |
| **Total comprehensive income** | - | - | - | 64,827 | - | 1,379,435 | 1,444,262 | (74,812) | 1,369,450 |
| **Transactions with owners of the controlling company, recognized directly in equity:** | | | | | | | | | |
| Year-end dividends | - | - | - | - | - | (463,467) | (463,467) | (30,544) | (494,011) |
| Interim dividends | - | - | - | - | - | (154,490) | (154,490) | - | (154,490) |
| Changes in subsidiaries | - | - | - | - | - | - | - | 40,506 | 40,506 |
| Changes in ownership interests in subsidiaries | - | (31,417) | - | - | - | - | (31,417) | 373,963 | 342,546 |
| Issuance of hybrid bonds | - | - | 996,919 | - | - | - | 996,919 | 498,468 | 1,495,387 |
| Interest of hybrid bonds | - | - | - | - | - | (24,161) | (24,161) | (6,228) | (30,389) |
| Disposal of treasury shares | - | 5,348 | - | - | 812,282 | - | 817,630 | - | 817,630 |
| Others | - | (479) | - | 247 | - | 6,851 | 6,619 | (636) | 5,983 |
| **Total transactions with owners of the controlling company** | - | (26,548) | 996,919 | 247 | 812,282 | (635,267) | 1,147,633 | 875,529 | 2,023,162 |
| **Balance as of December 31, 2013** | ₩ 482,403 | 1,078,266 | 996,919 | (23,076) | (1,579,124) | 41,090,649 | 42,046,037 | 3,775,993 | 45,822,030 |

*See accompanying notes to the consolidated financial statements.*

# POSCO and Subsidiaries
## Consolidated Statements of Cash Flows
## For the years ended December 31, 2013 and 2012

| *(in millions of Won)* | Note | December 31, 2013 | December 31, 2012 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit for the period | | ₩ 1,355,180 | 2,385,607 |
| Adjustments for: | | | |
| Depreciation | | 2,505,536 | 2,405,769 |
| Amortization | | 180,014 | 157,991 |
| Finance income | | (1,012,281) | (1,553,200) |
| Finance costs | | 1,585,778 | 1,605,414 |
| Income tax expense | | 590,997 | 982,879 |
| Gain on disposal of property, plant and equipment | | (14,177) | (42,290) |
| Loss on disposal of property, plant and equipment | | 121,133 | 65,486 |
| Share of loss of equity-accounted investees | | 179,809 | 22,702 |
| Cost for defined benefit plans | | 247,748 | 226,132 |
| Warranty expense | | 111,364 | 25,127 |
| Bad debt expenses | | 201,185 | 123,373 |
| Loss on valuation of inventories | | 49,172 | 76,484 |
| Impairment loss of assets held for sale | | 1,814 | 258,451 |
| Impairment loss of goodwill and intangible assets | | 125,316 | 21,776 |
| Gain on disposals of assets held for sale | | (101,611) | (193,333) |
| Others, net | | 40,821 | (13,659) |
| | | 4,812,618 | 4,169,102 |
| Changes in operating assets and liabilities | 40 | (116,432) | 1,933,358 |
| Interest received | | 227,989 | 238,231 |
| Interest paid | | (797,316) | (874,711) |
| Dividends received | | 193,008 | 178,317 |
| Income taxes paid | | (816,912) | (710,448) |
| Net cash provided by operating activities | | ₩ 4,858,135 | 7,319,456 |

*See accompanying notes to the consolidated financial statements.*

# POSCO and Subsidiaries
## Consolidated Statements of Cash Flows, Continued
## For the years ended December 31, 2013 and 2012

*(in millions of Won)*

| | Note | December 31, 2013 | December 31, 2012 |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| Acquisitions of short-term financial instruments | | ₩ (4,449,312) | (3,616,118) |
| Proceeds from disposal of short-term financial instruments | | 3,901,527 | 3,847,682 |
| Increase in loans | | (575,343) | (434,156) |
| Collection of loans | | 417,971 | 318,745 |
| Acquisitions of available-for-sale investments | | (309,469) | (307,712) |
| Proceeds from disposal of available-for-sale investments | | 269,363 | 700,686 |
| Acquisitions of investments of equity-accounted investees | | (1,076,763) | (492,681) |
| Proceeds from disposal of investments of equity-accounted investees | | 89,533 | 18,428 |
| Acquisitions of property, plant and equipment | | (6,569,613) | (7,054,543) |
| Proceeds from disposal of property, plant and equipment | | 82,153 | 272,948 |
| Acquisitions of intangible assets | | (543,666) | (448,214) |
| Proceeds from disposal of intangible assets | | 5,429 | 10,945 |
| Proceeds from disposal of assets held for sale | | 126,809 | 1,268,545 |
| Acquistions of other investment assets | | (9,258) | (128) |
| Proceeds from disposal of other investment assets | | 31,295 | 19,566 |
| Cash received from (paid in) acquisition of business, net of cash acquired | | 5,729 | (98,880) |
| Cash received from disposal of business | | 5,962 | 13,041 |
| Other, net | | (154,017) | (187,157) |
| Net cash used in investing activities | | (8,751,670) | (6,169,003) |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | 5,098,702 | 3,007,017 |
| Repayment of borrowings | | (2,845,957) | (1,884,140) |
| Proceeds from (repayment of) short-term borrowings, net | | 86,475 | (1,412,138) |
| Proceeds from disposal of treasury shares | | 14,019 | - |
| Payment of cash dividends | | (648,580) | (751,908) |
| Proceeds from issuance of hybrid bonds | | 1,495,387 | - |
| Payment of interest of hybrid bonds | | (26,088) | - |
| Other, net | | 358,378 | 133,542 |
| Net cash povided (used in) by financing activities | | 3,532,336 | (907,627) |
| Effect of exchange rate changes on cash held | | (110,765) | (160,982) |
| **Net increase in cash and cash equivalents** | | (471,964) | 81,844 |
| **Cash and cash equivalents at beginning of the period** | | 4,680,526 | 4,598,682 |
| **Cash and cash equivalents at end of the period** | | ₩ 4,208,562 | 4,680,526 |

*See accompanying notes to the consolidated financial statements.*

## 1. General Information

General information about POSCO, its 39 domestic subsidiaries including POSCO Engineering & Construction Co., Ltd., 172 foreign subsidiaries including POSCO America Corporation (collectively "the Company") and its 100 associates and joint ventures are as follows:

(a) The controlling company

POSCO, the controlling company, was incorporated on April 1, 1968, under the Commercial Code of the Republic of Korea to manufacture and sell steel rolled products and plates in the domestic and foreign markets.

The shares of POSCO have been listed on the Korea Exchange since 1988. POSCO owns and operates two steel plants (Pohang and Gwangyang) and one office in Korea and it also operates internationally through eight of its overseas liaison offices.

As of December 31, 2013 and 2012, POSCO's shareholders are as follows:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| Shareholder's name | Number of shares | Ownership(%) | Number of shares | Ownership(%) |
| National Pension Service | 6,577,907 | 7.54 | 5,225,654 | 5.99 |
| Nippon Steel & Sumitomo Metal Corporation(*1) | 4,394,712 | 5.04 | 4,394,712 | 5.04 |
| Hyundai Heavy Industries Co.,Ltd. and subsidiaries(*2) | 2,197,707 | 2.52 | 2,183,997 | 2.50 |
| Pohang University of Science and Technology | 1,905,000 | 2.18 | 1,905,000 | 2.18 |
| KB Financial Group Inc. and subsidiaries(*2) | 1,846,994 | 2.12 | 1,919,773 | 2.20 |
| Others | 70,264,515 | 80.60 | 71,557,699 | 82.09 |
| | 87,186,835 | 100.00 | 87,186,835 | 100.00 |

(*1) Nippon Steel & Sumitomo Metal Corporation owns American Depository Receipts (ADRs) of the Company, each of which represents 0.25 share of POSCO's common share which has par value of ₩5,000 per share.

(*2) Includes shares held by subsidiaries pursuant to Articles of Incorporation.

As of December 31, 2013, the shares of the Company are listed on the Korea Exchange, while its depository shares are listed on the New York, Tokyo and London Stock Exchanges.

(b) Consolidated subsidiaries

Details of consolidated subsidiaries as of December 31, 2013 and 2012 are as follows :

| | | Ownership (%) | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | 2013 | | | 2012 | | | |
| | Principal Operations | POSCO | Subsidiaries | Total | POSCO | Subsidiaries | Total | Region |
| **[Domestic]** | | | | | | | | |
| POSCO ENGINEERING & CONSTRUCTION CO., LTD. | Engineering and construction | 89.53 | - | 89.53 | 89.53 | - | 89.53 | Pohang |
| POSCO Processing&Service | Steel sales and service | 95.31 | - | 95.31 | 95.31 | - | 95.31 | Seoul |
| POSCO COATED & COLOR STEEL Co., Ltd. | Coated steel manufacturing | 56.87 | - | 56.87 | 56.87 | - | 56.87 | Pohang |
| POSCO PLANTEC Co., Ltd. | Steel work maintenance and machinery installation | - | - | - | 100.00 | - | 100.00 | Pohang |
| POSCO ICT | Computer hardware and software distribution | 65.38 | - | 65.38 | 72.54 | - | 72.54 | Seongnam |
| POSCO Research Institute | Economic research and consulting | 100.00 | - | 100.00 | 100.00 | - | 100.00 | Seoul |
| POSMATE (former Seoung Gwang Co., Ltd.) | Business facility maintenance | 54.46 | 11.77 | 66.23 | 69.38 | 30.62 | 100.00 | Suncheon |
| POSCO A&C | Architecture and consulting | 100.00 | - | 100.00 | 100.00 | - | 100.00 | Seoul |
| POSCO Specialty Steel Co., Ltd. | Steel manufacturing and sales | 72.09 | - | 72.09 | 94.74 | - | 94.74 | Changwon |
| POSTECH Venture Capital Co., Ltd. | Investment in venture companies | 95.00 | - | 95.00 | 95.00 | - | 95.00 | Pohang |
| eNtoB Corporation | Electronic commerce | 32.19 | 30.20 | 62.39 | 32.19 | 30.20 | 62.39 | Seoul |
| POSCO CHEMTECH | Manufacturing and sellings of refractories | 60.00 | - | 60.00 | 60.00 | - | 60.00 | Pohang |
| POSCO-Terminal Co., Ltd. | Transporting and warehousing | 51.00 | - | 51.00 | 51.00 | - | 51.00 | Gwangyang |
| POSCO M-TECH(*1) | Packing materials manufacturing | 48.85 | - | 48.85 | 48.85 | - | 48.85 | Pohang |
| POSCO ENERGY CO., LTD. | Generation of electricity | 89.02 | - | 89.02 | 89.02 | - | 89.02 | Seoul |
| Postech 2006 Energy Fund(*2) | Investment in new technologies | - | - | - | - | 22.11 | 22.11 | Seoul |
| POSCO TMC Co., Ltd. | Component manufacturing | 34.20 | 40.36 | 74.56 | 34.20 | 33.56 | 67.76 | Cheonan |
| POSCO NIPPON STEEL RHF JOINT VENTURE.CO.,Ltd. | Steel manufacturing and sales | 70.00 | - | 70.00 | 70.00 | - | 70.00 | Pohang |
| MegaAsset Co.,Ltd. | Real estate rental and sales | - | 100.00 | 100.00 | - | 100.00 | 100.00 | Cheonan |
| POSCO Engineering CO.,Ltd | Construction and engneering service | - | 95.56 | 95.56 | - | 95.56 | 95.56 | Seongnam |
| Pohang SPFC Co., Ltd. | Steel manufacturing | - | - | - | - | 90.00 | 90.00 | Pohang |
| POSWITH Co., Ltd. | Industrial clean service | - | - | - | 100.00 | - | 100.00 | Pohang |
| POSCO AST | Steel manufacturing and sales | 100.00 | - | 100.00 | 100.00 | - | 100.00 | Ansan |
| POSHIMETAL Co., Ltd. | Steel manufacturing and sales | 65.00 | - | 65.00 | 65.00 | - | 65.00 | Gwangyang |
| Poscoene | Handling & disposal of waste matter | - | 100.00 | 100.00 | - | 100.00 | 100.00 | Seoul |
| POSFINE Co., Ltd. | Non metallic minerals manufacturing | 69.23 | - | 69.23 | 69.23 | - | 69.23 | Gwangyang |
| POSCO Humans | Construction | 90.30 | - | 90.30 | 85.25 | - | 85.25 | Pohang |
| Mapo Hibroad Parking co., Ltd. | Construction | - | 71.00 | 71.00 | - | 71.00 | 71.00 | Seoul |
| Dakos Co., Ltd. | Railway equipment manufacturing | - | - | - | - | 81.00 | 81.00 | Seongnam |
| Steel Processing and Fabricating Center Co.,LTD | Steel manufacturing | - | 70.52 | 70.52 | - | 65.84 | 65.84 | Gwangyang |
| POSCALCIUM Company, Ltd. | Non metallic minerals manufacturing | - | - | - | - | 86.87 | 86.87 | Pohang |
| Plant Engineering service Technology Co., Ltd. | Engineering service | - | 100.00 | 100.00 | - | 100.00 | 100.00 | Pohang |
| 9Digit Co., Ltd. | Steel manufacturing | - | - | - | - | 86.48 | 86.48 | Incheon |
| Postech Early Stage Fund(*2) | Financial investment | - | - | - | - | 10.00 | 10.00 | Pohang |
| Busan E&E Co,. Ltd. | Handling & disposal of waste matter | 70.00 | - | 70.00 | 70.00 | - | 70.00 | Busan |
| POSCO Family Strategy Fund | Financial investment | 60.79 | 39.21 | 100.00 | 60.79 | 39.21 | 100.00 | Pohang |
| POREKA Co., Ltd. | Advertising agency | 100.00 | - | 100.00 | 100.00 | - | 100.00 | Seoul |
| Daewoo International Corporation | Trading and Energy & Resource development | 60.31 | - | 60.31 | 60.31 | - | 60.31 | Seoul |
| POSCO LED Co., Ltd. | LED lightening | 16.70 | 63.30 | 80.00 | 16.70 | 63.30 | 80.00 | Seongnam |
| Gunsan SPFC Co., Ltd. | Steel processing and sales | - | - | - | - | 70.09 | 70.09 | Gunsan |
| Pohang Scrap Recycling Distribution Center Co., Ltd. | Steel processing and sales | - | 51.00 | 51.00 | - | 51.00 | 51.00 | Pohang |
| PSC Energy Global Co., Ltd. | Investment in energy industry | - | 100.00 | 100.00 | - | 100.00 | 100.00 | Pohang |
| Suncheon Eco Trans Co., Ltd | Train manufacturing & management | 100.00 | - | 100.00 | 100.00 | - | 100.00 | Suncheon |
| Reco Metal Co., Ltd. | Smelting of metal | - | - | - | - | 100.00 | 100.00 | Hwasung |
| New Altec Co., Ltd | Aluminum products manufacturing and sales | - | 60.10 | 60.10 | - | 60.10 | 60.10 | Incheon |
| PONUTech Co.,Ltd. | Nuclear power plant design and repair service | - | 100.00 | 100.00 | - | 100.00 | 100.00 | Ulsan |
| BLUE O&M Co., Ltd. | Service | - | - | - | - | 100.00 | 100.00 | Ulsan |
| Tamra Offshore Wind Power Co., Ltd | Cogeneration plant operation | - | 64.00 | 64.00 | - | 64.00 | 64.00 | Jeju |
| POS-HiAL | Aluminum products manufacturing and sales | - | 51.00 | 51.00 | - | 65.30 | 65.30 | Youngam |
| MCM Korea | Iron ore sales & mine development | - | - | - | - | 100.00 | 100.00 | Seoul |
| Tancheonene Co.,Ltd | Sewage heat energy supply | - | - | - | 5.00 | 95.00 | 100.00 | Seoul |
| IT Engineering(*2) | Automotive engineering service | - | 17.00 | 17.00 | - | - | - | Seoul |

# POSCO and Subsidiaries
## Notes to the Consolidated Financial Statements, Continued
## As of December 31, 2013 and 2012

| | | Ownership (%) | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | December 31, 2013 | | | December 31, 2012 | | | |
| | Principal Operations | POSCO | Subsidiaries | Total | POSCO | Subsidiaries | Total | Region |
| **[Foreign]** | | | | | | | | |
| POSCO America Corporation | Steel trading | 99.45 | 0.55 | 100.00 | 99.45 | 0.55 | 100.00 | USA |
| POSCO AUSTRALIA PTY LTD | Iron ore sales & mine development | 100.00 | - | 100.00 | 100.00 | - | 100.00 | Australia |
| POSCO Canada Ltd. | Coal sales | - | 100.00 | 100.00 | - | 100.00 | 100.00 | Canada |
| POSCAN Elkveiw Coal Ltd. | Coal sales | - | 100.00 | 100.00 | - | 100.00 | 100.00 | Canada |
| POSCO Asia Co., Ltd. | Steel and raw material trading | 100.00 | - | 100.00 | 100.00 | - | 100.00 | HongKong |
| Dalian POSCO Steel Co., Ltd | Steel manufacturing | - | - | - | 30.00 | 55.00 | 85.00 | China |
| POSCO-CTPC Co., Ltd. | Steel manufacturing | 56.60 | 43.40 | 100.00 | 56.60 | 43.40 | 100.00 | China |
| POSCO-JKPC Co., Ltd. | Steel manufacturing | - | 95.00 | 95.00 | - | 95.00 | 95.00 | Japan |
| INTERNATIONAL BUSINESS CENTER CORPORATION | Leasing service | - | 60.00 | 60.00 | - | 60.00 | 60.00 | Vietnam |
| POSCO E&C Vietnam Co., Ltd. | Steel manufacturing | - | 100.00 | 100.00 | - | 100.00 | 100.00 | Vietnam |
| Zhangjiagang Pohang Stainless Steel Co., Ltd. | Stainless steel manufacturing | 58.60 | 23.88 | 82.48 | 58.60 | 23.88 | 82.48 | China |
| POSCO (Guangdong) Steel Co., Ltd. | Plating steel sheet manufacturing | 87.04 | 10.04 | 97.08 | 87.04 | 10.04 | 97.08 | China |
| POSCO (Thailand) Company Limited | Steel manufacturing | 85.62 | 14.38 | 100.00 | 85.62 | 14.38 | 100.00 | Thailand |
| Myanmar POSCO Steel Co., Ltd | Zinc relief manufacturing | 70.00 | - | 70.00 | 70.00 | - | 70.00 | Myanmar |
| POSCO-JOPC Co., Ltd. | Steel manufacturing | - | 56.84 | 56.84 | - | 56.84 | 56.84 | Japan |
| POSCO Investment Co., Ltd. | Financial Service | 100.00 | - | 100.00 | 100.00 | - | 100.00 | HongKong |
| POSCO-MKPC SDN BHD | Steel manufacturing | 44.69 | 25.31 | 70.00 | 44.69 | 25.31 | 70.00 | Malaysia |
| Qingdao Pohang Stainless Steel Co., Ltd. | Stainless steel manufacturing | 70.00 | 30.00 | 100.00 | 70.00 | 30.00 | 100.00 | China |
| POSCO (Suzhou) Automotive Processing Center Co., Ltd. | Steel manufacturing | 90.00 | 10.00 | 100.00 | 90.00 | 10.00 | 100.00 | China |
| POSCO BIOVENTURES I, L.P. | Bio tech Industry | - | 100.00 | 100.00 | - | 100.00 | 100.00 | USA |
| PT. POSNESIA Stainless Steel Industry | Steel manufacturing | 70.00 | - | 70.00 | 70.00 | - | 70.00 | Indonesia |
| POSEC Hawaii, Inc. | Real estate Industry | - | 100.00 | 100.00 | - | 100.00 | 100.00 | USA |
| POSCO-China Qingdao Processing Center Co., Ltd. | Steel manufacturing | - | 100.00 | 100.00 | - | 100.00 | 100.00 | China |
| POS-ORE PTY LTD | Iron ore sales & mine development | - | 100.00 | 100.00 | - | 100.00 | 100.00 | Australia |
| POSCO-China Holding Corp. | Holding company | 100.00 | - | 100.00 | 100.00 | - | 100.00 | China |
| POSCO JAPAN Co., Ltd. | Steel trading | 100.00 | - | 100.00 | 100.00 | - | 100.00 | Japan |
| POS-CD PTY LTD | Coal sales | - | 100.00 | 100.00 | - | 100.00 | 100.00 | Australia |
| POS-GC PTY LTD | Coal sales | - | 100.00 | 100.00 | - | 100.00 | 100.00 | Australia |
| POSCO-India Private Limited | Steel manufacturing | 100.00 | - | 100.00 | 100.00 | - | 100.00 | India |
| POSCO-India Pune Processing Center. Pvt. Ltd. | Steel manufacturing | 65.00 | - | 65.00 | 65.00 | - | 65.00 | India |
| POSCO-JEPC Co., Ltd. | Steel manufacturing | - | 88.02 | 88.02 | - | 88.02 | 88.02 | Japan |
| POSCO-CFPC Co., Ltd. | Steel manufacturing | 39.60 | 60.40 | 100.00 | 39.60 | 60.40 | 100.00 | China |
| POSCO E&C CHINA Co., Ltd. | Construction and civil engineering | - | 100.00 | 100.00 | - | 100.00 | 100.00 | China |
| POSCO MPPC S.A. de C.V. | Steel manufacturing | - | 95.00 | 95.00 | - | 95.00 | 95.00 | Mexico |
| Zhangjigang Pohang Port Co., Ltd. | Loading and unloading service | - | 100.00 | 100.00 | - | 100.00 | 100.00 | China |
| Qingdao Pos-metal Co., Ltd. | Steel manufacturing | - | 100.00 | 100.00 | - | 100.00 | 100.00 | China |
| POSCO-VIETNAM Co., Ltd. | Steel manufacturing | 85.00 | - | 85.00 | 85.00 | - | 85.00 | Vietnam |
| POSCO MEXICO S.A. DE C.V. | Automotive steel sheet manufacturing | 84.84 | 15.16 | 100.00 | 84.84 | 15.16 | 100.00 | Mexico |
| POSCO India Delhi Steel Processing Centre Private Limited | Steel manufacturing | 66.40 | 10.00 | 76.40 | 66.40 | 10.00 | 76.40 | India |
| POSCO-Poland Wroclaw Processing Center Sp. z o. o. | Steel manufacturing | 60.00 | - | 60.00 | 60.00 | - | 60.00 | Poland |
| POS-NP PTY LTD | Coal sales | - | 100.00 | 100.00 | - | 100.00 | 100.00 | Australia |
| POSCO-Vietnam Processing Center Co., Ltd. | Steel manufacturing | 91.63 | - | 91.63 | 91.63 | - | 91.63 | Vietnam |
| POSCO(Chongqing) Automotive Processing Center Co., Ltd. | Steel manufacturing | 90.00 | 10.00 | 100.00 | 90.00 | 10.00 | 100.00 | China |
| SUZHOU POSCO-CORE TECHNOLOGY CO., LTD. | Component manufacturing | - | 100.00 | 100.00 | - | 100.00 | 100.00 | China |
| POSCO-Malaysia SDN. BHD. | Steel manufacturing | 80.07 | 13.34 | 93.41 | 80.07 | 13.34 | 93.41 | Malaysia |
| POS-Minerals Corporation | Mine development & sales | - | 100.00 | 100.00 | - | 100.00 | 100.00 | USA |
| POSCO(Wuhu) Automotive Processing Center Co., Ltd. | Steel manufacturing | 68.57 | 31.43 | 100.00 | 68.57 | 31.43 | 100.00 | China |
| POSCO Engineering and Construction India Private Limited | Construction and engineering | - | 100.00 | 100.00 | - | 100.00 | 100.00 | India |
| POSCO E&C SMART S DE RL DE CV | Construction and engineering | - | 100.00 | 100.00 | - | 100.00 | 100.00 | Mexico |
| POSCO Philippine Manila Processing Center, Inc. | Steel manufacturing | - | 100.00 | 100.00 | - | 100.00 | 100.00 | Philippines |
| POSCO Gulf SFC LLC | Steel manufacturing | - | 81.93 | 81.93 | - | 81.93 | 81.93 | UAE |
| Dalian POSCO ICT-DONGFANG Engineering Co., Ltd. | Electric control equipment manufacturing | - | 100.00 | 100.00 | - | 100.00 | 100.00 | China |
| SANPU TRADING Co., Ltd. | Raw material trading | - | 70.00 | 70.00 | - | 70.00 | 70.00 | China |
| Zhangjiagang BLZ Pohang International Trading | Steel transit trading | - | 100.00 | 100.00 | - | 100.00 | 100.00 | China |
| POSCO MEXICO HUMAN TECH S.A. de C.V. | Service | 80.00 | 20.00 | 100.00 | 80.00 | 20.00 | 100.00 | Mexico |
| POSCO MESDC S.A. DE C.V. | Steel product sales | - | 56.80 | 56.80 | - | 56.80 | 56.80 | Mexico |

# POSCO and Subsidiaries
## Notes to the Consolidated Financial Statements, Continued
## As of December 31, 2013 and 2012

| | | Ownership (%) | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | December 31, 2013 | | | December 31, 2012 | | | |
| | Principal Operations | POSCO | Subsidiaries | Total | POSCO | Subsidiaries | Total | Region |
| **[Foreign]** | | | | | | | | |
| POSCO ICT-China | IT service and DVR business | - | 100.00 | 100.00 | - | 100.00 | 100.00 | China |
| DWEMEX, S.A.DE.C.V. | Construction | - | 99.00 | 99.00 | - | 99.00 | 99.00 | Mexico |
| POSCO MPC Servicios S.A. de C.V. | Steel manufacturing | - | 61.00 | 61.00 | - | 61.00 | 61.00 | Mexico |
| POSCO-Uruguay S.A | Lumber manufacturing & sales | 98.00 | - | 98.00 | 98.00 | - | 98.00 | Uruguay |
| Pos-Sea Pte Ltd | Steel transit trading | - | 67.54 | 67.54 | - | 67.54 | 67.54 | Singapore |
| POSCO Europe Steel Distribution Center | Steel product sales | 50.00 | 20.00 | 70.00 | 50.00 | 20.00 | 70.00 | Slovenia |
| VECTUS LIMITED | PRT test track construction | - | 99.57 | 99.57 | - | 99.57 | 99.57 | England |
| Zeus(Cayman) | Service | 100.00 | - | 100.00 | 100.00 | - | 100.00 | Cayman Islands |
| POSCO VST CO., LTD. | Stainless steel manufacturing | 95.65 | - | 95.65 | 95.65 | - | 95.65 | Vietnam |
| POSCO Maharashtra Steel Private Limited | Steel manufacturing | 100.00 | - | 100.00 | 100.00 | - | 100.00 | India |
| POSCO India Chennai Steel Processing Centre Pvt.Ltd. | Steel manufacturing | 100.00 | - | 100.00 | 100.00 | - | 100.00 | India |
| POSCO TNPC Otomotiv Celik San. Ve Tic. A.S | Steel manufacturing | 100.00 | - | 100.00 | 100.00 | - | 100.00 | Turkey |
| POSCO Vietnam Ha Noi Processing Center Co., Ltd. | Steel manufacturing | 70.00 | - | 70.00 | 70.00 | - | 70.00 | Vietnam |
| POSCO(Liaoning) Automotive Processing Center Co., Ltd. | Steel manufacturing | 90.00 | 10.00 | 100.00 | 90.00 | 10.00 | 100.00 | China |
| POSCO-Indonesia Jakarta Processing Center | Steel manufacturing | 65.00 | 20.00 | 85.00 | 65.00 | 20.00 | 85.00 | Indonesia |
| POSCO E&C VENEZUELA C.A. | Construction and engineering | - | 100.00 | 100.00 | - | 100.00 | 100.00 | Venezuela |
| Motta Resources Indonesia | Mine development | 65.00 | - | 65.00 | 65.00 | - | 65.00 | Indonesia |
| POSCO TMC INDIA PRIVATE LIMITED | Steel manufacturing | - | 100.00 | 100.00 | - | 100.00 | 100.00 | India |
| POSCO America Alabama Processing Center Co., Ltd. | Steel manufacturing | - | 100.00 | 100.00 | - | 100.00 | 100.00 | USA |
| PT PEN INDONESIA | Construction | - | 95.00 | 95.00 | - | 95.00 | 95.00 | Indonesia |
| POSCO(Yantai) Automotive Processing Center Co., Ltd. | Steel manufacturing | 90.00 | 10.00 | 100.00 | 90.00 | 10.00 | 100.00 | China |
| POSCO India Steel Distribution Center Private Ltd. | Steel logistics | - | 100.00 | 100.00 | - | 100.00 | 100.00 | India |
| POSCO China Dalian Plate Processing Center Co., Ltd. | Steel manufacturing | 80.00 | 10.00 | 90.00 | 80.00 | 10.00 | 90.00 | China |
| POSCO-South Asia Company Limited | Steel product sales | 100.00 | - | 100.00 | 100.00 | - | 100.00 | Thailand |
| POSCO SS-VINA | Steel manufacturing | - | 100.00 | 100.00 | - | 100.00 | 100.00 | Vietnam |
| POSCO-NCR Coal Ltd. | Coal sales | - | 100.00 | 100.00 | - | 100.00 | 100.00 | Canada |
| POSCO WA PTY LTD | Iron ore sales & mine development | 100.00 | - | 100.00 | 100.00 | - | 100.00 | Australia |
| POSCO Engineering and Construction - UZ | Construction | - | 100.00 | 100.00 | - | 100.00 | 100.00 | Uzbekistan |
| POSCO AUSTRALIA GP PTY LIMITED | Resource development | - | 100.00 | 100.00 | - | 100.00 | 100.00 | Australia |
| Daewoo International (America) Corp. | Trading business | - | 100.00 | 100.00 | - | 100.00 | 100.00 | USA |
| Daewoo International (Deutschland) GmbH. | Trading business | - | 100.00 | 100.00 | - | 100.00 | 100.00 | Germany |
| Daewoo International Japan Corp. | Trading business | - | 100.00 | 100.00 | - | 100.00 | 100.00 | Japan |
| DAEWOO INTERNATIONAL SINGAPORE PTE. LTD. | Trading business | - | 100.00 | 100.00 | - | 100.00 | 100.00 | Singapore |
| Daewoo Italia S.r.l. | Trading business | - | 100.00 | 100.00 | - | 100.00 | 100.00 | Italy |
| Daewoo (China) Co., Ltd. | Trading business | - | 100.00 | 100.00 | - | 100.00 | 100.00 | China |
| DAEWOO TEXTILE FERGANA LLC | Textile manufacturing | - | 100.00 | 100.00 | - | 100.00 | 100.00 | Uzbekistan |
| DAEWOO TEXTILE BUKHARA LLC | Textile manufacturing | - | 100.00 | 100.00 | - | 100.00 | 100.00 | Uzbekistan |
| DAEWOO INTERNATIONAL AUSTRALIA HOLDINGS PTY LTD | Resource development | - | 100.00 | 100.00 | - | 100.00 | 100.00 | Australia |
| Daewoo Paper Manufacturing Co., Ltd. | Paper manufacturing | - | 66.70 | 66.70 | - | 66.70 | 66.70 | China |
| Tianjin Daewoo Paper Manufacturing Co., Ltd. | Paper manufacturing | - | 68.30 | 68.30 | - | 68.30 | 68.30 | China |
| POSCO MAURITIUS LIMITED | Mine development & sales | - | 100.00 | 100.00 | - | 100.00 | 100.00 | Mauritius |
| PT. KRAKATAU POSCO | Steel manufacturing | 70.00 | - | 70.00 | 70.00 | - | 70.00 | Indonesia |
| Myanmar Daewoo Limited | Trading business | - | 100.00 | 100.00 | - | 100.00 | 100.00 | Myanmar |
| DAEWOO INTERNATIONAL MEXICO S.A. DE C.V. | Trading business | - | 100.00 | 100.00 | - | 100.00 | 100.00 | Mexico |
| Daewoo International Guangzhou Corp. | Trading business | - | 100.00 | 100.00 | - | 100.00 | 100.00 | China |
| DAEWOO STC VINA LTD. | Textile manufacturing | - | - | - | - | 100.00 | 100.00 | Vietnam |
| Daewoo (M) SDN. BHD. | Trading business | - | 100.00 | 100.00 | - | 100.00 | 100.00 | Malaysia |
| Daewoo CANADA LTD. | Trading business | - | - | - | - | 100.00 | 100.00 | Canada |
| Daewoo EL SALVADOR S.A. DE C.V. | Trading business | - | 88.00 | 88.00 | - | 88.00 | 88.00 | El Salvador |
| GEZIRA TANNERY CO., LTD. | Leather manufacturing | - | - | - | - | 60.00 | 60.00 | Sudan |

# POSCO and Subsidiaries
## Notes to the Consolidated Financial Statements, Continued
## As of December 31, 2013 and 2012

| | | Ownership (%) | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | December 31, 2013 | | | December 31, 2012 | | | |
| | Principal Operations | POSCO | Subsidiaries | Total | POSCO | Subsidiaries | Total | Region |
| **[Foreign]** | | | | | | | | |
| POSCO (Zhangjiagang) STS Processing Center Co., Ltd | Steel manufacturing | - | 100.00 | 100.00 | - | 100.00 | 100.00 | China |
| Daewoo International (M) SDN BHD | Trading business | - | 100.00 | 100.00 | - | 100.00 | 100.00 | Malaysia |
| Daewoo International SHANGHAI CO., LTD. | Trading business | - | 100.00 | 100.00 | - | 100.00 | 100.00 | China |
| DAEWOO POWER AND INFRA (PTY) LTD. | Electricity | - | 100.00 | 100.00 | - | - | - | Republic of South Africa |
| PGSF, L.P. | Investment in Bio tech Industry | - | 100.00 | 100.00 | - | 100.00 | 100.00 | USA |
| Xenesys Inc. | Power generation equipment manufacturing | 29.58 | 21.35 | 50.93 | 29.58 | 21.35 | 50.93 | Japan |
| Daewoo International INDIA Private Ltd. | Trading business | - | 100.00 | 100.00 | - | 100.00 | 100.00 | India |
| TECHREN Solar, LLC | Electrical Industry | - | 99.92 | 99.92 | - | 99.92 | 99.92 | USA |
| PT. POSCO E&C INDONESIA | Construction | - | 100.00 | 100.00 | - | 100.00 | 100.00 | Indonesia |
| HUME COAL PTY LTD | Raw material manufacturing | - | 100.00 | 100.00 | - | 70.00 | 70.00 | Australia |
| Daewoo HANDELS GmbH | Trading business | - | - | - | - | 100.00 | 100.00 | Germany |
| POSCO FOUNDATION | Non-profit charitable organization | - | 100.00 | 100.00 | - | 100.00 | 100.00 | India |
| EPC EQUITIES LLP | Construction | - | 70.00 | 70.00 | - | 70.00 | 70.00 | England |
| SANTOS CMI CONSTRUCTION TRADING LLP | Construction | - | 99.90 | 99.90 | - | 99.90 | 99.90 | England |
| SANTOS CMI INC. USA | Construction | - | 100.00 | 100.00 | - | 100.00 | 100.00 | USA |
| SANTOS CMI ENGENHARIA E CONSTRUCOES LTDA | Construction | - | 99.98 | 99.98 | - | 99.98 | 99.98 | Brazil |
| SANTOS CMI PERU S.A. | Construction | - | 99.99 | 99.99 | - | 99.99 | 99.99 | Peru |
| SANTOS CMI COSTA RICA S.A. | Construction | - | - | - | - | 100.00 | 100.00 | Coasta Rica |
| SANTOS CMI CONSTRUCCIONES S.A. | Construction | - | 100.00 | 100.00 | - | 100.00 | 100.00 | Uruguay |
| GENTECH INTERNATIONAL INC. | Construction | - | 90.00 | 90.00 | - | 90.00 | 90.00 | Panama |
| EPC INVESTMENTS C.V. | Construction | - | 99.99 | 99.99 | - | 99.99 | 99.99 | Netherlands |
| INGENIERiA Y CONSTRUCCION HOLAND CO S.A. | Construction | - | - | - | - | 99.90 | 99.90 | Ecuador |
| ASESORiA Y SERVICIOS EPC S.A CHILE | Construction | - | - | - | - | 99.00 | 99.00 | Chile |
| SANTOSCMI S.A. | Construction | - | 70.00 | 70.00 | - | 70.00 | 70.00 | Ecuador |
| SANTOSCMI CONSTRUCCIONES DE CHILE S.A. | Construction | - | 99.00 | 99.00 | - | 99.00 | 99.00 | Chile |
| S&K -SANTOSCMI S.A. DE C.V. | Construction | - | 99.00 | 99.00 | - | 99.00 | 99.00 | Mexico |
| COMPANIADEAUTOMATIZACION& CONTROL, GENESYS S.A. | Construction | - | 90.00 | 90.00 | - | 90.00 | 90.00 | Ecuador |
| VAUTIDAMERICAS S.A. | Construction | - | 51.00 | 51.00 | - | 51.00 | 51.00 | Ecuador |
| SANTOS CMI Constructions Argentina S.A. | Construction | - | - | - | - | 95.00 | 95.00 | Argentina |
| POSCO ENGINEERING & CONSTRUCTION DO BRAZIL LTDA. | Construction | - | 100.00 | 100.00 | - | 100.00 | 100.00 | Brazil |
| POSCO Electrical Steel India Private Limited | Electrical Steel manufacturing | 100.00 | - | 100.00 | 100.00 | - | 100.00 | India |
| Daewoo International Cameroon S.A. | Resource Development | - | 100.00 | 100.00 | - | 100.00 | 100.00 | Cameroon |
| POSCO ASSAN TST STEEL INDUSTRY | Steel manufacturing | 60.00 | 10.00 | 70.00 | 60.00 | 10.00 | 70.00 | Turkey |
| HONG KONG POSCO E&C (CHINA) INVESTMENT Co., Ltd. | Investment | - | 100.00 | 100.00 | - | 100.00 | 100.00 | HongKong |
| POSCO Klappan Coal Ltd. | Coal sales | - | 100.00 | 100.00 | - | 100.00 | 100.00 | Canada |
| DAESAN (CAMBODIA) Co., Ltd. | Investment | - | 100.00 | 100.00 | - | 100.00 | 100.00 | Cambodia |
| Brazil Sao Paulo Steel Processing Center | Steel manufacturing | - | 76.00 | 76.00 | - | 76.00 | 76.00 | Brazil |
| POSCO(Dalian) IT Center Development Co., Ltd. | Investment | - | 100.00 | 100.00 | - | 100.00 | 100.00 | China |
| PT. POSCO RESOURCES INDONESIA | Mine development | 100.00 | - | 100.00 | 100.00 | - | 100.00 | Indonesia |
| PT.POSCO ICT INDONESIA | IT service and Electric Control Engineering | - | 66.99 | 66.99 | - | 66.99 | 66.99 | Indonesia |
| PT. POSCO MTECH INDONESIA | Steel manufacturing | - | 60.00 | 60.00 | - | 60.00 | 60.00 | Indonesia |
| PT. KRAKATAU POSCO ENERGY | Manufacturing & management | - | 90.00 | 90.00 | - | 90.00 | 90.00 | Indonesia |
| POSCO RUS LLC | Trading business | 90.00 | 10.00 | 100.00 | 90.00 | 10.00 | 100.00 | Russia |
| POSCO Thainox Public Company Limited | Steel manufacturing | 84.93 | - | 84.93 | 84.93 | - | 84.93 | Thailand |
| DAEWOO INTERNATIONAL SHANGHAI WAIGAOQIAO CO., LTD. | Merchandising trade | - | 100.00 | 100.00 | - | 100.00 | 100.00 | China |
| PT. Bio Inti Agrindo | Forest resources development | - | 85.00 | 85.00 | - | 85.00 | 85.00 | Indonesia |
| POSCO ENGINEERING AND CONSTRUCTION AUSTRALIA (POSCO E&C AUSTRALIA) PTY LTD | Iron ore sales | - | 100.00 | 100.00 | - | 100.00 | 100.00 | Australia |
| POSCO-TISCO (JILIN) PROCESSING CENTER Co., Ltd. | Steel manufacturing | 50.00 | 10.00 | 60.00 | 50.00 | 10.00 | 60.00 | China |
| Hunchun Posco Hyundai International Logistics Complex Development Co., Ltd | Logistics | - | 72.93 | 72.93 | - | 78.15 | 78.15 | China |
| USA-SRDC | Scrap sales | - | 100.00 | 100.00 | - | 100.00 | 100.00 | USA |
| Daewoo International Vietnam Co., Ltd. | Trading business | - | 100.00 | 100.00 | - | 100.00 | 100.00 | Vietnam |
| PT.Krakatau Posco Chemtech Calcination | Manufacturing and selling of quicklime | - | 80.00 | 80.00 | - | 80.00 | 80.00 | Indonesia |

| | | Ownership (%) | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | December 31, 2013 | | | December 31, 2012 | | | |
| | Principal Operations | POSCO | Subsidiaries | Total | POSCO | Subsidiaries | Total | Region |
| **[Foreign]** | | | | | | | | |
| POSCO AFRICA (PROPRIETARY) LIMITED | Trading business | 100.00 | - | 100.00 | 100.00 | - | 100.00 | South Africa |
| EPC INGENIERIA & SERVICIOS DE COSTA RICA SA | Construction and engineering service | - | 100.00 | 100.00 | - | 100.00 | 100.00 | Costa Rica |
| POSCO ICT BRASIL | IT service and engineering | - | 100.00 | 100.00 | - | 100.00 | 100.00 | Brazil |
| LA-SRDC | Scrap manufacturing | - | 68.41 | 68.41 | - | 68.41 | 68.41 | USA |
| DONG FANG JIN HONG | Real estate development, rental and management | - | 99.00 | 99.00 | - | 99.00 | 99.00 | China |
| PRODUCTOS OFERTAS SISTEMAS Y COMERCIALIZADORA ORIENTAL S DE RL DE CV | Steel sales | - | 100.00 | 100.00 | - | 100.00 | 100.00 | Mexico |
| POSCO(Guangdong) Automotive Steel Co., Ltd. | Steel manufacturing and sales | 83.64 | 10.00 | 93.64 | 83.64 | 10.00 | 93.64 | China |
| POSCO MAPC SA DE CV | Steel manufacturing and sales | 80.00 | 20.00 | 100.00 | 80.00 | 20.00 | 100.00 | Mexico |
| POSCO AMERICA COMERCIALIZADORA S DE RL DE CV | Human-resource service | - | 100.00 | 100.00 | - | 100.00 | 100.00 | Mexico |
| POSCO ENGINEERING (THAILAND) CO., LTD.(*2) | Chemical plant | - | 48.90 | 48.90 | - | - | - | Thailand |
| POSCO YongXin Rare Earth Metal Co., Ltd. | Magnet material manufacturing and sales | - | 51.67 | 51.67 | - | - | - | China |
| POSCO-Mory-Maruyasu PIPE | Common steel welded pipe manufacturing and selling | - | 50.00 | 50.00 | - | - | - | Japan |
| PT KRAKATAU BLUE WATER | Wastewater treamtment facilities operation and maintemance | - | 67.00 | 67.00 | - | - | - | Indonesia |
| KRAKATAU POS-CHEM DONG-SUH CHEMICA(*2) | Chemical by-product manufacturing and sales | - | 45.00 | 45.00 | - | - | - | Indonesia |
| Myanmar Daewoo International Corporation | Trading business | - | 100.00 | 100.00 | - | - | - | Myanmar |
| POSCO-Italy Processing Center | Stainless steel sheet manufacturing and sales | 80.00 | 10.00 | 90.00 | - | - | - | Italy |
| DAEWOO E&P CANADA CORPORATION | Crude oil and natural gas mining | - | 100.00 | 100.00 | - | - | - | Canada |
| Yingkou Puxiang Trade Co.,Ltd. | Refractory quality test and import and export trade | - | 100.00 | 100.00 | - | - | - | China |
| Myanmar POSCO C&C Company, Limited. | Steel manufacturing and sales | - | 70.00 | 70.00 | - | - | - | Myanmar |
| POSCO ICT VIETNAM | IT service and electric control engineering | - | 100.00 | 100.00 | - | - | - | Vietnam |
| Daewoo Global Development. Pte., Ltd | Real estate development | - | 51.00 | 51.00 | - | - | - | Myanmar |
| Myanmar POSCO Engineering& Construction Company, Limited. | Construction and engineering service | - | 100.00 | 100.00 | - | - | - | Myanmar |
| POSCO COATED STEEL (THAILAND) CO., LTD. | Automotive steel sheet manufacturing and sales | 100.00 | - | 100.00 | - | - | - | Thailand |

(*1) Included as a subsidiary from 2011 as the Company has the power over more than half of the voting rights by virtue of an agreement with Postech, which has a 4.72% ownership interest.

(*2) These subsidiaries are included in the consolidated financial statements as the controlling company has control over them in consideration of the board of directors' composition and others.

The amounts recognized in equity as a result of changes in the Company's ownership interests in subsidiaries that did not result in a loss of control (2013: POSCO Specialty Steel Co., Ltd., POSCO ICT Co., Ltd., POSCO TMC Co., Ltd. etc., 2012: POSCO Specialty Steel Co., Ltd., POSCO ENERGY Co., Ltd., POSCO-Thainox Public Company Limited, etc.) were ₩31,417 million and ₩41,924 million for the years ended December 31, 2013 and 2012, respectively.

Cash flows from increase in non-controlling interest, net for the years ended December 31, 2013 and 2012 amounted to ₩385,122 million and ₩375,850 million, respectively.

Cash dividends paid to POSCO by subsidiaries for the years ended December 31, 2013 and 2012 amounted to ₩71,970 million and ₩22,581 million, respectively.

As of December 31, 2013, there are no restrictions on the ability of subsidiaries to transfer funds to the controlling company, such as in the form of cash dividends, repayment of loans or payment of advances.

(c) Summarized financial information of subsidiaries as of December 31, 2013 and 2012 are as follows:

1) December 31, 2013

*(in millions of Won)*

| Company | Assets | Liabilities | Equity (deficit) | Sales | Net income (loss) |
|---|---|---|---|---|---|
| **[Domestic]** | | | | | |
| POSCO ENGINEERING & CONSTRUCTION., LTD. | ₩ 6,853,318 | 3,885,127 | 2,968,191 | 8,028,269 | 98,714 |
| POSCO Processing&Service | 1,061,686 | 367,791 | 693,895 | 2,745,727 | 35,941 |
| POSCO COATED & COLOR STEEL Co., Ltd. | 449,661 | 280,097 | 169,564 | 821,183 | (5,173) |
| POSCO ICT | 733,968 | 327,728 | 406,240 | 1,050,747 | 33,796 |
| POSCO Research Institute | 36,841 | 10,051 | 26,790 | 58,519 | 1,167 |
| POSMATE | 214,286 | 56,247 | 158,039 | 118,489 | 8,501 |
| POSCO A&C | 98,502 | 56,578 | 41,924 | 154,053 | (6,076) |
| POSCO Specialty Steel Co., Ltd. | 1,792,904 | 533,797 | 1,259,107 | 1,316,781 | 31,703 |
| POSTECH Venture Capital Co., Ltd. | 118,603 | 11,186 | 107,417 | 11,506 | 3,506 |
| eNtoB Corporation | 89,371 | 56,789 | 32,582 | 648,761 | 1,414 |
| POSCO CHEMTECH | 588,671 | 139,399 | 449,272 | 1,280,591 | 59,953 |
| POSCO-Terminal Co., Ltd. | 134,787 | 9,443 | 125,344 | 104,586 | 22,152 |
| POSCO M-TECH | 346,577 | 193,375 | 153,202 | 902,541 | (10,649) |
| POSCO ENERGY CO., LTD. | 4,022,984 | 2,433,704 | 1,589,280 | 2,901,117 | 143,976 |
| POSCO TMC Co., Ltd. | 209,745 | 117,890 | 91,855 | 319,580 | 447 |
| POSCO NIPPON STEEL RHF JOINT VENTURE.CO.,Ltd. | 139,612 | 92,134 | 47,478 | 56,789 | 2,601 |
| MegaAsset Co.,Ltd. | 136,387 | 87,750 | 48,637 | 83,809 | 183 |
| POSCO Engineering CO.,Ltd | 608,624 | 435,380 | 173,244 | 1,013,115 | 10,286 |
| POSCO AST | 508,189 | 354,591 | 153,598 | 611,458 | (3,006) |
| POSHIMETAL Co., Ltd. | 359,240 | 350,158 | 9,082 | 179,550 | (12,109) |
| Poscoene | 22,447 | 91 | 22,356 | - | 66 |
| POSFINE Co., Ltd. | 58,252 | 44,852 | 13,400 | 28,974 | 1,560 |
| POSCO Humans | 13,691 | 4,179 | 9,512 | 33,116 | 286 |
| Mapo Hibroad Parking co., Ltd. | 1,544 | 300 | 1,244 | - | (36) |
| Steel Processing and Fabricating Center Co.,LTD | 169,437 | 136,488 | 32,949 | 194,018 | (2,558) |
| Plant Engineering service Technology Co., Ltd. | 6,754 | 2,970 | 3,784 | 10,731 | 1,385 |
| Busan E&E Co,. Ltd. | 113,287 | 73,609 | 39,678 | 136,279 | (1,820) |
| POSCO Family Strategy Fund | 61,033 | 7 | 61,026 | 1,082 | (5,298) |
| POREKA Co., Ltd. | 19,403 | 15,468 | 3,935 | 23,961 | 69 |
| Daewoo International Corporation | 7,739,676 | 5,524,030 | 2,215,646 | 16,601,358 | 132,541 |
| POSCO LED Co., Ltd. | 57,561 | 50,419 | 7,142 | 60,693 | (7,029) |
| Pohang Scrap Recycling Distribution Center Co., Ltd. | 17,072 | 511 | 16,561 | 5,530 | 734 |
| PSC Energy Global Co., Ltd. | 96,058 | - | 96,058 | - | (13,890) |
| Suncheon Eco Trans Co., Ltd | 67,768 | 46,467 | 21,301 | - | (1,065) |
| New Altec Co., Ltd | 131,244 | 34,473 | 96,771 | 81,318 | (1,366) |
| PONUTech Co.,Ltd. | 117,033 | 80,881 | 36,152 | 56,151 | (560) |
| Tamra Offshore Wind Power Co., Ltd | 26,728 | - | 26,728 | - | (12) |
| POS-HiAL | 59,836 | 43,460 | 16,376 | - | (2,521) |
| IT Engineering | 7,026 | 3,349 | 3,677 | 11,293 | 133 |

# POSCO and Subsidiaries
## Notes to the Consolidated Financial Statements, Continued
## As of December 31, 2013 and 2012

*(in millions of Won)*

| Company | Assets | Liabilities | Equity (deficit) | Sales | Net income (loss) |
|---|---|---|---|---|---|
| **[Foreign]** | | | | | |
| POSCO America Corporation | ₩ 360,278 | 307,874 | 52,404 | 737,584 | (126,699) |
| POSCO AUSTRALIA PTY LTD | 971,471 | 328,455 | 643,016 | 117,481 | 74,784 |
| POSCO Canada Ltd. | 589,015 | 100,337 | 488,678 | 143,485 | 48,611 |
| POSCO Asia Co., Ltd. | 760,306 | 721,090 | 39,216 | 2,861,848 | 3,829 |
| POSCO-CTPC Co., Ltd. | 87,914 | 51,514 | 36,400 | 127,558 | 4,526 |
| POSCO-JKPC Co., Ltd. | 66,374 | 50,347 | 16,027 | 107,220 | 1,717 |
| INTERNATIONAL BUSINESS CENTER CORPORATION | 75,459 | 41,476 | 33,983 | 24,275 | 9,894 |
| POSCO E&C Vietnam Co., Ltd. | 263,042 | 214,573 | 48,469 | 363,321 | 25,364 |
| Zhangjiagang Pohang Stainless Steel Co., Ltd. | 1,305,878 | 806,051 | 499,827 | 2,935,626 | 21,467 |
| POSCO (Guangdong) Steel Co., Ltd. | 128,859 | 84,435 | 44,424 | 211,606 | 4,715 |
| POSCO (Thailand) Company Limited | 119,445 | 76,044 | 43,401 | 220,471 | 1,471 |
| Myanmar POSCO Steel Co., Ltd | 19,884 | 3,318 | 16,566 | 14,001 | 932 |
| POSCO-JOPC Co., Ltd. | 54,026 | 49,524 | 4,502 | 97,003 | 906 |
| POSCO Investment Co., Ltd. | 802,503 | 702,337 | 100,166 | 13,962 | 4,949 |
| POSCO-MKPC SDN BHD | 136,957 | 92,539 | 44,418 | 211,330 | 1,058 |
| Qingdao Pohang Stainless Steel Co., Ltd. | 191,829 | 100,902 | 90,927 | 396,564 | 1,783 |
| POSCO (Suzhou) Automotive Processing Center Co., Ltd. | 300,725 | 187,070 | 113,655 | 458,113 | 22,798 |
| POSCO BIOVENTURES I, L.P. | 7,255 | - | 7,255 | - | (206) |
| PT. POSNESIA Stainless Steel Industry | 11,568 | - | 11,568 | - | (1,340) |
| POSEC Hawaii, Inc. | 314 | 7 | 307 | - | (38) |
| POSCO-China Qingdao Processing Center Co., Ltd. | 54,609 | 40,042 | 14,567 | 108,054 | 155 |
| POS-ORE PTY LTD | 43,442 | 2,642 | 40,800 | 130,819 | 72,845 |
| POSCO-China Holding Corp. | 360,809 | 108,315 | 252,494 | 145,469 | (21,932) |
| POSCO JAPAN Co., Ltd. | 756,571 | 649,824 | 106,747 | 1,379,727 | 11,868 |
| POS-CD PTY LTD | 55,347 | 14,354 | 40,993 | 22,178 | (2,173) |
| POS-GC PTY LTD | 55,150 | 45,074 | 10,076 | 8,411 | (21,444) |
| POSCO-India Private Limited | 115,183 | 311 | 114,872 | - | 620 |
| POSCO-India Pune Processing Center. Pvt. Ltd. | 143,286 | 139,149 | 4,137 | 266,832 | (9,619) |
| POSCO-JEPC Co., Ltd. | 165,310 | 147,355 | 17,955 | 299,848 | 1,780 |
| POSCO-CFPC Co., Ltd. | 180,275 | 136,369 | 43,906 | 619,308 | 1,962 |
| POSCO E&C CHINA Co., Ltd. | 307,625 | 250,899 | 56,726 | 238,999 | 12,733 |
| POSCO MPPC S.A. de C.V. | 198,465 | 168,548 | 29,917 | 352,952 | (3,433) |
| Zhangjigang Pohang Port Co., Ltd. | 22,495 | 6,736 | 15,759 | 6,712 | 768 |
| Qingdao Pos-metal Co., Ltd. | 5,947 | 6,481 | (534) | 50,774 | (1,376) |
| POSCO-VIETNAM Co., Ltd. | 541,348 | 509,293 | 32,055 | 714,841 | (503) |
| POSCO MEXICO S.A. DE C.V. | 794,853 | 594,916 | 199,937 | 359,422 | (32,287) |
| POSCO India Delhi Steel Processing Centre Private Limited | 91,704 | 83,949 | 7,755 | 145,625 | (9,685) |
| POSCO-Poland Wroclaw Processing Center Sp. z o. o. | 41,003 | 20,860 | 20,143 | 66,597 | 978 |
| POS-NP PTY LTD | 56,343 | 25,704 | 30,639 | 21,429 | (364) |
| POSCO-Vietnam Processing Center Co., Ltd. | 84,133 | 58,435 | 25,698 | 132,608 | 1,299 |
| POSCO (Chongqing) Automotive Processing Center Co., Ltd. | 67,049 | 52,512 | 14,537 | 115,253 | 5,634 |
| SUZHOU POSCO-CORE TECHNOLOGY CO., LTD. | 60,707 | 36,249 | 24,458 | 86,400 | 324 |
| POSCO-Malaysia SDN. BHD. | 82,648 | 104,940 | (22,292) | 124,556 | (2,730) |

# POSCO and Subsidiaries
## Notes to the Consolidated Financial Statements, Continued
## As of December 31, 2013 and 2012

*(in millions of Won)*

| Company | Assets | Liabilities | Equity (deficit) | Sales | Net income (loss) |
|---|---|---|---|---|---|
| **[Foreign]** | | | | | |
| POS-Minerals Corporation | ₩ 217,664 | 119,701 | 97,963 | - | (5,815) |
| POSCO (Wuhu) Automotive Processing Center Co., Ltd. | 69,625 | 44,536 | 25,089 | 113,011 | 2,758 |
| POSCO Engineering and Construction India Private Limited | 18,098 | 11,083 | 7,015 | 76,805 | 1,034 |
| POSCO E&C SMART S DE RL DE CV | 20,993 | 17,054 | 3,939 | 21,562 | 2,194 |
| POSCO Philippine Manila Processing Center, Inc. | 29,045 | 19,037 | 10,008 | 32,582 | 726 |
| POSCO Gulf SFC LLC | 53,831 | 48,441 | 5,390 | 23,585 | (1,951) |
| Dalian POSCO ICT-DONGFANG Engineering Co., Ltd. | 7,630 | 5,037 | 2,593 | 7,564 | 318 |
| SANPU TRADING Co., Ltd. | 1,806 | 3 | 1,803 | 70 | 24 |
| Zhangjiagang BLZ Pohang International Trading | 10,036 | 5,050 | 4,986 | 52,649 | 187 |
| POSCO MEXICO HUMAN TECH S.A. de C.V. | 1,035 | 908 | 127 | 9,267 | 101 |
| POSCO MESDC S.A. DE C.V. | 12,574 | 491 | 12,083 | 4,784 | 203 |
| POSCO ICT-China | 2,566 | 1,742 | 824 | 6,957 | 163 |
| DWEMEX, S.A.DE.C.V. | 183 | 19 | 164 | - | (12) |
| POSCO MPC Servicios S.A. de C.V. | 1,152 | 875 | 277 | 6,591 | 57 |
| POSCO-Uruguay S.A | 22,805 | 120 | 22,685 | 1 | (891) |
| Pos-Sea Pte Ltd | 12,724 | 9,855 | 2,869 | 122,439 | 675 |
| POSCO Europe Steel Distribution Center | 7,564 | 1,205 | 6,359 | 13,769 | 458 |
| POSCO ENGINEERING (THAILAND) CO., LTD. | 21,082 | 20,357 | 725 | 23,492 | 741 |
| VECTUS LIMITED | 954 | 15,565 | (14,611) | 5,240 | (5,155) |
| POSCO VST CO., LTD. | 399,242 | 371,409 | 27,833 | 377,478 | (24,136) |
| POSCO Maharashtra Steel Private Limited | 942,836 | 832,247 | 110,589 | 224,385 | (111,675) |
| POSCO India Chennai Steel Processing Centre Pvt.Ltd. | 93,623 | 89,043 | 4,580 | 183,304 | (4,247) |
| POSCO TNPC Otomotiv Celik San. Ve Tic. A.S | 41,597 | 34,336 | 7,261 | 64,185 | (1,923) |
| POSCO Vietnam Ha Noi Processing Center Co., Ltd. | 56,855 | 50,358 | 6,497 | 110,108 | 995 |
| POSCO (Liaoning) Automotive Processing Center Co., Ltd. | 73,083 | 46,710 | 26,373 | 113,971 | 3,297 |
| POSCO-Indonesia Jakarta Processing Center | 106,838 | 89,768 | 17,070 | 80,534 | (5,110) |
| POSCO E&C VENEZUELA C.A. | 126 | - | 126 | - | - |
| Motta Resources Indonesia | 4,264 | 18,259 | (13,995) | - | (5,522) |
| POSCO TMC INDIA PRIVATE LIMITED | 9,095 | 7,211 | 1,884 | 18,376 | (29) |
| POSCO America Alabama Processing Center Co., Ltd. | 46,816 | 34,958 | 11,858 | 107,780 | 339 |
| PT PEN INDONESIA | 4,681 | 3,707 | 974 | 20,037 | (1,289) |
| POSCO (Yantai) Automotive Processing Center Co., Ltd. | 45,863 | 27,874 | 17,989 | 64,784 | 2,124 |
| POSCO India Steel Distribution Center Private Ltd. | 6,063 | 4,413 | 1,650 | 5,526 | (144) |
| POSCO China Dalian Plate Processing Center Co., Ltd. | 88,337 | 67,680 | 20,657 | 29,843 | (10,876) |
| POSCO-South Asia Company Limited | 13,061 | 235 | 12,826 | 10,214 | 1,049 |
| POSCO SS-VINA | 505,785 | 264,716 | 241,069 | - | (1,586) |
| POSCO WA PTY LTD | 317,250 | 38 | 317,212 | - | (6,338) |
| POSCO Engineering and Construction - UZ | 3,964 | 3,039 | 925 | 2,690 | 406 |
| POSCO AUSTRALIA GP PTY LIMITED | 38,786 | 4 | 38,782 | - | (18,523) |
| POSCO YongXin Rare Earth Metal Co., Ltd. | 23,925 | 33,715 | (9,790) | 3,962 | (9,194) |

# POSCO and Subsidiaries
## Notes to the Consolidated Financial Statements, Continued
## As of December 31, 2013 and 2012

*(in millions of Won)*

| Company | Assets | Liabilities | Equity (deficit) | Sales | Net income (loss) |
|---|---|---|---|---|---|
| **[Foreign]** | | | | | |
| Daewoo International (America) Corp. | ₩ 417,955 | 372,011 | 45,944 | 1,046,283 | 2,788 |
| Daewoo International (Deutschland) GmbH. | 148,268 | 137,035 | 11,233 | 308,507 | 772 |
| Daewoo International Japan Corp. | 190,524 | 184,329 | 6,195 | 588,810 | 240 |
| DAEWOO INTERNATIONAL SINGAPORE PTE. LTD. | 125,927 | 122,160 | 3,767 | 659,805 | (516) |
| Daewoo Italia S.r.l. | 59,839 | 54,973 | 4,866 | 277,455 | 959 |
| Daewoo (China) Co., Ltd. | 84,004 | 36,556 | 47,448 | 250,006 | 244 |
| DAEWOO TEXTILE FERGANA LLC | 85,758 | 57,733 | 28,025 | 117,548 | 8,237 |
| DAEWOO TEXTILE BUKHARA LLC | 51,071 | 33,520 | 17,551 | 47,896 | 3,695 |
| DAEWOO INTERNATIONAL AUSTRALIA HOLDINGS PTY LTD | 134,238 | 27,044 | 107,194 | 21,629 | (1,525) |
| Daewoo Paper Manufacturing Co., Ltd. | 69,020 | 72,745 | (3,725) | 61,163 | (4,052) |
| Tianjin Daewoo Paper Manufacturing Co., Ltd. | 13,916 | 31,505 | (17,589) | - | - |
| POSCO MAURITIUS LIMITED | 24,071 | 5 | 24,066 | - | (22) |
| PT. KRAKATAU POSCO | 3,410,502 | 2,437,868 | 972,634 | - | (41,921) |
| Myanmar Daewoo Limited | 181 | 8 | 173 | 1,075 | 564 |
| DAEWOO INTERNATIONAL MEXICO S.A. DE C.V. | 46,695 | 40,563 | 6,132 | 170,951 | 1,098 |
| Daewoo International Guangzhou Corp. | 9,668 | 9,077 | 591 | 54,403 | (3,718) |
| POSCO (Zhangjiagang) STS Processing Center Co., Ltd | 63,729 | 50,653 | 13,076 | 350,000 | 743 |
| Daewoo International (M) SDN BHD | 28,161 | 25,865 | 2,296 | 87,881 | 61 |
| Daewoo International SHANGHAI CO., LTD. | 66,677 | 58,754 | 7,923 | 44,490 | 73 |
| PGSF, L.P. | 7,464 | 2 | 7,462 | - | 1,948 |
| Xenesys Inc. | 7,996 | 2,337 | 5,659 | 3,877 | (1,558) |
| Daewoo International INDIA Private Ltd. | 4,771 | 3,008 | 1,763 | 18,805 | 43 |
| TECHREN Solar, LLC | 1,373 | 528 | 845 | - | (8,531) |
| PT. POSCO E&C INDONESIA | 54,139 | 44,327 | 9,812 | 217,879 | 17,145 |
| HUME COAL PTY LTD | 40,634 | 259 | 40,375 | 110 | (282) |
| POSCO FOUNDATION | 161 | - | 161 | - | (1) |
| EPC EQUITIES LLP | 59,500 | 60,378 | (878) | (1,592) | 516 |
| SANTOS CMI CONSTRUCTION TRADING LLP | 35,562 | 37,836 | (2,274) | - | (11,991) |
| SANTOS CMI INC. USA | 28,780 | 27,425 | 1,355 | 36,385 | 8,777 |
| SANTOS CMI ENGENHARIA E CONSTRUCOES LTDA | 12,997 | 17,017 | (4,020) | 15,907 | 3,474 |
| SANTOS CMI PERU S.A. | 6,590 | 30,761 | (24,171) | 13,187 | (16,510) |
| SANTOS CMI CONSTRUCCIONES S.A. | 26 | 14 | 12 | 17 | 3 |
| GENTECH INTERNATIONAL INC. | 981 | 323 | 658 | 1,901 | 293 |
| EPC INVESTMENTS C.V. | - | 24 | (24) | - | (11) |
| SANTOSCMI S.A. | 39,513 | 24,918 | 14,595 | 87,597 | 907 |
| SANTOSCMI CONSTRUCCIONES DE CHILE S.A. | 6,159 | 270 | 5,889 | 1,833 | 191 |
| S&K -SANTOSCMI S.A. DE C.V. | 55 | 169 | (114) | 468 | (54) |
| COMPANIADEAUTOMATIZACION& CONTROL, GENESYS S.A. | 10,872 | 7,530 | 3,342 | 19,350 | 754 |
| VAUTIDAMERICAS S.A. | 4,559 | 2,757 | 1,802 | 2,020 | (839) |
| POSCO ASSAN TST STEEL INDUSTRY | 622,336 | 527,955 | 94,381 | 122,071 | (51,312) |
| HONG KONG POSCO E&C (CHINA) INVESTMENT Co., Ltd. | 146,186 | 168,589 | (22,403) | - | 1,881 |
| POSCO ENGINEERING & CONSTRUCTION DO BRAZIL LTDA. | 261,738 | 234,275 | 27,463 | 122,020 | 8,683 |
| POSCO Electrical Steel India Private Limited | 141,462 | 109,955 | 31,507 | 1,769 | (12,645) |
| Daewoo International Cameroon S.A. | 3,060 | 36 | 3,024 | - | - |

# POSCO and Subsidiaries
## Notes to the Consolidated Financial Statements, Continued
## As of December 31, 2013 and 2012

*(in millions of Won)*

| Company | Assets | Liabilities | Equity (deficit) | Sales | Net income (loss) |
|---|---|---|---|---|---|
| **[Foreign]** | | | | | |
| DAESAN (CAMBODIA) Co., Ltd. | ₩ 27,556 | 32,635 | (5,079) | - | (24) |
| Brazil Sao Paulo Steel Processing Center | 65,191 | 58,010 | 7,181 | 32,155 | (7,930) |
| POSCO(Dalian) IT Center Development Co., Ltd. | 235,918 | 99,127 | 136,791 | - | (3,174) |
| PT. POSCO RESOURCES INDONESIA | 1,089 | 60 | 1,029 | - | (1,024) |
| PT.POSCO ICT INDONESIA | 9,106 | 8,674 | 432 | 24,975 | 116 |
| PT. POSCO MTECH INDONESIA | 15,502 | 12,477 | 3,025 | 3,882 | (2,207) |
| PT. KRAKATAU POSCO ENERGY | 275,011 | 189,242 | 85,769 | - | (945) |
| POSCO RUS LLC | 17,301 | 14,256 | 3,045 | 2,052 | (702) |
| POSCO Thainox Public Company Limited | 398,449 | 114,365 | 284,084 | 403,382 | (10,166) |
| DAEWOO INTERNATIONAL SHANGHAI WAIGAOQIAO CO., LTD. | 26,123 | 25,310 | 813 | 109,757 | 43 |
| PT. Bio Inti Agrindo | 48,986 | 33,525 | 15,461 | 880 | 399 |
| POSCO ENGINEERING AND CONSTRUCTION AUSTRALIA (POSCO E&C AUSTRALIA) PTY LTD | 5,285 | 3,270 | 2,015 | 19,369 | (3,567) |
| POSCO-TISCO (JILIN) PROCESSING CENTER Co., Ltd. | 72,832 | 56,324 | 16,508 | 71,052 | (790) |
| Hunchun Posco Hyundai International Logistics Complex Development Co., Ltd | 58,355 | 26 | 58,329 | - | 369 |
| USA-SRDC | 411 | 5 | 406 | - | 140 |
| Daewoo International Vietnam Co., Ltd. | 4,031 | 123 | 3,908 | 3,537 | (271) |
| PT.Krakatau Posco Chemtech Calcination | 53,317 | 32,970 | 20,347 | 107 | (1,694) |
| POSCO AFRICA (PROPRIETARY) LIMITED | 44,885 | 31 | 44,854 | 129 | 5,592 |
| EPC INGENIERIA & SERVICIOS DE COSTA RICA SA | 5,101 | 1,266 | 3,835 | 6,519 | 4,016 |
| POSCO ICT BRASIL | 3,944 | 4,371 | (427) | 829 | (983) |
| LA-SRDC | 1,373 | 725 | 648 | 6,276 | 144 |
| DONG FANG JIN HONG | 365,795 | 194,786 | 171,009 | - | (1,856) |
| PRODUCTOS OFERTAS SISTEMAS Y COMERCIALIZADORA ORIENTAL S DE RL DE CV | 127 | 125 | 2 | 531 | - |
| POSCO AMERICA COMERCIALIZADORA S DE RL DE CV | 13,000 | 14,424 | (1,424) | 15,401 | (1,160) |
| POSCO (Guangdong) Automotive Steel Co., Ltd. | 402,115 | 277,747 | 124,368 | 141,877 | (27,026) |
| POSCO MAPC SA DE CV | 40,278 | 20,320 | 19,958 | 14,492 | (1,186) |
| POSCO-Mory-Maruyasu PIPE | 7,879 | 3,612 | 4,267 | 9 | (371) |
| PT KRAKATAU BLUE WATER | 592 | 285 | 307 | 337 | 20 |
| KRAKATAU POS-CHEM DONG-SUH CHEMICAL | 14,853 | 6,395 | 8,458 | - | (768) |
| Myanmar Daewoo International Corporation | 5,709 | 4 | 5,705 | 629 | 447 |
| POSCO-Italy Processing Center | 53,683 | 47,700 | 5,983 | 6,541 | (1,732) |
| DAEWOO E&P CANADA CORPORATION | 16,584 | 8,606 | 7,978 | 912 | 215 |
| Yingkou Puxiang Trade Co.,Ltd. | 421 | 73 | 348 | 473 | 60 |
| Myanmar POSCO C&C Company, Limited. | 6,611 | 279 | 6,332 | - | - |
| POSCO ICT VIETNAM | 1,659 | 982 | 677 | 498 | 194 |
| Daewoo Global Development. Pte., Ltd | 26,378 | 202 | 26,176 | - | (214) |
| Myanmar POSCO Engineering& Construction Company, Limited. | 1,052 | - | 1,052 | - | (3) |
| POSCO COATED STEEL (THAILAND) CO., LTD | 5,874 | - | 5,874 | - | - |

2) December 31, 2012

*(in millions of Won)*

| Company | Assets | Liabilities | Equity (deficit) | Sales | Net income (loss) |
|---|---|---|---|---|---|
| **[Domestic]** | | | | | |
| POSCO ENGINEERING & CONSTRUCTION., LTD. | ₩ 7,893,306 | 5,007,149 | 2,886,157 | 7,041,300 | 346,107 |
| POSCO Processing&Service | 1,084,473 | 456,338 | 628,135 | 2,770,764 | 8,087 |
| POSCO COATED & COLOR STEEL Co., Ltd. | 468,910 | 294,718 | 174,192 | 853,499 | (47,444) |
| POSCO Plant Engineering Co., Ltd. | 255,831 | 162,662 | 93,169 | 523,227 | 2,121 |
| POSCO ICT | 802,675 | 527,641 | 275,034 | 1,017,662 | 40,089 |
| POSCO Research Institute | 34,138 | 9,239 | 24,899 | 46,340 | 535 |
| POSMATE | 83,439 | 33,998 | 49,441 | 12,667 | 685 |
| POSCO A&C | 87,019 | 40,382 | 46,637 | 160,667 | (6,227) |
| POSCO Specialty Steel Co., Ltd. | 1,496,939 | 484,585 | 1,012,354 | 1,405,667 | 69,091 |
| POSTECH Venture Capital Co., Ltd. | 107,796 | 501 | 107,295 | 6,475 | 1,438 |
| eNtoB Corporation | 103,000 | 71,712 | 31,288 | 607,230 | 1,839 |
| POSCO CHEMTECH | 533,402 | 134,298 | 399,104 | 1,292,356 | 78,554 |
| POSCO-Terminal Co., Ltd. | 120,483 | 14,806 | 105,677 | 111,275 | 25,796 |
| POSCO M-TECH | 340,877 | 169,150 | 171,727 | 618,316 | 14,737 |
| POSCO ENERGY CO., LTD. | 3,315,742 | 2,374,622 | 941,120 | 2,805,208 | 177,796 |
| Postech 2006 Energy Fund | 26,000 | 950 | 25,050 | 6,141 | 385 |
| POSCO TMC Co., Ltd. | 253,987 | 163,175 | 90,812 | 268,574 | 152 |
| POSCO NIPPON STEEL RHF JOINT VENTURE.CO.,Ltd. | 149,117 | 104,272 | 44,845 | 72,607 | 13,380 |
| MegaAsset Co.,Ltd. | 112,729 | 64,252 | 48,477 | 14,274 | 1,402 |
| POSCO Engineering CO.,Ltd | 562,645 | 383,154 | 179,491 | 881,279 | 1,141 |
| Pohang SPFC Co., Ltd. | 29,514 | 22,941 | 6,573 | 75,513 | 816 |
| POSWITH Co., Ltd. | 5,140 | 2,366 | 2,774 | 14,873 | 105 |
| POSCO AST | 453,410 | 298,192 | 155,218 | 372,185 | 4,564 |
| POSHIMETAL Co., Ltd. | 341,640 | 321,197 | 20,443 | 155,274 | (19,369) |
| Poscoene | 22,787 | 52 | 22,735 | - | 407 |
| POSFINE Co., Ltd. | 58,480 | 46,640 | 11,840 | 19,651 | (2,304) |
| POSCO Humans | 8,274 | 1,822 | 6,452 | 14,513 | 108 |
| Mapo Hibroad Parking co., Ltd. | 1,561 | 281 | 1,280 | - | (285) |
| Dakos Co., Ltd. | 670 | 191 | 479 | 245 | 16 |
| Steel Processing and Fabricating Center Co.,LTD | 85,814 | 76,909 | 8,905 | 39,472 | (6,539) |
| POSCALCIUM Company, Ltd. | 7,637 | 6,528 | 1,109 | 155 | (1,790) |
| Plant Engineering service Technology Co., Ltd. | 3,620 | 1,316 | 2,304 | 8,332 | 477 |
| 9Digit Co., Ltd. | 27,458 | 22,798 | 4,660 | 289,912 | (431) |
| Postech Early Stage Fund | 9,869 | - | 9,869 | 163 | (100) |
| Busan E&E Co,. Ltd. | 79,054 | 37,470 | 41,584 | 67,419 | (745) |
| POSCO Family Strategy Fund | 66,390 | - | 66,390 | 1,368 | 362 |
| POREKA Co., Ltd. | 16,785 | 12,967 | 3,818 | 40,560 | 1,389 |
| Daewoo International Corporation | 6,989,140 | 4,866,242 | 2,122,898 | 17,011,373 | 306,041 |
| POSCO LED Co., Ltd. | 37,735 | 23,523 | 14,212 | 41,278 | (8,205) |
| Gunsan SPFC Co., Ltd. | 61,683 | 41,606 | 20,077 | 70,443 | (692) |
| Pohang Scrap Recycling Distribution Center Co., Ltd. | 19,435 | 3,207 | 16,228 | 5,657 | 1,270 |
| PSC Energy Global Co., Ltd. | 61,168 | - | 61,168 | - | (3,060) |
| Suncheon Eco Trans Co., Ltd | 49,496 | 27,118 | 22,378 | - | (251) |
| Reco Mteal Co., Ltd. | 32,959 | 35,547 | (2,588) | 42,482 | (4,736) |
| New Altec Co., Ltd | 126,527 | 28,488 | 98,039 | 95,474 | 1,376 |
| PONUTech Co.,Ltd. | 133,854 | 97,105 | 36,749 | 53,662 | (5,825) |
| BLUE O&M Co., Ltd. | 900 | 21 | 879 | 232 | (110) |
| Tamra Offshore Wind Power Co., Ltd | 20,074 | 2 | 20,072 | - | (56) |
| POS-HiAL | 47,314 | 32,852 | 14,462 | - | (1,158) |
| MCM Korea | 50 | - | 50 | - | - |
| Tancheonene Co.,Ltd | 5,606 | 17 | 5,589 | - | (165) |

# POSCO and Subsidiaries
## Notes to the Consolidated Financial Statements, Continued
## As of December 31, 2013 and 2012

*(in millions of Won)*

| Company | Assets | Liabilities | Equity (deficit) | Sales | Net income (loss) |
|---|---|---|---|---|---|
| **[Foreign]** | | | | | |
| POSCO America Corporation | ₩ 510,392 | 333,246 | 177,146 | 803,368 | (1,338) |
| POSCO AUSTRALIA PTY LTD | 1,195,398 | 477,894 | 717,504 | 118,874 | 23,634 |
| POSCO Canada Ltd. | 555,972 | 47,925 | 508,047 | 205,885 | 62,584 |
| POSCO Asia Co., Ltd. | 586,971 | 550,913 | 36,058 | 2,616,390 | 2,148 |
| Dalian POSCO Steel Co., Ltd. | 29,078 | 47,280 | (18,202) | 18,615 | (9,958) |
| POSCO-CTPC Co., Ltd. | 82,206 | 50,391 | 31,815 | 132,510 | 1,481 |
| POSCO-JKPC Co., Ltd. | 79,788 | 61,793 | 17,995 | 115,531 | 3,108 |
| INTERNATIONAL BUSINESS CENTER CORPORATION | 81,465 | 46,210 | 35,255 | 25,340 | 10,987 |
| POSCO E&C Vietnam Co., Ltd. | 127,161 | 102,831 | 24,330 | 187,325 | 14,331 |
| Zhangjiagang Pohang Stainless Steel Co., Ltd. | 1,340,336 | 867,576 | 472,760 | 2,786,474 | (79,016) |
| POSCO (Guangdong) Steel Co., Ltd. | 141,727 | 102,418 | 39,309 | 221,738 | (20,980) |
| POSCO (Thailand) Company Limited | 155,836 | 110,059 | 45,777 | 255,611 | 5,611 |
| Myanmar POSCO Steel Co., Ltd | 23,699 | 7,810 | 15,889 | 19,484 | 2,569 |
| POSCO-JOPC Co., Ltd. | 78,402 | 73,817 | 4,585 | 114,432 | 647 |
| POSCO Investment Co., Ltd. | 718,078 | 621,268 | 96,810 | 13,461 | 6,000 |
| POSCO-MKPC SDN BHD | 159,191 | 111,749 | 47,442 | 232,088 | 107 |
| Qingdao Pohang Stainless Steel Co., Ltd. | 206,941 | 117,753 | 89,188 | 514,354 | (17,445) |
| POSCO (Suzhou) Automotive Processing Center Co., Ltd. | 284,046 | 195,684 | 88,362 | 407,513 | 8,425 |
| POSCO BIOVENTURES I, L.P. | 7,571 | - | 7,571 | - | (1,301) |
| PT. POSNESIA Stainless Steel Industry | 14,978 | 1,926 | 13,052 | - | (55) |
| POSEC Hawaii, Inc. | 350 | 2 | 348 | - | (35) |
| POSCO-China Qingdao Processing Center Co., Ltd. | 47,351 | 33,119 | 14,232 | 111,017 | (623) |
| POS-ORE PTY LTD | 59,784 | 11,043 | 48,741 | 163,407 | 75,389 |
| POSCO-China Holding Corp. | 438,538 | 184,127 | 254,411 | 138,067 | 3,055 |
| POSCO JAPAN Co., Ltd. | 852,406 | 735,583 | 116,823 | 1,659,045 | 16,218 |
| POS-CD PTY LTD | 68,681 | 17,931 | 50,750 | 12,869 | (9,603) |
| POS-GC PTY LTD | 83,998 | 49,598 | 34,400 | 20,160 | (10,905) |
| POSCO-India Private Limited | 131,409 | 306 | 131,103 | - | (768) |
| POSCO-India Pune Processing Center. Pvt. Ltd. | 179,112 | 164,386 | 14,726 | 252,296 | (6,061) |
| POSCO-JEPC Co., Ltd. | 221,086 | 200,769 | 20,317 | 351,377 | 4,769 |
| POSCO-CFPC Co., Ltd. | 218,881 | 177,426 | 41,455 | 515,773 | 727 |
| POSCO E&C CHINA Co., Ltd. | 145,448 | 101,733 | 43,715 | 169,956 | 8,459 |
| POSCO MPPC S.A. de C.V. | 204,770 | 178,108 | 26,662 | 359,768 | (7,137) |
| Zhangjigang Pohang Port Co., Ltd. | 23,889 | 9,070 | 14,819 | 6,542 | 255 |
| Qingdao Pos-metal Co., Ltd. | 10,429 | 9,628 | 801 | 59,165 | (1,313) |
| POSCO-VIETNAM Co., Ltd. | 572,453 | 539,426 | 33,027 | 805,214 | (46,619) |
| POSCO MEXICO S.A. DE C.V. | 772,518 | 538,907 | 233,611 | 430,986 | (12,354) |
| POSCO India Delhi Steel Processing Centre Private Limited | 100,153 | 81,218 | 18,935 | 142,038 | 977 |
| POSCO-Poland Wroclaw Processing Center Sp. z o. o. | 56,394 | 37,399 | 18,995 | 97,381 | 5,875 |
| POS-NP PTY LTD | 62,868 | 26,259 | 36,609 | 28,872 | (4,363) |
| POSCO-Vietnam Processing Center Co., Ltd. | 64,551 | 39,418 | 25,133 | 137,641 | 58 |
| POSCO (Chongqing) Automotive Processing Center Co., Ltd. | 63,038 | 54,523 | 8,515 | 93,615 | (729) |
| SUZHOU POSCO-CORE TECHNOLOGY CO., LTD. | 52,746 | 29,180 | 23,566 | 83,910 | (1,055) |
| POSCO-Malaysia SDN. BHD. | 74,431 | 96,028 | (21,597) | 153,122 | 1,529 |

# POSCO and Subsidiaries
## Notes to the Consolidated Financial Statements, Continued
## As of December 31, 2013 and 2012

*(in millions of Won)*

| Company | Assets | Liabilities | Equity (deficit) | Sales | Net income (loss) |
|---|---|---|---|---|---|
| **[Foreign]** | | | | | |
| POS-Minerals Corporation | ₩ 213,365 | 108,246 | 105,119 | - | (496) |
| POSCO (Wuhu) Automotive Processing Center Co., Ltd. | 62,067 | 39,958 | 22,109 | 86,998 | (363) |
| POSCO Engineering and Construction India Private Limited | 33,536 | 26,578 | 6,958 | 56,037 | 2,990 |
| POSCO E&C SMART S DE RL DE CV | 12,607 | 10,693 | 1,914 | 41,717 | 1,326 |
| POSCO Philippine Manila Processing Center, Inc. | 23,737 | 14,091 | 9,646 | 35,897 | 673 |
| POSCO Gulf SFC LLC | 41,150 | 33,676 | 7,474 | 24,891 | (3,297) |
| Dalian POSCO ICT-DONGFANG Engineering Co., Ltd. | 6,358 | 1,418 | 4,940 | 5,109 | 270 |
| SANPU TRADING Co., Ltd. | 1,753 | 2 | 1,751 | 86 | 21 |
| Zhangjiagang BLZ Pohang International Trading | 9,150 | 4,408 | 4,742 | 61,529 | 192 |
| POSCO MEXICO HUMAN TECH S.A. de C.V. | 693 | 708 | (15) | 6,777 | (148) |
| POSCO MESDC S.A. DE C.V. | 12,860 | 717 | 12,143 | 5,654 | 287 |
| POSCO ICT-China | 1,922 | 1,286 | 636 | 6,528 | 227 |
| DWEMEX, S.A.DE.C.V. | 211 | 19 | 192 | - | 29 |
| POSCO MPC Servicios S.A. de C.V. | 925 | 697 | 228 | 6,077 | 62 |
| POSCO-Uruguay S.A | 24,835 | 226 | 24,609 | 3 | (1,842) |
| Pos-Sea Pte Ltd | 9,571 | 7,126 | 2,445 | 90,158 | 556 |
| POSCO Europe Steel Distribution Center | 7,270 | 1,460 | 5,810 | 13,054 | 399 |
| VECTUS LIMITED | 2,859 | 12,164 | (9,305) | 3,365 | (7,325) |
| POSCO VST CO., LTD. | 405,882 | 353,058 | 52,824 | 348,339 | (30,977) |
| POSCO Maharashtra Steel Private Limited | 942,982 | 754,791 | 188,191 | 97,948 | (41,512) |
| POSCO India Chennai Steel Processing Centre Pvt.Ltd. | 129,030 | 119,375 | 9,655 | 187,797 | 1,453 |
| POSCO TNPC Otomotiv Celik San. Ve Tic. A.S | 51,139 | 40,429 | 10,710 | 53,246 | 1,841 |
| POSCO Vietnam Ha Noi Processing Center Co., Ltd. | 46,382 | 40,764 | 5,618 | 72,321 | (1,232) |
| POSCO (Liaoning) Automotive Processing Center Co., Ltd. | 71,502 | 48,643 | 22,859 | 114,046 | 1,143 |
| POSCO-Indonesia Jakarta Processing Center | 79,711 | 57,569 | 22,142 | 76,506 | (1,402) |
| POSCO E&C VENEZUELA C.A. | 128 | - | 128 | - | - |
| Motta Resources Indonesia | 8,148 | 15,508 | (7,360) | 1,109 | (1,603) |
| POSCO TMC INDIA PRIVATE LIMITED | 9,004 | 6,823 | 2,181 | 17,192 | (45) |
| POSCO America Alabama Processing Center Co., Ltd. | 49,178 | 37,475 | 11,703 | 109,454 | (397) |
| PT PEN INDONESIA | 6,960 | 6,936 | 24 | 15,296 | (101) |
| POSCO (Yantai) Automotive Processing Center Co., Ltd. | 35,773 | 20,063 | 15,710 | 57,464 | 442 |
| POSCO India Steel Distribution Center Private Ltd. | 4,759 | 2,698 | 2,061 | 57 | (72) |
| POSCO China Dalian Plate Processing Center Co., Ltd. | 86,264 | 55,531 | 30,733 | 37,501 | (7,020) |
| POSCO-South Asia Company Limited | 13,212 | 183 | 13,029 | 8,354 | 72 |
| POSCO SS-VINA | 156,811 | 4,050 | 152,761 | - | (2,602) |
| POSCO WA PTY LTD | 235,224 | 51 | 235,173 | - | (39,181) |
| POSCO Engineering and Construction - UZ | 8,589 | 7,968 | 621 | 1,076 | 334 |

# POSCO and Subsidiaries
## Notes to the Consolidated Financial Statements, Continued
## As of December 31, 2013 and 2012

*(in millions of Won)*

| Company | Assets | Liabilities | Equity (deficit) | Sales | Net income (loss) |
|---|---|---|---|---|---|
| **[Foreign]** | | | | | |
| POSCO AUSTRALIA GP PTY LIMITED | ₩ 62,768 | 4 | 62,764 | - | (67,392) |
| Daewoo International (America) Corp. | 332,620 | 288,716 | 43,904 | 1,040,183 | 4,767 |
| Daewoo International (Deutschland) GmbH. | 104,259 | 94,087 | 10,172 | 324,061 | 739 |
| Daewoo International Japan Corp. | 236,056 | 228,631 | 7,425 | 749,714 | 273 |
| DAEWOO INTERNATIONAL SINGAPORE PTE. LTD. | 80,294 | 75,966 | 4,328 | 708,613 | 13 |
| Daewoo Italia S.r.l. | 103,710 | 99,911 | 3,799 | 262,784 | 383 |
| Daewoo (China) Co., Ltd. | 56,225 | 9,614 | 46,611 | 118,971 | 683 |
| DAEWOO TEXTILE FERGANA LLC | 86,781 | 65,730 | 21,051 | 127,432 | 9,214 |
| DAEWOO TEXTILE BUKHARA LLC | 54,780 | 40,581 | 14,199 | 44,382 | 2,615 |
| DAEWOO INTERNATIONAL AUSTRALIA HOLDINGS PTY LTD | 154,829 | 26,482 | 128,347 | 7,539 | (3,464) |
| Daewoo Paper Manufacturing Co., Ltd. | 70,572 | 70,339 | 233 | 69,880 | (4,132) |
| Tianjin Daewoo Paper Manufacturing Co., Ltd. | 13,739 | 31,105 | (17,366) | - | - |
| POSCO MAURITIUS LIMITED | 23,316 | 2 | 23,314 | - | (15) |
| PT. KRAKATAU POSCO | 1,912,134 | 969,415 | 942,719 | - | (29,063) |
| Myanmar Daewoo Limited | 5,671 | 3 | 5,668 | 1,305 | 473 |
| DAEWOO INTERNATIONAL MEXICO S.A. DE C.V. | 80,432 | 75,226 | 5,206 | 262,230 | 1,412 |
| Daewoo International Guangzhou Corp. | 18,292 | 14,120 | 4,172 | 66,808 | (4,854) |
| DAEWOO STC VINA LTD. | 1,736 | 89 | 1,647 | 1,856 | 96 |
| POSCO (Zhangjiagang) STS Processing Center Co., Ltd | 114,433 | 102,240 | 12,193 | 265,850 | 519 |
| Daewoo International (M) SDN BHD | 9,145 | 6,689 | 2,456 | 37,244 | 213 |
| Daewoo International SHANGHAI CO., LTD. | 38,374 | 30,621 | 7,753 | 63,039 | (2,746) |
| PGSF, L.P. | 5,669 | 2 | 5,667 | - | 731 |
| Xenesys Inc. | 10,162 | 1,404 | 8,758 | 4,302 | (1,083) |
| Daewoo International INDIA Private Ltd. | 2,279 | 272 | 2,007 | 2,382 | 223 |
| TECHREN Solar, LLC | 6,015 | - | 6,015 | - | (2,486) |
| PT. POSCO E&C INDONESIA | 100,543 | 78,852 | 21,691 | 247,331 | 20,302 |
| HUME COAL PTY LTD | 36,681 | 1,194 | 35,487 | 48 | (210) |
| POSCO FOUNDATION | 187 | 2 | 185 | - | (4) |
| EPC EQUITIES LLP | 36,602 | 36,636 | (34) | - | (141) |
| SANTOS CMI CONSTRUCTION TRADING LLP | 39,148 | 30,527 | 8,621 | 15,299 | 8,963 |
| SANTOS CMI INC. USA | 43,496 | 47,350 | (3,854) | 60,152 | (5,013) |
| SANTOS CMI ENGENHARIA E CONSTRUCOES LTDA | 9,338 | 17,629 | (8,291) | 20,029 | (17,431) |
| SANTOS CMI PERU S.A. | 19,937 | 39,932 | (19,995) | 69,415 | (26,391) |
| SANTOS CMI COSTA RICA S.A. | 10,720 | 10,469 | 251 | - | (99) |
| SANTOS CMI CONSTRUCCIONES S.A. | 18 | 7 | 11 | - | (25) |
| GENTECH INTERNATIONAL INC. | 1,972 | 1,568 | 404 | 1,008 | 227 |
| EPC INVESTMENTS C.V. | 107 | 24 | 83 | - | (8) |
| INGENIERÍA Y CONSTRUCCIÓN HOLANDCO S.A. | 103 | 4 | 99 | - | (6) |
| ASESORÍA Y SERVICIOS EPC S.A. | 891 | 468 | 423 | 1,691 | 250 |
| SANTOSCMI S.A. | 58,219 | 44,584 | 13,635 | 46,738 | 1,737 |
| SANTOSCMI CONSTRUCCIONES DE CHILE S.A. | 9,533 | 3,608 | 5,925 | 1,608 | 178 |
| S&K -SANTOSCMI S.A. DE C.V. | 84 | 149 | (65) | 335 | (158) |
| COMPANIADEAUTOMATIZACION &CONTROL, GENESYS S.A. | 8,648 | 6,018 | 2,630 | 16,926 | 465 |

# POSCO and Subsidiaries
## Notes to the Consolidated Financial Statements, Continued
## As of December 31, 2013 and 2012

*(in millions of Won)*

| Company | Assets | Liabilities | Equity (deficit) | Sales | Net income (loss) |
|---|---|---|---|---|---|
| **[Foreign]** | | | | | |
| VAUTIDAMERICAS S.A. | ₩ 4,866 | 2,217 | 2,649 | 1,445 | (451) |
| SANTOS CMI CONSTRUCTION ARGENTINA S.A. | 58 | 24 | 34 | - | 4 |
| POSCO ENGINEERING & CONSTRUCTION DO BRAZIL LTDA. | 343,882 | 322,576 | 21,306 | 59,862 | 11,470 |
| POSCO Electrical Steel India Private Limited | 132,529 | 94,046 | 38,483 | - | (1,343) |
| Daewoo International Cameroon S.A. | 2,064 | 25 | 2,039 | - | - |
| POSCO ASSAN TST STEEL INDUSTRY | 377,066 | 230,778 | 146,288 | - | 1,072 |
| HONG KONG POSCO E&C (CHINA) INVESTMENT Co., Ltd. | 147,685 | 172,085 | (24,400) | - | (21,103) |
| DAESAN (CAMBODIA) Co., Ltd. | 27,979 | 33,111 | (5,132) | - | (18) |
| Brazil Sao Paulo Steel Processing Center | 39,794 | 23,210 | 16,584 | 4,863 | (1,634) |
| POSCO (Dalian) IT Center Development Co., Ltd. | 176,026 | 37,908 | 138,118 | - | (4,691) |
| PT. POSCO RESOURCES INDONESIA | 2,448 | 48 | 2,400 | - | (1,147) |
| PT.POSCO ICT INDONESIA | 3,624 | 3,185 | 439 | 4,335 | (324) |
| PT. POSCO MTECH INDONESIA | 11,577 | 6,620 | 4,957 | 9,631 | (34) |
| PT. KRAKATAU POSCO ENERGY | 143,452 | 55,475 | 87,977 | - | (949) |
| POSCO RUS LLC | 12,384 | 8,324 | 4,060 | 4,260 | 505 |
| POSCO Thainox Public Company Limited | 473,048 | 153,836 | 319,212 | 502,041 | (5,532) |
| DAEWOO INTERNATIONAL SHANGHAI WAIGAOQIAO CO., LTD. | 11,003 | 10,241 | 762 | 161,675 | 255 |
| PT. Bio Inti Agrindo | 35,514 | 21,447 | 14,067 | 404 | 828 |
| POSCO ENGINEERING AND CONSTRUCTION AUSTRALIA (POSCO E&C AUSTRALIA) PTY LTD | 35,552 | 34,986 | 566 | 52,143 | 836 |
| POSCO-TISCO (JILIN) PROCESSING CENTER Co., Ltd. | 26,258 | 9,203 | 17,055 | 1,497 | (514) |
| Hunchun Posco Hyundai International Logistics Complex Development Co., Ltd | 46,923 | 8 | 46,915 | - | (829) |
| USA-SRDC | 311 | 21 | 290 | - | - |
| Daewoo International Vietnam Co., Ltd. | 4,453 | 149 | 4,304 | 2,096 | 14 |
| PT.Krakatau Posco Chemtech Calcination | 23,217 | 1,279 | 21,938 | - | (722) |
| POSCO AFRICA (PROPRIETARY) LIMITED | 3,580 | 112 | 3,468 | - | (1,509) |
| EPC INGENIERIA & SERVICIOS DE COSTA RICA SA | 1,497 | 1,553 | (56) | 1,973 | (73) |
| POSCO ICT BRASIL | 1,983 | 1,471 | 512 | - | (336) |
| LA-SRDC | 1,274 | 758 | 516 | 5,128 | 62 |
| DONG FANG JIN HONG | 267,838 | 97,208 | 170,630 | - | (1,233) |
| PRODUCTOS OFERTAS SISTEMAS Y COMERCIALIZADORA ORIENTAL S DE RL DE CV | 177 | 175 | 2 | 168 | 2 |
| POSCO AMERICA COMERCIALIZADORA S DE RL DE CV | 309 | 649 | (340) | 339 | (408) |
| POSCO (Guangdong) Automotive Steel Co., Ltd. | 351,910 | 203,033 | 148,877 | 1,061 | (9,197) |
| POSCO MAPC SA DE CV | 6,427 | - | 6,427 | - | - |

(d) Details of non-controlling interest as of December 31, 2013 and 2012 are as follows :

1) December 31, 2013

*(in millions of Won)*

| Company | Daewoo International Corporation | PT. KRAKATAU POSCO | POSCO Specialty Steel Co., Ltd. | POSCO ENGINEERING & CONSTRUCTION CO., LTD. | POSCO ENERGY Co., Ltd. | Others | Total |
|---|---|---|---|---|---|---|---|
| Current assets | ₩ 4,313,678 | 427,029 | 633,583 | 5,071,247 | 697,234 | 9,773,753 | ₩ 20,916,524 |
| Non-current assets | 6,110,630 | 3,019,191 | 879,536 | 1,062,166 | 3,115,599 | 8,538,325 | 22,725,447 |
| Current liabilities | (4,258,245) | (611,434) | (269,749) | (3,515,803) | (674,370) | (8,990,091) | (18,319,692) |
| Non-current liabilities | (1,835,835) | (1,862,078) | (264,596) | (478,070) | (1,760,156) | (3,038,981) | (9,239,716) |
| Equity | 4,330,228 | 972,708 | 978,774 | 2,139,540 | 1,378,307 | 6,283,006 | 16,082,563 |
| Non-controlling interests | 1,718,562 | 291,812 | 273,143 | 224,108 | 151,274 | 1,451,734 | 4,110,633 |
| Sales | 16,838,559 | - | 1,316,781 | 8,036,752 | 2,901,117 | 25,405,268 | 54,498,477 |
| Profit for the period | 42,312 | (41,844) | 31,749 | 144,888 | 146,419 | (143,940) | 179,584 |
| Profit (loss) attributable to non-controlling interests | 16,793 | (12,553) | 8,860 | 15,176 | 16,070 | (15,634) | 28,712 |
| Cash flows from operating activities | (67,785) | (50,209) | 18,721 | 40,815 | 32,174 | 23,342 | (2,942) |
| Cash flows from investing activities | (123,609) | (405,186) | (54,152) | (15,888) | (94,741) | (337,253) | (1,030,829) |
| Cash flows from financing activities (before dividends to non-controlling interest) | 156,326 | 467,617 | 80,213 | (29,059) | 62,273 | 375,947 | 1,113,317 |
| Dividend to non-controlling interest | (13,558) | - | (2,217) | (2,885) | - | (9,125) | (27,785) |
| Effect of exchange rate fluctuation on cash held | (114) | (560) | - | (360) | - | (9,036) | (10,070) |
| Net increase in cash and cash equivalents | (48,740) | 11,662 | 42,565 | (7,377) | (294) | 43,875 | 41,691 |

2) December 31, 2012

*(in millions of Won)*

| Company | Daewoo International Corporation | PT. KRAKATAU POSCO | POSCO Specialty Steel Co., Ltd. | POSCO ENGINEERING & CONSTRUCTION CO., LTD. | POSCO ENERGY Co., Ltd. | Others | Total |
|---|---|---|---|---|---|---|---|
| Current assets | ₩ 4,142,307 | 165,929 | 420,353 | 6,239,531 | 804,453 | 9,153,256 | ₩ 20,925,829 |
| Non-current assets | 5,553,655 | 1,746,193 | 897,110 | 966,467 | 2,363,485 | 7,957,323 | 19,484,233 |
| Current liabilities | (3,569,545) | (175,718) | (389,757) | (4,227,440) | (691,825) | (8,706,504) | (17,760,789) |
| Non-current liabilities | (1,739,130) | (793,686) | (95,357) | (944,170) | (1,688,581) | (2,385,111) | (7,646,035) |
| Equity | 4,387,287 | 942,718 | 832,349 | 2,034,388 | 787,532 | 6,018,964 | 15,003,238 |
| Non-controlling interests | 1,741,207 | 282,815 | 43,785 | 213,094 | 86,435 | 1,308,989 | 3,676,325 |
| Sales | 16,996,730 | - | 1,405,667 | 7,041,300 | 2,805,208 | 25,029,616 | 53,278,521 |
| Profit for the period | (143,667) | (29,063) | 69,078 | 278,566 | 174,539 | (108,430) | 241,023 |
| Profit (loss) attributable to non-controlling interests | (57,018) | (8,719) | 3,634 | 29,179 | 19,156 | (13,733) | (27,501) |
| Cash flows from operating activities | 254,061 | (20,775) | 8,376 | (16,465) | 50,179 | 56,375 | 331,751 |
| Cash flows from investing activities | 265,091 | (287,476) | (2,394) | (29,694) | (62,721) | (409,440) | (526,634) |
| Cash flows from financing activities (before dividends to non-controlling interest) | (541,778) | 273,209 | (3,071) | 20,832 | 11,235 | 341,974 | 102,400 |
| Dividend to non-controlling interest | (8,190) | - | (1,597) | (686) | - | (5,098) | (15,571) |
| Effect of exchange rate fluctuation on cash held | (74) | (2,306) | - | (256) | - | (15,191) | (17,827) |
| Net increase in cash and cash equivalents | (30,891) | (37,348) | 1,314 | (26,269) | (1,307) | (31,380) | (125,881) |

(e) Details of associates and joint ventures

1) Associates

Details of associates as of December 31, 2013 and 2012 are as follows :

| Investee | Category of Business | Ownership (%) 2013 | Ownership (%) 2012 | Region |
|---|---|---|---|---|
| **[Domestic]** | | | | |
| MTAPOLIS Co.,Ltd. | Multiplex development | 40.05 | 40.05 | Hwaseong |
| New Songdo International City Development, LLC | Real estate rental | 29.90 | 29.90 | Seoul |
| Gale International Korea, LLC | Real estate rental | 29.90 | 29.90 | Seoul |
| SNNC | Raw material manufacturing and sales | 49.00 | 49.00 | Gwangyang |
| CHUNGJU ENTERPRISE CITY DEVELOPMENT Co.,Ltd. | Real estate development | 25.10 | 25.10 | Chungju |
| Taegisan Wind Power Corporation | Wind power plant construction and management | 50.00 | 50.00 | Hoengseong |
| Garolim Tidal Power Plant Co.,Ltd. | Tidal power plant construction and management | 32.13 | 32.13 | Seosan |
| Posco e&c Songdo International Building | Non-resident building lease | 49.00 | 49.00 | Seoul |
| Universal Studios Resort Asset Management Corporation | Real estate services | 26.17 | 26.17 | Seoul |
| Daewoo Public Car Sales (Gwangju) CO.,Ltd. | Leasing services | 50.00 | 50.00 | Gwangju |
| UITrans LRT Co., Ltd. | Transporting | 38.19 | 41.89 | Seoul |
| Suwon Green Environment Co.,Ltd. | Construction | 27.50 | 27.50 | Hwaseong |
| Pajoo & Viro Co., Ltd. | Construction | 40.00 | 40.00 | Paju |
| Clean Gimpo Co., Ltd. | Construction | 29.58 | 29.58 | Gimpo |
| Busan-Gimhae Light Rail Transit Co., Ltd. | Transporting | 25.00 | 25.00 | Gimhae |
| Incheon-Gimpo Expressway Co., Ltd. | Construction | 29.94 | 29.94 | Anyang |
| Green Jang Ryang Co.Ltd. | Sewerage treatment | 25.00 | 25.00 | Pohang |
| Dakos Co., Ltd.(*1) | Railway equipment manufacturing | 31.00 | 81.00 | Seongnam |
| Pureun Tongyeong Enviro Co., Ltd. | Sewerage treatment | 20.40 | 20.40 | Tongyoung |
| Pure Gimpo Co., Ltd. | Construction | 28.79 | 28.79 | Seoul |
| Pohang Techno Valley AMC | Construction | 29.50 | 29.50 | Pohang |
| POSCO PLANTEC Co., Ltd. (formerly, SUNGJIN GEOTEC Co., Ltd.) | Industrial structure manufacturing | 43.97 | 33.02 | Ulsan |
| Postech Early Stage Fund(*2) | Investment in venture companies | 10.00 | 10.00 | Pohang |
| Posgreen Co., Ltd.(*2) | Plastic manufacturing | 19.00 | 19.00 | Gwangyang |
| Clean Iksan Co., Ltd. | Construction | 23.50 | 23.50 | Pohang |
| Gyeonggi CES Co.,Ltd. | Facility construction | 21.83 | 21.83 | Yangju |
| Innovalley Co., Ltd. | Real estate developement | 28.77 | 28.77 | Yongin |
| Applied Science Corp. | Machinery manufacturing | 27.11 | 27.57 | Paju |
| AROMA POSTECH RENEWABLE ENERGY Co., Ltd.(*3) | Other science research | - | 28.57 | Seoul |
| Hyundai Investment Network Private Equity Fund I | Mine investment | 50.00 | 50.00 | Seoul |
| Pohang Techno Valley PFV Corporation(*4) | Real estate development | 54.99 | 29.90 | Pohang |
| BLUE OCEAN Private Equity Fund | Private Equity Financial | 27.52 | 27.52 | Seoul |
| SuNAM Co., Ltd.(*2) | Power supply manufacturing | 19.17 | 23.92 | Seoul |
| KONES, Corp. | Technical service | 41.67 | 41.67 | Gyeongju |
| DAEHO GLOBAL MANAGEMENT CO., LTD. | Investment advisory service | 35.82 | 35.82 | Pohang |
| Mokpo Deayang Industrial Corporation | Real estate development | 27.40 | 29.90 | Mokpo |
| Gunggi Green Energy(*2) | Electricity generation | 19.00 | 25.50 | Hwaseong |
| Pohang Special Welding Co.,Ltd. | Welding material and tools manafacturing and sales | 50.00 | 50.00 | Pohang |
| KoFC POSCO HANWHA KB Shared Growth NO. 2. Private Equity Fund(*2,*5) | Investment in new technologies | 12.50 | - | Seoul |
| EQP POSCO Global NO1 Natual Resources PEF(*5) | Investment in new technologies | 27.23 | - | Seoul |
| KC Chemicals(*2,*5) | Machinery manufacturing | 19.00 | - | Hwaseong |
| POSTECH Social Enterprise Fund(*2,5) | Investment in new technologies | 9.17 | - | Seoul |
| QSONE Co.,Ltd.(*6) | Real estate rental and facility management | 50.00 | - | Seoul |
| Future Creation M&A Fund(*5) | M&A Fund | 40.00 | - | Seoul |
| Chuncheon Energy Co.,ltd.(*5) | Electricity generation | 29.90 | - | Choncheon |
| POSMATE(*7) | Business facilities maintenance | - | 45.15 | Seoul |

| Investee | Category of Business | Ownership (%) 2013 | Ownership (%) 2012 | Region |
|---|---|---|---|---|
| **[Foreign]** | | | | |
| VSC POSCO Steel Corporation | Steel manufacturing and sales | 50.00 | 50.00 | Vietnam |
| POSCHROME (PROPRIETARY) LIMITED | Raw material manufacturing and sales | 50.00 | 50.00 | South Africa |
| POSVINA Co., Ltd.(*11) | Plating steel sheet manufacturing and sales | - | 50.00 | Vietnam |
| CAML RESOURCES PTY LTD. | Raw material manufacturing and sales | 33.34 | 33.34 | Austrailia |
| Nickel Mining Company SAS | Raw material manufacturing and sales | 49.00 | 49.00 | New Caledonia |
| POSK(Pinghu) Steel Processing Center Co., Ltd. | Steel processing and sales | 20.00 | 20.00 | China |
| AN KHANH NEW CITY DEVELOPMENT J.V CO., LTD. | Highway construction and new town development | 50.00 | 50.00 | Vietnam |
| Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd. | Tinplate manufacturing and sales | 34.00 | 34.00 | China |
| POSCO-SAMSUNG Suzhou Processing Center Co., Ltd. | Steel processing and sales | 30.00 | 30.00 | China |
| Eureka Moly LLC | Steel processing and sales | 20.00 | 20.00 | USA |
| POSCO SeAH Steel Wire (Nantong) Co., Ltd. | Steel processing and sales | 25.00 | 25.00 | China |
| Yingkou Posrec Refractories Co., Ltd. | Refractory manufacturing | 25.00 | 25.00 | China |
| Sebang Steel | Scrap sales | 49.00 | 49.00 | Japan |
| NCR LLC | Coal sales | 29.41 | 29.41 | Canada |
| AMCI (WA) PTY LTD. | Iron ore sales & mine development | 49.00 | 49.00 | Austrailia |
| SHANGHAI LANSHENG DAEWOO CORP. | Trading | 49.00 | 49.00 | China |
| SHANGHAI WAIGAOQIAO FREE TRADE ZONE LANSHENG DAEWOO IN'L TRADING CO., LTD. | Trading | 49.00 | 49.00 | China |
| Hanjung Power Pty., Ltd. | Electric power manufacturing and sales | 49.00 | 49.00 | Papua New Guinea |
| General Medicines Company Ltd. | Medicine manufacturing and sales | 33.00 | 33.00 | Sudan |
| KOREA LNG LTD. | Gas production and sales | 20.00 | 20.00 | England |
| KG Power (M) SDN. BHD | Energy & resource development | 20.00 | 20.00 | Malaysia |
| Daewoo (THAILAND) CO., LTD. | Trading | 49.00 | 49.00 | Thailand |
| N.I.CO., LTD. | Trading | 50.00 | 50.00 | North Korea |
| South-East Asia Gas Pipeline Company Ltd. | Pipeline construction | 25.04 | 25.04 | Myanmar |
| GLOBAL KOMSCO Daewoo LLC | Mintage | 35.00 | 35.00 | Uzbekistan |
| POSCO-Poggenamp Electrical Steel Pvt. Ltd. | Steel manufacturing | 26.00 | 26.00 | India |
| Arctos Anthracite Joint Venture | Coal sales | 20.00 | 20.00 | Canada |
| AES-VCM Mong Duong Power Company Limited | Electricity generation | 30.00 | 30.00 | Vietnam |
| PT.INDONESIA POS CHEMTECH CHOSUN Ref | Refractory manufacturing and sales | 30.19 | 30.00 | Indonesia |
| NS-Thainox Auto Co., Ltd. | Steel manufacturing and sales | 49.00 | 49.00 | Vietnam |
| PT. Tanggamus Electric Power | Construction and engineering service | 20.00 | 20.00 | Indonesia |
| PT. Wampu Electric Power | Construction and engineering service | 20.00 | 20.00 | Indonesia |
| Boulder Solar Power, LLC | Electric power manufacturing | 21.74 | 25.00 | USA |
| LLP POSUK Titanium | Titanium manufacturing and sales | 36.83 | 50.00 | Kazahstan |
| LI3 ENERGY INC | Energy & resource development | 26.06 | 26.06 | Peru |
| Fifth Combined Heat and Power Plant LLC | Thermal power generation | 30.00 | 30.00 | Mongolia |
| IMFA ALLOYS FINLEASE LTD. | Raw material manufacturing and sales | 24.00 | 24.00 | India |
| 7623704 Canada Inc.(*2,*5) | Investments management | 10.40 | 0.00 | Canada |
| Baganuur Energy Corporation(*5) | Refined oil manufacturing | 50.00 | 0.00 | Mongolia |
| Hamparan Mulia(*5) | Resource development | 45.00 | 0.00 | Indonesia |
| BGC-POS PTY LTD.(*5) | Construction | 49.00 | 0.00 | Austrailia |
| POS-SEAHSTEELWIRE(TIANJIN)CO.,Ltd.(*5) | Steel manufacturing and sales | 25.00 | 0.00 | China |
| POS-Hyundai Steel Manufacturing India Private Ltd.(*8) | Steel manufacturing and sales | - | 29.50 | India |
| Liaoning Rongyuan Posco Refractories Co., Ltd.(*3) | Refractory manufacturing and sales | - | 35.00 | China |
| Daewoo Engineering (THAILAND) Co., Ltd.(*9) | Development and contract business | - | 48.90 | Thailand |
| POSCO YongXin Rare Earth Metal Co., Ltd.(*9) | Resource development | - | 31.00 | China |
| Myanmar Korea Timber International Ltd.(*10) | Plywood manufacturing | - | 45.00 | Myanmar |

(*1) Reclassified to associate from subsidiary due to decrease in ownership percentage during the year ended December 31, 2013.

(*2) The Company is able to exercise significant influence even though the Company's percentage of ownership is below 20%.

(*3) Excluded from associates due to the disposal during the year ended December 31, 2013.

(*4)The Company is not able to exercise control over the investee even though the Company's percentage of ownership is above 50%.

(*5) These associates were newly established or acquired in 2013.

(*6) This entity split off from POSCO Processing & Service during the year ended December 31, 2013.

(*7) Reclassified to subsidiary from associate due to the merger with Seoung Gwang Co., Ltd., a subsidiary of the Company.

(*8) Reclassified to associate from subsidiary due to a decrease in ownership percentage during the year ended December 31, 2013.

(*9) Reclassified to subsidiary from associate due to an increase in ownership percentage during the year ended December 31, 2013.
(*10) Excluded from associates due to the liquidation during the year ended December 31, 2013.
(*11) Reclassified to assets held for sale in 2013.

As of December 31, 2013, there are no restrictions on the ability of associates to transfer funds to the Company, such as in the form of cash dividends, repayment of loans or payment of advances.

2) Joint ventures

Details of joint ventures as of December 31, 2013 and 2012 are as follows :

| Investee | Category of Business | Ownership (%) 2013 | Ownership (%) 2012 | Region |
|---|---|---|---|---|
| **[Domestic]** | | | | |
| POSCO ES MATERIALS | Secondary battery manufacturing | 50.00 | 50.00 | Gumi |
| POSCO MITSUBISHI CARBON TECHNOLOGY | Steel processing and sales | 60.00 | 60.00 | Gwangyang |
| **[Foreign]** | | | | |
| KOBRASCO | Facility lease | 50.00 | 50.00 | Brazil |
| USS-POSCO Industries | Cold rolled coil manufacturing and sales | 50.00 | 50.00 | USA |
| PT. POSMI Steel Indonesia | Steel processing and sale | 36.69 | 36.69 | Indonesia |
| Henan Tsingpu Ferro AlloyCo., Ltd. | Raw material manufacturing and sales | 49.00 | 49.00 | China |
| United Spiral Pipe, LLC | Material manufacturing and sales | 35.00 | 35.00 | USA |
| BX STEEL POSCO Cold Rolled Sheet Co., Ltd. | Steel processing and sales | 25.00 | 25.00 | China |
| POSCO-SAMSUNG-Slovakia Processing Center | Steel processing and sales | 30.00 | 30.00 | Slovakia |
| Zhangjiagang Pohang Refractories Co., Ltd. | Refractory manufacturing | 50.00 | 50.00 | China |
| DMSA, AMSA | Energy & resource development | 4.00 | 4.00 | Madagascar |
| POSCO-NPS Niobium LLC | Mine development | 50.00 | 50.00 | USA |
| CSP - Compania Siderurgica do Pecem | Steel manufacturing and sales | 20.00 | 20.00 | Brazil |
| Korea Siberia Wood CJSC | Forest resource development | 50.00 | 50.00 | Russia |
| Roy Hill Holdings Pty Ltd. | Energy & resource development | 12.50 | 12.50 | Austrailia |

(f) Newly included subsidiaries

1) Consolidated subsidiaries acquired or newly established during the year ended December 31, 2013 are as follows:

| Company | Date of acquisition | Ownership (%) | Reason |
|---|---|---|---|
| POSCO ENGINEERING (THAILAND) CO., LTD.(*1) | January 2013 | 48.90 | Reclassification from associate |
| POSMATE Co.,Ltd. | January 2013 | 66.23 | Reclassification from associate |
| POSCO-Mory-Maruyasu PIPE(*1) | February 2013 | 50.00 | New establishment |
| PT KRAKATAU BLUE WATER | February 2013 | 67.00 | New establishment |
| KRAKATAU POS-CHEM DONG-SUH CHEMICAL(*1) | March 2013 | 45.00 | New establishment |
| MAX STEEL Co., Ltd. | March 2013 | 100.00 | New acquisitions |
| Myanmar Daewoo International Corporation | March 2013 | 100.00 | New establishment |
| POSCO YongXin Rare Earth Metal Co., Ltd. | March 2013 | 51.67 | Reclassification from associate |
| POSCO-Italy Processing Center | July 2013 | 90.00 | New establishment |
| NEW POWER TECH Co., Ltd. | August 2013 | 100.00 | Split off from POSCO Engineering Co.,Ltd. |
| DAEWOO E&P CANADA CORPORATION | August 2013 | 100.00 | New establishment |
| IT Engineering(*1) | August 2013 | 17.00 | New acquisitions |
| Yingkou Puxiang Trade Co.,Ltd. | September 2013 | 100.00 | New establishment |
| POSCO ICT VIETNAM | October 2013 | 100.00 | New establishment |
| Daewoo Global Development. Pte., Ltd | October 2013 | 51.00 | New establishment |
| Myanmar POSCO Engineering&Construction Company, Limited. | November 2013 | 100.00 | New establishment |
| Myanmar POSCO C&C Company, Limited. | December 2013 | 70.00 | New establishment |
| POSCO COATED STEEL (THAILAND) Co., Ltd. | December 2013 | 100.00 | New establishment |
| DAEWOO POWER AND INFRA (PTY) LTD. | December 2013 | 100.00 | New establishment |

(*1) These subsidiaries are included in the consolidated financial statements as the controlling company has control over them in consideration of the board of directors' composition and others.

2) Cash outflows (inflows) caused by the acquisitions for the year ended December 31, 2013.

| *(in millions of Won)* | Amounts |
|---|---|
| Consideration transferred | ₩ 4,359 |
| Less: Cash and cash equivalent acquired | (10,088) |
| Total | ₩ (5,729) |

(g) Excluded subsidiaries

Subsidiaries that were excluded from consolidation during the year ended December 31, 2013 are as follows:

*(in millions of Won)*

| Company | Date of disposal | Reason |
|---|---|---|
| Postech 2006 Energy Fund | January 2013 | Reclassification from subsidiary to associate |
| Postech Early Stage Fund | January 2013 | Reclassification from subsidiary to associate |
| Pohang SPFC Co., Ltd. | January 2013 | Statutory merger by SPFC Co.,LTD. (formerly, Gwangyang SPFC Co.,LTD.) |
| Gunsan SPFC Co., Ltd. | January 2013 | Statutory merger by SPFC Co.,LTD. (formerly, Gwangyang SPFC Co.,LTD.) |
| POSCALCIUM Company, Ltd. | January 2013 | Statutory merger by POSCO CHEMTECH |
| Reco Metal Co., Ltd. | January 2013 | Statutory merger by POSCO M-TECH |
| 9Digit Co., Ltd. | January 2013 | Statutory merger by POSCO M-TECH |
| SeungGwang Co., Ltd. | January 2013 | Statutory merger by POSMATE |
| POSWITH Co., Ltd. | January 2013 | Statutory merger by POSCO Humans Co., Ltd. (formerly, POS ECO HOUSING Co., LTD.) |
| MCM Korea | March 2013 | Exclusion by liquidation |
| DAEWOO CANADA LTD. | March 2013 | Exclusion by liquidation |
| DAEWOO HANDELS GmbH | March 2013 | Exclusion by liquidation |
| Dalian POSCO Steel Co., Ltd. | March 2013 | Disposal |
| MAX STEEL Co., LTD. | April 2013 | Statutory merger by POSCO-Vietnam Processing Center Co., Ltd. |
| POSCO PLANTEC Co., Ltd. | July 2013 | Statutory merger by Sungjin Geotec Co., Ltd. (currently, POSCO PLANTEC Co., Ltd. by changing its name) |
| Dakos Co., Ltd. | October 2013 | Disposal |
| BLUE O&M Co., Ltd | December 2013 | Statutory merger by Plant Engineering Service Technology Co., Ltd. |
| NEW POWER TECH CO., LTD | December 2013 | Statutory merger by POSCO ENGINEERING & CONSTRUCTION CO., LTD. |
| Tancheonene Co.,Ltd | December 2013 | Statutory merger by Poscoene |
| SANTOS CMI COSTA RICA S.A. | December 2013 | Exclusion by liquidation |
| INGENIERIA Y CONSTRUCCION HOLANDCO S.A. | December 2013 | Exclusion by liquidation |
| ASESORIA Y SERVICIOS EPC S.A. CHILE | December 2013 | Statutory merger by SANTOSCMI CONSTRUCCIONES DE CHILE S.A. |
| SANTOS CMI CONSTRUCTION ARGENTINA S.A. | December 2013 | Exclusion by liquidation |
| DAEWOO STC VINA LTD. | December 2013 | Disposal |
| GEZIRA TANNERY Co., Ltd. | December 2013 | Exclusion by liquidation |

## 2. Statement of Compliance

### Statement of compliance

The consolidated financial statements have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS"), as prescribed in the Act on External Audits of Corporations in the Republic of Korea.

### Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for the following material items in the statement of financial position, as described in the accounting policy below.

(a) Derivatives instruments are measured at fair value
(b) Financial instruments at fair value through profit or loss (FVTPL) are measured at fair value
(c) Available-for-sale financial assets are measured at fair value
(d) Defined benefit liabilities are measured at the present value of the defined benefit obligation less the fair value of the plan assets

### Functional and presentation currency

These consolidated financial statements are presented in Korean won, which is POSCO's functional currency and the currency of the primary economic environment in which POSCO operates.

### Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with K-IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

(a) Judgements

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

- Note1 - Subsidiaries, associates and joint venture
- Note 8 - Other financial assets
- Note 12 - Joint operations
- Note 13 - Investment property, net
- Note 14 - Property, plant and equipment, net
- Note 15 - Goodwill and other intangibles

(b) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- Note 20 - Provisions
- Note 21 - Employee benefits
- Note 29 - Construction contracts
- Note 39 - Commitments and contingencies

(c) Measurement of fair value

The Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. The Company has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the financial officer.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of K-IFRS including the level in the fair value hierarchy in which such valuation techniques should be classified.

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 - inputs for the assets or liability that are not based on observable market data (that is, unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Information about the assumptions made in measuring fair values is included in the following notes:

- Note 23 – Financial instruments

**Changes in accounting policies**

Except for the changes below, the Company has consistently applied the accounting policies set out in note 3 to all periods presented in these consolidated financial statements.

The Company has adopted the following new standards and amendments to standards with a date of initial application of January 1, 2013.

(a) K-IFRS No. 1001, "*Presentation of Financial Statements*"
(b) K-IFRS No. 1019, "*Employee Benefits*"
(c) K-IFRS No. 1107, "*Financial Instruments: Disclosures*"
(d) K-IFRS No. 1110, "*Consolidated Financial Statements*"
(e) K-IFRS No. 1111, "*Joint Arrangements*"
(f) K-IFRS No. 1112, "*Disclosure of Interests in Other Entities*"
(g) K-IFRS No. 1113, "*Fair Value Measurement*"

The details of changes in accounting policies are as follows:

(a) Classification of other comprehensive income

As a result of the amendments to K-IFRS No. 1001, the Company has modified the presentation of items of other comprehensive income in its statement of comprehensive income to present separately items that would be reclassified to profit or loss from those that would never be reclassified to profit or loss. Comparative information has been re-presented accordingly.

(b) Post-employment defined benefit plan

As a result of the amendments to K-IFRS No. 1019, the Company has changed its accounting policy with respect the basis for determining the income or expense related to its post-employment defined benefit plans. Under the amendments to K-IFRS No. 1019, the Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Consequently, the net interest on the net defined benefit liability (asset) now comprises: interest cost on the defined benefit obligation, interest income on plan assets, and interest on the effect on the asset ceiling. Previously, the Company determined interest income on plan assets based on their long-term rate of expected return.

(c) Offsetting of financial assets and financial liabilities

As a result of the amendments to K-IFRS No. 1107, the Company has expanded its disclosures about the offsetting of financial assets and financial liabilities (Note 23).

(d) Subsidiaries

As a result of K-IFRS No. 1110, the Company has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. K-IFRS No. 1110 introduces a new control model that focuses on whether the Company has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns.

In accordance with the transitional provisions of K-IFRS No. 1110, the Company reassessed the control conclusion for its investees at January 1, 2013. As a consequence, the Company changed its control conclusion with the following investees :

| | Company |
|---|---|
| Newly included subsidiaries | POSCO Engineering (Thailand) Co., Ltd. |
| Excluded subsidiaries | Postech 2006 Energy Fund, Postech Early Stage Fund |

(e) Joint arrangements

As a result of K-IFRS No. 1111, the Company has changed its accounting policy for its interests in joint arrangements. Under K-IFRS No. 1111, the Company has classified its interests in joint arrangements as either joint operations (if the Company has rights to the assets, and obligations for the liabilities, relating to an arrangement) or joint ventures (if the Company has rights only to the net assets of an arrangement). When making this assessment, the Company considered the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances. Previously, the structure of the arrangement was the sole focus of classification.

The Company has re-evaluated its involvement in its only joint arrangement and has reclassified the investment from a jointly controlled entity to a joint venture. Notwithstanding the reclassification, the investment continues to be recognized by applying the equity method and there has been no impact on the recognized assets, liabilities and comprehensive income of the Company.

(f) Disclosure of interests in other entities

As a result of K-IFRS No. 1112, the Company has expanded its disclosures about its interests in subsidiaries (see Note 1) and equity-accounted investees (Note 11).

(g) Fair value measurement

K-IFRS No. 1113, establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other K-IFRSs. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other K-IFRSs, including K-IFRS No. 1107. As a result, the Company has included additional disclosures in this regard (Note 23).

In accordance with the transitional provisions of K-IFRS No. 1113, the Company has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Company’s assets and liabilities.

**Impact of changes in accounting policies**

As management believes the impact of the amendments to K-IFRS No. 1019, No. 1110 and No. 1113 on the Company's prior year's consolidated financial statement is not significant, the comparative period's consolidated financial statements are not restated.

**Approval of financial statements**

The consolidated financial statements were authorized for issue by the Board of Directors on January 29, 2014, and will be submitted for approval at the shareholders' meeting to be held on March 14, 2014.

## 3. Summary of Significant Accounting Policies

The significant accounting policies applied by the Company in preparation of its consolidated financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except for those as disclosed in note 2.

The comparative amounts in consolidated statements of comprehensive income have been re-presented as a result of a change in the accounting policy regarding the presentation of items of other comprehensive income.

**Basis of consolidation**

(a) Business combinations

The Company accounts for business combinations using the acquisition method when control is transferred to the Company.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

(b) Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.
Changes in the Company's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(c) Subsidiaries

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

(d) Loss of control

When the Company loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(e) Interests in equity-accounted investees

The Company's interests in equity-control investees comprise interests in associates and joint ventures. Associates are those entities in which the Company has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Company has joint control, whereby the Company has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and joint ventures are accounted for using the equity method. They are recognized initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Company's share of the profit or loss and other comprehensive income of equity-accounted investees, until the date on which significant influence or joint control ceases.

(f) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Company's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

**Foreign currency transactions and translation**

1) Foreign currency transactions

Foreign currency transactions are initially recorded using the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. At the end of each reporting period, foreign currency monetary items are translated using the closing rate. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the original transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rate at the date fair value was initially determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognized in profit or loss in the period in which they arise. When gains or losses on non-monetary items are recognized in other comprehensive income, exchange components of those gains or losses are recognized in other comprehensive income. Conversely, when gains or losses on non-monetary items are recognized in profit or loss, exchange components of those gains or losses are recognized in profit or loss.

2) Foreign operations

If the presentation currency of the Company is different from a foreign operation's functional currency, the financial statements of the foreign operation are translated into the presentation currency using the following methods:

The assets and liabilities of foreign operations, whose functional currency is not the currency of a hyperinflationary economy, are translated to presentation currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to functional currency at exchange rates at the dates of the transactions. Foreign currency differences are recognized in other comprehensive income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation. Thus they are expressed in the functional currency of the foreign operation and translated at the closing rate.

When a foreign operation is disposed of, the relevant amount in the translation is transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income in the translation reserve.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term investments in highly liquid securities that are readily convertible to known amounts of cash with maturities of three months or less from the acquisition date and which are subject to an insignificant risk of changes in value. Equity investments are excluded from cash and cash equivalents.

**Non-derivative financial assets**

The Company recognizes and measures non-derivative financial assets by the following four categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets. The Company recognizes financial assets in the consolidated statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

Upon initial recognition, non-derivative financial assets are measured at their fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the asset's acquisition or issuance.

(a) Financial assets at fair value through profit or loss

Financial assets are classified at fair value through profit or loss if they are held for trading or designated as such upon initial recognition. Upon initial recognition, transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

(b) Held-to-maturity financial assets

A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Company has the positive intention and ability to hold to maturity, is classified as held-to-maturity. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest rate method.

(c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method unless the effect of discounting is immaterial.

(d) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets or loans and receivables. Subsequent to initial recognition, they are measured at fair value, with changes in fair value, net of any tax effect, recorded in other comprehensive income in equity. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost. When a financial asset is derecognized or impairment losses are recognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Dividends on an available-for-sale equity instrument are recognized in profit or loss when the Company's right to receive payment is established.

(e) Derecognition of non-derivative financial assets

The Company derecognizes non-derivative financial assets when the contractual rights to the cash flows from the financial asset expire, or the Company transfers the rights to receive the contractual cash flows from the financial asset as well as substantially all the risks and rewards of ownership of the financial asset. Any interest in a transferred financial asset that is created or retained by the Company is recognized as a separate asset or liability.

If the Company retains substantially all the risks and rewards of ownership of the transferred financial assets, the Company continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

(f) Offsetting a financial asset and a financial liability

Financial assets and financial liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Company currently has a legally enforceable right to offset the recognized amounts, and there is the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

**Inventories**

Inventories are measured at the lower of cost and net realizable value. Costs are determined by using the moving-weighted average method. The cost of inventories comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The allocation of fixed production overheads to the costs of finished goods or work in progress are based on the normal capacity of the production facilities.

When inventories are sold, the carrying amount of those inventories is recognized as cost of goods sold in the period in which the related revenue is recognized. Inventories are measured at the lower of cost and net realizable value. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories arising from an increase in net realizable value is recognized as a reduction in the amount of inventories recognized as a cost of goods sold in the period in which the reversal occurs.

**Non-current assets held for sale**

Non-current assets or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. In order to be classified as held for sale, the assets or disposal groups must be available for immediate sale in their present condition and their sale must be highly probable. The assets or disposal groups that are classified as non-current assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell.

The Company recognizes an impairment loss for any initial or subsequent write-down of an asset or disposal group to fair value less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized in accordance with K-IFRS No. 1036 *"Impairment of Assets"*.

A non-current asset that is classified as held for sale or part of a disposal group classified as held for sale is not depreciated (or amortized).

**Investment property**

Property held to earn rentals or for capital appreciation or both is classified as investment property. Investment property is measured initially at its cost. Transaction costs are included in the initial measurement. Subsequently, investment property is carried at depreciated cost less any accumulated impairment losses.

Subsequent costs are recognized in the carrying amount of investment property at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

**Property, plant and equipment**

Property, plant and equipment are initially measured at cost and after initial recognition, are carried at cost less accumulated depreciation and any accumulated impairment losses. The cost of property, plant and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, when the Company has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The cost of replacing a part of an item is recognized in the carrying amount of the item of property, plant and equipment, if the following recognition criteria are met:

(a) it is probable that future economic benefits associated with the item will flow to the Company; and
(b) the cost can be measured reliably.

The carrying amount of the replaced part is derecognized at the time the replacement part is recognized. The costs of the day-to-day servicing of the item are recognized in profit or loss as incurred.

Items of property, plant and equipment are depreciated from the date they are available for use or, in respect of self-constructed assets, from the date that the asset is completed and ready for use. Other than land, the costs of an asset less its estimated residual value are depreciated. Depreciation of property, plant and equipment is recognized in profit or loss on a straight-line basis, which most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset, over the estimated useful lives of each component of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognized.

The estimated useful lives for the current and comparative periods are as follows:

| | |
|---|---|
| Buildings | 10-60 years |
| Structures | 4-50 years |
| Machinery and equipment | 2-25 years |
| Vehicles | 3-10 years |
| Tools | 4-10 years |
| Furniture and fixtures | 3-10 years |
| Lease assets | 3-18 years |

The estimated residual value, useful lives and the depreciation method are reviewed at least at the end of each reporting period and, if expectations differ from previous estimates, the changes are accounted for as changes in accounting estimates.

**Borrowing costs**

The Company capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized in expense as incurred. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale. Financial assets and inventories that are manufactured or otherwise produced over a short period of time are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

To the extent that the Company borrows funds specifically for the purpose of obtaining a qualifying asset, the Company determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. The Company immediately recognizes other borrowing costs as an expense. To the extent that the Company borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Company shall determine the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Company that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Company capitalizes during a period shall not exceed the amount of borrowing costs incurred during that period.

**Intangible assets**

Intangible assets are measured initially at cost and, subsequently, are carried at cost less accumulated amortization and accumulated impairment losses.

Amortization of intangible assets except for goodwill is calculated on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The residual value of intangible assets is zero. However, as there are no foreseeable limits to the periods over which club memberships are expected to be available for use, this intangible asset is determined as having an indefinite useful life and not amortized.

| | |
|---|---|
| Intellectual property rights | 5-10 years |
| Development costs | 3-10 years |
| Port facilities usage rights | 5-75 years |
| Other intangible assets | 2-25 years |

Amortization periods and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditures are recognized in profit or loss as incurred.

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in profit or loss as incurred.

**Exploration for and evaluation of mineral resources**

POSCO is engaged in exploration projects for mineral resources through subsidiaries, associates and joint ventures in the mines or other contractual arrangements. Expenditures related to the development of mineral resources are recognized as exploration or development intangible assets. The nature of these intangible assets are as follows:

(a) Exploration and evaluation assets

Exploration and evaluation assets consist of expenditures for topographical studies, geophysical studies and trenching. These assets are reclassified as development assets when it is proved that the exploration has identified an economically feasible mine.

(b) Development assets

Development assets consist of expenditures for the evaluation of oil fields, facility construction, drilling for viability and others. These development assets are reclassified as industrial rights (mining rights) at inception of the extraction when the technical feasibility and commercial viability of extracting mineral resources are demonstrable. When proved reserves of oil and natural gas are determined and development is sanctioned, the relevant expenditure is transferred to property, plant and equipment and depreciation is computed by the unit of production method.

**Government grants**

Government grants are not recognized unless there is reasonable assurance that the Company will comply with the grant's conditions and that the grant will be received.

(a) Grants related to assets

Government grants whose primary condition is that the Company purchase, construct or otherwise acquire long-term assets are deducted from the carrying amount of the assets and recognized in profit or loss on a systematic and rational basis over the life of the depreciable assets.

(b) Grants related to income

Government grants which are intended to compensate the Company for expenses incurred are deducted from the related expenses.

**Leases**

The Company classifies and accounts for leases as either a finance or operating lease, depending on the terms. Leases where the Company assumes substantially all of the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

(a) Finance leases

At the commencement of the lease term, the Company recognizes as finance assets and finance liabilities the lower amount of the fair value of the leased property and the present value of the minimum lease payments, each determined at the inception of the lease. Any initial direct costs are added to the amount recognized as an asset.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the Company adopts for similar depreciable assets that are owned. If there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

(b) Operating leases

Lease obligations under operating leases are recognized as an expense on a straight-line basis over the lease term. Contingent rents are charged as expenses in the periods in which they are incurred.

(c) Determining whether an arrangement contains a lease

Determining whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset) and the arrangement conveys a right to use the asset.

At inception or reassessment of the arrangement, management of the Company separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If management of the Company concludes for a financial lease that it is impracticable to separate the payments reliably, the Company recognizes an asset and a liability at an amount equal to the fair value of the underlying asset that was identified as the subject of the lease. Subsequently, the liability shall be reduced as payments are made and an imputed finance charge on the liability recognized using the purchaser's incremental borrowing rate of interest.

**Impairment for financial assets**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

Objective evidence that a financial asset or group of assets are impaired includes:

(a) significant financial difficulty of the issuer or obligor;
(b) a breach of contract, such as a default or delinquency in interest or principal payments;
(c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
(d) it becoming probable that the borrower will enter bankruptcy or other financial reorganization;
(e) the disappearance of an active market for that financial asset because of financial difficulties; or
(f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

In addition, for an equity instrument classified as available-for-sale, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If financial assets have objective evidence that they are impaired, impairment losses are measured and recognized.

(a) Financial assets measured at amortized cost

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset’s original effective interest rate. If it is not practicable to obtain the instrument’s estimated future cash flows, impairment losses would be measured by using prices from any observable current market transactions. The Company can recognize impairment losses directly or establish a provision to cover impairment losses. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss shall be reversed either directly or by adjusting an allowance account.

(b) Financial assets carried at cost

If there is objective evidence that an impairment loss has occurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

(c) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

**Impairment for non-financial assets**

The carrying amounts of the Company's non-financial assets, other than assets arising from construction contracts, employee benefits, inventories, deferred tax assets and non-current assets held for sale, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

Management estimates the recoverable amount of an individual asset. If it is impossible to measure the individual recoverable amount of an asset, then management estimates the recoverable amount of cash-generating unit ("CGU"). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or CGU is the greater of its value-in-use and its fair value less costs to sell. The Company determined that individual operating entities are CGUs.

The recoverable amount of an asset or CGU is the greater of its value-in-use and its fair value less costs to sell. The value-in-use is estimated by applying a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

Goodwill acquired in a business combination is allocated to each CGU that is expected to benefit from the synergies arising from the goodwill acquired. Any impairment identified at the CGU level will first reduce the carrying value of goodwill and then be used to reduce the carrying amount of the other assets in the CGU on a pro rata basis. Except for impairment losses in respect of goodwill which are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

**Derivative financial instruments and hedges**

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss.

(a) Embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately only if the following criteria have been met: (a) the economic characteristics and risks of the host contract and the embedded derivatives are not clearly and closely related to a separate instrument with the same terms as the embedded derivative that would meet the definition of a derivative, and (b) the hybrid (combined) instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives from the host contract are recognized immediately in profit or loss. However, convertible rights of convertible bonds are not separated from the host contract and the compound financial instruments of bonds and convertible rights are designated and measured at fair value through profit and loss.

(b) Other derivatives

Changes in the fair value of a derivative that is not designated as a hedging instrument are recognized immediately in profit or loss.

**Non-derivative financial liabilities**

The Company classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities. The Company recognizes financial liabilities in the consolidated statement of financial position when the Company becomes a party to the contractual provisions of the financial liability.

(a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs that are directly attributable to the acquisition are recognized in profit or loss as incurred.

(b) Other financial liabilities

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities.

Financial guarantee liabilities are initially measured at their fair values and, if not designated as financial liabilities at fair value through profit or loss, they are subsequently measured at the higher of:

- the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and
- the amount initially recognized less, cumulative amortization recognized on a straight-line basis over the guarantee period

At the date of initial recognition, other financial liabilities are measured at fair value minus transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Company derecognizes a financial liability from the consolidated statement of financial position when it is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

**Construction work in progress**

Construction work in progress represents the gross unbilled amount expected to be collected from customers for contract work performed to date. It is measured at cost plus profit recognized to date less progress billings and recognized losses. Cost includes all expenditures related directly to specific projects and an allocation of fixed and variable overheads incurred in the Company's contract activities based on normal operating capacity.

Construction work in progress is presented as part of trade accounts and notes receivable in the consolidated statement of financial position for all contracts in which costs incurred plus recognized profits exceed progress billings. If progress billings exceed costs incurred plus recognized profits, then the difference is presented as amounts due to customers for contract work in the consolidated statement of financial position.

**Employee benefits**

(a) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within twelve months after the end of the period in which the employees render the related service. When an employee has rendered service to the Company during an accounting period, the Company recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service as profit or loss. If the Company has a legal or constructive obligation which can be reliably measured, the Company recognizes the amount of expected payment for profit-sharing and bonuses payable as liabilities.

(b) Other long-term employee benefits

Other long-term employee benefits include employee benefits that are settled beyond 12 months after the end of the period in which the employees render the related service, and are calculated at the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods, less the fair value of any related assets. The present value is determined by discounting the expected future cash flows using the interest rate of corporate bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid. Any actuarial gains and losses are recognized in profit or loss in the period in which they arise.

(c) Retirement benefits: Defined contribution plans

For defined contribution plans, when an employee has rendered service to the Company during a period, the Company recognizes the contribution payable to a defined contribution plan in exchange for that service as an accrued expense, after deducting any contributions already paid. If the contributions already paid exceed the contribution due for service before the end of the reporting period, the Company recognizes that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

(d) Retirement benefits: Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of plan assets is deducted. The calculation is performed annually by an independent actuary using the projected unit credit method.

The discount rate is the yield at the reporting date on corporate bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The Company recognizes all actuarial gains and losses arising from actuarial assumption changes and experiential adjustments in other comprehensive income when incurred.

When the fair value of plan assets exceeds the present value of the defined benefit obligation, the Company recognizes an asset, to the extent of the present value of the total of cumulative any economic benefits available in the form of refunds from the plan or reduction in the future contributions to the plan.

Remeasurements of net defined benefit liabilities, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments, net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss in curtailment is recognized immediately in profit or loss. The Company recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

**Provisions**

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

Where some or all of the expenditures required to settle a provision are expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimates. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

A provision is used only for expenditures for which the provision was originally recognized.

A provision for warranties is recognized when the underlying products are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

Regarding provision for construction warranties, warranty period starts from the completion of construction in accordance with construction contracts. If the Company has an obligation for warranties, provision for warranties which are estimated based on historcal warranty data are recorded as cost of construction and provision for warranties during the construction period.

**Equity instruments**

(a) Share capital

Common stock is classified as equity and the incremental costs arising directly attributable to the issuance of common stock less their tax effects are deducted from equity.

If the Company reacquires its own equity instruments, the amount of those instruments ("treasury shares") are presented as a contra equity account. No gain or loss is recognized in profit or loss on the purchase, sale, issuance or cancellation of its own equity instruments. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase to equity, and the resulting surplus or deficit on the transaction is recorded in capital surplus.

(b) Hybrid Bonds

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of financial liability and an equity instrument. When the Company has an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation, the Company's hybrid bond has been classified as an equity instrument.

**Revenue**

Revenue from the sale of goods, services provided and the use of assets is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates, which are not significant for all periods presented.

(a) Sale of goods

Revenue from the sale of goods in the ordinary course of activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. The appropriate timing for transfer of risks and rewards varies depending on the individual terms and conditions of the sales contract. For international sales, this timing depends on the type of international commercial terms of the contract.

(b) Services rendered

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(c) Construction contracts

Construction contracts of the Company primarily consist of contracts for the construction of plants and commercial or residential buildings, and revenue recognition for different types of contracts is as follows:

When the outcome of a construction contract can be estimated reliably, contract revenue is recognized in profit or loss in proportion to the stage of completion of the contract. Contract revenue includes the initial amount agreed in the contract plus any variation in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. The stage of completion of a contract is determined based on the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

When the outcome of a construction contract cannot be estimated reliably, the revenue is recognized only to the extent of contract costs incurred that it is probable will be recoverable. An expected loss on the construction contract shall be recognized as an expense immediately.

(d) Rental income

Rental income from investment property, net of lease incentives granted, is recognized in profit or loss on a straight-line basis over the term of the lease.

**Finance income and finance costs**

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest rate method. Dividend income is recognized in profit or loss on the date that the Company's right to receive payment is established.

Finance costs comprise interest expense on borrowings and changes in the fair value of financial assets at fair value through profit or loss. Borrowing costs are recognized in profit or loss using the effective interest rate method.

**Income taxes**

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

(a) Current income tax

Current income tax is the expected income tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit of future periods, and non-taxable or non-deductible items from the accounting profit.

(b) Deferred income tax

The measurement of deferred income tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

The Company recognizes a deferred income tax liability for all taxable temporary differences associated with investments in subsidiaries, associates, and joint ventures, except to the extent that the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Company recognizes a deferred income tax asset for deductible temporary differences arising from investments in subsidiaries, associates and joint ventures, to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized. However, deferred income tax is not recognized for the following temporary differences: taxable temporary differences arising on the initial recognition of goodwill, or the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit or loss nor taxable income.

The carrying amount of a deferred income tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred income tax liabilities and deferred income tax assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period to recover or settle the carrying amount of its assets and liabilities.

Deferred income tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current income tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current income tax liabilities and assets on a net basis.

**Earnings per share**

Management calculates basic earnings per share ("EPS") data for the Company's ordinary shares, which is presented at the end of the statement of comprehensive income. Basic EPS is calculated by dividing profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

**Operating segments**

An operating segment is a component of the Company that : a) engages in business activities from which it may earn revenues and incur expenditures, including revenues and expenses that relate to transactions with any of the Company`s other components, b) whose operating results are regularly reviewed by the Company's chief operating decision maker ("CODM") to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. Management has determined that the CODM of the Company is the CEO.

Segment profit and loss is determined the same way that consolidated net after tax profit for the period is determined under K-IFRS without any adjustment for corporate allocations. The accounting policies used by each segment are consistent with the accounting policies used in the preparation of the consolidated financial statements. Segment assets and liabilities are measured based on total assets and liabilities in accordance with K-IFRS without any adjustment for corporate allocations. Also, segment assets and liabilities are based on the separate financial statements of the entities instead of on consolidated basis. In addition, there are varying levels of transactions amongst the reportable segments. These transactions include sales of property, plant and assets, and rendering of construction service and so on. Inter-segment transactions are accounted for on an arm's length basis.

Segment results that are reported to the CEO include items directly attributable to a segment and do not include allocated items. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

**New standards and interpretations not yet adopted**

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the Company for annual periods beginning after January 1, 2013, and the Company has not early adopted them.

Management believes the impact of the amendments on the Company's consolidated financial statements is not significant.

(a) Amendments to K-IFRS No. 1032 "*Financial Instruments : Presentation*"

The amendments clarified application guidance related to offsetting of a financial asset and a financial liability. The amendments are mandatorily effective for annual periods beginning on or after January 1, 2014 with earlier adoption permitted.

**4. Financial risk management**

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- capital risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

(a) Financial risk management

1) Risk management policy

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

2) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment securities. In addition, credit risk arises from finance guarantees.

The Company implements a credit risk management policy under which the Company only transacts business with counterparties that have a certain level of credit rate evaluated based on financial condition, historical experience, and other factors. The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of a nation or an industry in which a customer operates its business does not have a significant influence on credit risk. The Company has established a credit policy under which each new customer is analyzed individually for creditworthiness.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for companies of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets. Debt securities are analyzed individually, and an expected loss shall be directly deducted from debt securities.

Credit risk also arises from transactions with financial institutions, and such transactions include transactions of cash and cash equivalents, various deposits, and financial instruments such as derivative contracts. The Company manages its exposure to this credit risk by only entering into transactions with banks that have high international credit ratings. The Company's treasury department authorizes, manages, and overseas new transactions with financial institutions with whom the Company has no previous relationship. Furthermore, the Company limits its exposure to credit risk of financial guarantee contracts by strictly evaluating their necessity based on internal decision making processes, such as the approval of the board of directors.

3) Liquidity risk management

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company's cash flow from business, borrowing or financing is sufficient to meet the cash requirements for the Company's strategic investments. Management believes that the Company is capable of raising funds by borrowing or financing if the Company is not able to generate cash flow requirements from its operations. The Company has committed borrowing facilities with various banks.

4) Market risk management

Market risk means that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The goal of market risk management is optimization of profit and controlling the exposure to market risk within acceptable limits.

① Currency risk

Each segment is influenced by a risk factor of changes in foreign currency exchange rates for the different directions due to the difference in structure of each industry regarding the cash inflows and cash outflows in foreign currency. The steel segment generally has a lack of foreign currency cash outflows, while the engineering and construction segments generally have excessive foreign currency inflows due to the nature of their respective business. Therefore, the result of the business is affected by the changes of foreign exchange rates.

The trading segment is structured such that the cash inflows and outflows of foreign currencies are to be offset; however, the trading segment is exposed to a risk of changes in foreign currency exchange rates when there are differences in currencies on receiving and paying the foreign currency amount and time differences.

The Company's policy in respect of foreign currency risks is a natural hedge whereby foreign currency income is offset with foreign currency expenditures. The remaining net exposures after the natural hedge have been hedged using derivative contracts such as forward exchange contracts. In addition, the Company's derivative transactions are limited to hedging actual foreign currency transactions and speculative hedging is not permitted. Based on this policy, the Company entities have performed currency risk management specific to various characteristics of different segments. The entities in the steel industry, which has a lack of foreign currency cash flows, has foreign currency borrowings from banks and hedges foreign currency risks of the foreign currency borrowings by using foreign currency swaps. The entities in the engineering and construction segments, which have excessive foreign currency cash flows, have hedged foreign currency risks by using forward exchange contracts. Entities in the trading industry have hedged foreign currency risks by using forward exchange contracts when the foreign currencies received and paid are different.

② Interest rate risk

The Company mostly borrows at fixed interest rates. The Company's management monitors interest rate risks regularly.

③ Other market price risk

Equity price risk arises from listed equity securities among available-for-sale equity securities. Management of the Company measures regularly the fair value of listed equity securities and the risk of variance in future cash flow caused by market price fluctuations. Significant investments are managed separately and all buy and sell decisions are approved by management of the Company.

(b) Management of capital risk

The fundamental goal of capital management is the maximization of shareholders' value by means of the stable dividend policy and the retirement of treasury shares. The capital structure of the Company consists of equity and net debt, deducting cash and cash equivalents and current financial instruments from borrowings. The Company applied the same financial risk management strategy that was applied in the previous period.

Net borrowing-to-equity ratio as of December 31, 2013 and 2012 is as follows:

| *(in millions of Won)* | | **2013** | **2012** |
|---|---|---|---|
| Total borrowings | ₩ | 26,246,605 | 24,921,433 |
| Less: Cash and cash equivalents | | 4,208,562 | 4,680,526 |
| Net borrowings | | 22,038,043 | 20,240,907 |
| Total equity | | 45,822,030 | 42,429,418 |
| Net borrowings-to-equity ratio | | 48.09% | 47.70% |

**5. Cash and Cash Equivalents**

Cash and cash equivalents as of December 31, 2013 and 2012 are as follows:

| *(in millions of Won)* | | **2013** | **2012** |
|---|---|---|---|
| Cash | ₩ | 12,575 | 8,595 |
| Demand deposits and checking accounts | | 1,199,768 | 1,609,934 |
| Time deposits | | 2,959,380 | 2,945,537 |
| Other financial cash equivalents | | 36,839 | 116,460 |
| | ₩ | 4,208,562 | 4,680,526 |

### 6. Trade Accounts and Notes Receivable

(a) Trade accounts and notes receivable as of December 31, 2013 and 2012 are as follows:

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| **Current** | | | |
| Trade accounts and notes receivable | ₩ | 10,299,826 | 9,865,436 |
| Finance lease receivables | | 36,029 | 44,918 |
| Unbilled due from customers for contract work | | 1,574,929 | 1,493,709 |
| Less: allowance for doubtful accounts | | (418,183) | (366,090) |
| | | 11,492,601 | 11,037,973 |
| **Non-current** | | | |
| Trade accounts and notes receivable | | 50,639 | 52,763 |
| Finance lease receivables | | 67,251 | 102,887 |
| Less: allowance for doubtful accounts | | (20,890) | (13,446) |
| | ₩ | 97,000 | 142,204 |

Trade accounts and notes receivable sold to financial institutions, for which the derecognition conditions were not met, amounted to ₩73,956 million and ₩80,258 million as of December 31, 2013 and 2012, respectively, and are included in bank borrowings (Note 17).

(b) Finance lease receivables are as follows:

*(in millions of Won)*

| Customer | Contents | | 2013 | 2012 |
|---|---|---|---|---|
| Korea Electric Power Corporation | Combined thermal power plant 1~4 | ₩ | 102,887 | 147,634 |
| KC CHEMICAL Co.,Ltd | Machinery and equipment | | 393 | - |
| Tenant of EXPO Apartment | Leasehold contract | | - | 171 |
| | | ₩ | 103,280 | 147,805 |

(c) The gross amount and present value of minimum lease payments as of December 31, 2013 and 2012 are as follows:

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| Less than 1 year | ₩ | 48,112 | 62,048 |
| 1 year - 5 years | | 84,270 | 120,135 |
| Greater than 5 year | | - | 11,772 |
| Unrealized interest income | | (29,102) | (46,150) |
| Present value of minimum lease payment | ₩ | 103,280 | 147,805 |

### 7. Other Receivables

Other receivables as of December 31, 2013 and 2012 are as follows:

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| **Current** | | | |
| Short-term loans | ₩ | 298,289 | 271,067 |
| Other accounts receivable | | 1,322,352 | 1,298,878 |
| Accrued income | | 74,968 | 71,076 |
| Deposits | | 69,502 | 107,208 |
| Other checking accounts | | 275,892 | 302,738 |
| Less : allowance for bad debt accounts | | (150,580) | (53,815) |
| | | 1,890,423 | 1,997,152 |
| **Non-current** | | | |
| Long-term loans | | 604,478 | 574,255 |
| Long-term other accounts receivable | | 152,383 | 164,289 |
| Accrued income | | 1,110 | 1,204 |
| Deposits | | 111,482 | 110,681 |
| Less : allowance for bad debt accounts | | (71,998) | (41,526) |
| | ₩ | 797,455 | 808,903 |

### 8. Other Financial Assets

(a) Other short-term financial assets as of December 31, 2013 and 2012 are as follows:

*(in millions of Won)*

| | 2013 | 2012 |
|---|---|---|
| Derivatives assets held for trading | ₩ 44,082 | 62,720 |
| Short-term available-for-sale securities | 10,772 | 133,656 |
| Current portion of held-to-maturity securities (bonds) | 2,232 | 31,237 |
| Short-term financial instruments(*1,2,3,4) | 2,913,579 | 1,621,668 |
| | ₩ 2,970,665 | 1,849,281 |

(*1) As of December 31, 2013 and 2012, short-term financial instruments amounting to ₩4,700 million and ₩3,400 million, respectively, are provided as collateral in relation to long-term borrowings from the National Forestry Cooperative Federation.

(*2) As of December 31, 2013 and 2012, ₩949 million and ₩12,699 million, respectively, are restricted for the use in a government project.

(*3) As of December 31, 2013 and 2012, short-term financial instruments amounting to ₩27,195 million and ₩7,650 million, respectively, are provided as collateral for long-term borrowings.

(*4) As of December 31, 2013 and 2012, short-term financial instruments amounting to ₩261,034 million and ₩153,251 million, respectively, are restricted for use in financial arrangements, pledge and others.

(b) Other long-term financial assets as of December 31, 2013 and 2012 are as follows:

*(in millions of Won)*

| | 2013 | 2012 |
|---|---|---|
| Derivatives asstes held for trading | ₩ 34,140 | 8,634 |
| Long-term available-for-sale securities (equity instruments)(*1,2,3) | 4,068,766 | 3,711,169 |
| Long-term available-for-sale securities (bonds) | 32,456 | 26,430 |
| Long-term available-for-sale securities (others) | 54,390 | 43,267 |
| Held-to-maturity securities (bonds) | 1,602 | 3,251 |
| Long-term financial instruments | 274,376 | 68,215 |
| | ₩ 4,465,730 | 3,860,966 |

(*1) As of December 31, 2013, 1,795,860 shares equivalent to 16,162,743 American Depository Receipts (“ADRs”) of SK Telecom Co., Ltd. have been pledged as collateral for exchangeable bonds issued.

(*2) During the year ended December 31, 2013, there was a significant decline in the fair value of shares of KB Financial Group Inc. and others for a prolonged period, which was considered as objective evidence of impairment. As a result, an impairment loss of ₩280,237 million was recognized in profit or loss during the year ended December 31, 2013.

(*3) As of December 31, 2013 and 2012, ₩229,052 million and ₩167,100 million of long-term available-for-sale securities, respectively, have been provided as collateral for construction projects of CHUNGJU ENTERPRISE CITY DEVELOPMENT Co., Ltd. and others.

## 9. Inventories

(a) Inventories as of December 31, 2013 and 2012 are as follows:

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| Finished goods | ₩ | 1,406,297 | 1,475,832 |
| Merchandise | | 711,802 | 703,923 |
| Semi-finished goods | | 1,711,294 | 1,876,196 |
| Raw materials | | 2,228,110 | 2,425,367 |
| Fuel and materials | | 801,992 | 893,137 |
| Construction inventories | | 1,183,390 | 1,324,873 |
| Materials-in-transit | | 1,848,389 | 2,007,106 |
| Others | | 96,389 | 93,007 |
| | | 9,987,663 | 10,799,441 |
| Less: Allowance for inventories valuation | | (189,282) | (214,795) |
| | ₩ | 9,798,381 | 10,584,646 |

(b) The changes of allowance for inventories valuation for the years ended December 31, 2013 and 2012 were as follows:

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| Beginning | ₩ | 214,795 | 215,594 |
| Valuation losses of inventories | | 49,172 | 76,484 |
| Write-off | | (73,220) | (71,459) |
| Others | | (1,465) | (5,824) |
| Ending | ₩ | 189,282 | 214,795 |

## 10. Non-Current Assets Held for Sale

Details of non-current assets held for sale as of December 31, 2013 and 2012 are as follows:

| *(in millions of Won)* | 2013 | | | 2012 |
|---|---|---|---|---|
| | Controlling company | Subsidiaries | Total | Subsidiaries |
| Property, plant and equipment(*1) | ₩ - | 1,190 | 1,190 | 1,190 |
| Investments in associates(*2) | 1,304 | - | 1,304 | - |
| | ₩ 1,304 | 1,190 | 2,494 | 1,190 |

(*1) POSCO AST determined to dispose of its land and building for employee welfare and classified them as assets held for sale as of December 31, 2012. The amount measured at the lower of those carrying amount and fair value less costs to sell of certain land and building was ₩1,190 million, the Company recorded impairment loss for the assets held for sale of ₩70 million.

(*2) The Company determined to dispose of the shares of POSVINA Co., Ltd., an associate of the Company, and classified it as assets held for sale as of September 2013. The amount based on the difference between those carrying amount and fair value less costs to sell was ₩1,304 million. The Company recorded impairment loss for the assets held for sale of ₩1,814 million.

### 11. Investments in Associates and Joint ventures

(a) Investments in associates and joint ventures as of December 31, 2013 and 2012 are as follows:

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| Investments in associates | ₩ | 1,830,047 | 1,530,802 |
| Investments in joint ventures | | 1,978,646 | 1,508,459 |
| | ₩ | 3,808,693 | 3,039,261 |

(b) Details of investments in associates as of December 31, 2013 and 2012 are as follows:

| *(in millions of Won)* | 2013 | | | | 2012 |
|---|---|---|---|---|---|
| Company | Number of shares | Ownership (%) | Acquisition cost | Book value | Book value |
| [Domestic] | | | | | |
| EQP POSCO Global NO1 Natual Resources PEF | 178,565 | 27.23 | 178,566 | ₩ 177,563 | - |
| POSCO PLANTEC Co., Ltd. (formerly, SUNGJIN GEOTEC Co., Ltd.)(*1) | 27,365,388 | 43.97 | 341,087 | 234,203 | 181,361 |
| SNNC | 18,130,000 | 49.00 | 90,650 | 123,969 | 147,539 |
| BLUE OCEAN Private Equity Fund | 333 | 27.52 | 33,300 | 29,391 | 33,839 |
| CHUNGJU ENTERPRISE CITY DEVELOPMENT Co.,Ltd.(*5) | 2,008,000 | 25.10 | 10,040 | 23,733 | 29,414 |
| Incheon-Gimpo Expressway Co., Ltd. | 7,975,319 | 29.94 | 39,877 | 37,759 | 13,680 |
| UITrans LRT Co., Ltd.(*5) | 3,929,751 | 38.19 | 19,649 | 19,185 | 16,444 |
| Garolim Tidal Power Plant Co.,Ltd. | 3,020,220 | 32.13 | 15,101 | 12,941 | 11,544 |
| Gunggi Green Energy(*2) | 2,880,000 | 19.00 | 14,400 | 4,996 | 7,353 |
| KoFC POSCO HANWHA KB Shared Growth NO. 2. Private Equity Fund(*2) | 7,012,500 | 12.50 | 7,013 | 6,685 | - |
| KONES, Corp. | 3,250,000 | 41.67 | 6,893 | 5,784 | 6,476 |
| Busan-Gimhae Light Rail Transit Co., Ltd.(*3,5) | 9,160,000 | 25.00 | 45,800 | - | 7,601 |
| QSONE Co.,Ltd. | 200,000 | 50.00 | 84,395 | 84,096 | - |
| POSMATE(*4) | - | - | - | - | 46,204 |
| Others (31 companies)(*5) | - | - | - | 39,820 | 39,096 |
| | | | | 800,125 | 540,551 |
| [Foreign] | | | | | |
| Eureka Moly LLC | - | 20.00 | 240,123 | 217,513 | 213,136 |
| South-East Asia Gas Pipeline Company Ltd. | 135,219,000 | 25.04 | 150,779 | 140,202 | 144,831 |
| Nickel Mining Company SAS | 3,234,698 | 49.00 | 157,585 | 135,178 | 146,699 |
| 7623704 Canada Inc.(*2) | 114,452,000 | 10.40 | 124,341 | 119,516 | - |
| AMCI (WA) Pty LTD. | 49 | 49.00 | 209,664 | 98,467 | 123,018 |
| KOREA LNG LTD. | 2,400 | 20.00 | 135,205 | 64,453 | 99,976 |
| AES-VCM Mong Duong Power Company Limited | - | 30.00 | 74,161 | 81,436 | 48,636 |
| CAML Resources Pty. LTD. | 3,239 | 33.34 | 40,388 | 43,820 | 62,227 |
| NCR LLC | - | 29.41 | 32,348 | 30,496 | 39,303 |
| POSCHROME (PROPRIETARY) LIMITED | 43,350 | 50.00 | 19,892 | 7,911 | 21,324 |
| Others (31 companies)(*5) | - | - | - | 90,930 | 91,101 |
| | | | | 1,029,922 | 990,251 |
| | | | | ₩ 1,830,047 | 1,530,802 |

(*1) It is reclassified from subsidiary to associate due to the merger with Sungjin Geotec Co., Ltd. during the year ended December 31, 2013.

(*2) The Company is able to exercise significant influence even though the Company's percentage of ownership is below 20%.

(*3) As the Company's share of losses exceeded its interest in this entity, the carrying amount of that interest was reduced to nil and the recognition of further losses was discontinued. Unrecognized losses in this entity are ₩10,258 million during the year ended December 31, 2013.

(*4) It is reclassified from associate to subsidiary due to the merger with Seoung Gwang Co., Ltd. during the year ended December 31, 2013.

(*5) Investments in associates amounting to ₩64,810 are provided as collateral related to associates' borrowings.

(c) Details of investments in joint ventures as of December 31, 2013 and 2012 are as follows:

| *(in millions of Won)* | 2013 | | | | 2012 |
|---|---|---|---|---|---|
| Company | Number of shares | Ownership (%) | Acquisition cost | Book value | Book value |
| [Domestic] | | | | | |
| POSCO MITSUBISHI CARBON TECHNOLOGY | 11,568,000 | 60.00 | 115,680 | ₩ 115,708 | 28,060 |
| POSCO ES MATERIALS | 1,000,000 | 50.00 | 43,000 | 40,386 | 42,388 |
| | | | | 156,094 | 70,448 |
| [Foreign] | | | | | |
| Roy Hill Holdings Pty Ltd. | 12,723,959 | 12.50 | 998,180 | 825,901 | 527,129 |
| CSP-Compania Siderurgica do Pecem | 660,301,330 | 20.00 | 393,925 | 263,419 | 214,761 |
| POSCO-NPS Niobium LLC | 325,050,000 | 50.00 | 364,609 | 343,590 | 348,646 |
| DMSA, AMSA | - | 4.00 | 193,182 | 180,355 | 124,326 |
| KOBRASCO | 2,010,719,185 | 50.00 | 32,950 | 95,233 | 113,847 |
| BX STEEL POSCO Cold Rolled Sheet Co., Ltd. | - | 25.00 | 61,961 | 96,309 | 92,888 |
| Others (7 companies) | | | | 17,745 | 16,414 |
| | | | | 1,822,552 | 1,438,011 |
| | | | | ₩ 1,978,646 | 1,508,459 |

(d) The movements of investments in associates and joint ventures for the years ended December 31, 2013 and 2012 are as follows:

1) December 31, 2013

| *(in millions of Won)* Company | December 31, 2012 Book value | Acquisition | Dividends | Share of profits (losses) | Other increase (decrease) (*1) | December 31, 2013 Book value |
|---|---|---|---|---|---|---|
| [Domestic] | | | | | | |
| EQP POSCO Global NO1 Natual Resources PEF | ₩ - | 178,566 | - | (1,017) | 14 | 177,563 |
| POSCO PLANTEC Co., Ltd. (formerly, SUNGJIN GEOTEC Co., Ltd.) | 181,361 | 101,210 | - | (49,065) | 697 | 234,203 |
| SNNC | 147,539 | - | (27,685) | 2,183 | 1,932 | 123,969 |
| POSCO MITSUBISHI CARBON TECHNOLOGY | 28,060 | 86,760 | - | 888 | - | 115,708 |
| POSCO ES MATERIALS | 42,388 | - | - | (1,963) | (39) | 40,386 |
| BLUE OCEAN Private Equity Fund | 33,839 | - | - | (2,015) | (2,433) | 29,391 |
| CHUNGJU ENTERPRISE CITY DEVELOPMENT Co.,Ltd. | 29,414 | - | - | (5,535) | (146) | 23,733 |
| Incheongimpo Highway Co., Ltd | 13,680 | 24,521 | - | (441) | (1) | 37,759 |
| UITrans LRT Co., Ltd. | 16,444 | 1,967 | - | 668 | 106 | 19,185 |
| Garolim Tidal Power Plant Co.,Ltd. | 11,544 | 2,201 | - | (804) | - | 12,941 |
| Gunggi Green Energy | 7,353 | 5,475 | - | (8,213) | 381 | 4,996 |
| KoFC POSCO HANWHA KB Shared Growth NO. 2. Private Equity Fund | - | 7,013 | - | (327) | (1) | 6,685 |
| KONES, Corp. | 6,476 | - | - | (740) | 48 | 5,784 |
| Busan-Gimhae Light Rail Transit Co., Ltd. | 7,601 | - | - | (7,601) | - | - |
| QSONE Co.,Ltd. | - | 84,395 | - | (299) | - | 84,096 |
| POSMATE | 46,204 | - | - | - | (46,204) | - |
| Others | 39,096 | 9,124 | - | 1,820 | (10,220) | 39,820 |
| | 610,999 | 501,232 | (27,685) | (72,461) | (55,866) | 956,219 |
| [Foreign] | | | | | | |
| Roy Hill Holdings Pty Ltd. | 527,129 | 446,201 | - | (37,781) | (109,648) | 825,901 |
| POSCO-NPS Niobium LLC | 348,646 | - | (16,188) | 16,079 | (4,947) | 343,590 |
| CSP-Compania Siderurgica do Pecem | 214,761 | 128,185 | - | (34,410) | (45,117) | 263,419 |
| Eureka Moly LLC | 213,136 | - | - | - | 4,377 | 217,513 |
| South-East Asia Gas Pipeline Company Ltd. | 144,831 | - | - | (2,585) | (2,044) | 140,202 |
| Nickel Mining Company SAS | 146,699 | - | - | (16,617) | 5,096 | 135,178 |
| DMSA, AMSA | 124,326 | 58,374 | - | 31 | (2,376) | 180,355 |
| 7623704 Canada Inc. | - | 124,341 | - | (1) | (4,824) | 119,516 |
| AMCI (WA) Pty Ltd. | 123,018 | - | - | (6,283) | (18,268) | 98,467 |
| KOREA LNG LTD. | 99,976 | - | (21,999) | 21,898 | (35,422) | 64,453 |
| BX STEEL POSCO Cold RolledSheet Co., Ltd. | 92,888 | - | - | 2,400 | 1,021 | 96,309 |
| KOBRASCO | 113,847 | - | (26,482) | 21,948 | (14,080) | 95,233 |
| AES-VCM Mong Duong Power Company Limited | 48,636 | - | - | (12,841) | 45,641 | 81,436 |
| CAML Resources Pty. LTD. | 62,227 | - | (12,428) | 17,984 | (23,963) | 43,820 |
| NCR LLC | 39,303 | - | - | (9,609) | 802 | 30,496 |
| POSCHROME (PROPRIETARY) LIMITED | 21,324 | - | (7,196) | 2,943 | (9,160) | 7,911 |
| Others | 107,515 | 7,439 | (5,252) | (70,504) | 69,477 | 108,675 |
| | 2,428,262 | 764,540 | (89,545) | (107,348) | (143,435) | 2,852,474 |
| | ₩ 3,039,261 | 1,265,772 | (117,230) | (179,809) | (199,301) | 3,808,693 |

(*1) Other increase or decrease represents the changes in investments in associates and joint ventures due to disposals and change in capital adjustments arising from translations of financial statements of foreign investees and others.

2) December 31, 2012

*(in millions of Won)*

| Company | Dec. 31, 2011 Book value | Acquisition | Dividends | Share of profits (losses) | Other increase (decrease)(*1) | Dec. 31, 2012 Book value |
|---|---|---|---|---|---|---|
| [Domestic] | | | | | | |
| POSCO PLANTEC Co., Ltd. (formerly, SUNGJIN GEOTEC Co., Ltd.) | ₩ 194,942 | - | - | (17,162) | 3,581 | 181,361 |
| SNNC | 154,131 | - | (20,306) | 15,157 | (1,443) | 147,539 |
| POSCO MITSUBISHI CARBON TECHNOLOGY | - | 28,920 | - | (860) | - | 28,060 |
| POSCO ES MATERIALS | - | 43,000 | - | (560) | (52) | 42,388 |
| BLUE OCEAN Private Equity Fund | 35,971 | - | - | (4,542) | 2,410 | 33,839 |
| CHUNGJU ENTERPRISE CITY DEVELOPMENT Co., Ltd. | 21,026 | - | - | 8,534 | (146) | 29,414 |
| Incheongimpo Highway Co., Ltd | 3,500 | 9,368 | - | (377) | 1,189 | 13,680 |
| UITrans LRT Co., Ltd. | 3,610 | 11,294 | - | 1,268 | 272 | 16,444 |
| Garolim Tidal Power Plant Co.,Ltd. | 11,995 | - | - | (451) | - | 11,544 |
| Gunggi Green Energy | - | 8,925 | - | (1,572) | - | 7,353 |
| KONES, Corp. | 6,764 | - | - | (219) | (69) | 6,476 |
| Busan-Gimhae Light Rail Transit Co., Ltd. | 34,227 | - | - | (26,626) | - | 7,601 |
| POSMATE | 22,409 | 21,025 | (536) | 2,158 | 1,148 | 46,204 |
| Kyobo Life Insurance Co., Ltd. | 1,377,114 | - | (24,600) | 37,038 | (1,389,552) | - |
| Cheongna IBT Co., Ltd. | 35,564 | - | - | (729) | (34,835) | - |
| MTAPOLIS Co.,Ltd. | 15,674 | - | - | (15,674) | - | - |
| MIDAS Information Technology Co.,Ltd. | 12,476 | - | (87) | 1,530 | (13,919) | - |
| Others | 56,163 | 3,619 | (107) | (2,051) | (18,528) | 39,096 |
| | 1,985,566 | 126,151 | (45,636) | (5,138) | (1,449,944) | 610,999 |
| [Foreign] | | | | | | |
| Roy Hill Holdings Pty Ltd. | - | 551,979 | - | (16,537) | (8,313) | 527,129 |
| POSCO-NPS Niobium LLC | 374,868 | - | (18,632) | 19,199 | (26,789) | 348,646 |
| CSP-Compania Siderurgica do Pecem | 124,231 | 132,849 | - | (2,520) | (39,799) | 214,761 |
| Eureka Moly LLC | 109,772 | - | - | - | 103,364 | 213,136 |
| South-East Asia Gas Pipeline Company Ltd. | 136,175 | 19,248 | - | - | (10,592) | 144,831 |
| Nickel Mining Company SAS | 168,292 | - | - | (12,795) | (8,798) | 146,699 |
| DMSA, AMSA | 119,556 | 16,813 | - | (1,176) | (10,867) | 124,326 |
| AMCI (WA) Pty LTD. | 168,212 | - | - | (38,706) | (6,488) | 123,018 |
| KOREA LNG LTD. | 127,901 | - | (21,534) | 12,697 | (19,088) | 99,976 |
| BX STEEL POSCO Cold Rolled Sheet Co., Ltd. | 95,577 | - | - | 2,650 | (5,339) | 92,888 |
| KOBRASCO | 128,884 | - | (24,644) | 28,792 | (19,185) | 113,847 |
| AES-VCM Mong Duong Power Company Limited | 31,201 | - | - | (1,246) | 18,681 | 48,636 |
| CAML Resources Pty. LTD. | 55,465 | - | - | 11,390 | (4,628) | 62,227 |
| NCR LLC | 24,107 | - | - | (452) | 15,648 | 39,303 |
| POSCHROME (PROPRIETARY) LIMITED | 24,674 | 33 | - | (311) | (3,072) | 21,324 |
| Others | 157,178 | 19,136 | (5,143) | (18,549) | (45,107) | 107,515 |
| | 1,846,093 | 740,058 | (69,953) | (17,564) | (70,372) | 2,428,262 |
| | ₩ 3,831,659 | 866,209 | (115,589) | (22,702) | (1,520,316) | 3,039,261 |

(*1) Other increase or decrease represents the changes in investments in associates and joint ventures due to disposals and change in capital adjustments arising from translations of financial statements of foreign investees and others.

(e) The fair value of investments in associates for which there are published price quotations as of December 31, 2013 is as follows:

*(in millions of Won)*

| Company | Fair value |
|---|---|
| POSCO PLANTEC Co., Ltd. (formerly, SUNGJIN GEOTEC Co., Ltd.) | ₩ 189,916 |

(f) Summarized financial information of associates and joint ventures as of and for years ended December 31, 2013 and 2012 is as follows:

1) December 31, 2013

*(in millions of Won)*

| Company | Assets | Liabilities | Equity (deficit) | Sales | Net income (loss) |
|---|---|---|---|---|---|
| [Domestic] | | | | | |
| EQP POSCO Global NO1 Natual Resources PEF | ₩ 652,849 | 1,034 | 651,815 | - | (3,684) |
| POSCO PLANTEC Co., Ltd. (formerly, SUNGJIN GEOTEC Co., Ltd.) | 900,409 | 765,481 | 134,928 | 597,561 | (98,435) |
| SNNC | 504,351 | 235,830 | 268,521 | 405,419 | 8,458 |
| POSCO MITSUBISHI CARBON TECHNOLOGY | 243,644 | 51,747 | 191,897 | - | 89 |
| POSCO ES MATERIALS | 59,807 | 10,590 | 49,217 | 5,759 | (3,926) |
| BLUE OCEAN Private Equity Fund | 341,118 | 234,321 | 106,797 | 425,678 | (7,321) |
| CHUNGJU ENTERPRISE CITY DEVELOPMENT Co., Ltd. | 284,290 | 222,246 | 62,044 | 10,224 | (15,924) |
| Incheongimpo Highway Co., Ltd | 157,082 | 32,691 | 124,391 | - | (1,473) |
| UITrans LRT Co., Ltd. | 102,828 | 56,438 | 46,390 | - | (925) |
| Garolim Tidal Power Plant Co.,Ltd. | 43,592 | 3,350 | 40,242 | - | (2,502) |
| Gunggi Green Energy | 333,027 | 263,608 | 69,419 | 21,577 | (5,526) |
| KoFC POSCO HANWHA KB Shared Growth NO. 2. Private Equity Fund | 55,195 | 1,712 | 53,483 | 1,064 | (1,116) |
| KONES, Corp. | 3,748 | 2,296 | 1,452 | 7,442 | (1,612) |
| Busan-Gimhae Light Rail Transit Co., Ltd. | 752,011 | 793,042 | (41,031) | 34,670 | (71,110) |
| QSONE Co.,Ltd. | 247,592 | 79,399 | 168,193 | 882 | (597) |
| [Foreign] | | | | | |
| Roy Hill Holdings Pty Ltd. | 2,703,533 | 244,437 | 2,459,096 | - | (302,248) |
| POSCO-NPS Niobium LLC | 686,978 | - | 686,978 | - | 32,158 |
| CSP-Compania Siderurgica do Pecem | 1,520,989 | 78,847 | 1,442,142 | - | (16,915) |
| South-East Asia Gas Pipeline Company Ltd. | 1,755,847 | 1,195,935 | 559,912 | 19,878 | (10,323) |
| Nickel Mining Company SAS | 416,878 | 91,851 | 325,027 | 120,324 | (39,686) |
| DMSA, AMSA | 8,636,317 | 5,190,558 | 3,445,759 | - | (473) |
| 7623704 Canada Inc. | 1,161,363 | 15 | 1,161,348 | - | (10) |
| KOREA LNG LTD. | 381,437 | 98 | 381,339 | 111,602 | 109,495 |
| BX STEEL POSCO Cold Rolled Sheet Co., Ltd. | 776,557 | 418,958 | 357,599 | 1,479,765 | 5,359 |
| KOBRASCO | 203,467 | 13,001 | 190,466 | 70,428 | 42,852 |
| CAML Resources Pty. LTD. | 185,465 | 52,782 | 132,683 | 238,296 | 53,950 |
| POSCHROME (PROPRIETARY) LIMITED | 38,440 | 3,779 | 34,661 | 72,243 | 6,765 |

2) December 31, 2012

| Company | Assets | Liabilities | Equity | Sales | Net income (loss) |
|---|---|---|---|---|---|
| [Domestic] | | | | | |
| POSCO PLANTEC Co., Ltd. (formerly, SUNGJIN GEOTEC Co., Ltd.) | 763,581 | 632,999 | 130,582 | 703,236 | (29,219) |
| SNNC | 577,273 | 261,781 | 315,492 | 379,230 | 16,959 |
| POSCO MITSUBISHI CARBON TECHNOLOGY | 47,014 | 247 | 46,767 | - | (1,433) |
| POSCO ES MATERIALS | 69,287 | 16,067 | 53,220 | - | (1,422) |
| BLUE OCEAN Private Equity Fund | 347,298 | 224,338 | 122,960 | 429,210 | (16,504) |
| CHUNGJU ENTERPRISE CITY DEVELOPMENT Co., Ltd. | 333,716 | 250,540 | 83,176 | 229,271 | 36,971 |
| Incheongimpo Highway Co., Ltd | 44,714 | 334 | 44,380 | - | (1,323) |
| UITrans LRT Co., Ltd. | 50,932 | 12,822 | 38,110 | - | (880) |
| Garolim Tidal Power Plant Co.,Ltd. | 37,476 | 1,546 | 35,930 | - | (1,404) |
| Gunggi Green Energy | 103,340 | 68,990 | 34,350 | - | (467) |
| KONES, Corp. | 6,739 | 3,627 | 3,112 | 8,274 | (527) |
| Busan-Gimhae Light Rail Transit Co., Ltd. | 787,011 | 756,606 | 30,405 | 16,811 | (106,668) |
| POSMATE | 118,077 | 14,580 | 103,497 | 104,705 | 9,587 |
| MTAPOLIS Co., Ltd. | 521,942 | 512,720 | 9,222 | 21,063 | (35,244) |
| [Foreign] | | | | | |
| Roy Hill Holdings Pty Ltd. | 1,404,336 | 105,340 | 1,298,996 | - | (146,321) |
| POSCO-NPS Niobium LLC | 697,431 | 140 | 697,291 | - | 38,412 |
| CSP-Compania Siderurgica do Pecem | 1,088,105 | 16,551 | 1,071,554 | - | (12,622) |
| South-East Asia Gas Pipeline Company Ltd. | 1,341,510 | 763,116 | 578,394 | - | - |
| Nickel Mining Company SAS | 445,344 | 91,266 | 354,078 | 120,224 | (33,981) |
| DMSA, AMSA | 7,935,489 | 5,906,301 | 2,029,188 | - | (29,407) |
| KOREA LNG LTD. | 545,841 | 64 | 545,777 | 109,992 | 107,953 |
| BX STEEL POSCO Cold RolledSheet Co., Ltd. | 922,932 | 579,140 | 343,792 | 1,506,012 | 2,296 |
| KOBRASCO | 231,524 | 3,831 | 227,693 | 121,619 | 56,282 |
| CAML Resources Pty. LTD. | 209,717 | 70,502 | 139,215 | 284,134 | 34,162 |
| POSCHROME (PROPRIETARY) LIMITED | 53,900 | 3,582 | 50,318 | 89,962 | (899) |

## 12. Joint Operations

Details of significant joint operations of the Company as of December 31, 2013 are as follows:

| Jonint operations | Operation | Ownership (%) | Location |
|---|---|---|---|
| Myanmar A-1/A-3 mine | Mine development | 51.00 | Myanmar |
| Offshore midstream | Mine development | 51.00 | Myanmar |
| Gleenhills mine | Mine development | 20.00 | Canada |
| Actos Anthracite coal project | Mine development | 20.00 | Canada |
| Mt. Thorley J/V | Mine development | 20.00 | Austrailia |
| POSMAC J/V | Mine development | 20.00 | Austrailia |
| CD J/V | Mine development | 5.00 | Austrailia |
| Intergra Coal J/V | Mine development | 5.95 | Austrailia |
| RUM J/V | Mine development | 10.00 | Austrailia |

### 13. Investment Property, Net

(a) Investment property as of December 31, 2013 and 2012 are as follows:

| *(in millions of Won)* | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Acquisition cost | Accumulated depreciation and impairment loss | Book value | Acquisition cost | Accumulated depreciation and impairment loss | Book value |
| Land | ₩ 200,468 | (38,966) | 161,502 | 252,846 | (41,464) | 211,382 |
| Buildings | 399,998 | (160,805) | 239,193 | 490,657 | (186,154) | 304,503 |
| Structures | 6,836 | (3,237) | 3,599 | 9,448 | (4,142) | 5,306 |
| Others | 20,935 | - | 20,935 | - | - | - |
| Total | ₩ 628,237 | (203,008) | 425,229 | 752,951 | (231,760) | 521,191 |

As of December 31, 2013, the fair value of investment property is ₩705,707 million, among which the Company evaluated investment property of 7 subsidiaries including International Business Center Corporation as its book value amounted to ₩84,479 million since it is believed that fair value is approximately same as book value. Also, the Company used the prior year's fair value for some of the investment property since it is believed to be approximately same.

(b) Changes in the carrying value of investment property for the years ended December 31, 2013 and 2012 were as follows:

1) For the year ended December 31, 2013

| *(in millions of Won)* | Beginning | Acquisitions | Business combination | Disposals | Depreciation | Others(*1) | Ending |
|---|---|---|---|---|---|---|---|
| Land | ₩ 211,382 | - | 12,625 | (4,410) | - | (58,095) | 161,502 |
| Buildings | 304,503 | 10 | 8,432 | (3,129) | (12,008) | (58,615) | 239,193 |
| Structures | 5,306 | - | - | - | (314) | (1,393) | 3,599 |
| Others | - | 20,935 | - | - | - | - | 20,935 |
| Total | ₩ 521,191 | 20,945 | 21,057 | (7,539) | (12,322) | (118,103) | 425,229 |

(*1) Includes reclassification resulting from changing purpose of use, adjustment of foreign currency translation difference and others.

2) For the year ended December 31, 2012

| *(in millions of Won)* | Beginning | Acquisitions | Business combination | Disposals | Depreciation(*1) | Others(*2) | Ending |
|---|---|---|---|---|---|---|---|
| Land | ₩ 219,477 | 15,832 | 1,442 | (38,575) | (475) | 13,681 | 211,382 |
| Buildings | 301,733 | 13,857 | 1,560 | (6,730) | (15,044) | 9,127 | 304,503 |
| Structures | 6,323 | - | - | - | (322) | (695) | 5,306 |
| Total | ₩ 527,533 | 29,689 | 3,002 | (45,305) | (15,841) | 22,113 | 521,191 |

(*1) Impairment losses of investment property amounted to ₩1,053 million are included.
(*2) Includes reclassification resulting from changing purpose of use, adjustment of foreign currency translation difference and others.

## 14. Property, Plant and Equipment, Net

(a) Property, plant and equipment as of December 31, 2013 and 2012 are as follows:

| *(in millions of Won)* | 2013 | | | | 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | Acquisition cost | Accumulated depreciation and impairment loss | Government grants | Book value | Acquisition cost | Accumulated depreciation and impairment loss | Government grants | Book value |
| Land | ₩ 2,719,989 | (11,979) | - | 2,708,010 | 2,658,401 | (11,979) | - | 2,646,422 |
| Buildings | 8,112,980 | (3,223,992) | (153) | 4,888,835 | 7,120,322 | (2,951,420) | (100) | 4,168,802 |
| Structures | 4,649,271 | (1,864,574) | (110) | 2,784,587 | 3,997,124 | (1,676,669) | (274) | 2,320,181 |
| Machinery and equipment | 40,685,986 | (21,242,212) | (938) | 19,442,836 | 36,217,492 | (19,684,338) | (950) | 16,532,204 |
| Vehicles | 284,113 | (233,080) | - | 51,033 | 279,650 | (219,489) | (7) | 60,154 |
| Tools | 346,018 | (283,120) | (45) | 62,853 | 331,870 | (261,972) | (47) | 69,851 |
| Furniture and fixtures | 568,313 | (394,958) | (203) | 173,152 | 526,396 | (342,706) | (310) | 183,380 |
| Finance lease assets | 151,219 | (50,695) | - | 100,524 | 105,241 | (48,017) | - | 57,224 |
| Construction-in-progress | 5,553,322 | - | (5,033) | 5,548,289 | 6,238,161 | - | - | 6,238,161 |
| Total | ₩ 63,071,211 | (27,304,610) | (6,482) | 35,760,119 | 57,474,657 | (25,196,590) | (1,688) | 32,276,379 |

(b) Changes in the carrying value of property, plant and equipment for the years ended December 31, 2013 and 2012 were as follows:

1) For the year ended December 31, 2013

| *(in millions of Won)* | Beginning | Acquisitions | Business combination | Disposals | Depreciation(*1) | Others(*2) | Ending |
|---|---|---|---|---|---|---|---|
| Land | ₩ 2,646,422 | 23,404 | 23,108 | (24,548) | - | 39,624 | 2,708,010 |
| Buildings | 4,168,802 | 72,168 | 7,352 | (48,278) | (308,084) | 996,875 | 4,888,835 |
| Structures | 2,320,181 | 29,338 | 18,568 | (7,633) | (189,740) | 613,873 | 2,784,587 |
| Machinery and equipment | 16,532,204 | 740,682 | 9,634 | (88,565) | (1,867,408) | 4,116,289 | 19,442,836 |
| Vehicles | 60,154 | 10,326 | 700 | (2,356) | (19,402) | 1,611 | 51,033 |
| Tools | 69,851 | 20,638 | 304 | (1,811) | (33,494) | 7,365 | 62,853 |
| Furniture and fixtures | 183,380 | 31,578 | 1,087 | (4,837) | (72,062) | 34,006 | 173,152 |
| Finance lease assets | 57,224 | 670 | - | (712) | (12,766) | 56,108 | 100,524 |
| Construction-in-progress | 6,238,161 | 5,931,141 | - | (10,369) | - | (6,610,644) | 5,548,289 |
| Total | ₩ 32,276,379 | 6,859,945 | 60,753 | (189,109) | (2,502,956) | (744,893) | 35,760,119 |

(*1) Impairment losses of property, plant and equipment amounted to ₩9,742 million are included.
(*2) Includes reclassification for changing purpose of use, adjustment of foreign currency translation differences and others.

2) For the year ended December 31, 2012

| *(in millions of Won)* | Beginning | Acquisitions | Business combination | Disposals | Depreciation(*1) | Others(*2) | Ending |
|---|---|---|---|---|---|---|---|
| Land | ₩ 2,549,178 | 51,978 | 2,377 | (26,793) | - | 69,682 | 2,646,422 |
| Buildings | 4,019,829 | 210,756 | 12,210 | (29,756) | (298,978) | 254,741 | 4,168,802 |
| Structures | 2,260,437 | 25,170 | - | (24,308) | (199,970) | 258,852 | 2,320,181 |
| Machinery and equipment | 16,179,384 | 698,693 | 5,804 | (209,357) | (1,774,051) | 1,631,731 | 16,532,204 |
| Vehicles | 66,743 | 15,620 | 141 | (1,244) | (20,705) | (401) | 60,154 |
| Tools | 80,877 | 17,404 | 411 | (1,081) | (36,026) | 8,266 | 69,851 |
| Furniture and fixtures | 169,689 | 53,040 | 76 | (3,369) | (65,074) | 29,018 | 183,380 |
| Finance lease assets | 38,542 | 535 | - | (236) | (9,154) | 27,537 | 57,224 |
| Construction-in-progress | 3,088,505 | 6,314,731 | - | - | - | (3,165,075) | 6,238,161 |
| Total | ₩ 28,453,184 | 7,387,927 | 21,019 | (296,144) | (2,403,958) | (885,649) | 32,276,379 |

(*1) Impairment losses of property, plant and equipment amounted to ₩12,977 million are included.
(*2) Includes reclassification for changing purpose of use, adjustments of foreign currency translation differences and others.

(c) Borrowing costs capitalized and the capitalized interest rate for the years ended December 31, 2013 and 2012 were as follows:

| *(in millions of Won)* | 2013 | 2012 |
|---|---|---|
| Weighted average expenditure | ₩ 6,442,564 | 3,131,866 |
| Borrowing costs capitalized | 290,117 | 101,794 |
| Capitalization rate | 4.50% | 3.25% |

(d) Property, plant and equipment and investment property pledged as collateral as of December 31, 2013 and 2012 are as follows:

| *(in millions of Won)* | Collateral right holder | 2013 | 2012 |
|---|---|---|---|
| Land(*1) | Korean Development Bank and others | ₩ 767,004 | 545,654 |
| Buildings and structures(*1) | Korean Development Bank and others | 1,112,855 | 327,757 |
| Machinery and equipment | Korean Development Bank and others | 3,343,747 | 1,285,452 |
| Tools | Korean Development Bank | 7,300 | - |
| Construction-in-progress | The Export-Import Bank of Korea | 382,339 | 1,486,745 |
| | | ₩ 5,613,245 | 3,645,608 |

(*1) Investment property is included.

## 15. Goodwill and Other Intangible Assets, Net

(a) Goodwill and other intangible assets as of December 31, 2013 and 2012 are as follows:

| *(in millions of Won)* | 2013 | | | | 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | Acquisition cost | Accumulated depreciation and accumulated | Government grants | Book value | Acquisition cost | Accumulated depreciation and accumulated | Government grants | Book value |
| Goodwill | ₩ 1,741,562 | (125,624) | - | 1,615,938 | 1,735,879 | (22,188) | - | 1,713,691 |
| Intellectual property rights | 1,551,898 | (76,026) | (1,013) | 1,474,859 | 317,748 | (41,448) | (1,154) | 275,146 |
| Premium in rental | 148,295 | (17,028) | - | 131,267 | 151,116 | (13,383) | - | 137,733 |
| Development expense | 158,228 | (95,780) | (1,346) | 61,102 | 127,856 | (65,367) | (1,558) | 60,931 |
| Port facilities usage rights | 504,331 | (337,220) | - | 167,111 | 410,023 | (326,901) | - | 83,122 |
| Exploratation and evaluation assets | 389,601 | (29,853) | - | 359,748 | 509,581 | (29,853) | - | 479,728 |
| Mining development assets | 968,191 | - | - | 968,191 | 1,643,306 | - | - | 1,643,306 |
| Customer relationships | 856,308 | (163,428) | - | 692,880 | 862,217 | (111,485) | - | 750,732 |
| Other intangible assets | 843,705 | (384,960) | (1) | 458,744 | 921,277 | (403,302) | (3) | 517,972 |
| Total | ₩ 7,162,119 | (1,229,919) | (2,360) | 5,929,840 | 6,679,003 | (1,013,927) | (2,715) | 5,662,361 |

(2) The changes in carrying value of goodwill and other intangible assets for the years ended December 31, 2013 and 2012 were as follows:

1) For the year ended December 31, 2013

| *(in millions of Won)* | Beginning | Increase | | Decrease | | | Others(*3) | Ending |
|---|---|---|---|---|---|---|---|---|
| | | Acquisitions | Business combination | Disposals | Amortization | Impairment loss | | |
| Goodwill(*1) | ₩ 1,713,691 | - | 2,668 | - | - | (103,436) | 3,015 | 1,615,938 |
| Intellectual property rights | 275,146 | 54,182 | - | (291) | (35,532) | (10,313) | 1,191,667 | 1,474,859 |
| Premium in rental(*2) | 137,733 | 4,089 | 1,605 | (4,382) | (211) | (4,457) | (3,110) | 131,267 |
| Development expense | 60,931 | 13,717 | 2,032 | - | (23,166) | (5,675) | 13,263 | 61,102 |
| Port facilities usage rights | 83,122 | - | - | - | (10,318) | - | 94,307 | 167,111 |
| Exploratation and evaluation assets | 479,728 | 4,669 | - | - | - | - | (124,649) | 359,748 |
| Mining development assets | 1,643,306 | 289,016 | - | - | - | - | (964,131) | 968,191 |
| Customer relationships | 750,732 | - | - | - | (51,944) | - | (5,908) | 692,880 |
| Other intangible assets | 517,971 | 211,627 | 684 | (1,102) | (58,843) | (1,435) | (210,158) | 458,744 |
| | ₩ 5,662,360 | 577,300 | 6,989 | (5,775) | (180,014) | (125,316) | (5,704) | 5,929,840 |

(*1) Acquisition amounts include goodwill amounting to ₩2,668 million related to the acquisition of POSCO YongXin Rare Earth Metal Co., Ltd.
(*2) Premium in rental includes memberships with indefinite useful lives.
(*3) Includes translation adjustment and reclassification.

2) For the year ended December 31, 2012

| | | Increase | | Decrease | | | | |
|---|---|---|---|---|---|---|---|---|
| *(in millions of Won)* | Beginning | Acquisitions | Business combination | Disposals | Amortization | Impairment loss | Others(*3) | Ending |
| Goodwill(*1) | ₩ 1,656,817 | - | 77,298 | - | - | (7,230) | (13,194) | 1,713,691 |
| Intellectual property rights | 274,907 | 26,677 | 1 | (1,375) | (24,829) | - | (235) | 275,146 |
| Premium in rental(*2) | 139,144 | 13,498 | 622 | (10,038) | (544) | (12,336) | 7,387 | 137,733 |
| Development expense | 45,583 | 10,266 | - | (148) | (23,011) | - | 28,241 | 60,931 |
| Port facilities usage rights | 94,746 | - | - | - | (11,624) | - | - | 83,122 |
| Exploratation and evaluation assets | 473,192 | 7,349 | - | - | - | (1,671) | 858 | 479,728 |
| Mining development assets | 1,414,315 | 228,991 | - | - | - | - | - | 1,643,306 |
| Client relationships | 807,068 | - | - | - | (53,517) | - | (2,819) | 750,732 |
| Other intangible assets | 339,156 | 201,269 | 26,748 | (652) | (44,466) | (9) | (4,074) | 517,972 |
| | ₩ 5,244,928 | 488,050 | 104,669 | (12,213) | (157,991) | (21,246) | 16,164 | 5,662,361 |

(*1) Acquisition amounts include goodwill amounting to ₩77,298 million related to the acquisition of PONUTech Co., Ltd.
(*2) Premium in rental includes memberships with indefinite useful lives.
(*3) Includes translation adjustment and reclassification.

(c) For the purpose of impairment testing, goodwill is allocated to individually operating entities determined to be CGUs. The goodwill amounts as of December 31, 2013 and 2012 are as follows:

| Reporting segments | Total number of CGUs 2013 | Total number of CGUs 2012 | CGUs | 2013 | 2012 |
|---|---|---|---|---|---|
| Steel | 10 | 10 | POSCO Thainox Public Company Limited(*3) | ₩ 18,624 | 109,779 |
| | | | POSCO VST CO., LTD. | 36,955 | 36,955 |
| | | | Others | 14,084 | 14,096 |
| Trading | 3 | 3 | Daewoo International Corporation(*1) | 1,163,922 | 1,163,922 |
| | | | Others | 9,711 | 11,906 |
| E&C | 4 | 4 | POSCO Engineering Co., Ltd.(*2) | 194,637 | 194,637 |
| | | | EPC EQUITIES LLP(*4) | 44,412 | 47,913 |
| | | | Others | 11,119 | 11,291 |
| Others | 10 | 10 | PONUTech Co., Ltd | 77,298 | 77,298 |
| | | | POSCO ENERGY Co., LTD. | 26,471 | 26,471 |
| | | | Others(*4) | 18,705 | 19,423 |
| Total | 27 | 27 | | ₩ 1,615,938 | 1,713,691 |

(*1) Recoverable amounts of Daewoo International Corporation were determined based on value-in-use. As of December 31, 2013, value-in-use is estimated by applying 8.3% discount rate and 3.0% terminal growth rate with 5 years, the period for the estimated future cash flows, based on management`s business plan. No impairment loss of goodwill was recognized during the year ended December 31, 2013 as the recoverable amount exceeded the carrying value of the CGU.

The estimated recoverable amount of CGU exceeded the carrying value by ₩65,816 million. Value-in-use of the CGU was affected by the assumption such as discount rate and terminal growth used in discount cash flow model. When the discount rate increases by 0.25%, value-in-use will be decreased by 5.49% and when the terminal growth rate decreases by 0.25%, value-in-use will be decreased by 3.39%.

Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would cause a change in impairment loss of goodwill.

(*2) Recoverable amounts of POSCO Engineering Company were determined based on value-in-use. As of December 31, 2013, value-in-use is estimated by applying 12.3% discount rate and 1% terminal growth rate with 5 years. The estimated future cash flows based on management's business plan. No impairment loss of goodwill was recognized during the year ended December 31, 2013 as the recoverable amount exceeded the carrying value of the CGU.

The estimated recoverable amounts of CGU exceeded the carrying value by ₩288,906 million. Value-in-use of the CGU was affected by the assumption such as discount rate and terminal growth used in discount cash flow model. When the discount rate increases by 0.25%, value-in-use will be decreased by 2.69% and when the terminal growth rate decreases by 0.25%, value-in-use will be decreased by 1.84%. The change has no effect on the impairment loss of the goodwill.

Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the CGU.

(*3) Recoverable amounts of POSCO-Thainox Public Company Limited were determined based on fair value less cost to sell, which was calculated by adding a 28.8% control premium to the current stock price as of December 31, 2013.

The Company recognized goodwill impairment loss of ₩97,245 million as the carrying value of the CGU was higher than its recoverable amount as of December 31, 2013.

(*4) The Company recognized goodwill impairment loss of ₩6,191 million as the carrying values of the EPC EQUITIES LLP and other subsidiaries were higher than recoverable amounts as of December 31, 2013.

## 16. Other Assets

Other current assets and other long-term assets as of December 31, 2013 and 2012 are as follows:

*(in millions of Won)*

| | 2013 | 2012 |
|---|---|---|
| **Other current assets** | | |
| Advance payment | ₩ 1,138,976 | 1,205,969 |
| Prepaid expenses | 130,272 | 189,647 |
| Others | 1,420 | 2,564 |
| | ₩ 1,270,668 | 1,398,180 |
| **Other long-term assets** | | |
| Long-term advance payment | ₩ 3,090 | 2,119 |
| Long-term prepaid expenses | 204,449 | 178,934 |
| Others | 157,659 | 212,733 |
| | ₩ 365,198 | 393,786 |

## 17. Borrowings

(a) Short-term borrowings and current portion of long-term borrowings as of December 31, 2013 and 2012 are as follows:

*(in millions of Won)*

| | Bank | Issuance date | Maturity date | Interest rate(%) | 2013 | 2012 |
|---|---|---|---|---|---|---|
| Short-term borrowings | | | | | | |
| Bank overdrafts | Bank of America and others | January, 2013~ December, 2013 | January, 2014~ December, 2014 | 0.1~1.0 | ₩ 100,211 | 123,685 |
| Short-term borrowings(*1) | Shinhan Bank and others | January, 2013~ December, 2013 | January, 2014~ December, 2014 | 0.3~12.8 | 7,256,486 | 7,586,993 |
| | | | | | 7,356,697 | 7,710,678 |
| Current portion of long-term liabilities | | | | | | |
| Current portion of long-term borrowings(*1) | Korean Development Bank | June, 2003~ December, 2013 | January, 2014~ December, 2014 | 0.5~9.0 | 856,188 | 898,564 |
| Less : Present value discount | | | | | (59) | - |
| Current portion of foreign loan | NATIXIS | June, 1984~ March, 1986 | March, 2014~ December, 2014 | 2.0 | 927 | 901 |
| Current portion of debentures(*1) | Korean Development Bank | January, 2009~ November, 2011 | January, 2014~ December, 2014 | 1.5~9.0 | 2,502,246 | 1,899,430 |
| Less: Current portion of discount on debentures issued | | | | | (2,353) | (2,644) |
| Add: Premium on debentures redemption | | | | | - | 2,419 |
| | | | | | 3,356,949 | 2,798,670 |
| | | | | | ₩ 10,713,646 | 10,509,348 |

(*1) Property, plant and equipment, trade accounts, short-term financial assets, available-for-sale financial assets and inventories amounting to ₩5,437,689 million, ₩43,872 million (three hundred fourteen sheets of note receivable), ₩27,195 million, ₩675,812 million and ₩87,029 million, respectively, are provided as collateral related to short-term borrowings, long-term borrowings and debentures.

(b) Long-term borrowings, excluding current portion as of December 31, 2013 and December 31, 2012 are as follows:

*(in millions of Won)*

| | Bank | Issuance date | Maturity date | Interest rate(%) | 2013 | 2012 |
|---|---|---|---|---|---|---|
| Long-term borrowings(*1) | Korean Development Bank | January, 1983~ December, 2013 | February, 2015~ December, 2099 | 0.5~11.2 | ₩ 7,017,532 | 5,161,711 |
| Less : Present value discount | | | | | (43,897) | (44,293) |
| Foreign loan(*2) | NATIXIS | March, 1986 | March, 2017 | 2.0 | 1,140 | 2,009 |
| Bonds(*1,3) | Korean Development Bank | August, 2006~ December, 2013 | February, 2015~ December, 2021 | 0.0~6.3 | 8,590,965 | 9,339,966 |
| Less: Discount on debentures issued | | | | | (45,372) | (62,943) |
| Add: Premium on debentures redemption | | | | | 12,591 | 15,635 |
| | | | | | ₩ 15,532,959 | 14,412,085 |

(*1) Property, plant and equipment, trade accounts, short-term financial assets, available-for-sale financial assets and inventories amounting to ₩5,437,689 million, ₩43,872 million(three hundred fourteen sheets of note receivable), ₩27,195 million, ₩675,812 million and ₩87,029 million, respectively, are provided as collateral related to short-term borrowings, long-term borrowings and debentures.

(*2) Korea Development Bank has provided guarantees related to the foreign loan.

(*3) POSCO issued exchangeable bonds with SK Telecom Co., Ltd. ADRs through Zeus (Cayman) Ltd. August 2011. The Company accounted for these exchangeable bonds as long-term borrowings. The Company also provides guarantees for Zeus (Cayman) Ltd.

## 18. Other Payables

Other payables as of December 31, 2013 and 2012 are as follows:

*(in millions of Won)*

| | 2013 | 2012 |
|---|---|---|
| **Current** | | |
| Accounts payable | ₩ 914,288 | 737,802 |
| Accrued expenses | 873,613 | 868,015 |
| Dividend payable | 11,709 | 7,487 |
| Finance lease liabilities | 14,218 | 16,044 |
| Withholding | 315,026 | 205,556 |
| | ₩ 2,128,854 | 1,834,904 |
| **Non-current** | | |
| Accounts payable | ₩ 116,160 | 117,462 |
| Accrued expenses | 25,358 | 24,950 |
| Finance lease liabilities | 39,257 | 32,961 |
| Long-term withholding | 25,859 | 68,549 |
| | ₩ 206,634 | 243,922 |

During the year ended December 31, 2012, a fine of ₩117,629 million was imposed on POSCO and POSCO Coated & Color Steel Co., Ltd. for price fixing galvanized steel sheets as a result of Korea Fair Trade Commission's investigation. The Company made a payment for the fine in the first half of 2013.

### 19. Other Financial Liabilities

Other financial liabilities as of December 31, 2013 and 2012 are as follows:

*(in millions of Won)*

| | 2013 | 2012 |
|---|---|---|
| **Current** | | |
| Derivatives liabilities | ₩ 128,370 | 84,922 |
| Financial guarantee liabilities | 7,534 | 7,819 |
| | ₩ 135,904 | 92,741 |
| **Non-current** | | |
| Derivatives liabilities | ₩ 229,096 | 100,220 |
| Financial guarantee liabilities | 30,925 | 17,493 |
| | ₩ 260,021 | 117,713 |

### 20. Provisions

(a) Provisions as of December 31, 2013 and 2012 are as follows:

| *(in millions of Won)* | 2013 | | 2012 | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| Provision for bonus payments | ₩ 52,377 | - | 42,904 | - |
| Provision for construction warranties | 35,027 | 20,669 | 23,489 | 27,227 |
| Provision for legal contingencies and claims(*1) | - | 30,330 | - | 30,920 |
| Others(*2) | 19,925 | 95,273 | 11,438 | 41,951 |
| | ₩ 107,329 | 146,272 | 77,831 | 100,098 |

(*1) As of December 31, 2013 and 2012, the amount includes a provision of ₩23,300 million and ₩23,784 million, respectively, for potential claims in connection with the spin-off of the trading division of Daewoo International Corporation in 2000 (Note 39). In addition, a provision of ₩7,030 million and ₩7,136 million are included as of December 31, 2013 and 2012, respectively, for a payment guarantee related to borrowings incurred in the disposition of Daewoo Cement (Shandong) Co., Ltd. during the year ended December 31, 2012.

(*2) As of December 31, 2013, the amount includes a provision of ₩74,888 million for expected outflows of resources in connection with the subrogation and financial joint guarantee for the construction projects of POSCO ENGINEERING & CONSTRUCTION Co., LTD..

(b) The following are the key assumptions concerning the future and other key sources of estimation uncertainties at the end of the reporting period.

| | Key assumptions for the estimation |
|---|---|
| Provision for bonus payments | Estimations based on financial performance |
| Provision for construction warranties | Estimations based on historical warranty data |
| Provision for legal contingencies and claims | Estimations based on the degree of probability of an unfavorable outcome and the ability to make a sufficient reliable estimate of the amount of loss |

(c) Changes in provisions for the years ended December 31, 2013 and 2012 were as follows:

1) For the year ended December 31, 2013

| *(in millions of Won)* | Beginning | Increase | Utilization | Reversal | Others(*1) | Ending |
|---|---|---|---|---|---|---|
| Provision for bonus payments | ₩ 42,904 | 48,362 | (36,126) | (2,058) | (705) | 52,377 |
| Provision for construction warranties | 50,716 | 27,008 | (15,356) | (3,887) | (2,785) | 55,696 |
| Provision for legal contingencies and claims | 30,920 | 5,090 | (4,353) | (1,327) | - | 30,330 |
| Others | 53,389 | 86,077 | (23,576) | (1,597) | 905 | 115,198 |
| | ₩ 177,929 | 166,537 | (79,411) | (8,869) | (2,585) | 253,601 |

(*1) Includes adjustments of foreign currency translation differences and others.

2) For the year ended December 31, 2012

| *(in millions of Won)* | Beginning | Increase | Utilization | Reversal | Others(*1) | Ending |
|---|---|---|---|---|---|---|
| Provision for bonus payments | ₩ 47,682 | 343,062 | (347,262) | (523) | (55) | 42,904 |
| Provision for construction warranties | 50,623 | 24,694 | (16,054) | (4,472) | (4,075) | 50,716 |
| Provision for legal contingencies and claims | 38,847 | 8,540 | - | (16,163) | (304) | 30,920 |
| Others | 41,623 | 14,209 | (3,450) | (1,680) | 2,687 | 53,389 |
| | ₩ 178,775 | 390,505 | (366,766) | (22,838) | (1,747) | 177,929 |

(*1) Includes adjustments of foreign currency translation differences and others.

**21. Employee Benefits**

(a) Defined contribution plans

The Company operates a defined contribution plan for participating employees. Though the Company pays fixed contributions into a separate fund, employee benefits relating to employee service in the future is based on the contributions to the funds and the investment earnings on it. Plan assets are managed by a trustee within a fund separate from the Company's assets.

The expenses related to post-employment benefit plans under defined contribution plans for the years ended December 31, 2013 and 2012 were as follows:

| *(in millions of Won)* | | **2013** | **2012** |
|---|---|---|---|
| Expense related to post-employment benefit under defined contribution plans | ₩ | 19,126 | 16,520 |

(b) Defined benefit plans

The Company also operates a defined benefit pension plan for employees. The employees who chose defined benefit pension plan will receive defined payment upon termination of their employment if they fulfill the condition to qualify as recipients. Before the termination of employment, the Company recognizes the pension liability related to defined benefit plans at the end of the reporting period, and measures it at the present value of the defined benefit obligation less the fair value of the plan assets. The Company uses the projected unit credit method in the actuarial valuation of plan assets and the defined benefit obligation.

1) The amounts recognized in relation to net defined benefit liabilities in the statements of financial position as of December 31, 2013 and 2012 are as follows:

| *(in millions of Won)* | | **2013** | **2012** |
|---|---|---|---|
| Present value of funded obligations | ₩ | 1,515,426 | 1,394,675 |
| Fair value of plan assets | | (1,247,483) | (1,064,711) |
| Present value of non-funded obligations | | 5,217 | 15,724 |
| Net defined benefit liabilities | ₩ | 273,160 | 345,688 |

2) Changes in present value of defined benefit obligations for the years ended December 31, 2013 and 2012 were as follows:

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| Defined benefit obligation at the beginning of period | ₩ | 1,410,399 | 1,173,238 |
| Current service costs | | 238,386 | 212,450 |
| Interest costs | | 47,039 | 51,351 |
| Remeasurements: | | (12,615) | 83,050 |
| - Gain from change in demograhpic assumptions | | (5,624) | (7,842) |
| - Loss from change in financial assumptions | | 7,667 | 85,483 |
| - Others | | (14,658) | 5,409 |
| Business combinations | | 11,379 | 1,684 |
| Benefits paid | | (129,038) | (116,846) |
| Others | | (44,907) | 5,472 |
| Defined benefit obligation at the end of period | ₩ | 1,520,643 | 1,410,399 |

3) Changes in fair value of plan assets for the years ended December 31, 2013 and 2012 were as follows:

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| Fair value of plan assets at the beginning of period | ₩ | 1,064,711 | 832,771 |
| Interest on plan assets | | 37,677 | 37,669 |
| Remeasurement of plan assets | | (1,482) | 2,157 |
| Contributions to plan assets(*1) | | 254,771 | 267,420 |
| Business combinations | | 9,372 | 906 |
| Others | | (34,942) | (489) |
| Benefits paid | | (82,624) | (75,723) |
| Fair value of plan assets at the end of period | ₩ | 1,247,483 | 1,064,711 |

(*1) The Company expects to make a contribution of ₩254,771 million to the defined benefit plan assets in 2014.

4) The fair value of plan assets as of December 31, 2013 and 2012 are as follows:

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| Equity instruments | ₩ | 35,364 | 12,002 |
| Debt instruments | | 98,686 | 107,303 |
| Deposits | | 958,509 | 743,884 |
| Others | | 154,924 | 201,522 |
| | ₩ | 1,247,483 | 1,064,711 |

5) The amounts recognized in consolidated statements of comprehensive income for the years ended December 31, 2013 and 2012 were as follows:

*(in millions of Won)*

| | 2013 | 2012 |
|---|---|---|
| Current service costs | ₩ 238,386 | 212,450 |
| Net interest costs(*1) | 9,362 | 13,682 |
| | ₩ 247,748 | 226,132 |

(*1)The actual return on plan assets amounted to ₩36,195 million and ₩39,826 million for the years ended December 31, 2013 and 2012, respectively.

The above expenses by function were as follows :

| *(in millions of Won)* | 2013 | 2012 |
|---|---|---|
| Cost of sales | ₩ 180,090 | 164,763 |
| Selling and administrative expenses | 66,327 | 60,457 |
| Others | 1,331 | 912 |
| | ₩ 247,748 | 226,132 |

6) Accumulated actuarial gains (losses), net of tax recognized in other comprehensive income for the years ended December 31, 2013 and 2012 were as follows:

| *(in millions of Won)* | 2013 | 2012 |
|---|---|---|
| Beginning | ₩ (245,229) | (182,702) |
| Current actuarial gains (losses) | 6,224 | (62,527) |
| Ending | ₩ (239,005) | (245,229) |

7) The principal actuarial assumptions as of December 31, 2013 and 2012 are as follows:

| *(%)* | 2013 | 2012 |
|---|---|---|
| Discount rate(*1) | 3.47~4.91 | 3.29~4.46 |
| Expected future increase in salaries(*2) | 1.07~5.75 | 1.04~6.72 |

(*1) Discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of benefits obligations and that are denominated in the same currency in which the benefits are expected to be paid.
(*2) The expected future increase in salaries is based on the average salary increase rate for past three- years.

All assumptions are reviewed at the end of the reporting period. Additionally, the total estimated defined benefit obligation includes actuarial assumptions associated with the long-term characteristics of the defined benefit plan.

8) Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

| *(in millions of Won)* | 1% Increase | | 1% Decrease | |
|---|---|---|---|---|
| | Amount | Percentage(%) | Amount | Percentage(%) |
| Discount rate | ₩ (102,996) | (6.8) | ₩ 114,323 | 7.5 |
| Expected future increases in salaries | 112,291 | 7.4 | (101,720) | (6.7) |

9) As of December 31, 2013 the maturity of the expected benefit payments are as follows:

| *(in millions of Won)* | Within 1 year | 1 year - 5 years | 5 years - 10 years | 10 years - 20 years | Later than 20 years | Total |
|---|---|---|---|---|---|---|
| Benefits paid | ₩ 69,334 | 239,632 | 532,724 | 992,760 | 254,495 | ₩ 2,088,945 |

The maturity analysis of the defined benefit obligation were nominal amounts of defined benefit obligations using expected remaining working lives of employees.

## 22. Other Liabilities

Other liabilities as of December 31, 2013 and 2012 are as follows:

| *(in millions of Won)* | 2013 | 2012 |
|---|---|---|
| Other current liabilities | | |
| Due to customers for contract work | ₩ 898,605 | 529,104 |
| Advances received | 1,176,621 | 1,289,805 |
| Unearned revenue | 29,217 | 46,963 |
| Withholdings | 192,497 | 162,073 |
| Deferred revenue | 202 | 235 |
| Others(*1) | 268,032 | 283,474 |
| | ₩ 2,565,174 | 2,311,654 |
| Other long-term liabilities | | |
| Advances received | ₩ 201,432 | 312,668 |
| Unearned revenue | 1,465 | 841 |
| Others(*1) | 57,954 | 64,305 |
| | ₩ 260,851 | 377,814 |

(*1) Includes other current liabilities amounting to ₩261,855 million, ₩274,490 million and other long-term liabilities amounting to ₩8,935 million and ₩14,939 million as of December 31, 2013 and 2012, respectively, due to proportionate consolidation of joint ventures which are owned by POSCO's subsidiaries.

**23. Financial Instruments**

(a) Classification of financial instruments

1) Financial assets as of December 31, 2013 and 2012 are as follows:

| *(in millions of Won)* | | **2013** | **2012** |
|---|---|---|---|
| Financial assets at fair value through profit or loss | | | |
| Derivatives assets held for trading | ₩ | 78,222 | 71,354 |
| Available-for-sale financial assets | | 4,166,384 | 3,914,522 |
| Held-to-maturity investments | | 3,834 | 34,488 |
| Loans and receivables | | 21,206,326 | 19,787,951 |
| | ₩ | 25,454,766 | 23,808,315 |

2) Financial liabilities as of December 31, 2013 and 2012 are as follows:

| *(in millions of Won)* | | **2013** | **2012** |
|---|---|---|---|
| Financial liabilities at fair value through profit or loss | | | |
| Derivatives liabilities held for trading | ₩ | 357,466 | 185,142 |
| Financial liabilities evaluated as amortized cost | | | |
| Trade accounts payable | | 4,231,881 | 4,391,788 |
| Borrowings | | 26,246,605 | 24,921,433 |
| Financial guarantee liabilities | | 38,459 | 25,312 |
| Others | | 2,253,989 | 1,802,174 |
| | | 32,770,934 | 31,140,707 |
| | ₩ | 33,128,400 | 31,325,849 |

3) Finance income and costs by category of financial instrument for the years ended December 31, 2013 and 2012 were as follows:

① December 31, 2013

*(in millions of Won)*

| | Financial income and costs | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Interest income (cost) | Dividend income | Gain and loss on foreign currency transactions | Gain and loss on foreign currency translations | Gain and loss on disposal | Others | Total | Other comprehensive income |
| Financial assets at fair value through profit or loss | ₩ 549 | - | - | - | 348,126 | 67,951 | 416,626 | - |
| Available-for-sale financial assets | 4,010 | 59,181 | - | - | 101,842 | (280,237) | (115,204) | 412,346 |
| Held-to-maturity investments | 480 | - | - | - | - | 84 | 564 | - |
| Loans and receivables | 255,359 | - | 20,232 | (69,773) | (20,009) | (145) | 185,664 | - |
| Financial liabilities at fair value through profit or loss | - | - | - | - | (264,739) | (287,864) | (552,603) | - |
| Financial liabilities at amortized cost | (657,681) | - | 49,906 | 236,016 | - | (11,703) | (383,462) | - |
| | ₩ (397,283) | 59,181 | 70,138 | 166,243 | 165,220 | (511,914) | (448,415) | 412,346 |

② December 31, 2012

*(in millions of Won)*

| | Financial income and costs | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Interest income (cost) | Dividend income | Gain and loss on foreign currency transactions | Gain and loss on foreign currency translations | Gain and loss on disposal | Others | Total | Other comprehensive loss |
| Financial assets at fair value through profit or loss | ₩ 130 | - | - | - | 407,505 | 77,907 | 485,542 | - |
| Available-for-sale financial assets | 1,046 | 124,475 | - | - | 75,809 | (224,171) | (22,841) | (81,471) |
| Held-to-maturity investments | 1,664 | - | - | - | (224) | 79 | 1,519 | - |
| Loans and receivables | 275,967 | - | (252,265) | (162,156) | (33,786) | (406) | (172,646) | - |
| Financial liabilities at fair value through profit or loss | - | - | - | - | (308,350) | (143,754) | (452,104) | - |
| Financial liabilities at amortized cost | (871,457) | - | 348,481 | 855,805 | - | (72,874) | 259,955 | - |
| | ₩ (592,650) | 124,475 | 96,216 | 693,649 | 140,954 | (363,219) | 99,425 | (81,471) |

(b) Credit risk

1) Credit risk exposure

The carrying amount of financial assets represents the Company's maximum exposure to credit risk. The maximum exposure to credit risk as of December 31, 2013 and 2012 are as follows:

| *(in millions of Won)* | | **2013** | **2012** |
|---|---|---|---|
| Cash and cash equivalents | ₩ | 4,208,562 | 4,680,526 |
| Financial assets at fair value through profit or loss | | 78,222 | 71,354 |
| Available-for-sale financial assets | | 97,618 | 203,353 |
| Held-to-maturity investments | | 3,834 | 34,488 |
| Loans and other receivables | | 5,408,163 | 3,927,248 |
| Trade accounts and notes receivable, net | | 11,492,601 | 11,037,973 |
| Long-term trade accounts and notes receivable, net | | 97,000 | 142,204 |
| | ₩ | 21,386,000 | 20,097,146 |

The Company provided financial guarantees for the repayment of loans of associates and third parties. As of December 31, 2013 and 2012, the maximum exposure to credit risk related to the financial guarantee amounted to ₩4,520,052 million, ₩4,607,773 million, respectively.

2) Impairment losses on financial assets

① Allowance for doubtful accounts as of December 31, 2013 and 2012 are as follows:

| *(in millions of Won)* | | **2013** | **2012** |
|---|---|---|---|
| Trade accounts and notes receivable | ₩ | 439,073 | 379,536 |
| Other accounts receivable | | 81,470 | 47,565 |
| Long-term loans | | 127,990 | 42,721 |
| Other assets | | 13,118 | 5,055 |
| | ₩ | 661,651 | 474,877 |

② Impairment losses on financial assets for the years ended December 31, 2013 and 2012 were as follows:

| *(in millions of Won)* | | **2013** | **2012** |
|---|---|---|---|
| Bad debt expenses on trade receivables | ₩ | 90,119 | 79,258 |
| Impairment of available-for-sale financial assets | | 280,237 | 224,171 |
| Other bad debt expenses(*1) | | 111,065 | 44,115 |
| Less: Recovery of impairment of held-to-maturity financial assets | | (84) | (79) |
| | ₩ | 481,337 | 347,465 |

(*1) Other bad debt expenses are mainly related to other receivables and loans.

③ The aging schedule and the impaired losses of trade accounts and notes receivable as of December 31, 2013 and 2012 are as follows:

| *(in millions of Won)* | **2013** | | **2012** | |
|---|---|---|---|---|
| | Trade accounts and notes receivable | Impairment | Trade accounts and notes receivable | Impairment |
| Not due | ₩ 8,465,892 | 48,147 | 9,106,925 | 52,063 |
| Over due less than 1 month | 1,849,829 | 12,675 | 1,313,554 | 4,387 |
| 1 month - 3 months | 239,498 | 3,124 | 278,029 | 3,264 |
| 3 months - 12 months | 503,171 | 10,681 | 413,251 | 41,291 |
| over 12 months | 970,284 | 364,446 | 447,954 | 278,531 |
| | ₩ 12,028,674 | 439,073 | 11,559,713 | 379,536 |

④ Changes in the allowance for doubtful accounts for the years ended December 31, 2013 and 2012 were as follows:

| *(in millions of Won)* | 2013 | 2012 |
|---|---|---|
| Beginning | ₩ 474,877 | 406,721 |
| Bad debt expenses | 90,119 | 79,258 |
| Other bad debt expenses | 111,065 | 44,115 |
| Write-off | (10,368) | (40,138) |
| Others | (4,042) | (15,079) |
| Ending | ₩ 661,651 | 474,877 |

(c) Liquidity risk

1) Contractual maturities for non-derivative financial liabilities, including estimated interest, are as follows:

| *(in millions of Won)* | Book value | Contractual cash flow | Within 1 year | 1 year - 5 years | Later than 5 years |
|---|---|---|---|---|---|
| Trade accounts payable | ₩ 4,231,881 | 4,231,881 | 4,231,322 | 559 | - |
| Financial guarantee liabilities(*1) | 38,459 | 4,520,052 | 4,520,052 | - | - |
| Other financial liabilities | 2,253,989 | 2,253,989 | 2,047,355 | 206,634 | - |
| Borrowings(*2) | 26,246,605 | 29,293,081 | 11,946,021 | 11,723,706 | 5,623,354 |
| | ₩ 32,770,934 | 40,299,003 | 22,744,750 | 11,930,899 | 5,623,354 |

(*1) For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.
(*2) Includes cash flows of embedded derivatives instruments in relation to exchangeable bonds (exchange right).

2) The maturity analysis of derivative financial liabilities is as follows:

| *(in millions of Won)* | Within 1 year | 1 year - 5 years | Later than 5 years | Total |
|---|---|---|---|---|
| Currency forward | ₩ 20,166 | 24,882 | - | 45,048 |
| Currency futures | ₩ 35,605 | - | - | 35,605 |
| Currency swaps | 72,267 | 23,459 | 5,291 | 101,017 |
| Interest swaps | 332 | - | - | 332 |
| | ₩ 128,370 | 48,341 | 5,291 | 182,002 |

(d) Currency risk

1) The Company has exposure to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The exposure to currency risk as of December 31, 2013 and 2012 are as follows:

| *(in millions of Won)* | **2013** | | **2012** | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| USD | ₩ 3,929,623 | 8,953,287 | 3,933,448 | 9,120,893 |
| EUR | 365,021 | 408,542 | 317,381 | 330,481 |
| JPY | 482,691 | 1,727,946 | 239,569 | 2,017,179 |
| Others | 372,715 | 212,287 | 264,299 | 65,679 |

2) As of December 31, 2013 and 2012, provided that functional currency against foreign currencies other than functional currency hypothetically weakens or strengthens by 10%, the changes in gain or loss during the years ended December 31, 2013 and 2012 were as follows:

| *(in millions of Won)* | **2013** | | **2012** | |
|---|---|---|---|---|
| | 10% increase | 10% decrease | 10% increase | 10% decrease |
| USD | ₩ (502,366) | 502,366 | (518,745) | 518,745 |
| EUR | (4,352) | 4,352 | (1,310) | 1,310 |
| JPY | (124,526) | 124,526 | (177,761) | 177,761 |

(e) Interest rate risk

1) The carrying amount of interest-bearing financial instruments as of December 31, 2013 and 2012 are as follows:

*(in millions of Won)*

| | 2013 | 2012 |
|---|---|---|
| Fixed rate | | |
| Financial assets | ₩ 8,195,153 | 7,325,825 |
| Financial liabilities | (15,633,891) | (15,301,208) |
| | ₩ (7,438,738) | (7,975,383) |
| Variable rate | | |
| Financial liabilities | ₩ (10,612,712) | (9,620,225) |

2) Sensitivity analysis on the fair value of financial instruments with variable interest rate

As of December 31, 2013 and 2012, provided that other factors remain the same and the interest rate of borrowings with floating rates increases or decreases by 1%, the changes in gain or loss for the years ended December 31, 2013 and 2012 were as follows:

| *(in millions of Won)* | 2013 | | 2012 | |
|---|---|---|---|---|
| | 1% increase | 1% decrease | 1% increase | 1% decrease |
| Variable rate financial instruments | ₩ (106,127) | 106,127 | (96,202) | 96,202 |

(f) Fair value

1) Fair value and book value

The carrying amount and the fair value of financial instruments as of December 31, 2013 and 2012 are as follows:

| *(in millions of Won)* | 2013 | | 2012 | |
|---|---|---|---|---|
| | Book Value | Fair Value | Book Value | Fair Value |
| Assets measured at fair value | | | | |
| Available-for-sale financial assets(*1) | ₩ 3,560,515 | 3,560,515 | 3,349,606 | 3,349,606 |
| Derivatives assets held for trading(*2) | 78,222 | 78,222 | 71,354 | 71,354 |
| | 3,638,737 | 3,638,737 | 3,420,960 | 3,420,960 |
| Assets measured amortized cost(*3) | | | | |
| Cash and cash equivalents | 4,208,562 | 4,208,562 | 4,680,526 | 4,680,526 |
| Trade accounts and notes receivable, net | 11,589,601 | 11,589,601 | 11,180,177 | 11,180,177 |
| Loans and other receivables, net | 5,408,163 | 5,408,163 | 3,927,248 | 3,927,248 |
| Held-to-maturity investments | 3,834 | 3,834 | 34,488 | 34,488 |
| | 21,210,160 | 21,210,160 | 19,822,439 | 19,822,439 |
| Liabilities measured at fair value | | | | |
| Derivatives liabilities held for trading(*2) | 357,466 | 357,466 | 185,142 | 185,142 |
| Liabilities measured amortized cost(*3) | | | | |
| Trade accounts and notes payable | 4,231,881 | 4,231,881 | 4,391,787 | 4,391,787 |
| Borrowings | 26,246,605 | 26,550,721 | 24,921,433 | 25,382,344 |
| Financial guarantee liabilities | 38,459 | 38,459 | 25,312 | 25,312 |
| Others | 2,253,989 | 2,253,989 | 1,802,175 | 1,802,175 |
| | ₩ 32,770,934 | 33,075,050 | 31,140,707 | 31,601,618 |

(*1) The fair value of available-for-sale financial assets publicly traded is measured at the closing bid price quoted at the end of the reporting period. Meanwhile, the fair value of unquoted available-for-sale financial assets is calculated using the valuation results from an external pricing service in which weighted average cost of capital of evaluated companies is used as a discount rate. Available-for-sale financial assets which are not measured at fair value are excluded.

(*2) The fair value of derivatives is measured using valuation models such as Black-Scholes model and others in which the market yields on government bonds are used as a discount rate.

(*3) The fair value of financial assets and liabilities measured at amortized cost is determined at the present value of estimated future cash flows discounted at the current market interest rate. The fair value is calculated for the disclosures in the notes. On the other hand, the Company has not performed fair value measurement for the financial assets and liabilities measured at amortized cost except borrowings since the fair value is close to their carrying amounts.

2) Interest rates used for determining fair value

Interest rates used to discount estimated cash flows as of December 31, 2013 and 2012 are as follows:

| | 2013 | 2012 |
|---|---|---|
| Interest rate of borrowings(%) | 0.76~5.18 | 1.47~7.22 |

3) The fair value hierarchy

① The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in measurements.

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: inputs other than quoted prices that are observable for the asset or liability either directly or indirectly.
Level 3: inputs for the assets or liability that are not based on observable market data (that is, unobservable inputs).

② The fair values of financial instruments by fair value hierarchy as of December 31, 2013 and 2012 are as follows:

a. December 31, 2013

*(in millions of Won)*

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial Assets | | | | |
| Available-for-sale financial assets | ₩ 2,816,484 | - | 744,031 | 3,560,515 |
| Derivatives assets held for trading | - | 78,222 | - | 78,222 |
| | ₩ 2,816,484 | 78,222 | 744,031 | 3,638,737 |
| Financial Liabilities | | | | |
| Derivatives liabilities held for trading | ₩ - | 357,466 | - | 357,466 |

b. December 31, 2012

*(in millions of Won)*

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial Assets | | | | |
| Available-for-sale financial assets | ₩ 2,590,933 | - | 758,673 | 3,349,606 |
| Derivatives assets held for trading | - | 71,354 | - | 71,354 |
| | ₩ 2,590,933 | 71,354 | 758,673 | 3,420,960 |
| Financial Liabilities | | | | |
| Derivatives liabilities held for trading | ₩ - | 185,142 | - | 185,142 |

③ Changes in fair value of financial instruments measured by Level 3 for the years ended December 31, 2013 and 2012 were as follows:

| *(in millions of Won)* | 2013 | 2012 |
|---|---|---|
| Beginning | ₩ 758,673 | 939,241 |
| Valuation | (15,423) | (182,927) |
| Acquisition and others(*1) | 19,766 | 30,729 |
| Disposal and others(*2) | (18,985) | (28,370) |
| Ending | ₩ 744,031 | 758,673 |

(*1) Included ₩16,518 million and ₩15,326 million transferred to Level 3 for the years ended December 31, 2013 and 2012, respectively.
(*2) Included ₩12,176 million and ₩17,500 million excluded from Level 3 for the years ended December 31, 2013 and 2012, respectively.

(g) Offsetting financial assets and financial liabilities

As of December 31, 2013 and 2012, financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements are as follows:

1) December 31, 2013

*(in millions of Won)*

| | Gross amounts of recognized financial instruments | Gross amounts of recognized financial instruments set off in the statement of financial | Net amounts of financial instruments presented in the statement of financial position | Related amounts not set off in the statement of financial position: Finalcial instruments | Related amounts not set off in the statement of financial position: Cash collateral received or pledged | Net amount |
|---|---|---|---|---|---|---|
| Financial assets | | | | | | |
| Trade accounts and notes receivable | ₩ 73,956 | - | 73,956 | (73,956) | - | - |
| Derivatives(*1) | 64,408 | - | 64,408 | (64,408) | - | - |
| Total | 138,364 | - | 138,364 | (138,364) | - | - |
| Financial liabilities | | | | | | |
| Short-term borrowings | 73,956 | - | 73,956 | (73,956) | - | - |
| Derivatives(*1) | 108,405 | - | 108,405 | (64,408) | (3,410) | 40,587 |
| Total | ₩ 182,361 | - | 182,361 | (138,364) | (3,410) | 40,587 |

(*1) Some of derivative contract are made under International Swaps and Derivatives Association (ISDA) master netting agreements. In general, under such agreements the amounts owed by each counter party on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other. In certain circumstances (i.e. when a default occurs), all standing transactions under the agreement are terminated, the termination value is assessed and only a single amount is payable in settlement of all transactions.

2) December 31, 2012

*(in millions of Won)*

| | Gross amounts of recognized financial instruments | Gross amounts of recognized financial instruments set off in the statement of financial | Net amounts of financial instruments presented in the statement of financial position | Related amounts not set off in the statement of financial position: Finalcial instruments | Related amounts not set off in the statement of financial position: Cash collateral received or pledged | Net amount |
|---|---|---|---|---|---|---|
| Financial assets | | | | | | |
| Trade accounts and notes receivable | ₩ 80,258 | - | 80,258 | (80,258) | - | - |
| Derivatives(*1) | 56,341 | - | 56,341 | (56,341) | - | - |
| Total | 136,599 | - | 136,599 | (136,599) | - | - |
| Financial liabilities | | | | | | |
| Short-term borrowings | 80,258 | - | 80,258 | (80,258) | - | - |
| Derivatives(*1) | 59,274 | - | 59,274 | (56,341) | (2,933) | - |
| Total | ₩ 139,532 | - | 139,532 | (136,599) | (2,933) | - |

(*1) Some of derivative contract are made under International Swaps and Derivatives Association (ISDA) master netting agreements. In general, under such agreements the amounts owed by each counter party on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other. In certain circumstances (i.e. when a default occurs), all standing transactions under the agreement are terminated, the termination value is assessed and only a single amount is payable in settlement of all transactions.

## 24. Share Capital and Contributed Surplus

(a) Share capital as of December 31, 2013 and 2012 are as follows:

*(Share, in Won)*

| | | 2013 | 2012 |
|---|---|---|---|
| Authorized shares | | 200,000,000 | 200,000,000 |
| Par value | ₩ | 5,000 | 5,000 |
| Issued shares(*1) | | 87,186,835 | 87,186,835 |
| Shared capital(*2) | ₩ | 482,403,125,000 | 482,403,125,000 |

(*1) As of December 31, 2013, total shares of ADRs of 53,749,064 are equivalent to 13,437,266 of common stock.
(*2) As of December 31, 2013, the difference between the ending balance of common stock and the par value of issued common stock is ₩46,469 million due to retirement of 9,293,790 treasury stocks.

(b) The changes in issued common stock for the years ended December 31, 2013 and 2012 were as follows:

| *(share)* | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Issued shares | Treasury shares | Number of outstanding shares | Issued shares | Treasury shares | Number of outstanding shares |
| Beginning | 87,186,835 | (9,942,391) | 77,244,444 | 87,186,835 | (9,942,391) | 77,244,444 |
| Disposal of treasury shares | - | 2,539,180 | 2,539,180 | - | - | - |
| Ending | 87,186,835 | (7,403,211) | 79,783,624 | 87,186,835 | (9,942,391) | 77,244,444 |

(c) Capital surplus as of December 31, 2013 and 2012 are as follows:

*(in millions of Won)*

| | | 2013 | 2012 |
|---|---|---|---|
| Share premium | ₩ | 463,825 | 463,825 |
| Gain on disposal of treasury shares | | 769,215 | 763,867 |
| Other capital deficit | | (154,774) | (122,878) |
| | ₩ | 1,078,266 | 1,104,814 |

## 25. Hybrid Bonds

(a) Hybrid bonds classified as equity as of December 31, 2013 are as follows:

| *(in millions of Won)* | Date of issue | Date of maturity | Rate of interest (%) | 2013 |
|---|---|---|---|---|
| Hybrid bond 1-1(*1) | 2013-06-13 | 2043-06-13 | 4.30 | ₩ 800,000 |
| Hybrid bond 1-2(*1) | 2013-06-13 | 2043-06-13 | 4.60 | 200,000 |
| Issuance cost | | | | (3,081) |
| | | | | ₩ 996,919 |

(*1) Details of hybrid bonds as of December 31, 2013 are as follows:

| *(in millions of Won)* | Hybrid bond 1-1 | Hybrid bond 1-2 |
|---|---|---|
| Issue price | 800,000 | 200,000 |
| Maturity date | 30 years (The Company has a right to extend the maturity date) | 30 years (The Company has a right to extend the maturity date) |
| Interest rate | Issue date ~ 2018-06-12 : 4.3%<br>reset every 5 years as follows;<br>· After 5 years : return on government bond (5 years) + 1.3%<br>· After 10 years : additionally +0.25% according to Step-up clauses<br>· After 25 years : additionally +0.75% | Issue date ~ 2023-06-12 : 4.6%<br>reset every 10 years as follows;<br>· After 10 years : return on government bond (10 years) + 1.4%<br>· After 10 years : additionally +0.25% according to Step-up clauses<br>· After 30 years : additionally +0.75% |
| Interest payments condition | Quaterly<br>(Optional deferral of interest payment is available to the Company) | Quaterly<br>(Optional deferral of interest payment is available to the Company) |
| Others | The Company can call the hybrid bond at year 5 and interest payment date afterwards | The Company can call the hybrid bond at year 10 and interest payment date afterwards |

The Company holds the right to extend the maturity dates of the hybrid bonds and to defer interest payments for the hybrid bonds. If interest payments for the hybrid bonds are deferred, the Company cannot declare or pay dividends attributable to common stock. Since the Company has an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation, the hybrid bonds have been classified as equity instruments. The interest accumulated but not paid on the hybrid bonds as of December 31, 2013 amounts to ₩2,301 million.

(b) POSCO ENERGY Co., Ltd., a subsidiary of the Company, issued hybrid bonds during the year ended December 31, 2013, which are classified as non-controlling interests in the consolidated financial statements. Hybrid bonds as of December 31, 2013 are as follows:

| *(in millions of Won)* | **Date of issue** | **Date of maturity** | **Interest rate(%)** | **2013** |
|---|---|---|---|---|
| Hybrid bond 1-1(*1) | 2013-08-29 | 2043-08-29 | 4.66 | ₩ 165,000 |
| Hybrid bond 1-2(*1) | 2013-08-29 | 2043-08-29 | 4.72 | 165,000 |
| Hybrid bond 1-3(*1) | 2013-08-29 | 2043-08-29 | 4.72 | 30,000 |
| Hybrid bond 1-4(*1) | 2013-08-29 | 2043-08-29 | 5.21 | 140,000 |
| Issuance cost | | | | (1,532) |
| | | | | ₩ 498,468 |

(*1) Details of hybrid bonds of POSCO ENERGY Co., Ltd .as of December 31, 2013 are as follows:

| *(in millions of Won)* | Hybrid bond 1-1 | Hybrid bond 1-2 and 1-3 | Hybrid bond 1-4 |
|---|---|---|---|
| Issue price | 165,000 | 195,000 | 140,000 |
| Maturity date | 30 years (The Company has a right to extend the maturity date) | 30 years (The Company has a right to extend the maturity date) | 30 years (The Company has a right to extend the maturity date) |
| Interest rate | Issue date ~ 2018-08-29 : 4.66%<br>reset every 5 years as follows;<br>· After 5 years : returen on government bond (5 years) + 1.39%<br>· After 10 years : additionally +0.25% according to Step-up clauses<br>· After 30 years : additionally +0.75% | Issue date ~ 2018-08-29 : 4.72%<br>reset every 5 years as follows;<br>· After 5 years : returen on government bond (5 years) + 1.45%<br>· After 10 years : additionally +0.25% according to Step-up clauses<br>· After 30 years : additionally +0.75% | Issue date ~ 2018-08-29 : 5.21%<br>reset every 5 years as follows;<br>· After 5 years : returen on government bond (5 years) + 1.55%<br>· After 10 years : additionally +0.25% according to Step-up clauses<br>· After 30 years : additionally +0.75% |
| Interest payments condition | Quaterly<br>(Optional deferral of interest payment is available to the Company) | Quaterly<br>(Optional deferral of interest payment is available to the Company) | Quaterly<br>(Optional deferral of interest payment is available to the Company) |
| Others | The Company can call the hybrid bond at year 5 and interest payment date afterwards | The Company can call the hybrid bond at year 5 and interest payment date afterwards | The Company can call the hybrid bond at year 5 and interest payment date afterwards |

The Company holds the right to extend the maturity dates of the hybrid bonds and to defer interest payments for the hybrid bonds. If interest payments for the hybrid bonds are deferred, the Company cannot declare or pay dividends attributable to common stock. Since the Company has an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation, the hybrid bonds have been classified as equity instruments (Non-controlling interests). The interest accumulated but not paid on the hybrid bonds as of December 31, 2013 amounts to ₩2,000 million.

## 26. Reserves

(a) Reserves as of December 31, 2013 and 2012 are as follows:

| *(in millions of Won)* | 2013 | 2012 |
|---|---|---|
| Accumulated comprehensive loss of investments in associates and joint ventures | ₩ (295,946) | (129,159) |
| Changes in the unrealized fair value of available-for-sale investments | 480,409 | 67,956 |
| Currency translation differences | (189,085) | (8,591) |
| Others | (18,454) | (18,356) |
| | ₩ (23,076) | (88,150) |

(b) Changes in fair value of available-for-sale investments for the years ended December 31, 2013 and 2012 were as follows:

| *(in millions of Won)* | 2013 | 2012 |
|---|---|---|
| Beginning balance | ₩ 67,956 | 154,617 |
| Changes in the unrealized fair value of available-for-sale investments | 312,196 | (189,664) |
| Reclassification to profit of loss upon disposal | (73,848) | (54,089) |
| Impairment of avaiable-for-sale investments | 170,892 | 150,869 |
| Others | 3,213 | 6,223 |
| Ending balance | ₩ 480,409 | 67,956 |

## 27. Treasury Shares

Based on the Board of Director's resolution, the Company holds treasury shares for the business purposes including price stabilization. The changes in treasury shares for the years ended December 31, 2013 and 2012 were as follows:

| *(shares, in millions of Won)* | 2013 | | 2012 | |
|---|---|---|---|---|
| | Number of shares | Amount | Number of shares | Amount |
| Beginning | 9,942,391 | ₩ 2,391,406 | 9,942,391 | 2,391,406 |
| Disposal of treasury shares | (2,539,180) | (812,282) | - | - |
| Ending | 7,403,211 | ₩ 1,579,124 | 9,942,391 | 2,391,406 |

## 28. Revenue

Details of revenue for the years ended December 31, 2013 and 2012 were as follows:

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| Goods sales | ₩ | 50,921,090 | 55,123,774 |
| Sevice sales | | 3,614,227 | 3,488,562 |
| Construction sales | | 6,886,007 | 4,660,811 |
| Rental income | | 24,735 | 32,056 |
| Others | | 418,591 | 298,948 |
| | ₩ | 61,864,650 | 63,604,151 |

## 29. Construction Contracts

(a) Construction contracts in progress as of December 31, 2013 and 2012 were as follows:

| *(in million of Won)* | | 2013 | 2012 |
|---|---|---|---|
| Aggregate amount of costs incurred | ₩ | 10,380,202 | 8,343,117 |
| Add: Recognized profits | | 950,010 | 659,555 |
| Less: Recognized losses | | (467,023) | (213,055) |
| Cumulative construction revenue | | 10,863,189 | 8,789,617 |
| Less: Progress billing | | (10,145,691) | (7,691,482) |
| Foreign currency gains and losses | | (1,379) | (2,589) |
| Others | | (39,795) | (130,941) |
| | ₩ | 676,324 | 964,605 |

(b) Unbilled amount due from customers and due to customers for contract work as of December 31, 2013 and 2012 are as follows:

| *(in million of Won)* | | 2013 | 2012 |
|---|---|---|---|
| Unbilled due from customers for contract work | ₩ | 1,574,929 | 1,493,709 |
| Due to customers for contract work | | (898,605) | (529,104) |
| | ₩ | 676,324 | 964,605 |

(c) When the outcome of a construction contract can be estimated reliably, contract revenue is recognized in profit or loss in proportion to the stage of completion of the contract.
The Company estimates the stage of completion of the contract based on the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

The estimated total contract costs are based on the nature and characteristics of an individual contract, historical costs of similar projects, and current circumstances. Only those contract costs that reflect work performed are included in costs incurred to date.

The following are the key assumptions for the estimated contract cost.

| | Key assumptions for the estimation |
|---|---|
| Material | Estimations based on recent purchasing contracts, market price and quoted price |
| Labor Cost | Estimations based on standard monthly and daily labor cost |
| Outsourcing cost | Estimations based on the historical costs of similar projects, market price and quoted price |

The management continually reviews all estimates involved in such construction contracts and adjusts them as necessary.

## 30. Selling and Administrative Expenses

(a) Administrative expenses

Administrative expenses for years ended December 31, 2013 and 2012 were as follows:

| *(in millions of Won)* | 2013 | 2012 |
|---|---|---|
| Wages and salaries | ₩ 754,819 | 694,682 |
| Expenses related to post-employment benefits | 67,482 | 61,261 |
| Other employee benefits | 165,751 | 170,734 |
| Travel | 53,003 | 52,817 |
| Depreciation | 228,496 | 218,747 |
| Communication | 14,601 | 15,088 |
| Electric power | 13,389 | 11,305 |
| Taxes and public dues | 55,177 | 59,664 |
| Rental | 110,191 | 93,268 |
| Repairs | 5,708 | 11,769 |
| Entertainment | 17,295 | 18,239 |
| Advertising | 105,663 | 55,777 |
| Research & development | 192,805 | 192,321 |
| Service fees | 240,034 | 264,439 |
| Supplies | 15,031 | 10,166 |
| Vehicles maintenance | 12,109 | 22,442 |
| Industry association fee | 11,924 | 11,487 |
| Training | 12,056 | 17,772 |
| Conference | 17,004 | 17,745 |
| Warranty expense | 19,075 | 13,148 |
| Bad debt allowance | 90,119 | 79,258 |
| Others | 30,073 | 37,334 |
| | ₩ 2,231,805 | 2,129,463 |

(b) Selling expenses

Selling expenses for the years ended December 31, 2013 and 2012 were as follows:

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| Freight | ₩ | 1,432,935 | 1,472,817 |
| Operating expenses for distribution center | | 9,838 | 9,327 |
| Sales commissions | | 73,922 | 74,308 |
| Sales advertising | | 3,228 | 4,575 |
| Sales promotion | | 27,129 | 17,525 |
| Sample | | 4,751 | 7,489 |
| Sales insurance premium | | 27,031 | 32,065 |
| Contract cost | | 37,323 | 52,176 |
| Others | | 15,963 | 8,406 |
| | ₩ | 1,632,120 | 1,678,688 |

**31. Research and Development Expenditures Recognized as Expenses**

Research and development expenditures recognized as expenses for the years ended December 31, 2013 and 2012 were as follows:

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| Selling and administrative expenses | ₩ | 192,805 | 192,321 |
| Cost of sales | | 369,842 | 385,128 |
| | ₩ | 562,647 | 577,449 |

## 32. Adjusted Operating Profit

Adjusted operating profits which include the other profits or losses excluded from operating profit but reflect the results of the Company's operations for the years ended December 31, 2013 and 2012 were as follows:

| *(in millions of Won)* | 2013 | 2012 |
|---|---|---|
| Operating profits on the statement of comprehensive income | ₩ 2,996,134 | 3,653,108 |
| Add | | |
| Gain on disposals of property, plant and equipment | 14,177 | 42,290 |
| Retal revenues | 1,588 | 1,898 |
| Gains on disposals of intangible assets | 801 | 906 |
| Gains on disposals of investment in associates | 7,668 | 39,441 |
| Gains on disposals of assets held for sale | 101,611 | 193,333 |
| Grant income | 2,287 | 3,198 |
| Reversal of other provisions | - | 16,037 |
| Outsourcing income | 25,428 | 29,136 |
| Gain on disposals of wastes | 16,541 | 38,597 |
| Gain from claim compensation | 14,525 | 31,613 |
| Penalty income from early termination of contracts | 16,477 | 15,054 |
| Others | 27,970 | 36,617 |
| | 229,073 | 448,120 |
| Deduct | | |
| Loss on disposals of property, plant and equipment | (121,133) | (65,486) |
| Loss on disposals of assets held for sale | (26,498) | (9,510) |
| Idle tangible assets expenses | (17,624) | (31,297) |
| Impariment losses on other non-current assets | (9,000) | (36,453) |
| Impairment losses of assets held for sale | (1,814) | (258,451) |
| Impairment loss of property, plant and equipment | (9,742) | (12,977) |
| Other bad debt expenses | (111,065) | (44,115) |
| Donations | (60,940) | (73,963) |
| Impairment losses on intangible assets | (125,316) | (21,776) |
| Penalty and default losses | (19,340) | (149,437) |
| Loss on disposals of wastes | (15,231) | (45,480) |
| Loss on disposals of investment in associates | (19,404) | (15,119) |
| Other provision expenses | (65,896) | - |
| Others | (47,803) | (45,401) |
| | (650,806) | (809,465) |
| Adjusted operating profit | ₩ 2,574,401 | 3,291,763 |

### 33. Finance Income and Costs

Details of finance income and costs for the years ended December 31, 2013 and 2012 were as follows:

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| Finance income | | | |
| Interest income | ₩ | 260,398 | 278,807 |
| Dividend income | | 59,181 | 124,475 |
| Gain on foreign currency transactions | | 997,591 | 935,457 |
| Gain on foreign currency translations | | 511,143 | 936,740 |
| Gains on derivatives transactions | | 370,343 | 407,791 |
| Gains on valuations of derivatives | | 72,297 | 94,492 |
| Gains on disposals of available-for-sale investment | | 105,563 | 112,095 |
| Others | | 4,322 | 7,206 |
| | ₩ | 2,380,838 | 2,897,063 |
| Finance costs | | | |
| Interest expenses | ₩ | 657,681 | 871,457 |
| Loss on foreign currency transactions | | 927,453 | 839,241 |
| Loss on foreign currency translations | | 344,900 | 243,091 |
| Loss on derivatives transactions | | 286,574 | 309,067 |
| Loss on valuation of derivatives | | 291,465 | 159,604 |
| Impairment loss on available-for-sale investment | | 280,237 | 224,171 |
| Loss on disposals of available-for-sale investment | | 3,721 | 36,286 |
| Loss on financial guarantee | | 5,880 | 38,442 |
| Others | | 31,342 | 76,279 |
| | ₩ | 2,829,253 | 2,797,638 |

### 34. Other Non-Operating Income and Expenses

Details of other non-operating income and expenses for the years ended December 31, 2013 and 2012 were as follows:

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| **Other non-operating income** | | | |
| Gain on disposals of property, plant and equipment | ₩ | 14,177 | 42,290 |
| Retal revenues | | 1,588 | 1,898 |
| Gains on disposals of intangibles | | 801 | 906 |
| Gains on disposals of investment in associates | | 7,668 | 39,441 |
| Gain on disposal of assets held for sale | | 101,611 | 193,333 |
| Grant income | | 2,287 | 3,198 |
| Reversal of other provisions | | - | 16,037 |
| Outsourcing income | | 25,428 | 29,136 |
| Gain on disposals of wastes | | 16,541 | 38,597 |
| Gain from claim compensation | | 14,525 | 31,613 |
| Penalty income from early termination of contracts | | 16,477 | 15,054 |
| Others | | 27,970 | 36,617 |
| | | 229,073 | 448,120 |
| **Other non-operating expenses** | | | |
| Loss on disposals of property, plant and equipment | | 121,133 | 65,486 |
| Loss on disposals of assets held for sale | | 26,498 | 9,510 |
| Idle tangible assets expenses | | 17,624 | 31,297 |
| Impariment losses on other non-current assets | | 9,000 | 36,453 |
| Impairment losses on assets held for sale | | 1,814 | 258,451 |
| Impairment loss of property, plant and equipment | | 9,742 | 12,977 |
| Other bad debt expenses | | 111,065 | 44,115 |
| Donations | | 60,940 | 73,963 |
| Impairment losses on intangible assets | | 125,316 | 21,776 |
| Penalty and default losses | | 19,340 | 149,437 |
| Loss on disposals of wastes | | 15,231 | 45,480 |
| Loss on disposals of investment in associates | | 19,404 | 15,119 |
| Other provision expenses | | 65,896 | - |
| Others | | 47,803 | 45,401 |
| | ₩ | 650,806 | 809,465 |

### 35. Expenses by Nature

Expenses that are recorded by nature as cost of sales, selling, general and administrative expenses and other non-operating expenses in the statements of comprehensive income for the years ended December 31, 2013 and 2012 were as follows (excluding finance costs and income tax expense):

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| Changes in inventories | ₩ | 12,163,136 | 14,161,271 |
| Cost of merchandises sold | | 25,909,164 | 25,997,220 |
| Employee benefits expenses(*2) | | 3,174,316 | 2,889,829 |
| Outsourced processing cost | | 9,462,946 | 8,896,642 |
| Depreciation expenses(*1) | | 2,505,536 | 2,405,769 |
| Amortization expenses | | 180,014 | 157,991 |
| Research & development expenses | | 562,647 | 577,449 |
| Freight and custody expenses | | 1,432,935 | 1,472,817 |
| Commissions paid | | 73,922 | 74,308 |
| Loss on disposals of property, plant and equipment | | 121,133 | 65,486 |
| Donations | | 60,940 | 73,963 |
| Other expenses | | 3,872,633 | 3,987,763 |
| | ₩ | 59,519,322 | 60,760,508 |

(*1) Includes depreciation expense of investment property.
(*2) The details of employee benefits expenses for the years ended December 31, 2013 and 2012 were as follows:

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| Wages and salaries | ₩ | 2,907,442 | 2,647,177 |
| Severance benefit | | 266,874 | 242,652 |
| | ₩ | 3,174,316 | 2,889,829 |

### 36. Income Taxes

(a) Income tax expense for the years ended December 31, 2013 and 2012 was as follows:

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| Current income taxes | ₩ | 615,771 | 795,601 |
| Deferred income tax due to temporary differences | | 108,034 | 154,324 |
| Less: Items recorded directly in equity | | (132,808) | 32,954 |
| Income tax expense | ₩ | 590,997 | 982,879 |

(b) The following table reconciles the expected amount of income tax expense based on POSCO's statutory rates (24.2%) to the actual amount of taxes recorded by the Company for the years ended December 31, 2013 and 2012:

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| Income before income tax expense | ₩ | 1,946,177 | 3,368,486 |
| Income tax expense computed at statutory rate | | 470,975 | 815,174 |
| Adjustments: | | 120,022 | 167,705 |
| Tax effect due to permanent differences | | 65,526 | 48,220 |
| Tax credit | | (169,166) | (188,713) |
| Over(under) provision from prior years | | (1,178) | 1,776 |
| Investments in subsidiaries and associates | | 193,191 | 281,437 |
| Others | | 31,649 | 24,985 |
| Income tax expense | ₩ | 590,997 | 982,879 |
| Effective tax rate (%) | | 30.37% | 29.18% |

(c) The income taxes credited (charged) directly to other comprehensive income during the period ended December 31, 2013 and 2012 were as follows:

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| Net changes in the unrealized fair value of available-for-sale securities | ₩ | (139,679) | 22,585 |
| Gain on sale of treasury stock | | (1,707) | - |
| Others | | 8,578 | 10,369 |
| | ₩ | (132,808) | 32,954 |

(d) The movements in deferred tax assets (liabilities) for the years ended December 31, 2013 and 2012 were as follows:

| *(in millions of Won)* | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Beginning | Inc (Dec) | Ending | Beginning | Inc (Dec) | Ending |
| **Deferred income tax due to temporary differences** | | | | | | |
| Reserve for special repairs | ₩ (29,013) | 551 | (28,462) | (29,659) | 646 | (29,013) |
| Allowance for doubtful accounts | 112,428 | 37,175 | 149,603 | 104,621 | 7,807 | 112,428 |
| Reserve for technology developments | (375,930) | (4,735) | (380,665) | (366,232) | (9,698) | (375,930) |
| Depreciation | (46,574) | 13,232 | (33,342) | (58,288) | 11,714 | (46,574) |
| Share of profit or loss of equity-accounted investees | (96,374) | 7,069 | (89,305) | (224,136) | 127,762 | (96,374) |
| Reserve for inventory valuation | (4,082) | 2,560 | (1,522) | (1,514) | (2,568) | (4,082) |
| Revaluation of assets | (799,932) | (211,661) | (1,011,593) | (570,403) | (229,529) | (799,932) |
| Prepaid expenses | 31,240 | (2,855) | 28,385 | 21,437 | 9,803 | 31,240 |
| Impairment loss on property, plant and equipment | 28,755 | (3,237) | 25,518 | 25,492 | 3,263 | 28,755 |
| Loss on foreign currency translation | (63,345) | (125,857) | (189,202) | 95,787 | (159,132) | (63,345) |
| Defined benefit obligations | 70,624 | 29,732 | 100,356 | 55,053 | 15,571 | 70,624 |
| Plan assets | (46,421) | (12,245) | (58,666) | (43,091) | (3,330) | (46,421) |
| Provision for construction losses | 2,227 | 2,046 | 4,273 | 2,852 | (625) | 2,227 |
| Provision for construction warranty | 14,841 | 1,833 | 16,674 | 15,902 | (1,061) | 14,841 |
| Appropriated retained earnings for technological development | (451) | - | (451) | (165) | (286) | (451) |
| Accrued income | (3,197) | 282 | (2,915) | (1,949) | (1,248) | (3,197) |
| Others | 310,022 | 170,015 | 480,037 | 376,107 | (66,085) | 310,022 |
| | (895,182) | (96,095) | (991,277) | (598,186) | (296,996) | (895,182) |
| **Deferred income taxes recognized directly to equity** | | | | | | |
| Loss (gain) on valuation of available-for-sale investments | 24,006 | (139,679) | (115,673) | 1,421 | 22,585 | 24,006 |
| Others | 46,138 | 8,578 | 54,716 | 35,769 | 10,369 | 46,138 |
| | 70,144 | (131,101) | (60,957) | 37,190 | 32,954 | 70,144 |
| **Deferred tax from tax credit** | | | | | | |
| Tax credit carryforward and others | 339,108 | 98,534 | 437,642 | 256,877 | 82,231 | 339,108 |
| Deferred tax effect due to unrealized gain (losses) and others | 19,095 | 23,666 | 42,761 | (8,375) | 27,470 | 19,095 |
| | ₩ (466,835) | (104,996) | (571,831) | (312,494) | (154,341) | (466,835) |

(e) Deferred tax assets and liabilities for the years ended December 31, 2013 and 2012 are as follows:

| *(in millions of Won)* | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | **Assets** | **Liabilities** | **Net** | **Assets** | **Liabilities** | **Net** |
| **Deferred income tax due to temporary differences** | | | | | | |
| Reserve for special repairs | ₩ - | (28,462) | (28,462) | - | (29,013) | (29,013) |
| Allowance for doubtful accounts | 149,695 | (92) | 149,603 | 112,480 | (52) | 112,428 |
| Reserve for technology developments | - | (380,665) | (380,665) | - | (375,930) | (375,930) |
| Depreciation | 23,265 | (56,607) | (33,342) | 15,192 | (61,766) | (46,574) |
| Share of profit or loss of equity-accounted investees | - | (89,305) | (89,305) | - | (96,374) | (96,374) |
| Reserve for inventory valuation | 4,392 | (5,914) | (1,522) | 1,751 | (5,833) | (4,082) |
| Revaluation of assets | - | (1,011,593) | (1,011,593) | - | (799,932) | (799,932) |
| Prepaid expenses | 28,385 | - | 28,385 | 31,240 | - | 31,240 |
| Impairment loss on property, plant and equipment | 25,518 | - | 25,518 | 28,755 | - | 28,755 |
| Loss on foreign currency translation | 243,772 | (432,974) | (189,202) | 202,973 | (266,318) | (63,345) |
| Defined benefit obligations | 110,891 | (10,535) | 100,356 | 86,200 | (15,576) | 70,624 |
| Plan assets | 22 | (58,688) | (58,666) | - | (46,421) | (46,421) |
| Provision for construction losses | 4,273 | - | 4,273 | 2,227 | - | 2,227 |
| Provision for construction warranty | 16,674 | - | 16,674 | 14,841 | - | 14,841 |
| Appropriated retained earnings for technological development | - | (451) | (451) | - | (451) | (451) |
| Accrued income | 5 | (2,920) | (2,915) | 25 | (3,222) | (3,197) |
| Others | 506,291 | (26,254) | 480,037 | 421,595 | (111,573) | 310,022 |
| | 1,113,183 | (2,104,460) | (991,277) | 917,279 | (1,812,461) | (895,182) |
| **Deferred income taxes recognized directly to equity** | | | | | | |
| Loss (gain) on valuation of available-for-sale investments | 128,938 | (244,611) | (115,673) | 281,599 | (257,593) | 24,006 |
| Others | 70,441 | (15,725) | 54,716 | 66,975 | (20,837) | 46,138 |
| | 199,379 | (260,336) | (60,957) | 348,574 | (278,430) | 70,144 |
| **Deferred tax from tax credit** | | | | | | |
| Tax credit carryforward and others | 481,256 | (43,614) | 437,642 | 378,926 | (39,818) | 339,108 |
| Deferred tax effect due to unrealized gain (losses) and others | 530,823 | (488,062) | 42,761 | 522,871 | (503,776) | 19,095 |
| | ₩ 2,324,641 | (2,896,472) | (571,831) | 2,167,650 | (2,634,485) | (466,835) |

(f) As of December 31, 2013, the Company did not recognize income tax effects associated with deductible temporary differences of ₩3,030,715 million (deferred tax assets ₩733,433 million) mainly relating to loss of subsidiaries and affiliates because realization is not considered probable.
As of December 31, 2013, the Company did not recognize income tax effects associated with taxable temporary differences of ₩3,258,235 million (deferred tax liabilities ₩788,493 million) mainly relating to increase in retained earnings of subsidiaries since it is probable that the temporary difference will not reverse in the foreseeable future.

**37. Earnings per Share**

(a) Basic and diluted earnings per share for the years ended December 31, 2013 and 2012 were as follows:

*(Won, except per share information)*

| | 2013 | 2012 |
|---|---|---|
| Profit attribute to controlling interest | ₩ 1,376,396,068,069 | 2,462,080,504,484 |
| Interests of hybrid bonds | (18,313,914,551) | - |
| Weighted-average number of common shares outstanding(*1) | 78,009,654 | 77,244,444 |
| Basic and diluted earnings per share | ₩ 17,409 | 31,874 |

(*1) The weighted-average number of common shares used to calculate basic and diluted earnings per share are as follows:

| *(share)* | 2013 | 2012 |
|---|---|---|
| Total number of common shares issued | 87,186,835 | 87,186,835 |
| Weighted-average number of treasury shares | (9,177,181) | (9,942,391) |
| Weighted-average number of common shares outstanding | 78,009,654 | 77,244,444 |

As of December 31, 2013, the Company has no potential dilutive common shares. Accordingly, diluted earnings per share is identical to basic earnings per share.

## 38. Related Party Transactions

(a) Significant transactions with related parties for the years ended December 31, 2013 and 2012 were as follows:

1) For the year ended December 31, 2013

| *(in millions of Won)* | Sales and others(*1) | | | Purchase and others(*2) | | | | |
|---|---|---|---|---|---|---|---|---|
| | Sales | Others | Total | Purchase of material | Purchase of fixed assets | Outsourced processing cost | Others | Total |
| **Subsidiaries(*3)** | | | | | | | | |
| POSCO ENGINEERING & CONSTRUCTION Co., LTD. | ₩ 16,439 | 3,421 | ₩ 19,860 | ₩ 3,042 | 2,235,798 | 5,855 | 9,242 | ₩ 2,253,937 |
| POSCO Processing&Service | 987,424 | 8 | 987,432 | 1,215,510 | - | - | 805 | 1,216,315 |
| POSCO COATED & COLOR STEEL Co., Ltd. | 472,353 | 25 | 472,378 | - | - | 10,648 | 98 | 10,746 |
| POSCO PLANTEC Co., Ltd. | 2,324 | 19 | 2,343 | 1,499 | 67,081 | 13,733 | 2,492 | 84,805 |
| POSCO ICT | 1,210 | 195 | 1,405 | 679 | 279,660 | 31,231 | 157,126 | 468,696 |
| POSMATE | 1,419 | 85 | 1,504 | 805 | 1,041 | 15,732 | 32,894 | 50,472 |
| eNtoB Corporation | - | 10 | 10 | 234,352 | 13,241 | 149 | 20,079 | 267,821 |
| POSCO CHEMTECH | 512,139 | 25,868 | 538,007 | 491,562 | 21,832 | 287,584 | 1,223 | 802,201 |
| POSCO M-TECH | 11,122 | 94 | 11,216 | 158,709 | 2,336 | 220,986 | 141 | 382,172 |
| POSCO ENERGY CO., LTD. | 104,209 | 915 | 105,124 | - | 5,178 | - | 7 | 5,185 |
| POSCO TMC Co., Ltd. | 188,915 | 15 | 188,930 | - | - | 1,051 | 1,298 | 2,349 |
| POSCO AST | 500,193 | 10 | 500,203 | 6,985 | - | 56,520 | 2,029 | 65,534 |
| POSHIMETAL Co., Ltd. | 18,922 | 137 | 19,059 | 166,042 | - | - | 5 | 166,047 |
| Daewoo International Corporation | 3,522,678 | 65 | 3,522,743 | 16,297 | - | - | 2,843 | 19,140 |
| POSCO America Corporation | 596,681 | 1 | 596,682 | - | - | - | 339 | 339 |
| POSCO Canada Ltd. | - | - | - | 144,329 | - | - | - | 144,329 |
| POSCO Asia Co., Ltd. | 2,068,965 | 221 | 2,069,186 | 64,434 | 182 | - | 1,673 | 66,289 |
| POSCO (Thailand) Company Limited | 56,210 | 56 | 56,266 | - | - | - | 85 | 85 |
| Qingdao Pohang Stainless Steel Co., Ltd. | 58,502 | - | 58,502 | - | - | - | 14 | 14 |
| POSCO(Suzhou) Automotive Processing Center Co., Ltd. | 129,345 | 1 | 129,346 | - | - | - | - | - |
| POSCO JAPAN Co., Ltd. | 1,270,325 | - | 1,270,325 | 19,978 | 2 | - | 2,972 | 22,952 |
| POSCO-India Pune Processing Center. Pvt. Ltd. | 119,503 | 7 | 119,510 | - | - | - | - | - |
| POSCO MEXICO S.A. DE C.V. | 256,014 | 693 | 256,707 | - | - | - | 621 | 621 |
| POSCO Maharashtra Steel Private Limited | 176,425 | 3,157 | 179,582 | - | - | - | 236 | 236 |
| DAEWOO INTERNATIONAL SINGAPORE PTE. LTD. | - | - | - | 108,179 | - | - | - | 108,179 |
| Others | 558,923 | 7,569 | 566,492 | 92,527 | 38,843 | 18,782 | 77,101 | 227,253 |
| | ₩ 11,630,240 | 42,572 | ₩ 11,672,812 | ₩ 2,724,929 | 2,665,194 | 662,271 | 313,323 | ₩ 6,365,717 |
| **Associates and joint ventures(*3)** | | | | | | | | |
| SNNC | 1,532 | 458 | 1,990 | 402,639 | - | - | - | 402,639 |
| POSCO PLANTEC Co., Ltd. (formerly, SUNGJIN GEOTEC Co., Ltd.)(*4) | 15,028 | 48 | 15,076 | 1,735 | 65,802 | 9,781 | 6,883 | 84,201 |
| POSCHROME (PROPRIETARY) LIMITED | - | - | - | 66,762 | - | - | - | 66,762 |
| PT. POSMI Steel Indonesia | 6,538 | - | 6,538 | - | - | - | - | - |
| POSK(Pinghu) Steel Processing Center Co., Ltd. | 3,786 | - | 3,786 | - | - | - | - | - |
| POSCO-SAMSUNG-Slovakia Processing Center | 19,906 | - | 19,906 | - | - | - | - | - |
| POSCO-SAMSUNG Suzhou Processing Center Co., Ltd. | 6,429 | - | 6,429 | - | - | - | - | - |
| Others | 546 | 165 | 711 | 3,937 | - | - | 176 | 4,113 |
| | ₩ 53,765 | 671 | ₩ 54,436 | ₩ 475,073 | 65,802 | 9,781 | 7,059 | ₩ 557,715 |
| | ₩ 11,684,005 | 43,243 | ₩ 11,727,248 | ₩ 3,200,002 | 2,730,996 | 672,052 | 320,382 | ₩ 6,923,432 |

(*1) Sales and others mainly consist of sales of steel products to subsidiaries, associates and joint ventures. These are priced on an arm's length basis.

(*2) Purchases and others mainly consist of subsidiaries' purchases of construction services and purchases of raw materials to manufacture steel products. These are priced on an arm's length basis.

(*3) As of December 31, 2013, the Company provided guarantees to related parties (Note 39).

(*4) Sungjin Geotec Co., Ltd. merged with POSCO Plant Engineering Co., Ltd. and changed its name to POSCO PLANTEC Co., Ltd..

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2) For the year ended December 31, 2012

| *(in millions of Won)* | Sales and others | | | Purchase and others | | | | |
|---|---|---|---|---|---|---|---|---|
| | Sales | Others | Total | Purchase of material | Purchase of fixed assets | Outsourced processing cost | Others | Total |
| **Subsidiaries** | | | | | | | | |
| POSCO ENGINEERING & CONSTRUCTION Co., LTD. | ₩ 27,401 | 709 | ₩ 28,110 | ₩ 46 | 1,408,787 | 7 | 42,246 | ₩ 1,451,086 |
| POSCO Processing&Service | 897,017 | 34 | 897,051 | 1,392,988 | - | - | 2,903 | 1,395,891 |
| POSCO COATED & COLOR STEEL Co., Ltd. | 489,507 | 38 | 489,545 | - | - | 5,574 | 922 | 6,496 |
| POSCO PLANTEC Co., Ltd. | 3,253 | 63 | 3,316 | 3,331 | 233,788 | 23,372 | 17,455 | 277,946 |
| POSCO ICT | 1,330 | 217 | 1,547 | 1,151 | 285,093 | 31,050 | 151,621 | 468,915 |
| eNtoB Corporation | - | 11 | 11 | 211,449 | 3,490 | 225 | 20,978 | 236,142 |
| POSCO CHEMTECH | 492,720 | 19,197 | 511,917 | 507,215 | 10,153 | 279,507 | 1,275 | 798,150 |
| POSCO M-TECH | 27,770 | 136 | 27,906 | 130,363 | 9,018 | 176,263 | 2,904 | 318,548 |
| POSCO ENERGY CO., LTD. | 87,387 | 820 | 88,207 | - | 482 | - | 1,772 | 2,254 |
| POSCO TMC Co., Ltd. | 230,215 | 20 | 230,235 | 25 | - | 995 | 12 | 1,032 |
| POSCO AST | 278,446 | 17 | 278,463 | 8,114 | - | 50,320 | 213 | 58,647 |
| POSHIMETAL Co., Ltd. | 23,882 | 130 | 24,012 | 149,809 | 180 | - | 5 | 149,994 |
| Daewoo International Corporation | 4,271,317 | 133 | 4,271,450 | 10,562 | - | 389 | 4,780 | 15,731 |
| POSCO NST Co., Ltd. | 212,534 | 2 | 212,536 | 1,229 | - | 2,147 | 242 | 3,618 |
| POSCO America Corporation | 726,450 | - | 726,450 | - | - | - | 733 | 733 |
| POSCO Canada Ltd. | - | - | - | 205,129 | - | - | - | 205,129 |
| POSCO Asia Co., Ltd. | 1,928,881 | 627 | 1,929,508 | 105,392 | 592 | - | 1,329 | 107,313 |
| POSCO (Thailand) Company Limited | 119,031 | 247 | 119,278 | - | - | - | 182 | 182 |
| Qingdao Pohang Stainless Steel Co., Ltd. | 62,347 | 2 | 62,349 | - | - | - | - | - |
| POSCO(Suzhou) Automotive Processing Center Co., Ltd. | 128,974 | - | 128,974 | - | - | - | - | - |
| POSCO JAPAN Co., Ltd. | 1,439,580 | - | 1,439,580 | 20,472 | 2,857 | - | 5,381 | 28,710 |
| POSCO-India Pune Processing Center. Pvt. Ltd. | 164,450 | 33 | 164,483 | - | - | - | 15 | 15 |
| POSCO MEXICO S.A. DE C.V. | 337,921 | 724 | 338,645 | - | - | - | 492 | 492 |
| POSCO Maharashtra Steel Private Limited | 154,055 | 1,587 | 155,642 | - | - | - | - | - |
| DAEWOO INTERNATIONAL SINGAPORE PTE. LTD. | - | - | - | 73,471 | - | - | - | 73,471 |
| Others | 569,076 | 2,787 | 571,863 | 81,411 | 56,570 | 17,673 | 132,115 | 287,769 |
| | ₩ 12,673,544 | 27,534 | ₩ 12,701,078 | ₩ 2,902,157 | 2,011,010 | 587,522 | 387,575 | ₩ 5,888,264 |
| **Associates and joint ventures** | | | | | | | | |
| POSMATE | 951 | 21,093 | 22,044 | 1,058 | 21 | 14,947 | 30,032 | 46,058 |
| SNNC | 2,162 | 349 | 2,511 | 379,050 | - | - | - | 379,050 |
| POSCO PLANTEC Co., Ltd. (formerly, SUNGJIN GEOTEC Co., Ltd.) | 27,697 | - | 27,697 | - | - | - | - | - |
| Dongbang Special Steel Co., Ltd. | 89,094 | - | 89,094 | - | - | - | - | - |
| POSCHROME (PROPRIETARY) LIMITED | - | 58 | 58 | 68,079 | - | - | - | 68,079 |
| PT. POSMI Steel Indonesia | 9,696 | - | 9,696 | - | - | - | - | - |
| POSK(Pinghu) Steel Processing Center Co., Ltd. | 3,889 | - | 3,889 | - | - | - | - | - |
| POSCO-SAMSUNG-Slovakia Processing Center | 16,309 | - | 16,309 | - | - | - | - | - |
| POSCO-SAMSUNG Suzhou Processing Center Co., Ltd. | 26,280 | - | 26,280 | - | - | - | - | - |
| Others | 7,774 | 117 | 7,891 | 5,303 | - | 6,579 | 2,530 | 14,412 |
| | ₩ 183,852 | 21,617 | ₩ 205,469 | ₩ 453,490 | 21 | 21,526 | 32,562 | ₩ 507,599 |
| | ₩ 12,857,396 | 49,151 | ₩ 12,906,547 | ₩ 3,355,647 | 2,011,031 | 609,048 | 420,137 | ₩ 6,395,863 |

(b) The related account balances of significant transactions with related companies as of December 31, 2013 and 2012 are as follows:

1) December 31, 2013

| *(in millions of Won)* | Receivables | | | Payables | | | |
|---|---|---|---|---|---|---|---|
| | Trade accounts and notes receivable | Others | Total | Trade accounts and notes payable | Accounts payable | Others | Total |
| **Subsidiaries** | | | | | | | |
| POSCO ENGINEERING & CONSTRUCTION Co., LTD. | ₩ 40 | 110,955 | ₩ 110,995 | ₩ - | 105,603 | - | ₩ 105,603 |
| POSCO Processing&Service | 103,400 | 73 | 103,473 | 17,914 | 683 | - | 18,597 |
| POSCO COATED & COLOR STEEL Co., Ltd. | 69,260 | 65 | 69,325 | - | 59 | 1,434 | 1,493 |
| POSCO ICT | 75 | 123 | 198 | - | 51,247 | - | 51,247 |
| POSMATE | 489 | 1,533 | 2,022 | 141 | 3,274 | 1,058 | 4,473 |
| eNtoB Corporation | - | - | - | 8,057 | 10,311 | - | 18,368 |
| POSCO CHEMTECH | 46,943 | 4,313 | 51,256 | 35,829 | 6,983 | 8,663 | 51,475 |
| POSCO M-TECH | 18 | 28 | 46 | 12,020 | 21,326 | 10,799 | 44,145 |
| POSCO ENERGY CO., LTD. | 14,733 | 2,894 | 17,627 | - | 421 | - | 421 |
| POSCO TMC Co., Ltd. | 20,510 | 26 | 20,536 | - | 16 | 50 | 66 |
| POSCO AST | 85,501 | 53 | 85,554 | - | 3,004 | 5,238 | 8,242 |
| POSHIMETAL Co., Ltd. | 1,721 | 12 | 1,733 | - | 12,624 | - | 12,624 |
| Daewoo International Corporation | 148,383 | 878 | 149,261 | 9,319 | - | - | 9,319 |
| POSCO America Corporation | 57,554 | - | 57,554 | - | - | - | - |
| POSCO Canada Ltd. | - | - | - | 12,323 | - | - | 12,323 |
| POSCO Asia Co., Ltd. | 134,602 | 142 | 134,744 | 2,063 | - | - | 2,063 |
| POSCO (Thailand) Company Limited | 6,052 | 7 | 6,059 | - | - | - | - |
| Qingdao Pohang Stainless Steel Co., Ltd. | 3,329 | - | 3,329 | - | - | - | - |
| POSCO JAPAN Co., Ltd. | 73,992 | - | 73,992 | 862 | 108 | 1 | 971 |
| POSCO-India Pune Processing Center. Pvt. Ltd. | 8,117 | - | 8,117 | - | - | - | - |
| POSCO MEXICO S.A. DE C.V. | 100,016 | 76 | 100,092 | - | - | - | - |
| POSCO Maharashtra Steel Private Limited | 55,392 | 3,218 | 58,610 | - | - | - | - |
| Others | 54,357 | 8,887 | 63,244 | 6,523 | 15,421 | 1,647 | 23,591 |
| | ₩ 984,484 | 133,283 | ₩ 1,117,767 | ₩ 105,051 | 231,080 | 28,890 | ₩ 365,021 |
| **Associates and joint ventures** | | | | | | | |
| SNNC | 140 | 40 | 180 | 16,669 | - | - | 16,669 |
| POSCO PLANTEC Co., Ltd. (formerly, SUNGJIN GEOTEC Co., Ltd.) | 879 | 46 | 925 | 353 | - | - | 353 |
| POSCHROME (PROPRIETARY) LIMITED | - | 67 | 67 | - | - | - | - |
| LLP POSUK Titanium | - | 4,066 | 4,066 | - | - | - | - |
| Others | - | 17 | 17 | 319 | 2 | - | 321 |
| | ₩ 1,019 | 4,236 | ₩ 5,255 | ₩ 17,341 | 2 | - | ₩ 17,343 |
| | ₩ 985,503 | 137,519 | ₩ 1,123,022 | ₩ 122,392 | 231,082 | 28,890 | ₩ 382,364 |

2) December 31, 2012

| *(in millions of Won)* | Receivables | | | Payables | | | |
|---|---|---|---|---|---|---|---|
| | Trade accounts and notes receivable | Others | Total | Trade accounts and notes payable | Accounts payable | Others | Total |
| **Subsidiaries** | | | | | | | |
| POSCO ENGINEERING & CONSTRUCTION Co., LTD. | ₩ 5,084 | 2,893 | ₩ 7,977 | ₩ - | 403,630 | - | ₩ 403,630 |
| POSCO Processing&Service | 64,206 | 358 | 64,564 | 28,723 | 3,949 | - | 32,672 |
| POSCO COATED & COLOR STEEL Co., Ltd. | 108,465 | 40 | 108,505 | 114 | - | 2,504 | 2,618 |
| POSCO PLANTEC Co., Ltd. | 59 | 208 | 267 | 3,066 | 29,231 | - | 32,297 |
| POSCO ICT | - | 287 | 287 | 248 | 84,432 | 6,617 | 91,297 |
| eNtoB Corporation | - | 3 | 3 | 7,246 | 9,323 | 12 | 16,581 |
| POSCO CHEMTECH | 43,086 | 3,988 | 47,074 | 52,485 | 13,300 | 18,753 | 84,538 |
| POSCO M-TECH | 1,230 | 63 | 1,293 | 8,226 | 10,900 | 17,866 | 36,992 |
| POSCO ENERGY CO., LTD. | 9,177 | 2,934 | 12,111 | - | 2,292 | - | 2,292 |
| POSCO TMC Co., Ltd. | 64,832 | 30 | 64,862 | 1 | - | 144 | 145 |
| POSCO AST | 64,542 | 1,033 | 65,575 | 90 | 2,919 | 4,791 | 7,800 |
| POSHIMETAL Co., Ltd. | 1,233 | 221 | 1,454 | - | 15,191 | - | 15,191 |
| Daewoo International Corporation | 357,446 | 1,378 | 358,824 | 685 | - | 45 | 730 |
| POSCO America Corporation | 63,545 | - | 63,545 | - | - | - | - |
| POSCO Canada Ltd. | - | - | - | 12,973 | - | - | 12,973 |
| POSCO Asia Co., Ltd. | 102,666 | 183 | 102,849 | 2,244 | - | - | 2,244 |
| POSCO (Thailand) Company Limited | 17,965 | 21 | 17,986 | - | - | - | - |
| Qingdao Pohang Stainless Steel Co., Ltd. | 8,710 | - | 8,710 | - | - | - | - |
| POSCO JAPAN Co., Ltd. | 35,400 | - | 35,400 | 673 | - | - | 673 |
| POSCO MEXICO S.A. DE C.V. | 131,372 | 297 | 131,669 | - | - | - | - |
| POSCO Maharashtra Steel Private Limited | 55,249 | 2,628 | 57,877 | - | - | - | - |
| Others | 49,679 | 5,500 | 55,179 | 5,920 | 22,509 | 3,359 | 31,788 |
| | ₩ 1,183,946 | 22,065 | ₩ 1,206,011 | ₩ 122,694 | 597,676 | 54,091 | ₩ 774,461 |
| **Associates and joint ventures** | | | | | | | |
| POSMATE | - | 78 | 78 | 168 | 2,175 | 3,972 | 6,315 |
| SNNC | 194 | 35 | 229 | 37,145 | - | - | 37,145 |
| POSCO PLANTEC Co., Ltd. (formerly, SUNGJIN GEOTEC Co., Ltd.) | 4,849 | - | 4,849 | - | - | - | - |
| POSCHROME (PROPRIETARY) LIMITED | - | - | - | 2,273 | - | - | 2,273 |
| Others | - | 453 | 453 | 804 | - | - | 804 |
| | ₩ 5,043 | 566 | ₩ 5,609 | ₩ 40,390 | 2,175 | 3,972 | ₩ 46,537 |
| | ₩ 1,188,989 | 22,631 | ₩ 1,211,620 | ₩ 163,084 | 599,851 | 58,063 | ₩ 820,998 |

(c) For the years ended December 31, 2013 and 2012, details of compensation to key management officers were as follows:

| *(in millions of Won)* | 2013 | 2012 |
|---|---|---|
| Short-term benefits | ₩ 121,054 | 109,614 |
| Retirement benefits | 20,713 | 25,049 |
| Long-term benefits | 23,480 | 22,462 |
| | ₩ 165,247 | 157,125 |

Key management officers include directors (including non-standing directors), executive officials and fellow officials who have significant influence and responsibilities in the Company's business and operations. In addition to the compensation described above, the Company provided stock appreciation rights to its executive officers and recorded stock compensation expenses amounted to ₩436 million for year ended December 31, 2012 (2013 : nil).

**39. Commitments and Contingencies**

(a) Contingent liabilities

Contingent liabilities may develop in a way not initially expected. Therefore, management continuously assesses contingent liabilities to determine whether an outflow of resources embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognized in the financial statements of the period in which the change in probability occurs (except in the extremely rare circumstances where no reliable estimate can be made).

Management makes estimates and assumptions that affect disclosures of commitments and contingencies. All estimates and assumptions are based on the evaluation of current circumstances and appraisals with the supports of internal specialists or external consultants.

Management regularly analyzes current information about these matters and provides provisions for probable contingent losses including the estimate of legal expense to resolve the matters. Internal and external lawyers are used for these assessments. In making the decision regarding the need for provisions, management considers the degree of probability of an unfavorable outcome and the ability to make a sufficiently reliable estimate of the amount of loss.

(b) Details of guarantees

*(in millions of Won)*

| Guarantors | Guarantee beneficiary | Financial institution | Foreign Currency | | Won Eequivalent |
|---|---|---|---|---|---|
| [The Company] | | | | | |
| POSCO | POSCO (Guangdong) Automotive Steel Co., Ltd. | SMBC and others | USD | 157,600,000 | 166,315 |
| | POSCO Investment Co., Ltd. | BOC | CNY | 350,000,000 | 60,932 |
| | | BOA and others | USD | 280,000,000 | 295,484 |
| | POSCO Maharashtra Steel Private Limited | Export-Import Bank of Korea and others | USD | 566,069,000 | 597,373 |
| | POSCO VST CO., LTD. | ANZ and others | USD | 65,000,000 | 68,595 |
| | POSCO MEXICO S.A. DE C.V. | HSBC and others | USD | 244,725,000 | 258,258 |
| | POSCO-VIETNAM Co., Ltd. | Export-Import Bank of Korea | USD | 196,000,000 | 206,839 |
| | Zeus II (Cayman) Ltd. | Creditor | JPY | 25,779,278,600 | 258,994 |
| | Zhangjiagang Pohang Stainless Steel Co., Ltd. | MIZUHO and others | USD | 160,000,000 | 168,848 |
| | POSCO ASSAN TST STEEL INDUSTRY | SMBC and others | USD | 188,392,500 | 198,811 |
| | POSCO Electrical Steel India Private Limited | ING and others | USD | 83,784,000 | 88,417 |
| | PT. KRAKATAU POSCO | Export-Import Bank of Korea and others | USD | 1,350,300,000 | 1,424,972 |
| Daewoo International Corporation | Daewoo Paper Manufacturing Co., Ltd. | HSBC | USD | 12,500,000 | 13,191 |
| | DAEWOO TEXTILE BUKHARA LLC | Export-Import Bank of Korea | USD | 20,000,000 | 21,106 |
| | DAEWOO INTERNATIONAL MEXICO S.A. DE C.V. | NOVA SCOTIA | USD | 30,000,000 | 31,659 |
| | POSCO ASSAN TST STEEL INDUSTRY | ING and others | USD | 20,932,500 | 22,090 |
| | Brazil Sao Paulo Steel Processing Center | SMBC | USD | 20,000,000 | 21,106 |
| | Daewoo International (Deutschland) GmbH. | Shinhan Bank | EUR | 15,000,000 | 21,844 |
| | PT. Bio Inti Agrindo | Export-Import Bank of Korea | USD | 30,000,000 | 31,659 |
| POSCO ENGINEERING & CONSTRUCTION CO., LTD. | HONG KONG POSCO E&C (CHINA) INVESTMENT Co., Ltd. | Woori Bank and others | USD | 135,000,000 | 142,466 |
| | INTERNATIONAL BUSINESS CENTER CORPORATION | Export-Import Bank of Korea | USD | 20,000,000 | 21,106 |
| | POSCO E&C Vietnam Co., Ltd. | Export-Import Bank of Korea | USD | 16,500,000 | 17,412 |
| | SANTOSCMI S.A. | CITI Equador and others | USD | 36,000,000 | 37,991 |
| POSCO Processing&Service | POSCO Canada Ltd. | Hana Bank | USD | 12,484,500 | 13,175 |
| | POSCO Gulf SFC LLC | KEB bank | USD | 20,000,000 | 21,106 |
| POSCO ICT | PT.POSCO ICT INDONESIA | POSCO Investment Co., Ltd. | USD | 3,000,000 | 3,166 |
| | VECTUS LIMITED | KEB bank | GBP | 3,500,000 | 6,092 |
| | | POSCO Investment Co., Ltd. | USD | 4,000,000 | 4,221 |
| POSCO ENERGY CO., LTD. | PT. KRAKATAU POSCO ENERGY | Export-Import Bank of Korea and others | USD | 193,900,000 | 204,623 |
| | TECHREN Solar, LLC | Woori Bank | USD | 3,000,000 | 3,166 |
| POSCO Engineering CO., Ltd | PT PEN INDONESIA | KEB bank | USD | 6,818,876 | 7,196 |
| | | KEB Bank and others | IDR | 82,727,107,048 | 7,148 |
| | POSCO ENGINEERING (THAILAND) CO., LTD. | Citi Bank | USD | 15,300,000 | 16,146 |
| | | Woori Bank and others | THB | 6,342,881,200 | 203,860 |
| POSCO-Japan Co., Ltd. | POSCO-JEPC Co., Ltd. | Mizuho Bank and others | JPY | 1,944,160,748 | 19,532 |
| | POSCO-JKPC Co., Ltd. | Higo bank and others | JPY | 1,050,400,000 | 10,553 |
| | POSCO-JOPC Co., Ltd. | Kiyo bank and others | JPY | 112,500,000 | 1,130 |
| | Xenesys Inc. | Aozora Bank | JPY | 250,000,000 | 2,512 |
| DAEWOO TEXTILE FERGANA LLC | DAEWOO TEXTILE BUKHARA LLC | NBU | USD | 3,037,183 | 3,205 |
| POSCO E&C CHINA Co., Ltd. | HONG KONG POSCO E&C (CHINA) INVESTMENT Co., Ltd. | Woori Bank(Beijing branch) | USD | 33,000,000 | 34,825 |
| POSCO-China Holding Corp. | POSCO YongXin Rare Earth Metal Co., Ltd. | KEB Bank and others | CNY | 71,820,000 | 12,503 |
| POSCO CHEMTECH | PT.Krakatau Posco Chemtech Calcination and others | KEB Bank and others | USD | 55,130,000 | 58,179 |
| POSCO Specialty Steel Co., Ltd. | POSCO SS-VINA | Export-Import Bank of Korea | USD | 354,409,800 | 374,009 |
| SANTOSCMI S.A. | COMPANIADEAUTOMATIZACION &CONTROL, GENESYS S.A. | Banco de Guayaquil and others | USD | 1,550,000 | 1,636 |

*(in millions of Won)*

| Guarantors | Guarantee beneficiary | Financial institution | Foreign Currency | | Won Eequivalen |
|---|---|---|---|---|---|
| [Associates and joint ventures] | | | | | |
| POSCO | United Spiral Pipe, LLC | Shinhan Bank | USD | 24,500,000 | 25,855 |
| | LLP POSUK Titanium | Shinhan Bank | USD | 18,000,000 | 18,995 |
| Daewoo International Corporation | DMSA/AMSA | Export-Import Bank of Korea and others | USD | 165,133,333 | 174,265 |
| | GLOBAL KOMSCO Daewoo LLC | Export-Import Bank of Korea and others | USD | 8,050,000 | 8,495 |
| POSCO ENGINEERING & CONSTRUCTION CO., LTD. | Taegisan Wind Power Corporation | KDB Bank | KRW | 7,500 | 7,500 |
| | Posco e&c Songdo International Building | Hana Bank and others | KRW | 356,600 | 356,600 |
| | CHUNGJU ENTERPRISE CITY DEVELOPMENT Co., Ltd and others | NH Bank and others | KRW | 318,226 | 318,226 |
| POSCO Engineering CO., Ltd | PT. Wampu Electric Power | Woori Bank | USD | 344,848 | 364 |
| POSCO Processing&Service | Sebang Steel | Shinhan Bank | JPY | 245,000,000 | 2,461 |
| POSCO ICT | UITrans LRT Co., Ltd. | Construction Guarantee Cooperative | KRW | 64,638 | 64,638 |
| | Incheon-Gimpo Expressway Co., Ltd. | KDB Bank and others | KRW | 175,000 | 175,000 |
| | CHUNGJU ENTERPRISE CITY DEVELOPMENT Co., Ltd | NH Bank | KRW | 2,530 | 2,530 |
| Daewoo (China) Co., Ltd. | SHANGHAI LANSHENG DAEWOO CORP. | Bank of Communications | CNY | 100,000,000 | 17,409 |
| POSCO CHEMTECH | PT.INDONESIA POS CHEMTECH CHOSUN Ref | KEB Bank | USD | 6,000,000 | 6,332 |
| [Others] | | | | | |
| Daewoo International Corporation | Ambatovy Project Investments Limited | Export-Import Bank of Korea | USD | 65,454,545 | 69,074 |
| | Sherritt International Corporation | Export-Import Bank of Korea | USD | 21,818,181 | 23,025 |
| POSCO ENGINEERING & CONSTRUCTION CO., LTD. | The union of City environment improvement for Kukje building and others | NH Bank and others | KRW | 853,150 | 853,150 |
| | THE GALE INVESTMENTS COMPANY, L.L.C. | Woori Bank | USD | 50,000,000 | 52,765 |
| POSCO ICT | BTL business and others | Kyobo Life Insurance Co.,Ltd and others | KRW | 2,065,471 | 2,065,471 |
| | SMS Energy and others | Hana Bank and others | KRW | 169,156 | 169,156 |
| POSCO M-TECH | PYUNGSAN SI Co., Ltd | Seoul Guarantee Insurance Co., Ltd. | KRW | 67 | 67 |
| POSCO AUSTRALIA PTY LTD | Department of Trade and Investment (NSW Government) | Woori Bank | AUD | 8,023,765 | 7,542 |
| POSCO Engineering CO., Ltd | Kwanma Solar Co., Ltd. and others | Hana Bank and others | KRW | 57,124 | 57,124 |
| | PT MPM and others | Export-Import Bank of Korea and others | USD | 7,652,000 | 8,075 |
| | Hyundai ENG Co., Ltd. | Engineering Financial Cooperative | KRW | 35,933 | 35,933 |
| | | | USD | 4,705,386,266 | 4,965,596 |
| | | | AUD | 8,023,765 | 7,542 |
| | | | CNY | 521,820,000 | 90,844 |
| | | | EUR | 15,000,000 | 21,844 |
| | | | GBP | 3,500,000 | 6,092 |
| | | | IDR | 82,727,107,048 | 7,148 |
| | | | JPY | 29,381,339,348 | 295,182 |
| | | | KRW | 4,105,395 | 4,105,395 |
| | | | THB | 6,342,881,200 | 203,860 |

(c) POSCO ENGINEERING & CONSTRCTION Co., Ltd. has provided the completion guarantees for Samsung C&T Corporation amounting to ₩1,142,459 million while Samsung C&T Corporation has provided the construction guarantees or payment guarantees on customers' borrowings on behalf of POSCO ENGINEERING & CONSTRCTION Co., Ltd. amounting to ₩801,676 million as of December 31, 2013. POSCO ENGINEERING & CONSTRCTION Co., Ltd. provides payment guarantees on borrowings of customers such as Asset Backed Commercial Paper amounted to ₩650,800 million and Project Financing loan amounted to ₩38,800 million as of December 31, 2013.

(d) Other commitments

Details of other commitments of the Company as of December 31, 2013, are as follows:

| | |
|---|---|
| POSCO | POSCO entered into long-term contracts to purchase iron ore, coal, nickel and others. The contracts of iron ore and coal generally have terms of more than three years and the contracts of nickel have terms of more than one year. These contracts provide for periodic price adjustments based on the market price. As of December 31, 2013, 193 million tons of iron ore and 14 million tons of coal remained to be purchased under such long-term contracts.<br><br>POSCO entered into an agreement with Tangguh Liquefied Natural Gas (LNG) Consortium in Indonesia to purchase 550 thousand tons of LNG annually for 20 years commencing in August 2005. The purchase price is subject to change, based on changes of the monthly standard oil price (JCC) and with a price ceiling.<br><br>As of December 31, 2013, POSCO entered into commitments with Korea National Oil Corporation for long-term foreign currency borrowings, which are limited up to the amount of USD 6.86 million, USD 6.58 million and USD 4.12 million. The borrowings are related to the exploration of gas hydrates in Aral Sea, Uzbekistan, the exploration of gas hydrates in Namangan-Chust and the exploration of gas hydrates in Western Fergana-Chenavard, respectively. The repayment of the borrowings depends on the success of the projects. POSCO is not liable for the repayment of full or part of the money borrowed if the respective projects fail. POSCO has agreed to pay a certain portion of its profits under certain conditions, as defined by the borrowing agreements.<br><br>POSCO has provided a supplemental funding agreement, as the largest shareholder, as requested from the creditors, including Norddeutsche Landesbank, for seamless funding to POSCO ENERGY Co., Ltd. under construction of new power plant. |
| POSCO ENGINEERING & CONSTRUCTION CO., LTD. | As of December 31, 2013, POSCO ENGINEERING & CONSTRUCTION CO., LTD. has comprehensive loan agreements of up to ₩247,000 million and USD 408 million with Woori Bank and ₩53,000 million with Korea Exchange Bank. Also, POSCO ENGINEERING & CONSTRUCTION CO., LTD. has bank overdraft agreements of up to ₩20,000 million with WooriBank which is included in the limit of comprehensive loan agreements and ₩3,000 million with Korea Exchange Bank. |
| POSCO ICT | As of December 31, 2013, in relation to contract enforcement, POSCO ICT was provided with ₩58,954 million and ₩49,383 million guaranties from Korea Software Financial Cooperative and Seoul Guarantee Insurance, respectively.<br><br>As of December 31, 2013, POSCO ICT provided ₩324 million of guaranties to Seoul Guarantee Insurance to ensure performance guarantee agreement which Busan Navy Residence and others had. |
| POSCO Specialty Steel Co., Ltd. | As of December 31, 2013, POSCO Specialty Steel Co., Ltd. has agreements for a loan and import letter of credit with Korea Exchange Bank and others. |

(e) Litigation in progress

As of December 31, 2013, POSCO and certain subsidiaries are defendants in legal actions arising from the normal course of business.

1) Civil lawsuits with Nippon Steel & Sumitomo Metal Corporation

During the year ended December 31, 2012, Nippon Steel & Sumitomo Metal Corporation filed a civil lawsuit in the Tokyo District Court of Japan against POSCO and POSCO Japan Co., Ltd., a subsidiary of POSCO, to prohibit production and sales of grain oriented electrical steel sheets using improperly acquired trade secrets and seeking compensation from the Company of JPY 98.6 billion (₩990.6 billion). Through trials up to December 31, 2013, the Company submitted its responses that the Japan court did not have jurisdiction on this lawsuit as it should be judged by Korean law and the Company developed grain oriented electrical steel sheets using the Company's own technologies. As of December 31, 2013, the Japan court has not made any judgments on this matter. Since the Company does not believe that it is probable that an outflow of resources will be required, the Company has not recorded any provision for this lawsuit as of December 31, 2013.

In addition, Nippon Steel & Sumitomo Metal Corporation filed a civil lawsuit in the New Jersey federal court, United States, against POSCO and POSCO America Co., Ltd., a subsidiary of POSCO, claiming infringement of intellectual property rights related to the production of grain oriented electrical steel sheets. As of December 31, 2013, no claim amount has been made and the Company is under discovery proceedings related to this matter. Due to the early stage of the litigation and the inherent uncertainties, the Company is not able to reliably estimate the amount of compensation and timing, if any, that might be awarded to Nippon Steel & Sumitomo Metal Corporation. Consequently, it is not possible for the Company to make an estimate of the expected financial effect that will result from the ultimate resolution of this civil lawsuit. Therefore, the Company has not recorded any provision for this lawsuit in the U.S. as of December 31, 2013.

2) Lawsuits related to liability of Daewoo Co., Ltd. which was spun off into Daewoo International Corporation and Daewoo Engineering & Construction Co., Ltd.

In May 2002, Industrial Development Bank of India Limited, the creditor of Daewoo Motors India Ltd. for which Daewoo Co., Ltd. provided a guarantee, filed lawsuits against Daewoo Motors India Ltd., Daewoo Co., Ltd., Daewoo Engineering & Construction Co., Ltd, and Daewoo International Corporation (a subsidiary of POSCO) seeking for the disposition of assets and judgment of debt of Daewoo Motors India Ltd. amounting to ₩76 billion in India Delhi Mumbai Court. Management of the Company has assessed the likelihood of the outcome of this matter and estimated the amount of possible loss and has made the contingency provision of ₩23.3 billion for these lawsuits as of December 31, 2013.

3) Other lawsuits and claims

*(In millions of Won, in thousand of foreign currencies)*

| Company | Legal actions | claim amount | | Korean won equivalent | Description |
|---|---|---|---|---|---|
| POSCO | 37 | KRW | 68,963 | 68,963 | Lawsuit on claim for damages |
| POSCO ENGINEERING & CONSTRUCTION CO., LTD. | 84 | KRW | 110,619 | 110,619 | Lawsuit on claim for payment |
| POSCO Processing&Service | 2 | KRW | 705 | 705 | Lawsuit on claim for payment |
| POSCO COATED & COLOR STEEL Co., Ltd. | 2 | KRW | 3,595 | 3,595 | Lawsuit on claim for payment |
| POSCO ICT | 14 | KRW | 7,333 | 7,333 | Lawsuit on claim for payment |
| POSCO America Corporation | 1 | USD | - | - | Lawsuit on Anti-Trust |
| POSCO M-TECH | 1 | KRW | 19 | 19 | Lawsuit on claim for payment |
| POSCO E&C CHINA Co., Ltd. | 1 | CNY | 37,000 | 6,441 | Lawsuit on claim for payment |
| POSCO-Malaysia SDN. BHD. | 1 | MYR | 5,782 | 1,852 | Lawsuit on claim for payment |
| POSCO Engineering CO., Ltd | 7 | KRW | 2,789 | 2,789 | Lawsuit on claim for payment on construction by Samyanginnochem |
| Daewoo International (America) Corp. | 3 | USD | 13,042 | 13,763 | Lawsuit on claim for product liability and illegal act on products |
| Brazil Sao Paulo Steel Processing Center | 3 | BRL | 978 | 437 | Lawsuit on claim for payment |
| Daewoo International Corporation | 2 | CNY | 42,201 | 7,347 | Lawsuit on claim for indemnification damages |
| | 2 | EUR | 8,270 | 12,043 | Lawsuit on claim for damages |
| | 3 | KRW | 1,175 | 1,175 | Lawsuit on claim for payment |
| | 7 | USD | 45,787 | 48,319 | Lawsuit on claim for damages |

For all other lawsuits and claims, the Company believes that although the outcome of these matters is uncertain, the impact of these matters is not expected to be material to the Company.

(f) Other contingencies

| Company | Description |
|---|---|
| POSCO | POSCO has provided two blank promissory notes and one blank check to Korea Resources Corporation and six blank promissory notes and three blank checks to Korea National Oil Corporation as collateral for out-standing loans. |
| POSCO ENGINEERING & CONSTRUCTION CO., LTD. | As of December 31, 2013, POSCO ENGINEERING & CONSTRUCTION CO., LTD. has provided twenty-six blank checks and ten blank promissory notes as collateral for agreements and outstanding loans. |
| Daewoo International Corporation | As of December 31, 2013, Daewoo International Corporation has provided forty-five blank promissory notes and thirteen blank checks to Korea National Oil Corporation as collateral for the guarantee on performance for contracts and others. |
| POSCO ICT | As of December 31, 2013, POSCO ICT has provided eight blank promissory notes and fourteen blank checks to financial institutions as collateral for the guarantee on performance for contracts and others. |

### 40. Cash Flows from Operating Activities

Adjustments for operating cash flows for the years ended December 31, 2013 and 2012 were as follows:

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| Trade accounts and notes receivable | ₩ | (612,379) | 87,830 |
| Other financial assets | | (98,420) | (392,090) |
| Inventories | | 582,287 | 1,450,431 |
| Other current assets | | 181,755 | (198,157) |
| Other long-term assets | | (23,412) | (141,037) |
| Trade accounts payable | | 47,323 | 225,086 |
| Other financial liabilities | | 194,419 | 357,502 |
| Other current liabilities | | 13,522 | 583,159 |
| Provisions | | (42,052) | 17,108 |
| Payment severance benefits | | (129,038) | (116,846) |
| Plan assets | | (172,147) | (191,696) |
| Other non-current liabilities | | (58,290) | 252,068 |
| | ₩ | (116,432) | 1,933,358 |

### 41. Non-Cash Transactions

Significant non-cash transactions for the years ended December 31, 2013 and 2012 were as follows:

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| Construction-in-progress transferred to other accounts | ₩ | 6,610,644 | 3,273,475 |
| Acquisition of short-term financial statements through issuance of treasury stocks | | 804,496 | - |
| Other non-current asset transferred to investments in associates and joint ventures | | - | 257,878 |
| Conversion of bonds to shares | | - | 315,530 |

### 42. Operating Segments

(a) Our operating businesses are organized based on the nature of markets and customers. We have four reportable operating segments— steel, construction, trading and others. The steel segment includes production of steel products and revenue of such products. The engineering and construction segment includes planning, designing and construction of industrial plants, civil engineering projects and commercial and residential buildings, both in Korea and overseas. The trading segment consists of exporting and importing a wide range of steel products and raw materials that are both obtained from and supplied to POSCO, as well as between other suppliers and purchasers in Korea and overseas. Other segments include power generation, liquefied natural gas production, network and system integration and logistics.

(b) Information about reportable segments as of and for the years ended December 31, 2013 and 2012 was as follows:

1) As of and for the year ended December 31, 2013

| *(in millions of Won)* | Steel | Trading | Construction | Others | Total |
|---|---|---|---|---|---|
| External revenues | ₩ 31,794,574 | 18,307,888 | 6,896,838 | 4,865,350 | ₩ 61,864,650 |
| Internal revenues | 16,229,002 | 7,611,372 | 3,885,190 | 3,019,246 | 30,744,810 |
| Total revenues | 48,023,576 | 25,919,260 | 10,782,028 | 7,884,596 | 92,609,460 |
| Interest income | 162,149 | 46,064 | 47,070 | 19,892 | 275,175 |
| Interest expenses | (412,142) | (77,375) | (48,030) | (106,824) | (644,371) |
| Depreciation and amortiztion | (2,383,010) | (43,775) | (36,614) | (235,365) | (2,698,764) |
| Impairment loss of property, plant and equipment and others | (34,153) | (975) | (4,058) | (11,875) | (51,061) |
| Impairment loss of available-for-sale financial assets | (203,468) | (435) | (97,919) | (10,172) | (311,994) |
| Share of profit or loss of investment in associates and joint ventures | (250,084) | (131,534) | (71,068) | (26,326) | (479,012) |
| Income tax expense | (466,756) | (27,549) | (87,660) | (73,371) | (655,336) |
| Segments profit | 1,449,446 | 9,516 | 147,177 | 197,449 | 1,803,588 |
| Segments assets | 73,860,997 | 11,640,931 | 9,888,590 | 8,843,652 | 104,234,170 |
| Investment in associates | 16,863,991 | 1,019,252 | 1,090,089 | 598,775 | 19,572,107 |
| Acquisition of non-current assets | 5,955,799 | 242,413 | 150,469 | 1,191,243 | 7,539,924 |
| Segments liabilities | 23,774,850 | 8,649,557 | 6,068,059 | 5,059,440 | 43,551,906 |

2) As of and for the year ended December 31, 2012

| *(in millions of Won)* | Steel | Trading | Construction | Others | Total |
|---|---|---|---|---|---|
| External revenues | ₩ 35,258,970 | 18,945,642 | 4,675,596 | 4,723,943 | ₩ 63,604,151 |
| Internal revenues | 17,609,789 | 7,467,872 | 5,050,287 | 2,857,139 | 32,985,087 |
| Total revenues | 52,868,759 | 26,413,514 | 9,725,883 | 7,581,082 | 96,589,238 |
| Interest income | 176,229 | 50,907 | 43,815 | 21,811 | 292,762 |
| Interest expenses | (553,508) | (174,607) | (48,975) | (116,499) | (893,589) |
| Depreciation and amortiztion | (2,334,357) | (35,788) | (35,323) | (218,515) | (2,623,983) |
| Impairment loss of property, plant and equipment and others | (46,951) | (30,073) | (7,734) | (16,257) | (101,015) |
| Impairment loss of available-for-sale financial assets | (201,850) | (254) | (1,713) | (20,354) | (224,171) |
| Share of profit or loss of investment in associates | (39,806) | (5,579) | (27) | (2,764) | (48,176) |
| Income tax expense | (658,307) | (184,318) | (135,469) | (77,139) | (1,055,233) |
| Segments profit | 2,245,977 | 325,197 | 345,295 | 301,670 | 3,218,139 |
| Segments assets | 69,920,261 | 10,904,747 | 10,775,895 | 7,723,374 | 99,324,277 |
| Investment in associates and joint ventures | 15,802,052 | 1,043,018 | 1,130,216 | 435,980 | 18,411,266 |
| Acquisition of non-current assets | 7,629,767 | 395,081 | 167,818 | 781,087 | 8,973,753 |
| Segments liabilities | 23,105,008 | 7,865,399 | 7,008,996 | 4,836,641 | 42,816,044 |

(c) Reconciliations of total segment revenues, profit or loss, assets and liabilities, and other significant items to their respective consolidated financial statement line items are as follows:

1) Revenues

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| Total revenue for reportable segments | ₩ | 92,609,460 | 96,589,238 |
| Elimination of inter-segment revenue | | (30,744,810) | (32,985,087) |
| | ₩ | 61,864,650 | 63,604,151 |

2) Profit

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| Total profit for reportable segments | ₩ | 1,803,588 | 3,218,139 |
| Goodwill and PP&E FV adjustments | | (91,718) | (58,486) |
| Elimination of inter-segment profits | | (356,690) | (774,047) |
| Income tax expense | | 590,997 | 982,880 |
| Profit before income tax expense | ₩ | 1,946,177 | 3,368,486 |

3) Assets

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| Total assets for reportable segments(*1) | ₩ | 104,234,170 | 99,324,277 |
| Equity-accounted investees | | (15,758,936) | (15,365,984) |
| Goodwill and PP&E FV adjustments | | 3,560,873 | 3,657,016 |
| Elimination of inter-segment assets | | (7,580,700) | (8,349,458) |
| | ₩ | 84,455,407 | 79,265,851 |

(*1) As segment assets and liabilities are determined based on separate financial statements, for subsidiaries which are in a different segment from that of its immediate parent company, their carrying amount in separate financial statements is eliminated upon consolidation. In addition, adjustments are made to adjust the amount of investment in associates and joint ventures from the amount reflected in segment assets to that determined using equity method in consolidated financial statements.

4) Liability

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| Total liabilites for reportable segments | ₩ | 43,551,906 | 42,816,044 |
| Goodwill and PP&E FV adjustments | | 337,442 | 330,791 |
| Elimination of inter-segment liabilites | | (5,255,971) | (6,310,403) |
| | ₩ | 38,633,377 | 36,836,432 |

5) Other significant items

a) December 31, 2013

| *(in millions of Won)* | Total Segments | Goodwill and PP&E FV adjustments | Elimination of inter-segment | Consolidated |
|---|---|---|---|---|
| Interest income | ₩ 275,175 | - | (14,777) | 260,398 |
| Interest expenses | (644,371) | (34,814) | 21,504 | (657,681) |
| Depreciation and amortization | (2,698,764) | (84,223) | 97,437 | (2,685,550) |
| Share of profit or loss of investment in associates | (479,012) | - | 299,203 | (179,809) |
| Income tax expense | (655,336) | 25,074 | 39,265 | (590,997) |
| Impairment loss of property, plant and equipment and others | (51,061) | - | (97,424) | (148,485) |
| Impairment loss of available-for-sale financial assets | (311,994) | - | 31,757 | (280,237) |
| | ₩ (4,565,363) | (93,963) | 376,965 | (4,282,361) |

b) December 31, 2012

| *(in millions of Won)* | Total Segments | Goodwill and PP&E FV adjustments | Elimination of inter-segment | Consolidated |
|---|---|---|---|---|
| Interest income | ₩ 292,762 | - | (13,955) | 278,807 |
| Interest expenses | (893,589) | 1,372 | 20,760 | (871,457) |
| Depreciation and amortization | (2,623,983) | (77,496) | 137,719 | (2,563,760) |
| Share of profit or loss of investment in associates | (48,176) | - | 25,474 | (22,702) |
| Income tax expense | (1,055,233) | 15,150 | 57,203 | (982,880) |
| Impairment loss of property, plant and equipment and others | (101,015) | (258,451) | 24,070 | (335,396) |
| Impairment loss of available-for-sale financial assets | (224,171) | - | - | (224,171) |
| | ₩ (4,653,405) | (319,425) | 251,271 | (4,721,559) |

(d) Revenue by geographic area for years ended December 31, 2013 and 2012 was as follows:

| *(in millions of Won)* | 2013 | 2012 |
|---|---|---|
| Domestic | ₩ 45,953,826 | 47,692,025 |
| Japan | 1,920,253 | 2,380,651 |
| China | 6,493,119 | 6,022,875 |
| Asia-other | 3,011,980 | 3,157,469 |
| North America | 1,720,895 | 1,792,706 |
| Others | 2,764,577 | 2,558,425 |
| Total | ₩ 61,864,650 | 63,604,151 |

In presenting information on the basis of geography, segment revenue is based on the geographical location of customers.

(e) Non-current assets by geographic area as of December 31, 2013 and 2012 are as follows:

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| Domestic | ₩ | 33,116,006 | 31,213,290 |
| Japan | | 203,241 | 256,532 |
| China | | 1,632,490 | 1,745,076 |
| Asia-other | | 4,703,943 | 3,162,715 |
| North America | | 167,468 | 125,206 |
| Others | | 2,292,039 | 1,957,112 |
| Total | ₩ | 42,115,187 | 38,459,931 |

Non-current assets by geographic area include investment property, property, plant and equipment, goodwill and other intangible assets.

(f) There are no customers whose revenue is 10% or more of consolidated revenues.

# POSCO

**Separate Financial Statements**
**December 31, 2013 and 2012**

**(With Independent Auditors' Report Thereon)**

## Table of Contents

**Page**

**Independent Auditors' Report** ..... 1

**Separate Financial Statements**

Separate Statements of Financial Position ..... 3

Separate Statements of Comprehensive Income ..... 5

Separate Statements of Changes in Equity ..... 6

Separate Statements of Cash Flows ..... 7

Notes to the Separate Financial Statements ..... 8

**Independent Auditors' Review Report on Internal Accounting Control System** ..... 79

**Report on the Operations of Internal Accounting Control System** ..... 81

**Independent Auditors' Report**

Based on a report originally issued in Korean

The Board of Directors and Stockholders
POSCO:

We have audited the accompanying separate statements of financial position of POSCO (the "Company") as of December 31, 2013 and 2012 and the related separate statements of comprehensive income, changes in equity and cash flows for the years then ended. Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with Korean International Financial Reporting Standards. Our responsibility is to express an opinion on these separate financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the separate financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, the separate financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2013 and 2012 and its financial performance and its cash flows for the years then ended, in conformity with Korean International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to the following:

The procedures and practices utilized in the Republic of Korea to audit such separate financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying separate financial statements are for use by those knowledgeable about Korean auditing standards and their application in practice.

KPMG Samjong Accounting Corp.

Seoul, Korea
February 25, 2014

This report is effective as of February 25, 2014, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying separate financial statements and notes thereto. Accordingly, the readers of the audit report should understand that the above audit report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

# POSCO
## Separate Statements of Financial Position
## As of December 31, 2013 and 2012

*(in millions of Won)*

| | Notes | December 31, 2013 | December 31, 2012 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 4,5,22 | ₩ 1,394,315 | 1,752,560 |
| Trade accounts and notes receivable, net | 6,22,37 | 3,393,444 | 4,087,030 |
| Other receivables, net | 7,22,37 | 281,161 | 394,762 |
| Other short-term financial assets | 8,22 | 2,318,816 | 928,778 |
| Inventories | 9,34 | 4,538,657 | 5,403,660 |
| Assets held for sale | 10 | 1,304 | - |
| Other current assets | 11 | 25,782 | 42,681 |
| **Total current assets** | | 11,953,479 | 12,609,471 |
| Long-term trade accounts and notes receivable, net | 6,22 | 4,464 | 274 |
| Other receivables, net | 7,22 | 45,738 | 60,652 |
| Other long-term financial assets | 8,22 | 3,362,594 | 2,968,113 |
| Investments in subsidiaries, associates and joint ventures | 12 | 15,092,836 | 14,100,053 |
| Investment property, net | 13 | 92,879 | 110,526 |
| Property, plant and equipment, net | 14 | 23,240,603 | 22,166,735 |
| Intangiable assets, net | 15 | 438,783 | 293,841 |
| Other long-term assets | 11 | 10,902 | 10,771 |
| **Total non-current assets** | | 42,288,799 | 39,710,965 |
| **Total assets** | | ₩ 54,242,278 | 52,320,436 |

*See accompanying notes to the separate financial statements.*

# POSCO
## Separate Statements of Financial Position, Continued
## As of December 31, 2013 and 2012

*(in millions of Won)*

| | Notes | December 31, 2013 | December 31, 2012 |
|---|---|---|---|
| **Liabilities** | | | |
| Trade accounts and notes payable | 22,37 | ₩ 735,457 | 978,581 |
| Short-term borrowings | 4,6,16,22 | 1,931,283 | 2,116,540 |
| Other payables | 17,22,37 | 791,883 | 1,270,040 |
| Other short-term financial liabilities | 18,22 | 46,009 | 16,892 |
| Current income tax liabilities | 35 | 153,278 | 84,355 |
| Provisions | 19 | 8,501 | 6,239 |
| Other current liabilities | 21 | 38,109 | 70,865 |
| **Total current liabilities** | | 3,704,520 | 4,543,512 |
| Long-term borrowings | 4,8,16,22 | 6,731,788 | 7,487,234 |
| Other payables | 17,22 | 124,679 | 128,812 |
| Other long-term financial liabilities | 18,22 | 231,539 | 72,920 |
| Net defined benefit liabilities | 20 | 100,650 | 140,256 |
| Deferred tax liabilities | 35 | 1,034,102 | 779,312 |
| Other long-term liabilities | 21 | 3,538 | 3,842 |
| **Total non-current liabilities** | | 8,226,296 | 8,612,376 |
| **Total liabilities** | | 11,930,816 | 13,155,888 |
| **Shareholders' Equity** | | | |
| Share capital | 23 | 482,403 | 482,403 |
| Capital surplus | 23 | 1,233,040 | 1,227,692 |
| Hybrid bonds | 24 | 996,919 | - |
| Reserves | 25 | 403,939 | 3,362 |
| Treasury shares | 26 | (1,579,123) | (2,391,406) |
| Retained earnings | 27 | 40,774,284 | 39,842,497 |
| **Total shareholder's equity** | 4 | 42,311,462 | 39,164,548 |
| **Total liabilities and shareholders' equity** | | ₩ 54,242,278 | 52,320,436 |

*See accompanying notes to the separate financial statements.*

# POSCO
## Separate Statements of Comprehensive Income
## For the years ended December 31, 2013 and 2012

*(in millions of Won, except per share informations)*

| | Notes | 2013 | 2012 |
|---|---|---|---|
| **Revenue** | 28,37 | ₩ 30,543,545 | 35,664,933 |
| **Cost of sales** | 9,20,30,34,37 | (26,494,617) | (31,041,900) |
| **Gross profit** | | 4,048,928 | 4,623,033 |
| Selling and administrative expenses | | | |
| Administrative expenses | 20,22,29,30,34 | (892,966) | (853,908) |
| Selling expenses | 29,30,34 | (940,829) | (979,528) |
| **Operating profit** | 31 | 2,215,133 | 2,789,597 |
| Finance income and costs | | | |
| Finance income | 22,32 | 967,073 | 1,356,539 |
| Finance costs | 22,32 | (918,360) | (759,291) |
| Other non-operating income and expenses | | | |
| Other non-operating income | 31,33,37 | 140,048 | 69,737 |
| Other non-operating expenses | 31,33,34,37 | (418,599) | (334,301) |
| **Profit before income tax** | | 1,985,295 | 3,122,281 |
| Income tax expense | 35 | (402,699) | (622,758) |
| **Profit for the period** | | 1,582,596 | 2,499,523 |
| **Other comprehensive income** | | | |
| Items that will not be reclassified subsequently to profit or loss : | | | |
| Remeasurements of defined benefit pension plans, net of tax | 20 | (8,692) | (45,824) |
| Items that are or may be reclassified subsequently to profit or loss : | | | |
| Net changes in unrealized fair value of available-for-sale investments, net of tax | 8,22,25 | 400,577 | (153,345) |
| **Total comprehensive income** | | ₩ 1,974,481 | 2,300,354 |
| **Basic and diluted earnings per share** | 36 | ₩ 20,052 | 32,359 |

*See accompanying notes to the separate financial statements.*

# POSCO
## Separate Statements of Changes in Equity
## For the years ended December 31, 2013 and 2012

| *(in millions of Won)* | Share capital | Capital surplus | Hybrid bonds | Reserves | Tresury shares | Retained earnings | Total |
|---|---|---|---|---|---|---|---|
| **Balance as of January 1, 2012** | ₩ 482,403 | 1,227,692 | - | 156,707 | (2,391,406) | 38,122,620 | 37,598,016 |
| **Comprehensive income :** | | | | | | | |
| Profit for the period | - | - | - | - | - | 2,499,523 | 2,499,523 |
| Net changes in unrealized fair value of available-for-sale investments, net of tax | - | - | - | (153,345) | - | - | (153,345) |
| Remeasurements of defined benefit pension plans, net of tax | - | - | - | - | - | (45,824) | (45,824) |
| **Transactions with owners of the Company, recognized directly in equity :** | | | | | | | |
| Year-end dividends | - | - | - | - | - | (579,333) | (579,333) |
| Interim dividends | - | - | - | - | - | (154,489) | (154,489) |
| **Balance as of December 31, 2012** | ₩ 482,403 | 1,227,692 | - | 3,362 | (2,391,406) | 39,842,497 | 39,164,548 |

| | Share capital | Capital surplus | Hybrid bonds | Reserves | Tresury shares | Retained earnings | Total |
|---|---|---|---|---|---|---|---|
| **Balance as of January 1, 2013** | ₩ 482,403 | 1,227,692 | - | 3,362 | (2,391,406) | 39,842,497 | 39,164,548 |
| **Comprehensive income :** | | | | | | | |
| Profit for the period | - | - | - | - | - | 1,582,596 | 1,582,596 |
| Net changes in unrealized fair value of available-for-sale investments, net of tax | - | - | - | 400,577 | - | - | 400,577 |
| Remeasurements of defined benefit pension plans, net of tax | - | - | - | - | - | (8,692) | (8,692) |
| **Transactions with owners of the Company, recognized directly in equity :** | | | | | | | |
| Year-end dividends | - | - | - | - | - | (463,467) | (463,467) |
| Interim dividends | - | - | - | - | - | (154,489) | (154,489) |
| Issuance of hybrid bonds | - | - | 996,919 | - | - | - | 996,919 |
| Interest of hybrid bonds | - | - | - | - | - | (24,161) | (24,161) |
| Disposal of treasury shares | - | 5,348 | - | - | 812,283 | - | 817,631 |
| **Balance as of December 31, 2013** | ₩ 482,403 | 1,233,040 | 996,919 | 403,939 | (1,579,123) | 40,774,284 | 42,311,462 |

*See accompanying notes to the separate financial statements.*

# POSCO
## Separate Statements of Cash Flows
## For the years ended December 31, 2013 and 2012

| *(in millions of Won)* | Notes | | December 31, 2013 | December 31, 2012 |
|---|---|---|---|---|
| **Cash flows from operationg activities** | | | | |
| Profit for the period | | ₩ | 1,582,596 | 2,499,523 |
| Adjustments for : | | | | |
| Costs for defined benefit plans | | | 122,656 | 107,107 |
| Depreciation | | | 1,932,002 | 1,840,807 |
| Amortization | | | 38,067 | 40,386 |
| Finance income | | | (659,054) | (1,079,341) |
| Finance costs | | | 655,855 | 542,944 |
| Gain on disposal of property, plant and equipment | | | (6,773) | (27,688) |
| Loss on disposal of property, plant and equipment | | | 94,533 | 84,990 |
| Loss on disposal of investments in subsidiaries, associates and joint ventures | | | 12,295 | 17,575 |
| Impairment loss on investments in subsidiaries, associates and joint ventures | | | 235,794 | 1,102 |
| Gain on disposal of assets held for sale | | | (67,875) | (1,150) |
| Income tax expense | | | 402,699 | 622,758 |
| Others | | | 3,683 | 18,948 |
| Changes in operating assets and liabilities | 39 | | 687,980 | 1,470,440 |
| Interest received | | | 109,073 | 111,309 |
| Interest paid | | | (390,175) | (443,470) |
| Dividends received | | | 232,281 | 175,556 |
| Income taxes paid | | | (222,111) | (310,907) |
| Net cash provided by operating activities | | ₩ | 4,763,526 | 5,670,889 |
| **Cash flows from investing activities** | 40 | | | |
| Proceeds from disposal of short-term financial instruments | | | 3,528,479 | 3,182,714 |
| Proceeds from disposal of long-term financial instruments | | | 5 | - |
| Decrease in held-to-maturity investments | | | 30,000 | - |
| Proceeds from disposal of available-for-sale investments | | | 194,820 | 601,185 |
| Collection of long-term loans | | | 14,441 | 18,754 |
| Proceeds from disposal of investment in subsidiaries, associates and joint ventures | | | 6,114 | 37,134 |
| Proceeds from disposal of assets held for sale | | | - | 3,378 |
| Proceeds from disposal of intangible assets | | | 1,100 | 747 |
| Acquisition of short-term financial investments | | | (4,144,157) | (2,982,224) |
| Acquisition of available-for-sale investments | | | (71,045) | (130,845) |
| Increase in long-term loans | | | (3,354) | (12,687) |
| Acquisition of investment in subsidiaries, associates and joint ventures | | | (1,193,501) | (1,056,628) |
| Acquisition of property, plant and equipment | | | (3,013,628) | (2,494,862) |
| Proceeds from (net payment for) disposal of property, plant and equipment | | | (14,297) | 29,323 |
| Acquisition of intangible assets | | | (103,041) | (92,776) |
| Net cash used in investing activities | | ₩ | (4,768,064) | (2,896,787) |
| **Cash flows from financing activities** | | | | |
| Proceeds from borrowings | | | 2,431,539 | 3,855,933 |
| Increase in long-term financial liabilities | | | 3,766 | 3,033 |
| Receipt of government grants | | | 5,000 | - |
| Proceeds from disposal of tresury shares | | | 14,019 | - |
| Proceeds from issurance of hybrid bonds | | | 996,919 | - |
| Repayment of borrowings | | | (3,132,803) | (5,281,336) |
| Decrease in long-term financial liabilities | | | (3,009) | (3,674) |
| Decrease in derivative liabilities | | | (23,348) | - |
| Payment of cash dividends | | | (617,570) | (733,380) |
| Payment of interest of hybrid bonds | | | (21,860) | - |
| Net cash used in financing activities | | ₩ | (347,347) | (2,159,424) |
| **Effect of exchage rate changes on cash held** | | | (6,360) | - |
| **Net increase (decrease) in cash and cash equivalents** | | | (358,245) | 614,678 |
| **Cash and cash equivalents** | | | | |
| Cash and cash equivalents at beginning of the period | | | 1,752,560 | 1,137,882 |
| Cash and cash equivalents at end of the period | | ₩ | 1,394,315 | 1,752,560 |

*See accompanying notes to the separate financial statements.*

## 1. Reporting Entity

POSCO (the "Company") is the largest steel producer in Korea which was incorporated on April 1, 1968, under the Commercial Code of the Republic of Korea to manufacture and sell steel rolled products and plates in the domestic and foreign markets.

The shares of the Company have been listed on the Korea Exchange since 1988. The Company owns and operates two steel plants (Pohang and Gwangyang) and one office in Korea, and it also operates internationally through eight of its overseas liaison offices.

As of December 31, 2013 and 2012, major shareholders are as follows:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| Share holder's name | Number of shares | Ownership(%) | Number of shares | Ownership(%) |
| National Pension Service | 6,577,907 | 7.54 | 5,225,654 | 7.54 |
| Nippon Steel & Sumitomo Metal Corporation(*1) | 4,394,712 | 5.04 | 4,394,712 | 5.04 |
| Hyundai Heavy Industries Co., Ltd. and subsidiaries | 2,197,707 | 2.52 | 2,183,997 | 2.52 |
| Pohang University of Science and Technology | 1,905,000 | 2.18 | 1,905,000 | 2.18 |
| KB Financial group Inc. and subsidiaries | 1,846,994 | 2.12 | 1,919,773 | 2.12 |
| Others | 70,264,515 | 80.60 | 71,557,699 | 80.60 |
| | 87,186,835 | 100.00 | 87,186,835 | 100.00 |

(*1) Nippon Steel & Sumitomo Metal Corporation owns American Depository Receipts (ADRs) of the Company, each of which represents 0.25 share of POSCO's common share which has par value of ₩5,000 per share.

As of December 31, 2013, the shares of the Company are listed on the Korea Exchange, while its depository shares are listed on the New York, Tokyo and London Stock Exchanges.

## 2.Statement of Compliance

### Statement of compliance

The separate financial statements have been prepared in accordance with Korean International Financial Reporting Standards ("K-IFRS"), as prescribed in the Act on External Audits of Corporations.

These financial statements are separate financial statements prepared in accordance with K-IFRS No. 1027 *"Consolidated and Separate Financial Statements"* presented by a parent, an investor in an associate or a venture in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.

**Basis of measurement**

The separate financial statements have been prepared on the historical cost basis, except for the following material items in the statement of financial position, as described in the accounting policy below.

(a) Derivatives instruments are measured at fair value
(b) Available-for-sale financial assets are measured at fair value
(c) Defined benefit liabilities are measured at the present value of the defined benefit obligation less the fair value of the plan asset

**Functional and presentation currency**

These separate financial statements are presented in Korean won, which is the Company's functional currency and the currency of the primary economic environment in which the Company operates.

**Use of estimates and judgements**

The preparation of the financial statements in conformity with K-IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

(a) Judgements

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the separate financial statements is included in the following notes:

- Note 8 - Other financial assets
- Note 13 - Investment property, net
- Note 14 - Property, plant and equipment, net

(b) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- Note 19 - Provisions
- Note 20 - Employee benefits
- Note 38 - Commitments and contingencies

(c) Measurement of fair value

The Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. The Company has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the financial officer.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of K-IFRS including the level in the fair value hierarchy in which such valuation techniques should be classified.

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly(i.e. derived from prices).
- Level 3 - inputs for the assets or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Information about the assumptions made in measuring fair values is included in the following notes:

- Note 22 – Financial instruments

**Changes in accounting policies**

Except for the change below, the Company has consistently applied the accounting policies set out in note 3 to all periods presented in these separate financial statements.

The Company has adopted the following new standards and amendments to standards with a date of initial application of January 1, 2013.

(a) K-IFRS No. 1001, "*Presentation of Financial Statements*"
(b) K-IFRS No. 1019, "*Employee Benefits*"
(c) K-IFRS No. 1107, "*Financial Instruments: Disclosures*"
(d) K-IFRS No. 1113, "*Fair Value Measurement*"

The details of changes in accounting policies are as follows:

(a) Classification of other comprehensive income

As a result of the amendments to K-IFRS No. 1001, the Company has modified the presentation of items of other comprehensive income in its statement of comprehensive income to present separately items that would be reclassified to profit or loss from those that would never be reclassified to profit or loss. Comparative information has been re-presented accordingly.

(b) Post-employment defined benefit plan

As a result of the amendments to K-IFRS No. 1019, the Company has changed its accounting policy with respect the basis for determining the income or expense related to its post-employment defined benefit plans. Under the amendments to K-IFRS No. 1019, the Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Consequently, the net interest on the net defined benefit liability (asset) now comprises: interest cost on the defined benefit obligation, interest income on plan assets, and interest on the effect on the asset ceiling. Previously, the Company determined interest income on plan assets based on their long-term rate of expected return. The impact of the amendments on the Company's separate financial statements is not significant.

(c) Offsetting of financial assets and financial liabilities

As a result of the amendments to K-IFRS No. 1107, the Company has expanded its disclosures about the offsetting of financial assets and financial liabilities (Note 22).

(d) Fair value measurement

K-IFRS No. 1113, establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other K-IFRSs. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other K-IFRSs, including K-IFRS No. 1107. As a result, the Company has included additional disclosures in this regard (Note 22).

In accordance with the transitional provisions of K-IFRS No. 1113, the Company has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Company's assets and liabilities.

**Impact of changes in accounting policies**

As management believes the impact of the amendments to K-IFRS No. 1019 and 1113 on the Company's prior year's separate financial statements is not significant, the comparative period's separate financial statements are not restated.

**Approval of financial statement**

The separate financial statements were authorized for issue by the Board of Directors on January 29, 2014, and will be submitted for approval at the shareholders' meeting to be held on March 14, 2014.

## 3. Summary of Significant Accounting Policies

The significant accounting policies applied by the Company in preparation of its separate financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except for those as disclosed in note 2.

The comparative amounts in separate statements of comprehensive income have been re-presented as a result of a change in the accounting policy regarding the presentation of items of other comprehensive income.

**Investments in Subsidiaries, Associates and Joint Ventures**

These separate financial statements are prepared and presented in accordance with K-IFRS No. 1027 "*Consolidated and Separate Financial Statements*". The Company applied the cost method to investments in subsidiaries, associates and joint ventures in accordance with K-IFRS No. 1027. Dividends from a subsidiary, associate or joint venture are recognized in profit or loss when the right to receive the dividend is established.

**Foreign currency transactions and translation**

Foreign currency transactions are initially recorded using the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. At the end of each reporting period, foreign currency monetary items are translated using the closing rate. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the original transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rate at the date fair value was initially determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognized in profit or loss in the period in which they arise. When gains or losses on non-monetary items are recognized in other comprehensive income, exchange components of those gains or losses are recognized in other comprehensive income. Conversely, when gains or losses on non-monetary items are recognized in profit or loss, exchange components of those gains or losses are recognized in profit or loss.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term investments in highly liquid securities that are readily convertible to known amounts of cash with maturities of three months or less from the acquisition date and which are subject to an insignificant risk of changes in value. Equity investments are excluded from cash and cash equivalents.

**Non-derivative financial assets**

The Company recognizes and measures non-derivative financial assets by the following four categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. The Company recognizes financial assets in the separate statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

Upon initial recognition, non-derivative financial assets are measured at their fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the asset's acquisition or issuance.

(a) Financial assets at fair value through profit or loss

Financial assets are classified at fair value through profit or loss if they are held for trading or designated as such upon initial recognition. Upon initial recognition, transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

(b) Held-to-maturity financial assets

A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Company has the positive intention and ability to hold to maturity, is classified as held-to-maturity financial assets. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method.

(c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method unless the effect of discounting is immaterial.

(d) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets or loans and receivables. Subsequent to initial recognition, they are measured at fair value, with changes in fair value, net of any tax effect, recorded in other comprehensive income in equity. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost. When a financial asset is derecognized or impairment losses are recognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Dividends on an available-for-sale equity instrument are recognized in profit or loss when the Company's right to receive payment is established.

(e) Derecognition of non-derivative financial assets

The Company derecognizes non-derivative financial assets when the contractual rights to the cash flows from the financial asset expire, or the Company transfers the rights to receive the contractual cash flows from the financial asset as well as substantially all the risks and rewards of ownership of the financial asset. Any interest in a transferred financial asset that is created or retained by the Company is recognized as a separate asset or liability.

If the Company retains substantially all the risks and rewards of ownership of the transferred financial assets, the Company continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

(f) Offsetting a financial asset and a financial liability

Financial assets and financial liabilities are offset and the net amount is presented in the separate statement of financial position only when the Company currently has a legally enforceable right to offset the recognized amounts, and there is the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

**Inventories**

Inventories are measured at the lower of cost and net realizable value. Costs are determined by using the moving-weighted average method. The cost of inventories comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The allocation of fixed production overheads to the costs of finished goods or work in progress are based on the normal capacity of the production facilities.

When inventories are sold, the carrying amount of those inventories is recognized as cost of goods sold in the period in which the related revenue is recognized. Inventories are measured at the lower of cost and net realizable value. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories arising from an increase in net realizable value is recognized as a reduction in the amount of inventories recognized as a cost of goods sold in the period in which the reversal occurs.

**Non-current assets held for sale**

Non-current assets or disposal groups comprising assets and liabilities that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. In order to be classified as held for sale, the assets or disposal groups must be available for immediate sale in their present condition and their sale must be highly probable. The assets or disposal groups that are classified as non-current assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell.

The Company recognizes an impairment loss for any initial or subsequent write-down of an asset or disposal group to fair value less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized in accordance with K-IFRS No. 1036 *"Impairment of Assets"*.

A non-current asset that is classified as held for sale or part of a disposal group classified as held for sale is not depreciated (or amortized).

**Investment property**

Property held to earn rentals or for capital appreciation or both is classified as investment property. Investment property is measured initially at its cost. Transaction costs are included in the initial measurement. Subsequently, investment property is carried at depreciated cost less any accumulated impairment losses.

Subsequent costs are recognized in the carrying amount of investment property at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

**Property, plant and equipment**

Property, plant and equipment are initially measured at cost and after initial recognition, are carried at cost less accumulated depreciation and any accumulated impairment losses. The cost of property, plant and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, when the Company has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The cost of replacing a part of an item is recognized in the carrying amount of the item of property, plant and equipment, if the following recognition criteria are met:

(a) it is probable that future economic benefits associated with the item will flow to the Company; and
(b) the cost can be measured reliably.

The carrying amount of the replaced part is derecognized at the time the replacement part is recognized. The costs of the day-to-day servicing of the item are recognized in profit or loss as incurred.

Items of property, plant and equipment are depreciated from the date they are available for use or, in respect of self-constructed assets, from the date that the asset is completed and ready for use. Other than land, the costs of an asset less its estimated residual value are depreciated. Depreciation of property, plant and equipment is recognized in profit or loss on a straight-line basis, which most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset, over the estimated useful lives of each component of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognized.

The estimated useful lives for the current and comparative periods are as follows:

| | |
|---|---|
| Buildings | 20-40 years |
| Structures | 20-40 years |
| Machinery and equipment | 15 years |
| Vehicles | 4-9 years |
| Tools | 4 years |
| Furniture and fixtures | 4 years |
| Lease assets | 18 years |

The estimated residual value, useful lives and the depreciation method are reviewed at least at the end of each reporting period and, if expectations differ from previous estimates, the changes are accounted for as changes in accounting estimates.

**Borrowing costs**

The Company capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized in expense as incurred. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale. Financial assets and inventories that are manufactured or otherwise produced over a short period of time are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

To the extent that the Company borrows funds specifically for the purpose of obtaining a qualifying asset, the Company determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. The Company immediately recognizes other borrowing costs as an expense. To the extent that the Company borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Company shall determine the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Company that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Company capitalizes during a period shall not exceed the amount of borrowing costs incurred during that period.

**Intangible assets**

Intangible assets are measured initially at cost and, subsequently, are carried at cost less accumulated amortization and accumulated impairment losses.

Amortization of intangible assets except for goodwill is calculated on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The residual value of intangible assets is zero. However, as there are no foreseeable limits to the periods over which club memberships are expected to be available for use, this intangible asset is determined as an having an indefinite useful life and not amortized.

| | |
|---|---|
| Intellectual property rights | 5-10 years |
| Development costs | 4 years |
| Port facilities usage rights | 5-75 years |
| Other intangible assets | 4-20 years |

Amortization periods and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditures are recognized in profit or loss as incurred.

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in profit or loss as incurred.

**Government grants**

Government grants are not recognized unless there is reasonable assurance that the Company will comply with the grant's conditions and that the grant will be received.

(a) Grants related to assets

Government grants whose primary condition is that the Company purchase, construct or otherwise acquire long-term assets are deducted from the carrying amount of the assets and recognized in profit or loss on a systematic and rational basis over the life of the depreciable assets.

(b) Grants related to income

Government grants which are intended to compensate the Company for expenses incurred are deducted from the related expenses.

**Leases**

The Company classifies and accounts for leases as either a finance or operating lease, depending on the terms. Leases where the Company assumes substantially all of the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

(a) Finance leases

At the commencement of the lease term, the Company recognizes as finance assets and finance liabilities the lower amount of the fair value of the leased property and the present value of the minimum lease payments, each determined at the inception of the lease. Any initial direct costs are added to the amount recognized as an asset.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the Company adopts for similar depreciable assets that are owned. If there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

(b) Operating leases

Leases obligations under operating leases are recognized as an expense on a straight-line basis over the lease term. Contingent rents are charged as expenses in the periods in which they are incurred.

**Impairment for financial assets**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

Objective evidence that a financial asset or group of assets are impaired includes :

(a) significant financial difficulty of the issuer or obligor
(b) a breach of contract, such as a default or delinquency in interest or principal payments
(c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider
(d) it becoming probable that the borrower will enter bankruptcy or other financial reorganization
(e) the disappearance of an active market for that financial asset because of financial difficulties
(f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

In addition, for an equity instrument classified as available-for-sale, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If financial assets have objective evidence that they are impaired, impairment losses are measured and recognized.

(a) Financial assets measured at amortized cost

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. If it is not practicable to obtain the instrument's estimated future cash flows, impairment losses would be measured by using prices from any observable current market transactions. The Company can recognize impairment losses directly or establish a provision to cover impairment losses. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss shall be reversed either directly or by adjusting an allowance account.

(b) Financial assets carried at cost

If there is objective evidence that an impairment loss has occurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

(c) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

**Impairment for non-financial assets**

The carrying amounts of the Company's non-financial assets, other than assets arising from employee benefits, inventories, deferred tax assets and non-current assets held for sale, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

Management estimates the recoverable amount of an individual asset. If it is impossible to measure the individual recoverable amount of an asset, then management estimates the recoverable amount of cash-generating unit ("CGU"). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

Any impairment identified at the CGU level is used to reduce the carrying amount of the other assets in the CGU on a pro rata basis. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

**Derivative financial instruments**

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss.

(a) Embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately only if the following criteria have been met: (a) the economic characteristics and risks of the host contract and the embedded derivatives are not clearly and closely related to a separate instrument with the same terms as the embedded derivative that would meet the definition of a derivative, and (b) the hybrid (combined) instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives from the host contract are recognized immediately in profit or loss.

(b) Other derivatives

Changes in the fair value of a derivative that is not designated as a hedging instrument are recognized immediately in profit or loss.

**Non-derivative financial liabilities**

The Company classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities. The Company recognizes financial liabilities in the separate statement of financial position when the Company becomes a party to the contractual provisions of the financial liability.

(a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs that are directly attributable to the acquisition are recognized in profit or loss as incurred.

(b) Other financial liabilities

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities.

Financial guarantee liabilities are initially measured at their fair values and, if not designated as financial liabilities at fair value through profit or loss, they are subsequently measured at the higher of:

1) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and
2) the amount initially recognized less, cumulative amortization recognized on a straight-line basis over the guarantee period

At the date of initial recognition, other financial liabilities are measured at fair value minus transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method..

The Company derecognizes a financial liability from the separate statement of financial position when it is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

**Employee benefits**

(a) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within twelve months after the end of the period in which the employees render the related service. When an employee has rendered service to the Company during an accounting period, the Company recognizes the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service as profit or loss. If the Company has a legal or constructive obligation which can be reliably measured, the Company recognizes the amount of expected payment for profit-sharing and bonuses payable as liabilities.

(b) Other long-term employee benefits

Other long-term employee benefits include employee benefits that are settled beyond 12 months after the end of the period in which the employees render the related service, and are calculated at the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods, less the fair value of any related assets. The present value is determined by discounting the expected future cash flows using the interest rate of corporate bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid. Any actuarial gains and losses are recognized in profit or loss in the period in which they arise.

(c) Retirement benefits: Defined contribution plans

For defined contribution plans, when an employee has rendered service to the Company during a period, the Company recognizes the contribution payable to a defined contribution plan in exchange for that service as an accrued expense, after deducting any contributions already paid. If the contributions already paid exceed the contribution due for service before the end of the reporting period, the Company recognizes that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

(d) Retirement benefits: Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of plan assets is deducted. The calculation is performed annually by an independent actuary using the projected unit credit method.

The discount rate is the yield at the reporting date on corporate bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The Company recognizes all actuarial gains and losses arising from actuarial assumption changes and experiential adjustments in other comprehensive income when incurred.

When the fair value of plan assets exceeds the present value of the defined benefit obligation, the Company recognizes an asset, to the extent of the total of cumulative unrecognized past service cost and present value of any economic benefits available in the form of refunds from the plan or reduction in the future contributions to the plan.

Remeasurements of net defined benefit liabilities, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Company determines the net interest expense(income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments, net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss in curtailment is recognized immediately in profit or loss. The Company recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

**Provisions**

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

Where some or all of the expenditures required to settle a provision are expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimates. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

A provision is used only for expenditures for which the provision was originally recognized.

**Equity instruments**

(a) Share capital

Common stock is classified as equity and the incremental costs arising directly attributable to the issuance of common stock less their tax effects are deducted from equity.

If the Company reacquires its own equity instruments, the amount of those instruments ("treasury shares") are presented as a contra equity account. No gain or loss is recognized in profit or loss on the purchase, sale, issuance or cancellation of its own equity instruments. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase to equity, and the resulting surplus or deficit on the transaction is recorded in capital surplus.

(b) Hybrid bonds

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of financial liability and an equity instrument. When the Company has an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation, the Company's hybrid bond has been classified as an equity instrument.

**Revenue**

Revenue from the sale of goods, services provided and the use of assets is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates, which are not significant for all periods presented.

(a) Sale of goods

Revenue from the sale of goods in the ordinary course of activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. The appropriate timing for transfer of risks and rewards varies depending on the individual terms and conditions of the sales contract. For international sales, this timing depends on the type of international commercial terms of the contract.

(b) Rental income

Rental income from investment property, net of lease incentives granted, is recognized in profit or loss on a straight-line basis over the term of the lease.

**Finance income and finance costs**

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Company's right to receive payment is established.

Finance costs comprise interest expense on borrowings and changes in the fair value of financial assets at fair value through profit or loss. Borrowing costs are recognized in profit or loss using the effective interest rate method.

**Income taxes**

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

(a) Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit of future periods, and non-taxable or non-deductible items from the accounting profit.

(b) Deferred tax

The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

The Company recognizes a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, associates, and joint ventures, except to the extent that the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Company recognizes a deferred tax asset for deductible temporary differences arising from investments in subsidiaries, associates and joint ventures, to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized. However, deferred tax is not recognized for the following temporary differences: taxable temporary differences arising on the initial recognition of goodwill, or the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit or loss nor taxable income.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current tax liabilities and assets on a net basis.

**Earnings per share**

Management calculates basic earnings per share ("EPS") data for the Company's ordinary shares, which is presented at the end of the statement of comprehensive income. Basic EPS is calculated by dividing profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

**New standards and interpretations not yet adopted**

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the Company for annual periods beginning after January 1, 2013, and the Company has not early adopted them. Management believes the impact of the amendments on the Company's separate financial statements is not significant.

(a) Amendments to K-IFRS No. 1032 "*Financial Instruments : Presentation*"

The amendments clarified application guidance related to offsetting of a financial asset and a financial liability. The amendments are mandatorily effective for annual periods beginning on or after January 1, 2014 with earlier adoption permitted.

**4. Financial risk management**

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- capital risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these separate financial statements.

(a) Financial risk management

1) Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

2) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment securities. In addition, credit risk arises from finance guarantees.

The Company implements a credit risk management policy under which the Company only transacts business with counterparties that have a certain level of credit rate evaluated based on financial condition, historical experience, and other factors. The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of a nation or an industry in which a customer operates its business does not have a significant influence on credit risk. The Company has established a credit policy under which each new customer is analyzed individually for creditworthiness.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for companies of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets. Debt securities are analyzed individually, and an expected loss shall be directly deducted from debt securities.

Credit risk also arises from transactions with financial institutions, and such transactions include transactions of cash and cash equivalents, various deposits, and financial instruments such as derivative contracts. The Company manages its exposure to this credit risk by only entering into transactions with banks that have high international credit ratings. The Company's treasury department authorizes, manages, and overseas new transactions with financial institutions with whom the Company has no previous relationship. Furthermore, the Company limits its exposure to credit risk of financial guarantee contracts by strictly evaluating their necessity based on internal decision making processes, such as the approval of the board of directors.

3) Liquidity risk management

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company's cash flow from business, borrowing or financing is sufficient to meet the cash requirements for the Company's strategic investments. Management believes that the Company is capable of raising funds by borrowing or financing if the Company is not able to generate cash flow requirements from its operations. The Company has committed borrowing facilities with various banks.

4) Market risk management

Market risk means that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The goal of market risk management is optimization of profit and controlling the exposure to market risk within acceptable limits.

① Currency risk

The Company is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the functional currency of the Company, Korean Won.

The Company's policy in respect of foreign currency risks is a natural hedge whereby foreign currency income is offset with foreign currency expenditures. The remaining net exposures after the natural hedge have been hedged using derivative contracts such as forward exchange contracts. In addition, the Company's derivative transactions are limited to hedging actual foreign currency transactions and speculative hedging is not permitted. Based on this policy, the Company has foreign currency borrowings from banks and hedges foreign currency risks of the foreign currency borrowings by using foreign currency swaps.

② Interest rate risk

The Company mostly borrows at fixed interest rates. The Company's management monitors interest rate risks regularly.

③ Other market risk

Equity price risk arises from listed equity securities among available-for-sale equity securities. Management of the Company measures regularly the fair value of listed equity securities and the risk of variance in future cash flow caused by market price fluctuations. Significant investments are managed separately and all buy and sell decisions are approved by management of the Company.

(b) Management of capital risk

The fundamental goal of capital management is the maximization of shareholders' value by means of the stable dividend policy and the retirement of treasury shares. The capital structure of the Company consists of equity and net debt, deducting cash and cash equivalents and current financial instruments from borrowings. The Company applied the same financial risk management strategy that was applied in the previous period.

The equity attributable to owners as of December 31, 2013 and 2012 are as follows:

| *(in millions of Won)* | **2013** | **2012** |
|---|---|---|
| Total borrowings | 8,663,071 | 9,603,774 |
| Less: Cash and cash equivalents | 1,394,315 | 1,752,560 |
| Net borrowings | 7,268,756 | 7,851,214 |
| Total equity | 42,311,462 | 39,164,548 |
| Net borrowings-to-equity ratio | 17.18% | 20.05% |

### 5. Cash and Cash Equivalents

Cash and cash equivalents as of December 31, 2013 and 2012 are as follows:

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| Checking accounts | ₩ | 302,434 | 660 |
| Time deposits | | 859,148 | 1,320,000 |
| Money market trust | | 152,500 | 321,400 |
| Money market funds | | 30,000 | 110,000 |
| Money market deposit account | | 50,233 | 500 |
| | ₩ | 1,394,315 | 1,752,560 |

### 6. Trade Accounts and Notes Receivable

Trade accounts and notes receivable as of December 31, 2013 and 2012 are as follows:

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| Current | | | |
| Trade accounts and notes receivable | ₩ | 3,403,316 | 4,099,006 |
| Less: Allowance for doubtful accounts | | (9,872) | (11,976) |
| | ₩ | 3,393,444 | 4,087,030 |
| Non-current | | | |
| Trade accounts and notes receivable | ₩ | 7,806 | 502 |
| Less: Present value discount | | (3,114) | - |
| Less: Allowance for doubtful accounts | | (228) | (228) |
| | ₩ | 4,464 | 274 |

The trade accounts and notes receivable sold to financial institutions, for which the derecognition conditions were not met, amounted to ₩203,138 million and ₩258,680 million as of December 31, 2013 and 2012, respectively, and are included in bank borrowings (Note 16).

## 7. Other Receivables

Other receivables as of December 31, 2013 and 2012 are as follows:

*(in millions of Won)*

| | | 2013 | 2012 |
|---|---|---|---|
| Current | | | |
| Other accounts receivable | ₩ | 281,667 | 391,264 |
| Accrued income | | 10,055 | 12,531 |
| Other checking accounts | | 10 | 1,538 |
| Less: Allowance for doubtful accounts | | (10,571) | (10,571) |
| | ₩ | 281,161 | 394,762 |
| Non-current | | | |
| Long-term loans | ₩ | 54,945 | 66,775 |
| Long-term other accounts receivable | | 2,723 | 6,410 |
| Deposits | | 2,523 | 1,920 |
| Less: Allowance for doubtful accounts | | (14,453) | (14,453) |
| | ₩ | 45,738 | 60,652 |

## 8. Other Financial Assets

(a) Other financial assets as of December 31, 2013 and 2012 are as follows:

*(in millions of Won)*

| | | 2013 | 2012 |
|---|---|---|---|
| Current | | | |
| Short-term available-for-sale securities (bonds) | ₩ | - | 100,000 |
| Current portion of held-to-maturity securities (bonds) | | - | 29,981 |
| Short-term financial instruments(*1) | | 2,317,867 | 786,098 |
| Cash deposits(*2) | | 949 | 12,699 |
| | ₩ | 2,318,816 | 928,778 |
| Non-current | | | |
| Derivatives assets held for trading | ₩ | 7,788 | 6,016 |
| Long-term available-for-sale securities (equity instruments) | | 3,333,915 | 2,942,915 |
| Long-term available-for-sale securities (bonds) | | 20,355 | 18,642 |
| Long-term available-for-sale securities (others) | | 500 | 500 |
| Cash deposits(*3) | | 36 | 40 |
| | ₩ | 3,362,594 | 2,968,113 |

(*1)Short-term financial instruments amounting to ₩4,700 million and ₩3,400 million are provided as collateral in relation to long term borrowings from National Forestry Cooperatives Federation as of December 31, 2013 and 2012, respectively.
(*2)Deposit is restricted in relation to government assigned project.
(*3)The Company is required to provide deposits to maintain checking accounts and accordingly the withdrawal of these deposits is restricted.

(b) Long-term available-for-sale equity securities as of December 31, 2013 and 2012 are as follows:

| *(in millions of Won)* | 2013 | | | | | | | 2012 |
|---|---|---|---|---|---|---|---|---|
| | Number of shares | Ownership (%) | Acquisition cost | Fair value | Net changes in fair value of available-for-sale investments | Accumulated impairment loss | Book value | Book value |
| Marketable equity securities | | | | | | | | |
| Nippon Steel & Sumitomo Metal Corporation | 238,352,000 | 2.38 | ₩ 719,622 | 842,909 | 123,287 | - | 842,909 | 624,423 |
| SK Telecom Co., Ltd.(*1) | 1,795,862 | 2.22 | 462,749 | 419,933 | 189,901 | (232,717) | 419,933 | 350,210 |
| KB Financial group Inc.(*2) | 11,590,550 | 3.00 | 536,517 | 489,701 | 93,304 | (140,120) | 489,701 | 439,282 |
| Hyundai Heavy Industries Co., Ltd. | 1,477,000 | 1.94 | 343,506 | 379,589 | 36,083 | - | 379,589 | 357,434 |
| Shinhan Financial group Inc. | 4,369,881 | 0.92 | 228,778 | 206,695 | 84,059 | (106,142) | 206,695 | 169,770 |
| Hana Financial group Inc. | 2,430,498 | 1.00 | 15,633 | 106,699 | 91,066 | - | 106,699 | 84,338 |
| Others (11 companies)(*3) | | | 150,780 | 108,895 | 35,322 | (77,207) | 108,895 | 157,284 |
| | | | 2,457,585 | 2,554,421 | 653,022 | (556,186) | 2,554,421 | 2,182,741 |
| Non-marketable equity securities | | | | | | | | |
| The Siam United Steel(*4) | 11,071,000 | 12.30 | 34,658 | 57,643 | 45,510 | (22,525) | 57,643 | 50,717 |
| Nacional Minerios S.A.(*4) | 30,784,625 | 6.48 | 668,634 | 517,193 | (151,441) | - | 517,193 | 517,683 |
| Dongbu Metal Co., Ltd.(*4) | 3,000,000 | 10.00 | 98,242 | 85,371 | (12,871) | - | 85,371 | 96,126 |
| Troika Fund(*4) | 10,664,872,584 | 3.66 | 10,665 | 9,095 | (1,570) | - | 9,095 | 6,499 |
| Others (36 companies)(*5,*6) | | | 121,915 | 110,192 | 251 | (11,974) | 110,192 | 89,149 |
| | | | 934,114 | 779,494 | (120,121) | (34,499) | 779,494 | 760,174 |
| | | | ₩ 3,391,699 | 3,333,915 | 532,901 | (590,685) | 3,333,915 | 2,942,915 |

(*1) As of December 31, 2013, 1,795,860 shares equivalent to 16,162,743 American Depository Receipts (“ADRs”) of SK Telecom Co., Ltd. have been pledged as collateral for the exchangeable bonds issued.

(*2) The Company recognized ₩140,120 million of impairment loss on investment in KB Financial Group Inc. for the year ended December 31, 2013 due to significant decline in the fair value of its shares for a prolonged period.

(*3) The Company recognized ₩15,265 million, ₩7,745 million and ₩4,098 million of impairment loss on investment in PT. Krakatau Steel, Steel Flower Co., Ltd. and DAEHO P&C Co., Ltd, respectively, for the year ended December 31, 2013 due to significant decline in the fair value of their shares.

(*4) Fair value is based on valuation performed by an external professional evaluation agency.

(*5) The Company recognized ₩3,577 million of impairment loss on investment in Korea Private Certified Emission Reductions Fund No.1 for the year ended December 31, 2013 due to significant decline in the fair value of its shares.

(*6) These non-marketable equity securities are recorded at cost since fair value cannot be reliably measured.

### 9. Inventories

Inventories as of December 31, 2013 and 2012 are as follows:

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| Finished goods | ₩ | 755,286 | 870,917 |
| Semi-finished goods | | 1,259,390 | 1,446,058 |
| By-products | | 13,793 | 11,399 |
| Raw materials | | 983,902 | 1,297,926 |
| Fuel and materials | | 520,236 | 607,908 |
| Materials-in-transit | | 1,009,996 | 1,169,201 |
| Others | | 586 | 621 |
| | | 4,543,189 | 5,404,030 |
| Less: Allowance for inventories valuation | | (4,532) | (370) |
| | ₩ | 4,538,657 | 5,403,660 |

The amount of valuation losses of inventories recognized within cost of sales during the years ended December 31, 2013 and 2012 were ₩4,532 million and ₩370 million, respectively.

### 10. Non-Current Assets Held for Sale

Details of non-current assets held for sale as of December 31, 2013 and 2012 are as follows:

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| Investment in associates(*1) | ₩ | 1,304 | - |

(*1) The Company determined to dispose of the shares of POSVINA Co., Ltd., an associate of the Company. The Company recorded an impairment loss for assets held for sale of ₩1,814 million based on the difference between the carrying amount and fair value less cost to sell of the investment in POSVINA Co., Ltd. during the year ended December 31, 2013.

## 11. Other Assets

Other assets as of December 31, 2013 and 2012 are as follows:

*(in millions of Won)*

| | 2013 | 2012 |
|---|---|---|
| **Other current assets** | | |
| Advance payments | ₩ 4,871 | 4,505 |
| Prepaid expenses | 20,911 | 38,176 |
| | 25,782 | 42,681 |
| **Other long-term assets** | | |
| Long-term prepaid expenses | 6,980 | 8,216 |
| Others | 3,935 | 2,568 |
| Less : Allowance for doubtful accounts | (13) | (13) |
| | ₩ 10,902 | 10,771 |

## 12. Investments in Subsidiaries, Associates and Joint ventures

(a) Investments in subsidiaries, associates and joint ventures as of December 31, 2013 and 2012 are as follows:

*(in millions of Won)*

| | 2013 | 2012 |
|---|---|---|
| Subsidiaries | 12,316,564 | 12,163,345 |
| Associates | 825,197 | 559,988 |
| Joint ventures | 1,951,075 | 1,376,720 |
| | ₩ 15,092,836 | 14,100,053 |

(b) Details of subsidiaries and carrying values as of December 31, 2013 and 2012 are as follows:

*(in millions of Won)*

| | | | 2013 | | | | | 2012 |
|---|---|---|---|---|---|---|---|---|
| **[Domestic]** | **Country** | **Principal operations** | **Number of shares** | **Ownership (%)** | **Acquisition cost** | **Net asset value** | **Book value** | **Book value** |
| Daewoo International Corporation | Korea | Trading | 68,681,566 | 60.31 | ₩ 3,371,481 | 2,215,646 | 3,371,481 | 3,371,481 |
| POSCO ENGINEERING & CONSTRUCTION., LTD. | Korea | Engineering and Construction | 32,876,418 | 89.53 | 1,510,716 | 2,970,887 | 1,510,716 | 1,510,716 |
| POSCO ENERGY CO., LTD. | Korea | Generation of Electricity | 40,234,508 | 89.02 | 658,176 | 1,589,280 | 658,176 | 658,176 |
| POSCO Specialty Steel Co., Ltd. | Korea | Steel manufacturing and sales | 26,000,000 | 72.09 | 628,842 | 1,259,107 | 628,842 | 628,842 |
| POSCO Processing&Service | Korea | Steel sales and service | 17,155,000 | 95.31 | 421,927 | 693,895 | 421,927 | 421,927 |
| POSCO AST | Korea | Steel manufacturing and sales | 17,386,952 | 100.00 | 176,609 | 153,598 | 176,609 | 176,609 |
| POSCO Specialty Steel Co., Ltd. | Korea | Coated steel manufacturing | 3,412,000 | 56.87 | 108,421 | 169,564 | 108,421 | 108,421 |
| POSCO M-TECH(*1) | Korea | Packing materials manufacturing | 20,342,460 | 48.85 | 107,278 | 153,202 | 107,278 | 107,278 |
| POSTECH Venture Capital Co., Ltd. | Korea | Investment in venture companies | 19,700,000 | 95.00 | 103,780 | 107,417 | 103,780 | 103,780 |
| POSCO CHEMTECH | Korea | Manufacturing and sales | 3,544,200 | 60.00 | 100,535 | 449,272 | 100,535 | 100,535 |
| POSCO ICT | Korea | Computer hardware and software distribution | 99,403,282 | 65.38 | 70,990 | 406,240 | 70,990 | 70,990 |
| POSMATE(*2) | Korea | Business facility maintenance | 806,318 | 54.46 | 63,222 | 158,039 | 63,222 | - |
| POSHIMETAL Co., Ltd. | Korea | Steel manufacturing and sales | 10,023,000 | 65.00 | 49,452 | 9,082 | 49,452 | 49,452 |
| POSCO Family Strategy Fund | Korea | Financial investment | 400 | 60.79 | 40,000 | 61,026 | 40,000 | 40,000 |
| Busan E&E Co,. Ltd.(*3) | Korea | Municipal solid waste fuel and power generation | 6,029,660 | 70.00 | 30,148 | 39,678 | 30,148 | 30,148 |
| Others (12 companies) | | | | | 178,264 | 425,073 | 178,264 | 239,528 |
| | | | | | ₩ 7,619,841 | 10,861,006 | 7,619,841 | 7,617,883 |

*(in millions of Won)*

| | | | 2013 | | | | | 2012 |
|---|---|---|---|---|---|---|---|---|
| **[Foreign]** | **Country** | **Principal operations** | **Number of shares** | **Ownership (%)** | **Acquisition cost** | **Net asset value** | **Book value** | **Book value** |
| PT. KRAKATAU POSCO | Indonesia | Steel manufacturing and sales | 693,700 | 70.00 | ₩ 764,198 | 972,767 | 808,492 | 732,503 |
| POSCO Thainox Public Co., Ltd.(*4) | Thailand | Stainless steel manufacturing and sales | 6,620,532,219 | 84.93 | 551,807 | 284,084 | 340,249 | 551,807 |
| POSCO Australia Pty. Ltd. | Austrailia | Iron ore sales and mine development | 761,775 | 100.00 | 330,623 | 643,016 | 330,623 | 330,623 |
| POSCO WA Pty. Ltd. | Austrailia | Steel sales and mine development | 418,340,038 | 100.00 | 446,093 | 317,212 | 446,093 | 312,851 |
| POSCO Maharashtra Steel Private Ltd. | India | Steel manufacturing and sales | 150,076,072 | 100.00 | 343,564 | 110,589 | 355,987 | 302,053 |
| Zhangjiagang Pohang Stainless Steel Co., Ltd. | China | Stainless steel manufacturing and sales | - | 58.60 | 283,845 | 499,827 | 284,753 | 285,201 |
| POSCO-China Holding Corp. | China | Investment management | - | 100.00 | 240,430 | 252,494 | 240,430 | 223,436 |
| POSCO-India Private Ltd. | India | Steel manufacturing and sales | 764,999,999 | 99.99 | 184,815 | 114,872 | 184,815 | 184,815 |
| POSCO-Mexico S.A. DE C.V. | Mexico | Plate steel manufacturing | 2,686,705,272 | 84.84 | 180,069 | 199,937 | 182,080 | 182,048 |
| POSCO-Vietnam Co., Ltd. | Vietnam | Steel manufacturing | - | 85.00 | 154,691 | 32,055 | 157,295 | 155,428 |
| POSCO VST Co., Ltd. | Vietnam | Stainless steel manufacturing | - | 95.65 | 144,573 | 27,833 | 145,288 | 145,462 |
| POSCO America Corporation | USA | Trading-Steel | 391,042 | 99.45 | 140,381 | 52,404 | 140,381 | 140,381 |
| POSCO(Guangdong) Automotive Steel Co., Ltd. | China | Steel manufacturing and selling | 117,187,089 | 83.64 | 130,751 | 124,368 | 131,291 | 131,618 |
| POSCO ASSAN TST STEEL Industry | Turkey | Steel manufacturing and sales | 144,579,160 | 60.00 | 92,800 | 42,633 | 95,710 | 96,215 |
| POSCO Investment Co., Ltd. | Hong Kong | Finance | 4,999,999 | 99.99 | 85,521 | 100,166 | 87,211 | 86,323 |
| POSCO-JAPAN Co., Ltd. | Japan | Trading-Steel | 90,438 | 100.00 | 68,436 | 106,747 | 68,436 | 68,436 |
| Qingdao Pohang Stainless Steel Co., Ltd. | China | Stainless steel manufacturing and sales | - | 70.00 | 65,982 | 90,927 | 65,982 | 65,982 |
| POSCO (Suzhou) Automotive Processing Center Co., Ltd. | China | Steel manufacturing and sales | - | 90.00 | 62,494 | 113,655 | 62,494 | 62,494 |
| POSCO Electrical Steel India Private Limited | India | Electrical steel manufacturing and sales | 24,120,664 | 100.00 | 57,119 | 31,507 | 58,662 | 48,058 |
| POSCO AFRICA (PROPRIETARY) LIMITED | South Africa | Trading | 1,390 | 100.00 | 50,297 | 44,854 | 50,297 | 5,629 |
| POSCO China Dalian Plate Processing Center Co., Ltd. | China | Heavy plate processing and marketing | - | 80.00 | 32,992 | 20,657 | 32,992 | 32,992 |
| POSCO Asia Co., Ltd. | Hong Kong | Steel transit trade | 9,360,000 | 100.00 | 32,189 | 39,216 | 32,189 | 32,189 |
| POSCO (Guangdong) Steel Co., Ltd. | China | Plate steel sheet manufacturing | - | 87.04 | 31,299 | 44,424 | 31,299 | 31,299 |
| POSCO-Malaysia SDN. BHD. | Malaysia | Steel manufacturing and sales | 98,486,000 | 80.07 | 31,027 | (22,292) | 31,027 | 31,027 |
| POSCO-URUGUAY S.A. | Uruguay | Wood manufacturing and sales | 526,105,608 | 98.04 | 29,341 | 22,685 | 29,341 | 27,724 |
| Others (30 companies) | | | | | 303,304 | 436,761 | 303,306 | 278,868 |
| | | | | | 4,838,641 | 4,703,398 | 4,696,723 | 4,545,462 |
| | | | | | ₩ 12,458,482 | 15,564,404 | 12,316,564 | 12,163,345 |

(*1) As of December 31, 2013, it is classified as an investment in a subsidiary as the Company has control over of more than half of the voting rights by virtue of an agreement with Postech, which has 4.72% of ownership in POSCO M-TECH Co., Ltd.

(*2) It is reclassified from associate to subsidiary due to the merger with Seoung Gwang Co., Ltd. during the year ended December 31, 2013.

(*3) As of December 31, 2013 this investment is collateral for the Company's guarantee provided to certain borrowings of its subsidiary from banks.

(*4) As of December 31, 2013, there is objective evidence of impairment due to a prolonged decline on the fair value of the security. Recoverable amounts were determined based on fair value less cost to sell, which was calculated by adding a 28.8% control premium to current stock price as December 31, 2013. The Company recognized impairment loss of ₩160,492 million as the carrying value was higher than its recoverable amount as of December 31, 2013.

(c) Details of associates and carrying values as of December 31, 2013 and 2012 are as follows:

*(in millions of Won)*

| | | | 2013 | | | | | 2012 |
|---|---|---|---|---|---|---|---|---|
| **[Domestic]** | **Country** | **Principal operations** | **Number of shares** | **Ownership (%)** | **Acquisition cost** | **Net asset value** | **Book value** | **Book value** |
| EQP POSCO Global NO1 NatualResources PEF | Korea | Mine investment | 169,106,080,000 | 25.80 | ₩ 169,106 | 651,815 | 169,106 | - |
| POSCO PLANTEC Co., Ltd. (formerly, SUNGJIN GEOTEC Co., Ltd.)(*1,3) | Korea | Industrial machinery manufacturing | 22,516,988 | 36.20 | 261,088 | 134,928 | 185,786 | 159,878 |
| SNNC | Korea | Material manufacturing | 18,130,000 | 49.00 | 100,655 | 268,522 | 100,655 | 100,655 |
| POSMATE(*2) | Korea | Business facilities maintenance | - | - | - | - | - | 33,295 |
| Others (5 companies) | | | | | 18,921 | 74,971 | 18,921 | 9,811 |
| | | | | | 549,770 | 1,130,236 | 474,468 | 303,639 |
| **[Foreign]** | | | | | | | | |
| Nickel Mining Company SAS | New Caledonia | Raw material manufacturing and sales | 3,234,698 | 49.00 | 189,197 | 325,028 | 189,197 | 189,197 |
| 7623704 Canada Inc.(*3) | Canada | Mine investment | 114,452,000 | 10.40 | 124,341 | 1,161,348 | 124,341 | - |
| Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd. | China | Tinplate manufacturing and sales | - | 24.00 | 11,003 | 66,352 | 11,003 | 11,003 |
| Others (8 companies) | | | | | 26,159 | 20,936 | 26,188 | 56,149 |
| | | | | | 350,700 | 1,573,664 | 350,729 | 256,349 |
| | | | | | ₩ 900,470 | 2,703,900 | 825,197 | 559,988 |

(*1) Sungjin Geotec Co., Ltd. has changed its name to POSCO PLANTEC Co., Ltd. after it merged with POSCO PLANTEC Co., Ltd. during the year ended December 31, 2013.

(*2) It is reclassified from associate to subsidiary due to the merger with Seoung Gwang Co., Ltd. during the year ended December 31, 2013.

(*3) Although the Company holds less than 20% ownership, the Company classifies its investment in 7623704 Canada Inc. as investments in associates, as the Company has significant influence over the entity pursuant to the related contractual arrangement.

(*4) As of December 31, 2013, there is objective evidence of impairment due to a prolonged decline on the fair value of the security. Recoverable amounts were determined based on fair value less cost to sell, which was calculated by adding a 20.7% control premium to current stock price as of December 31, 2013. The Company recognized impairment loss of ₩75,302 million as the carrying value was higher than its recoverable amount as of December 31, 2013.

(d) Details of joint ventures and carrying values as of December 31, 2013 and 2012 are as follows:

*(in millions of Won)*

| | | | 2013 | | | | | 2012 |
|---|---|---|---|---|---|---|---|---|
| | Country | Principal operations | Number of shares | Ownership (%) | Acquisition cost | Net asset value | Book value | Book value |
| Roy Hill Holdings Pty Ltd. | Austrailia | Mine development | 10,494,377 | 10.00 | ₩ 983,569 | 2,459,097 | 983,569 | 537,369 |
| POSCO-NPS Niobium LLC | USA | Mine development | 325,050,000 | 50.00 | 364,609 | 686,978 | 364,609 | 364,609 |
| KOBRASCO | Brazil | Facilities lease | 2,010,719,185 | 50.00 | 98,962 | 190,465 | 98,962 | 98,962 |
| CSP - Compania Siderurgica do Pecem | Brazil | Steel manufacturing and sales | 660,301,330 | 20.00 | 393,925 | 1,442,143 | 393,925 | 265,740 |
| Others (4 companies) | | | | | 110,004 | 438,773 | 110,010 | 110,040 |
| | | | | | ₩ 1,951,069 | 5,217,456 | 1,951,075 | 1,376,720 |

## 13. Investment Property, Net

(a) Investment property as of December 31, 2013 and 2012 are as follows:

*(in millions of Won)*

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Acquisition cost | Accumulated depreciation | Book value | Acquisition cost | Accumulated depreciation | Book value |
| Land | ₩ 36,020 | - | 36,020 | 41,811 | - | 41,811 |
| Buildings | 95,564 | (42,882) | 52,682 | 110,927 | (47,230) | 63,697 |
| Structures | 7,009 | (2,832) | 4,177 | 8,136 | (3,118) | 5,018 |
| Total | ₩ 138,593 | (45,714) | 92,879 | 160,874 | (50,348) | 110,526 |

The fair value of investment property as of December 31, 2013 is ₩290,136 million. The Company used the prior year's fair value for the investment property since it is believed to be approximately same.

(b) Changes in the carrying value of investment property for the years ended December 31, 2013 and 2012 were as follows:

1) For the year ended December 31, 2013

*(in millions of Won)*

| | Beginning | Depreciation(*1) | Transfer(*2) | Ending |
|---|---|---|---|---|
| Land | ₩ 41,811 | - | (5,791) | 36,020 |
| Buildings | 63,697 | (2,793) | (8,222) | 52,682 |
| Structures | 5,018 | (186) | (655) | 4,177 |
| Total | ₩ 110,526 | (2,979) | (14,668) | 92,879 |

(*1) The useful life and depreciation method of investment property are identical to those of property, plant and equipment.
(*2) Mainly includes assets transferred to property, plant and equipment in relation to change in rental ratio and the purpose of use.

2) For the year ended December 31, 2012

*(in millions of Won)*

| | Beginning | Depreciation(*1) | Transfer(*2) | Ending |
|---|---|---|---|---|
| Land | ₩ 43,258 | - | (1,447) | 41,811 |
| Buildings | 68,776 | (2,905) | (2,174) | 63,697 |
| Structures | 5,384 | (194) | (172) | 5,018 |
| Total | ₩ 117,418 | (3,099) | (3,793) | 110,526 |

(*1) The useful life and depreciation method of investment property are identical to those of property, plant and equipment.
(*2) Mainly includes assets transferred to property, plant and equipment in relation to change in rental ratio and the purpose of use.

## 14. Property, Plant and Equipment, Net

(a) Property, plant and equipment as of December 31, 2013 and 2012 are as follows:

*(in millions of Won)*

| | 2013 | | | | | 2012 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Acquisition cost | Accumulated depreciation | Accumulated impairment | Government grants | Book value | Acquisition cost | Accumulated depreciation | Accumulated impairment | Book value |
| Land | ₩ 1,397,271 | - | - | - | 1,397,271 | 1,367,822 | - | - | 1,367,822 |
| Buildings | 5,433,167 | (2,794,762) | (631) | - | 2,637,774 | 5,287,226 | (2,552,379) | (8) | 2,734,839 |
| Structures | 4,277,603 | (1,808,087) | (470) | - | 2,469,046 | 3,742,988 | (1,629,238) | - | 2,113,750 |
| Machinery and equipment | 32,428,259 | (19,221,165) | (4,384) | - | 13,202,710 | 30,838,413 | (17,949,647) | (152) | 12,888,614 |
| Vehicles | 189,666 | (178,897) | - | - | 10,769 | 184,858 | (171,819) | - | 13,039 |
| Tools | 188,204 | (162,524) | - | - | 25,680 | 180,045 | (150,352) | - | 29,693 |
| Furniture and fixtures | 254,663 | (206,987) | (282) | - | 47,394 | 253,742 | (186,306) | (5) | 67,431 |
| Finance lease assets | 11,466 | (4,459) | - | - | 7,007 | 11,466 | (3,822) | - | 7,644 |
| Construction-in-progress | 3,447,952 | - | - | (5,000) | 3,442,952 | 2,943,903 | - | - | 2,943,903 |
| Total | ₩ 47,628,251 | (24,376,881) | (5,767) | (5,000) | 23,240,603 | 44,810,463 | (22,643,563) | (165) | 22,166,735 |

(b) Changes in the carrying value of property, plant and equipment for the years ended December 31, 2013 and 2012 were as follows:

1) For the year ended December 31, 2013

| *(in millions of Won)* | Beginning | Acquisitions | Disposals | Depreciation | Others(*1) | Ending |
|---|---|---|---|---|---|---|
| Land | ₩ 1,367,822 | - | (627) | - | 30,076 | 1,397,271 |
| Buildings | 2,734,839 | 7,034 | (8,628) | (241,678) | 146,207 | 2,637,774 |
| Structures | 2,113,750 | 16,624 | (5,519) | (181,725) | 525,916 | 2,469,046 |
| Machinery and equipment | 12,888,614 | 113,921 | (57,800) | (1,456,354) | 1,714,329 | 13,202,710 |
| Vehicles | 13,039 | 794 | (4) | (8,682) | 5,622 | 10,769 |
| Tools | 29,693 | 4,006 | (9) | (15,118) | 7,108 | 25,680 |
| Furniture and fixtures | 67,431 | 2,819 | (875) | (24,829) | 2,848 | 47,394 |
| Finance lease assets | 7,644 | - | - | (637) | - | 7,007 |
| Construction-in-progress | 2,943,903 | 3,009,545 | - | - | (2,510,496) | 3,442,952 |
| Total | ₩ 22,166,735 | 3,154,743 | (73,462) | (1,929,023) | (78,390) | 23,240,603 |

(*1) Represents assets transferred from construction-in-progress to intangible assets and other property, plant and equipment and investment property.

2) For the year ended December 31, 2012

| *(in millions of Won)* | Beginning | Acquisitions | Disposals | Depreciation | Others(*1) | Ending |
|---|---|---|---|---|---|---|
| Land | ₩ 1,275,564 | - | (10,242) | - | 102,500 | 1,367,822 |
| Buildings | 2,831,757 | 7,512 | (5,269) | (237,038) | 137,877 | 2,734,839 |
| Structures | 2,061,348 | 11,448 | (21,146) | (165,632) | 227,732 | 2,113,750 |
| Machinery and equipment | 12,916,329 | 80,565 | (49,789) | (1,382,901) | 1,324,410 | 12,888,614 |
| Vehicles | 19,341 | 256 | (22) | (7,893) | 1,357 | 13,039 |
| Tools | 38,022 | 2,367 | (2) | (15,123) | 4,429 | 29,693 |
| Furniture and fixtures | 72,334 | 4,726 | (156) | (28,484) | 19,011 | 67,431 |
| Finance lease assets | 8,281 | - | - | (637) | - | 7,644 |
| Construction-in-progress | 2,310,159 | 2,452,832 | - | - | (1,819,088) | 2,943,903 |
| Total | ₩ 21,533,135 | 2,559,706 | (86,626) | (1,837,708) | (1,772) | 22,166,735 |

(*1) Represents assets transferred from construction-in-progress to intangible assets and other property, plant and equipment as well as assets transferred from investment property and assets held for sale.

(c) Borrowing costs capitalized and the capitalized interest rate for the years ended December 31, 2013 and 2012 are as follows:

| (in millions of Won) | 2013 | 2012 |
|---|---|---|
| Weighted average expenditure | 2,894,479 | 1,469,474 |
| Borrowing costs capitalized | 137,221 | 66,371 |
| Capitalization rate | 4.74% | 4.52% |

## 15. Intangible Assets, Net

(a) Intangible assets as of December 31, 2013, December 31, 2012 are as follows:

*(in millions of Won)*

| | 2013 | | | | 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | Acquisition cost | Accumulated amortization | Accumulated impairment | Book value | Acquisition cost | Accumulated amortization | Accumulated impairment | Book value |
| Intellectual property rights | ₩ 18,970 | (5,158) | - | 13,812 | 12,490 | (3,586) | - | 8,904 |
| Membership | 55,672 | - | (6,795) | 48,877 | 55,775 | - | (6,215) | 49,560 |
| Development expense | 95,514 | (66,046) | - | 29,468 | 79,982 | (49,890) | - | 30,092 |
| Port facilities usage rights | 509,375 | (337,166) | - | 172,209 | 414,884 | (326,901) | - | 87,983 |
| Construction-in-progress | 153,719 | - | - | 153,719 | 96,035 | - | - | 96,035 |
| Other intangible assets | 280,804 | (260,106) | - | 20,698 | 338,491 | (317,224) | - | 21,267 |
| Total | ₩ 1,114,054 | (668,476) | (6,795) | 438,783 | 997,657 | (697,601) | (6,215) | 293,841 |

(b) Changes in carrying values of intangible assets for the years ended December 31, 2013 and 2012 were as follows:

1) For the year ended December 31, 2013

*(in millions of Won)*

| | Beginning | Acquisitions | Disposals | Amortization | Impairment(*2) | Transfer(*3) | Ending |
|---|---|---|---|---|---|---|---|
| Intellectual property rights | ₩ 8,904 | - | (291) | (1,625) | - | 6,824 | 13,812 |
| Membership(*1) | 49,560 | 1,022 | (1,124) | - | (581) | - | 48,877 |
| Development expense | 30,092 | 1,902 | - | (16,156) | - | 13,630 | 29,468 |
| Port facilities usage rights | 87,983 | - | - | (10,265) | - | 94,491 | 172,209 |
| Construction in progress | 96,035 | 98,459 | - | - | - | (40,775) | 153,719 |
| Other intangible assets | 21,267 | 1,658 | - | (10,021) | - | 7,794 | 20,698 |
| | ₩ 293,841 | 103,041 | (1,415) | (38,067) | (581) | 81,964 | 438,783 |

(*1) Economic useful life of membership is indefinite.
(*2) Since the carrying amount exceeded recoverable amount, impairment loss on memberships was recognized.
(*3) Represents assets transferred from construction-in-progress to intangible assets and assets transferred from property, plant and equipment.

2) For the year ended December 31, 2012

*(in millions of Won)*

| | Beginning | Acquisitions | Disposals | Amortization | Impairment(*2) | Transfer(*3) | Ending |
|---|---|---|---|---|---|---|---|
| Intellectual property rights | ₩ 6,376 | 400 | (494) | (1,053) | - | 3,675 | 8,904 |
| Membership(*1) | 44,523 | 767 | (992) | - | (6,495) | 11,757 | 49,560 |
| Development expense | 29,182 | 548 | - | (16,905) | - | 17,267 | 30,092 |
| Port facilities usage rights | 99,553 | - | - | (11,570) | - | - | 87,983 |
| Construction in progress | 22,000 | 90,269 | - | - | - | (16,234) | 96,035 |
| Other intangible assets | 21,262 | 2,320 | - | (10,858) | - | 8,543 | 21,267 |
| | ₩ 222,896 | 94,304 | (1,486) | (40,386) | (6,495) | 25,008 | 293,841 |

(*1) Economic useful life of membership is indefinite.
(*2) Since the carrying amount exceeded recoverable amount, impairment loss on memberships was recognized.
(*3) Represents assets transferred from construction-in-progress to intangible assets and assets transferred from property, plant and equipment. Also represents membership transferred from financial instruments as the estimate for the possibility of membership renewal is changed.

## 16. Borrowings

(a) Borrowings as of December 31, 2013 and 2012 are as follows:

*(in millions of Won)*

| | | 2013 | 2012 |
|---|---|---|---|
| **Short-term borrowings** | | | |
| Short-term borrowings | ₩ | 203,138 | 796,662 |
| Current portion of long-term borrowings | | 188,381 | 34,769 |
| Current portion of loans from foreign financial institutions | | 927 | 901 |
| Current portion of debentures | | 1,540,109 | 1,283,742 |
| Less : Current portion of discount on debentures issued | | (1,272) | (1,953) |
| Add : Current portion of premium on debentures redemption | | - | 2,419 |
| | ₩ | 1,931,283 | 2,116,540 |
| **Long-term borrowings** | | | |
| Long-term borrowings | ₩ | 648,251 | 843,015 |
| Loans from foreign financial institution | | 1,140 | 2,009 |
| Debentures | | 6,107,973 | 6,680,192 |
| Less : Discount on debentures issued | | (38,167) | (53,617) |
| Add : Premium on debentures redemption | | 12,591 | 15,635 |
| | ₩ | 6,731,788 | 7,487,234 |

(b) Short-term borrowings as of December 31, 2013 and 2012 are as follows:

*(in millions of Won)*

| Bank | | 2013 | 2012 |
|---|---|---|---|
| Royal Bank of Scotland | ₩ | - | 93,230 |
| Deutsche Bank | | - | 133,833 |
| Bank of America | | - | 114,093 |
| DBS Bank | | - | 121,544 |
| JP Morgan Chase & Co. | | - | 75,282 |
| Others (Transfer of account receivables not qualify for derecognition) | | 203,138 | 258,680 |
| | ₩ | 203,138 | 796,662 |

(c) Current portion of long-term borrowings as of December 31, 2013 and 2012 are as follows:

*(in millions of Won)*

| | Borrowers | Issuance date | Maturity date | Annual interest rate (%) | 2013 | 2012 |
|---|---|---|---|---|---|---|
| Borrowings | Woori Bank and others | 2006.10.31~ 2013.05.08 | 2017.03.15~ 2041.05.08 | 0.75~1.75 | ₩ 14,969 | 12,236 |
| Borrowings | Korea EXIM Bank | 2010.02.18~ 2013.07.03 | 2017.02.18~ 2018.03.23 | 4.09~4.50 | 173,412 | 22,533 |
| Loans from foreign financial institutions | NATIXIS(*1) | 1984.06.30~ 1986.03.31 | 2014.12.30~ 2017.03.31 | 2.00 | 927 | 901 |
| Debentures | Domestic debentures 292 | 2009.01.20 | 2014.01.20 | 5.40 | 499,975 | 499,711 |
| Debentures | Global fund 1 and another | 2009.03.26~ 2011.10.20 | 2014.03.26~ 2014.10.20 | 1.67~8.75 | 1,038,862 | 784,497 |
| | | | | | ₩ 1,728,145 | 1,319,878 |

(*1) As of December 31, 2013, Korea Development Bank has provided guarantees to the Company for loans from foreign financial institutions.

(d) Long-term borrowings excluding current portion, as of December 31, 2013 and 2012 are as follows:

*(in millions of Won)*

| | Borrowers | Issuance date | Maturity date | Annual interest rate (%) | 2013 | 2012 |
|---|---|---|---|---|---|---|
| Borrowings | Woori Bank and others(*1) | 2006.10.31~ 2013.05.08 | 2017.03.15~ 2041.05.08 | 0.75~1.75 | ₩ 71,194 | 85,519 |
| Borrowings | Korea National Oil Corporation | 2007.12.27~ 2013.12.30 | 2022.06.25~ 2026.12.29 | Government bond -2.25 | 13,593 | 13,657 |
| Borrowings | Korea EXIM Bank | 2010.02.18~ 2013.07.03 | 2017.02.18~ 2018.03.23 | 4.09~4.50 | 563,464 | 743,839 |
| Loans from foreign financial institutions | NATIXIS(*2) | 1986.03.31 | 2017.03.31 | 2.00 | 1,140 | 2,009 |
| Debentures | Domestic debentures 301 and others | 2010.08.04~ 2013.10.04 | 2015.08.04~ 2023.10.04 | 3.35~4.81 | 3,292,417 | 3,092,140 |
| Debentures | Exchangeable Bond(*3) and others | 2006.08.10~ 2013.12.11 | 2016.08.10~ 2021.12.22 | 0~5.88 | 2,789,980 | 3,550,070 |
| | | | | | ₩ 6,731,788 | 7,487,234 |

(*1) Short-term financial instruments amounting to ₩4,700 million and ₩3,400 million, respectively, are collateral for long-term borrowings from National Forestry Cooperatives Federation as of December 31, 2013 and 2012.

(*2) As of December 31, 2013, Korea Development Bank has provided guarantees to the Company for loans from foreign financial institutions.

(*3) The Company issued bonds exchangeable to SK Telecom Co., Ltd. ADRs through Zeus (Cayman) Ltd., an SPV. The Company accounted for these exchangeable bonds as long-term borrowings. The Company provides guarantees for Zeus (Cayman) Ltd.

### 17. Other Payables

Other payables as of December 31, 2013 and 2012 are as follows:

*(in millions of Won)*

| | 2013 | 2012 |
|---|---|---|
| Current | | |
| Accounts payable | ₩ 463,196 | 826,075 |
| Accrued expenses(*1) | 306,723 | 427,314 |
| Dividend payable | 9,180 | 6,493 |
| Finance lease liabilities | 1,124 | 1,088 |
| Withholdings | 11,660 | 9,070 |
| | ₩ 791,883 | 1,270,040 |
| Non-current | | |
| Long-term accounts payable | ₩ 91,827 | 88,938 |
| Accrued expenses | 22,922 | 24,664 |
| Finance lease liabilities | 5,042 | 6,246 |
| Long-term withholdings | 4,888 | 8,964 |
| | ₩ 124,679 | 128,812 |

(*1) During the year ended December 31, 2012, a fine of ₩98,326 million was imposed for price-fixing galvanized steel sheets as a result of the Korea Fair Trade Commission's investigation.

### 18. Other Financial Liabilities

Other financial liabilities as of December 31, 2013 and 2012 are as follows:

*(in millions of Won)*

| | 2013 | 2012 |
|---|---|---|
| Current | | |
| Derivative instruments liabilites | ₩ 36,964 | 9,499 |
| Financial guarantee liabilities | 9,045 | 7,393 |
| | ₩ 46,009 | 16,892 |
| Non-current | | |
| Derivative instruments liabilites | ₩ 175,463 | 31,256 |
| Financial guarantee liabilities | 56,076 | 41,664 |
| | ₩ 231,539 | 72,920 |

## 19. Provisions

Changes in provisions for the years ended December 31, 2013 and 2012 were as follows:

1) For the year ended December 31, 2013

| *(in millions of Won)* | Beginning | Increase | Utilization | Ending |
|---|---|---|---|---|
| Estimated allowance at the end of period(*1) | ₩ 6,239 | 12,428 | (10,166) | 8,501 |

(*1) Represents the provision for bonuses for executives.

2) For the year ended December 31, 2012

| *(in millions of Won)* | Beginning | Increase | Utilization | Ending |
|---|---|---|---|---|
| Estimated allowance at the end of period(*1) | ₩ 4,451 | 241,498 | (239,710) | 6,239 |

(*1) Represents the provision for bonuses for all employees.

## 20. Employee Benefits

(a) Defined contribution plans

The Company operates a defined contribution plan for participating employees. Though the Company pays fixed contributions into a separate fund, employee benefits relating to employee service rendered is based on the contributions to the funds and the investment earnings on it. Plan assets are managed by a trustee within a fund separate from the Company's assets.

The expenses related to post-employment benefit under defined contribution plans for the years ended December 31, 2013 and 2012 were as follows:

*(in millions of Won)*

| | 2013 | 2012 |
|---|---|---|
| Expense related to post-employment benefit under defined contribution plans | ₩ 15,903 | 13,032 |

(b) Defined benefit plans

The Company also operates a defined benefit pension plan for employees. The employees who chose a defined benefit pension plan will receive a defined payment upon termination of their employment if they fulfill the condition to qualify as a recipient. Before the termination of employment, the Company recognizes the pension liability related to defined benefit plans at the end of the reporting period, and measures it at the present value of the defined benefit obligation less the fair value of the plan assets. The Company uses the projected unit credit method in the actuarial valuation of plan assets and the defined benefit obligation.

(c) The amounts recognized in relation to net defined benefit liabilities in the statements of financial position as of December 31, 2013 and 2012 are as follows:

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| Present value of funded obligations | ₩ | 905,918 | 817,618 |
| Fair value of plan assets | | (805,268) | (677,362) |
| Net defined benefit liabilities | ₩ | 100,650 | 140,256 |

(d) The changes in present value of defined benefit obligations for the years ended December 31, 2013 and 2012 were as follows:

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| Defined benefit obligation at the beginning of period | ₩ | 817,618 | 690,321 |
| Current service costs | | 118,975 | 99,066 |
| Interest costs | | 27,942 | 31,156 |
| Remeasurement : | | 11,553 | 63,184 |
| - Loss from change in financial assumptions | | 13,555 | 74,728 |
| - Loss(Gain) from change in demographic assumptions | | 277 | (1,640) |
| - Others | | (2,279) | (9,904) |
| Benefits paid | | (70,170) | (66,109) |
| Defined benefit obligation at the end of period | ₩ | 905,918 | 817,618 |

(e) The changes in the fair value of plan assets for the years ended December 31, 2013 and 2012 were as follows:

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| Fair value of plan assets at the beginning of period | ₩ | 677,362 | 513,673 |
| Interest on plan assets | | 24,261 | 23,115 |
| Remeasurement of plan assets | | 86 | 2,732 |
| Contributions to plan assets(*1) | | 140,000 | 180,000 |
| Benefits paid | | (36,441) | (42,158) |
| Fair value of plan assets at the end of period | ₩ | 805,268 | 677,362 |

(*1) The Company expects to make a contribution of ₩140,000 million to the defined benefit plan assets in 2014.

(f) The fair value of plan assets as of December 31, 2013 and 2012 are as follows:

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| Deposits | ₩ | 805,202 | 677,296 |
| Others | | 66 | 66 |
| Total | ₩ | 805,268 | 677,362 |

(g) The amounts recognized in the statements of comprehensive income for the years ended December 31, 2013 and 2012 were as follows:

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| Current service costs | ₩ | 118,975 | 99,066 |
| Net interest costs(*1) | | 3,681 | 8,041 |
| | ₩ | 122,656 | 107,107 |

(*1) The actual return on plan assets amounted to ₩24,347 million and ₩25,847 million for the years ended December 31, 2013 and 2012, respectively.

The above expenses by function were as follows:

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| Cost of sales | ₩ | 97,490 | 85,298 |
| Selling and administrative expenses | | 23,834 | 20,897 |
| Others | | 1,332 | 912 |
| Total | ₩ | 122,656 | 107,107 |

(h) Actuarial gains (losses), net of tax recognized in other comprehensive income for the year ended December 31, 2013 and 2012 were as follows:

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| Beginning | ₩ | (149,770) | (103,947) |
| Current actuarial losses | | (11,467) | (60,452) |
| Tax effects | | 2,775 | 14,629 |
| Ending | ₩ | (158,462) | (149,770) |

(i) The principal actuarial assumptions as of December 31, 2013 and 2012 are as follows:

| | 2013 | 2012 |
|---|---|---|
| Discount rate(*1) | 3.95% | 3.47% |
| Expected future increases in salaries(*2) | 3.30% | 3.30% |

(*1) Discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of our benefits obligations and that are denominated in the same currency in which the benefits are expected to be paid.
(*2) The expected future increases in salaries are based on the average salary increase rate for past three years.

All assumptions are reviewed at the end of the reporting period. Additionally, the total estimated defined benefit obligation includes actuarial assumptions associated with the long-term characteristics of the defined benefit plan.

(j) Reasonably possible changes at the reporting date to one of the relevant actuarial assumption, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

| *(in millions of Won)* | 1% Increase | | 1% Decrease | |
|---|---|---|---|---|
| | Amount | Percentage(%) | Amount | Percentage(%) |
| Discount rate | ₩ (65,987) | (7.3) | ₩ 75,505 | 8.3 |
| Expected future increases in salaries | 75,234 | 8.3 | (66,959) | (7.4) |

(k) As of December 31, 2013 the maturity of the expected benefit payments are as follows :

| *(in millions of Won)* | Within 1 year | 1 year - 5 years | 5 years - 10 years | 10 years - 20 years | Later than 20 years | Total |
|---|---|---|---|---|---|---|
| Benefits paid | ₩ 1,897 | 72,674 | 315,343 | 702,647 | 168,978 | ₩ 1,261,539 |

The maturity analysis of the defined benefit obligation were nominal amounts of defined benefit obligations using expected remaining working lives of employees.

## 21. Other Liabilities

Other liabilities as of December 31, 2013 and 2012 are as follows:

*(in millions of Won)*

| | 2013 | 2012 |
|---|---|---|
| Current | | |
| Advances received | ₩ 20,912 | 44,488 |
| Withholding | 15,905 | 20,962 |
| Unearned revenue | 1,292 | 5,415 |
| | 38,109 | 70,865 |
| Non-current | | |
| Unearned revenue | 538 | 842 |
| Others | 3,000 | 3,000 |
| | ₩ 3,538 | 3,842 |

**22. Financial Instruments**

(a) Classification of financial instruments

1) Financial assets as of December 31, 2013 and 2012 are as follows:

*(in millions of Won)*

| | | 2013 | 2012 |
|---|---|---|---|
| Financial assets at fair value through profit or loss | | | |
| Derivatives assets held for trading | ₩ | 7,788 | 6,016 |
| Available-for-sale financial assets | | 3,354,770 | 3,062,057 |
| Held-to-maturity investments | | - | 29,981 |
| Loans and receivables | | 7,263,709 | 6,833,586 |
| | ₩ | 10,626,267 | 9,931,640 |

2) Financial liabilities as of December 31, 2013 and 2012 are as follows:

*(in millions of Won)*

| | | 2013 | 2012 |
|---|---|---|---|
| Financial liabilities at fair value through profit or loss | | | |
| Derivatives liabilities held for trading | ₩ | 212,427 | 40,755 |
| Financial liabilities measured as amortized cost | | | |
| Trade accounts and notes payable | | 735,457 | 978,581 |
| Borrowings | | 8,663,071 | 9,603,774 |
| Financial guarantee liabilities(*1) | | 65,121 | 49,057 |
| Others | | 916,562 | 1,300,526 |
| | | 10,380,211 | 11,931,938 |
| | ₩ | 10,592,638 | 11,972,693 |

(*1) Financial liabilities were recognized in connection with financial guarantee contracts as of December 31, 2013. The details of the amount of guarantees provided are as follows:

*(in millions of Won)*

| Guarantee beneficiary | Financial institution | Foreign currency | | Won equivalent |
|---|---|---|---|---|
| POSCO(Guangdong) | ANZ | USD | 10,000,000 | 10,553 |
| Automotive Steel Co., Ltd. | BOA | USD | 30,000,000 | 31,659 |
| | BTMU | USD | 24,000,000 | 25,327 |
| | DBS | USD | 35,000,000 | 36,936 |
| | ING | USD | 23,600,000 | 24,905 |
| | SMBC | USD | 35,000,000 | 36,936 |
| Zhangjiagang Pohang | BTMU | USD | 30,000,000 | 31,659 |
| Stainless Steel Co., Ltd. | Credit Agricole | USD | 50,000,000 | 52,765 |
| | Mizuho | USD | 80,000,000 | 84,424 |
| POSCO Maharashtra | Citi | USD | 60,000,000 | 63,318 |
| Steel Pvt. Ltd. | DBS | USD | 100,000,000 | 105,530 |
| | HSBC | USD | 80,000,000 | 84,424 |
| | ING | USD | 30,000,000 | 31,659 |
| | KDB | USD | 30,000,000 | 31,659 |
| | Export-Import Bank of Korea | USD | 193,000,000 | 203,673 |
| | SC | USD | 40,000,000 | 42,212 |
| | SCB | USD | 33,069,000 | 34,898 |
| POSCO ASSAN TST STEEL Industry | SMBC and others | USD | 188,392,500 | 198,811 |
| POSCO Electrical Steel India Private Limited | ING and others | USD | 83,784,000 | 88,417 |
| POSCO Investment Co., Ltd. | BOC | CNY | 350,000,000 | 60,932 |
| | BOA | USD | 45,000,000 | 47,489 |
| | BTMU | USD | 30,000,000 | 31,659 |
| | HSBC | USD | 50,000,000 | 52,765 |
| | ING | USD | 30,000,000 | 31,659 |
| | JP Morgan | USD | 50,000,000 | 52,765 |
| | SCB | USD | 45,000,000 | 47,489 |
| | SMBC | USD | 30,000,000 | 31,659 |
| POSCO-Mexico S.A. DE C.V | BOA | USD | 40,000,000 | 42,212 |
| | HSBC | USD | 40,000,000 | 42,212 |
| | KDB | USD | 50,000,000 | 52,765 |
| | Mizuho | USD | 45,000,000 | 47,489 |
| | SMBC | USD | 69,725,000 | 73,581 |
| POSCO-Vietnam Co., Ltd. | Export-Import Bank of Korea | USD | 196,000,000 | 206,839 |
| POSCO VST Co., Ltd. | ANZ | USD | 25,000,000 | 26,383 |
| | HSBC | USD | 20,000,000 | 21,106 |
| | Mizuho | USD | 20,000,000 | 21,106 |
| POSUK Titanium LLP | Shinhan Bank | USD | 18,000,000 | 18,995 |
| PT. KRAKATAU POSCO | ANZ | USD | 73,500,000 | 77,565 |
| | BOA | USD | 35,000,000 | 36,936 |
| | BTMU | USD | 119,000,000 | 125,581 |
| | Credit Suisse AG | USD | 91,000,000 | 96,032 |
| | HSBC | USD | 91,000,000 | 96,032 |
| | Export-Import Bank of Korea | USD | 567,000,000 | 598,355 |
| | Mizuho | USD | 105,000,000 | 110,807 |
| | SCB | USD | 107,800,000 | 113,760 |
| | SMBC | USD | 140,000,000 | 147,741 |
| | The Tokyo Star Bank, Ltd. | USD | 21,000,000 | 22,160 |
| United Spiral Pipe, LLC | Shinhan Bank | USD | 24,500,000 | 25,854 |
| | | USD | 3,334,370,500 | 3,518,761 |
| | | CNY | 350,000,000 | 60,932 |

3) Finance income and costs by category of financial instrument for the year ended December 31, 2013 and 2012 were as follows:

① December 31, 2013

*(in millions of Won)*

| | Finance income and costs | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Interest income (cost) | Dividend income(*1) | Gain and loss on foreign currency transactions | Gain and loss on foreign currency translations | Gain and loss on disposal | Others | Total | Other comprehensive income |
| Financial assets at fair value through profit or loss | ₩ - | - | - | - | 8,869 | 1,773 | 10,642 | - |
| Available-for-sale financial assets | 4,568 | 45,829 | - | - | 97,013 | (170,805) | (23,395) | 400,577 |
| Held-to-maturity investments | 367 | - | - | - | - | - | 367 | - |
| Loans and receivables | 101,737 | - | (8,194) | (11,425) | (80) | (898) | 81,140 | - |
| Financial liabilities at fair value through profit or loss | - | - | - | - | - | (195,719) | (195,719) | - |
| Financial liabilities at amortized cost | (271,020) | - | 46,749 | 257,880 | - | (314) | 33,295 | - |
| | ₩ (164,348) | 45,829 | 38,555 | 246,455 | 105,802 | (365,963) | (93,670) | 400,577 |

(*1) Finance income in the statement of comprehensive income includes the dividends from subsidiaries, associates, and joint ventures of ₩142,383 million for the year ended December 31, 2013.

② December 31, 2012

*(in millions of Won)*

| | Finance income and costs | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Interest income (cost) | Dividend income(*1) | Gain and loss on foreign currency transactions | Gain and loss on foreign currency translations | Gain and loss on disposal | Others | Total | Other comprehensive loss |
| Financial assets at fair value through profit or loss | ₩ - | - | - | - | (1,084) | 6,016 | 4,932 | - |
| Available-for-sale financial assets | 970 | 110,897 | - | - | 72,028 | (63,466) | 120,429 | (153,345) |
| Held-to-maturity investments | 1,580 | - | - | - | - | - | 1,580 | - |
| Loans and receivables | 111,263 | - | (62,901) | (24,476) | (182) | (569) | 23,135 | - |
| Financial liabilities at fair value through profit or loss | - | - | - | - | - | (27,984) | (27,984) | - |
| Financial liabilities at amortized cost | (391,767) | - | 126,193 | 628,822 | - | (606) | 362,642 | - |
| | ₩ (277,954) | 110,897 | 63,292 | 604,346 | 70,762 | (86,609) | 484,734 | (153,345) |

(*1) Finance income in the statement of comprehensive income includes the dividends from subsidiaries, associates, and joint ventures of ₩112,514 million for the year ended December 31, 2012.

(b) Credit risk

1) Credit risk exposure

The carrying amount of financial assets represents the Company's maximum exposure to credit risk. The maximum exposures to credit risk as of December 31, 2013 and 2012 are as follows:

*(in millions of Won)*

| | 2013 | 2012 |
|---|---|---|
| Cash and cash equivalents | ₩ 1,394,315 | 1,752,560 |
| Financial assets at fair value through profit or loss | 7,788 | 6,016 |
| Available-for-sale financial assets | 20,855 | 119,142 |
| Held-to-maturity investments | - | 29,981 |
| Loans and other receivables | 2,471,486 | 993,722 |
| Trade accounts and notes receivable | 3,393,444 | 4,087,030 |
| Long-term trade accounts and notes receivable | 4,464 | 274 |
| | ₩ 7,292,352 | 6,988,725 |

The Company provided financial guarantees for the repayment of loans of subsidiaries, associates, and joint ventures. As of December 31, 2013 and 2012, the maximum exposure to credit risk amounted to ₩3,579,693 million and ₩3,651,631 million, respectively.

2) Impairment losses on financial assets

① Allowance for doubtful accounts as of December 31, 2013 and 2012 are as follows:

*(in millions of Won)*

| | 2013 | 2012 |
|---|---|---|
| Trade accounts and notes receivable | ₩ 10,100 | 12,204 |
| Other accounts receivable | 10,571 | 10,571 |
| Long-term loans | 14,453 | 14,453 |
| Other assets | 13 | 13 |
| | ₩ 35,137 | 37,241 |

② Impairment losses on financial assets for the years ended December 31, 2013 and 2012 were as follows:

*(in millions of Won)*

| | 2013 | 2012 |
|---|---|---|
| Bad debt expenses | ₩ 3,980 | 10,613 |
| Impairment loss on available-for-sale securities | 170,805 | 63,466 |
| | ₩ 174,785 | 74,079 |

③ The aging schedule and the impaired losses of trade accounts and notes receivable as of December 31, 2013 and 2012 are as follows:

| *(in millions of Won)* | 2013 | | 2012 | |
|---|---|---|---|---|
| | Trade accounts and notes receivable | Impairment | Trade accounts and notes | Impairment |
| Not due | ₩ 3,072,283 | - | 3,758,894 | - |
| Over due less than 1 month | 68,759 | 58 | 120,848 | 11 |
| 1 month - 3 months | 26,657 | 674 | 103,407 | 584 |
| 3 months - 12 months | 174,479 | 1,241 | 102,255 | 9,458 |
| over 12 months | 65,830 | 8,127 | 14,104 | 2,151 |
| | ₩ 3,408,008 | 10,100 | 4,099,508 | 12,204 |

④ Changes in the allowance for doubtful accounts for the years ended December 31, 2013 and 2012 were as follows:

| *(in millions of Won)* | 2013 | 2012 |
|---|---|---|
| Beginning | ₩ 37,241 | 27,212 |
| Bad debt expenses | 3,980 | 10,613 |
| Others | (6,084) | (584) |
| Ending | ₩ 35,137 | 37,241 |

(c) Liquidity risk

1) Contractual maturities for non-derivative financial liabilities, including estimated interest, are as follows:

| *(in millions of Won)* | Book value | Contractual cash flow(*3) | Within 3 months | 3 months - 6 months | 6 months - 1 year | 1 year - 5 years | Later than 5 years |
|---|---|---|---|---|---|---|---|
| Trade accounts payable | ₩ 735,457 | 735,457 | 735,457 | - | - | - | - |
| Borrowings(*1) | 8,663,071 | 9,827,387 | 1,563,946 | 90,360 | 567,062 | 5,247,369 | 2,358,650 |
| Financial guarantee liabilities(*2) | 65,121 | 3,579,693 | 3,579,693 | - | - | - | - |
| Other financial liabilities | 916,562 | 919,516 | 779,375 | 279 | 12,229 | 127,633 | - |
| | ₩ 10,380,211 | 15,062,053 | 6,658,471 | 90,639 | 579,291 | 5,375,002 | 2,358,650 |

(*1) Includes cash flows of embedded derivatives instruments in relation to exchangeable bonds (exchange right).
(*2) For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.
(*3) Includes estimated interest.

2) The maturity analysis of derivative financial liabilities is as follows:

| *(in millions of Won)* | Within 3 months | 3 months - 6 months | 6 months - 1 year | Later than 1 years | Total |
|---|---|---|---|---|---|
| Currency futures | ₩ 6,611 | - | - | - | 6,611 |
| Currency swaps | - | - | 30,353 | - | 30,353 |
| | ₩ 6,611 | - | 30,353 | - | 36,964 |

(d) Currency risk

1) The Company has exposure to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The exposure to currency risk as of December 31, 2013 and 2012 are as follows:

| *(in millions of Won)* | **2013** | | **2012** | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| USD | ₩ 701,159 | 3,815,529 | 876,780 | 4,599,558 |
| JPY | 450,938 | 1,370,603 | 62,602 | 1,863,516 |
| CNH | 76,678 | - | - | - |
| EUR | 7,208 | 3,131 | 25,127 | 5,554 |
| Others | 38,337 | 226 | 46,306 | 149 |
| | ₩ 1,274,320 | 5,189,489 | 1,010,815 | 6,468,777 |

2) As of December 31, 2013 and 2012, provided that functional currency against foreign currencies other than functional currency hypothetically strengthens or weakens by 10%, the changes in gain or loss during the years ended December 31, 2013 and 2012 were as follows:

| *(in millions of Won)* | **2013** | | **2012** | |
|---|---|---|---|---|
| | 10% increase | 10% decrease | 10% increase | 10% decrease |
| USD | ₩ (311,437) | 311,437 | (372,278) | 372,278 |
| JPY | (91,967) | 91,967 | (180,091) | 180,091 |
| CNH | 7,668 | (7,668) | - | - |
| EUR | 408 | (408) | 1,957 | (1,957) |

(e) Interest rate risk

1) The carrying amount of interest-bearing financial instruments as of December 31, 2013 and 2012 are as follows:

| *(in millions of Won)* | **2013** | **2012** |
|---|---|---|
| Fixed rate | | |
| Financial assets | ₩ 3,773,978 | 2,752,342 |
| Financial liabilities | (8,580,517) | (9,508,984) |
| | ₩ (4,806,539) | (6,756,642) |
| Variable rate | | |
| Financial liabilities | ₩ (82,554) | (94,790) |

2) Sensitivity analysis on the fair value of financial instruments with fixed interest rate

The Company does not account for derivative instruments such as interest swaps as hedges in fair value hedging accounting. Therefore, fluctuations in interest rates do not affect gain or loss.

3) Sensitivity analysis on the fair value of financial instruments with variable interest rate

As of December 31, 2013 and 2012, provided that other factors remain the same and the interest rate of borrowings with floating rates increases or decreases by 1%, the changes in interest expense for the year ended December 31, 2013 and 2012 were as follows:

| *(in millions of Won)* | **2013** | | **2012** | |
|---|---|---|---|---|
| | 1% increase | 1% decrease | 1% increase | 1% decrease |
| Variable rate financial instruments | (826) | 826 | (948) | 948 |

(h) Offsetting financial assets and financial liabilities

As of December 31, 2013 and 2012, financial assets and financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements are as follows:

1) December 31, 2013

| *(in millions of Won)* | | | | **Related amounts not set off in the statement of financial position** | | |
|---|---|---|---|---|---|---|
| | **Gross amounts of recognized financial instruments** | **Gross amounts of recognized financial instruments set off in the statement of financial position** | **Net amounts of financial instruments presented in the statement of financial position** | **Financial Instruments** | **Cash collateral received or pledged** | **Net amount** |
| Financail Assets | | | | | | |
| Trade accounts and notes receivable, net | ₩ 203,138 | - | 203,138 | (203,138) | - | - |
| Financail Liabilities | | | | | | |
| Short-term borrowings | 203,138 | - | 203,138 | (203,138) | - | - |

2) December 31, 2012

| *(in millions of Won)* | | | | **Related amounts not set off in the statement of financial position** | | |
|---|---|---|---|---|---|---|
| | **Gross amounts of recognized financial instruments** | **Gross amounts of recognized financial instruments set off in the statement of financial position** | **Net amounts of financial instruments presented in the statement of financial position** | **Financial Instruments** | **Cash collateral received or pledged** | **Net amount** |
| Financail Assets | | | | | | |
| Trade accounts and notes receivable, net | ₩ 258,680 | - | 258,680 | (258,680) | - | - |
| Financail Liabilities | | | | | | |
| Short-term borrowings | 258,680 | - | 258,680 | (258,680) | - | - |

(g) Fair value

1) Fair value and book value

The carrying amount and the fair value of financial instruments as of December 31, 2013 and 2012 are as follows :

| *(in millions of Won)* | 2013 | | 2012 | |
|---|---|---|---|---|
| | Book Value | Fair Value | Book Value | Fair Value |
| Assets measured at fair value | | | | |
| Available-for-sale financial assets(*1) | ₩ 3,224,711 | 3,224,711 | ₩ 2,853,766 | 2,853,766 |
| Derivatives assets held for trading(*2) | 7,788 | 7,788 | 6,016 | 6,016 |
| | 3,232,499 | 3,232,499 | 2,859,782 | 2,859,782 |
| Assets measured amortised cost(*3) | | | | |
| Cash and cash equivalents | 1,394,315 | 1,394,315 | 1,752,560 | 1,752,560 |
| Trade accounts and note receivable, net | 3,397,908 | 3,397,908 | 4,087,304 | 4,087,304 |
| Loans and other receivables | 2,471,486 | 2,471,486 | 993,722 | 993,722 |
| Held-to-maturity investments | - | - | 29,981 | 29,981 |
| | 7,263,709 | 7,263,709 | 6,863,567 | 6,863,567 |
| Liabilities measured at fair value | | | | |
| Derivatives liabilities held for trading(*2) | 212,427 | 212,427 | 40,755 | 40,755 |
| Liabilities measured amortised cost(*3) | | | | |
| Trade accounts and notes payable | 735,457 | 735,457 | 978,581 | 978,581 |
| Borrowings | 8,663,071 | 8,943,063 | 9,603,774 | 10,145,751 |
| Financial guarantee liabilities | 65,121 | 65,121 | 49,057 | 49,057 |
| Others | 916,562 | 916,562 | 1,300,526 | 1,300,526 |
| | ₩ 10,380,211 | 10,660,203 | ₩ 11,931,938 | 12,473,915 |

(*1) The fair value of available-for-sale financial assets publicly traded is measured at the closing bid price quoted at the end of the reporting period. Meanwhile, the fair value of unquoted available-for-sale financial assets is calculated using the valuation results from an external pricing service in which weighted average cost of capital of evaluated companies is used as a discount rate. Available-for-sale financial assets which are not measured at fair value are excluded.

(*2) The fair value of derivatives is measured using valuation models such as Black-scholes model and others in which the market yields on government bonds are used as a discount rate.

(*3) The fair value of financial assets and liabilities measured at amortized cost is determined at the present value of estimated future cash flows discounted at the current market interest rate. The fair value is calculated for the disclosures in the notes. On the other hand, the Company has not performed fair value measurement for the financial assets and liabilities measured at amortized cost except borrowings since the fair value is close to their carrying amounts.

2) Interest rate for determining fair value

Interest rates used to discount the estimated cash flows as of December 31, 2013 and 2012 are as follows:

| | 2013 | 2012 |
|---|---|---|
| Borrowings | 0.76~4.08 | 1.47 ~ 4.50 |

3) The fair value hierarchy

① The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in measurements.

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: inputs other than quoted prices that are observable for the asset or liability either directly or indirectly.
Level 3: inputs for the assets or liability that are not based on observable market data (that is, unobservable inputs).

② The fair value of financial instruments by fair value hierarchy as of December 31, 2013 and 2012 are as follows:

a. December 31, 2013

| *(in millions of Won)* | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial Assets | | | | |
| Available-for-sale financial assets | ₩ 2,554,421 | - | 670,290 | 3,224,711 |
| Derivatives assets held for trading | - | 7,788 | - | 7,788 |
| | ₩ 2,554,421 | 7,788 | 670,290 | 3,232,499 |
| Financial Liabilities | | | | |
| Derivatives liabilities held for trading | ₩ - | 212,427 | - | 212,427 |

b. December 31, 2012

| *(in millions of Won)* | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial Assets | | | | |
| Available-for-sale financial assets | ₩ 2,182,741 | - | 671,025 | 2,853,766 |
| Derivatives assets held for trading | - | 6,016 | - | 6,016 |
| | ₩ 2,182,741 | 6,016 | 671,025 | 2,859,782 |
| Financial Liabilities | | | | |
| Derivatives liabilities held for trading | ₩ - | 40,755 | - | 40,755 |

③ Changes in financial assets classified as level 3 for the years ended December 31, 2013 and 2012 were as follows:

| *(in millions of Won)* | 2013 | 2012 |
|---|---|---|
| Beginning | ₩ 671,025 | 855,519 |
| Change to level 3 | 6,857 | 8,372 |
| Other comprehensive income | (4,015) | (192,866) |
| Impairment | (3,577) | - |
| Ending | ₩ 670,290 | 671,025 |

### 23. Share Capital and Capital Surplus

(a) Share Capital as of December 31, 2013 and 2012 are as follows:

*(Share, Won)*

| | | 2013 | 2012 |
|---|---|---|---|
| Authorized shares | | 200,000,000 | 200,000,000 |
| Par value | ₩ | 5,000 | 5,000 |
| Issued shares(*1) | | 87,186,835 | 87,186,835 |
| Shared capital(*2) | ₩ | 482,403,125,000 | 482,403,125,000 |

(*1) As of December 31, 2013, total numbers of ADRs of 53,749,064 are equivalent to 13,437,266 shares of common stock.
(*2) As of December 31, 2013, the difference between the ending balance of common stock and the par value of issued common stock is ₩46,469 million due to retirement of 9,293,790 treasury stocks.

(b) The changes in issued common stock for the years ended December 31, 2013 and 2012 were as follows:

*(share)*

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Issued shares | Treasury shares | Number of outstanding shares | Issued shares | Treasury shares | Number of outstanding shares |
| Beginning | ₩ 87,186,835 | (9,942,391) | 77,244,444 | 87,186,835 | (9,942,391) | 77,244,444 |
| Disposal of treasury shares | - | 2,539,180 | 2,539,180 | - | - | - |
| Ending | 87,186,835 | (7,403,211) | 79,783,624 | 87,186,835 | (9,942,391) | 77,244,444 |

(c) Capital surplus as of December 31, 2013 and 2012 are as follows:

*(in millions of Won)*

| | | 2013 | 2012 |
|---|---|---|---|
| Additional paid in capital | ₩ | 463,825 | 463,825 |
| Gain on disposal of treasury shares | | 769,215 | 763,867 |
| | ₩ | 1,233,040 | 1,227,692 |

## 24. Hybrid Bonds

(a) Hybrid bonds classified as equity as of December 31, 2013 are as follows:

*(in millions of Won)*

| | Date of issue | Date of maturity | Rate of interest (%) | 2013 |
|---|---|---|---|---|
| Hybrid bond 1-1 (*1) | 2013-06-13 | 2043-06-13 | 4.30 | ₩ 800,000 |
| Hybrid bond 1-2 (*1) | 2013-06-13 | 2043-06-13 | 4.60 | 200,000 |
| Issuance cost | | | | (3,081) |
| | | | | ₩ 996,919 |

(*1) Details of hybrid bonds as of December 31, 2013 are as follows:

| *(in millions of Won)* | Hybrid bond 1-1 | Hybrid bond 1-2 |
|---|---|---|
| Issue price | 800,000 | 200,000 |
| Maturity date | 30 years (The Company has a right to extend the maturity date) | 30 years (The Company has a right to extend the maturity date) |
| Interest rate | Issue date ~ 2018-06-12 : 4.3%<br>reset every 5 years as follows;<br>· After 5 years : return on government bond (5 years) + 1.3%<br>· After 10 years : addtionally + 0.25% according to Step-up clauses<br>· After 25 years : addtionally + 0.75% | Issue date ~ 2023-06-12 : 4.6%<br>reset every 10 years as follows;<br>· After 10 years : return on government bond (10 years) + 1.`4%<br>· After 10 years : addtionally + 0.25% according to Step-up clauses<br>· After 30 years : addtionally + 0.75% |
| Interest payments condition | Quaterly<br>(Optional deferral of interest payment is available to the Company) | Quaterly<br>(Optional deferral of interest payment is available to the Company) |
| Others | The Company can call the hybrid bond at year 5 and interest payment date afterwards | The Company can call the hybrid bond at year 10 and interest payment date afterwards |

The Company holds the right to extend the maturity dates of the hybrid bonds and to defer interest payments for the hybrid bonds. If interest payments for the hybrid bonds are deferred, the Company cannot declare or pay dividends attributable to common stock. Since the Company has an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation, the hybrid bonds have been classified as equity instruments. The interest accumulated but not paid on the hybrid bonds as of December 31, 2013 amounts to ₩2,301 million.

**25. Reserves**

(a) Reserves as of December 31, 2013 and 2012 are as follows:

| *(in millions of Won)* | 2013 | 2012 |
|---|---|---|
| Accumulated changes in the unrealized fair value of available-for-sale investments, net of tax | ₩ 403,939 | 3,362 |

(b) Changes in the accumulated unrealized fair value of available-for-sale investments for the years ended December 31, 2013 and 2012 were as follows:

| *(in millions of Won)* | 2013 | 2012 |
|---|---|---|
| Beginning balance | ₩ 3,362 | 156,707 |
| Changes in unrealized fair value of available-for-sale investments | 467,942 | (206,555) |
| Reclassification to profit or loss upon disposal | (93,976) | (75,518) |
| Impairment of available -for-sale securities | 170,805 | 63,466 |
| Tax effects | (144,194) | 65,262 |
| Ending balance | ₩ 403,939 | 3,362 |

**26. Treasury Shares**

Based on the Board of Director's resolution, the Company holds treasury shares for the business purposes including price stabilization. The changes in treasury shares for the years ended December 31, 2013 and 2012 were as follows:

| *(shares, in millions of Won)* | 2013 | | 2012 | |
|---|---|---|---|---|
| | Number of shares | Amount | Number of shares | Amount |
| Beginning | 9,942,391 | ₩ 2,391,406 | 9,942,391 | 2,391,406 |
| Disposal of treasury shares | (2,539,180) | (812,283) | - | - |
| Ending | 7,403,211 | ₩ 1,579,123 | 9,942,391 | 2,391,406 |

## 27. Retained Earnings

(a) Retained earnings as of December 31, 2013 and 2012 are summarized as follows:

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| Legal reserve | ₩ | 241,202 | 241,202 |
| Reserve for business rationalization | | 918,300 | 918,300 |
| Reserve for research and manpower development | | 1,573,333 | 1,530,000 |
| Appropriated retained earnings for business expansion | | 34,310,500 | 32,710,500 |
| Appropriated ratained earnings for dividends | | 2,044,113 | 1,858,725 |
| Unappropriated retained earnings | | 1,686,836 | 2,583,770 |
| | ₩ | 40,774,284 | 39,842,497 |

(b) Statements of appropriation of retained earnings as of December 31, 2013 and 2012 are as follows:

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| **Retained earnings before appropriation** | | | |
| Unappropriated retained earnings carried over from prior year | ₩ | 291,582 | 284,559 |
| Actuarial losses | | (8,692) | (45,824) |
| Interests of Hybrid bonds | | (24,161) | - |
| Interim dividends | | (154,489) | (154,489) |
| Dividends (ratio) per share | | | |
| ₩2,000 (40%) in 2013 | | | |
| ₩2,000 (40%) in 2012 | | | |
| Profit for the period | | 1,582,596 | 2,499,523 |
| | | 1,686,836 | 2,583,769 |
| **Transfer from discretionary reserve** | | | |
| Reserve for research and manpower devlopment | | 383,333 | 266,667 |
| Appropriated ratained earnings for dividends | | 237,543 | - |
| | | 620,876 | 266,667 |
| **Appropriation of retained earnings** | | | |
| Cash dividends | | | |
| Dividends (ratio) per share | | 478,702 | 463,467 |
| ₩6,000 (120%) in 2013 | | | |
| ₩6,000 (120%) in 2012 | | | |
| Reserve for research and manpower development | | 410,000 | 310,000 |
| Appropriated retained earnings for business expansion | | 1,200,000 | 1,600,000 |
| Appropriated ratained earnings for dividends | | - | 185,387 |
| | | 2,088,702 | 2,558,854 |
| **Unappropriated retained earnings carried forward to subsequent year** | ₩ | 219,010 | 291,582 |

The date of appropriation for 2013 is expected to be March 14, 2014 and the date of appropriation for 2012 was March, 22, 2013.

## 28. Revenue

Details of revenue for the years ended December 31, 2013 and 2012 were as follows:

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| Revenues | | | |
| Sales of goods | ₩ | 30,436,474 | 35,552,319 |
| Others | | 107,071 | 112,614 |
| | ₩ | 30,543,545 | 35,664,933 |

## 29. Selling and Administrative Expenses

(a) Administrative expenses

Administrative expenses for the years ended December 31, 2013 and 2012 were as follows:

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| Wages and salaries | ₩ | 198,726 | 182,393 |
| Expenses related to post-employment benefits | | 23,994 | 21,006 |
| Other employee benefits | | 44,630 | 60,682 |
| Travel | | 14,906 | 15,666 |
| Depreciation | | 25,074 | 24,733 |
| Amortization | | 18,126 | 18,214 |
| Rental | | 54,931 | 41,332 |
| Repairs | | 13,623 | 14,090 |
| Advertising | | 89,584 | 102,744 |
| Research & development | | 150,786 | 136,537 |
| Service fees | | 183,053 | 154,363 |
| Vehicles maintenance | | 7,012 | 7,153 |
| Industry association fee | | 7,710 | 7,364 |
| Training | | 9,593 | 12,007 |
| Conference | | 4,956 | 5,178 |
| Bad debt expenses | | 3,980 | 10,613 |
| Others | | 42,282 | 39,833 |
| | ₩ | 892,966 | 853,908 |

(b) Selling expenses

Selling expenses for the years ended December 31, 2013 and 2012 were as follows:

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| Freight and custody expenses | ₩ | 842,424 | 873,482 |
| Operating expenses for distribution center | | 9,370 | 8,955 |
| Sales commissions | | 70,397 | 75,207 |
| Sales advertising | | 3,145 | 4,168 |
| Sales promotion | | 6,375 | 6,206 |
| Sample | | 1,247 | 1,932 |
| Sales insurance premium | | 7,871 | 9,578 |
| | ₩ | 940,829 | 979,528 |

## 30. Research and Development Expenditures Recognized as Expense

Research and development expenditures recognized as expenses for the years ended December 31, 2013 and 2012 were as follows:

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| Selling and administrative expenses | ₩ | 150,786 | 136,537 |
| Cost of sales | | 364,876 | 376,650 |
| | ₩ | 515,662 | 513,187 |

## 31. Adjusted Operating Profit

Adjusted operating profits which include the other profits or losses excluded from operating profit but reflect the results of the Company's operations for the years ended December 31, 2013 and 2012 were as follows:

| *(in millions of Won)* | 2013 | 2012 |
|---|---|---|
| Operating profits on the statement of comprehensive income | ₩ 2,215,133 | 2,789,597 |
| Add | | |
| Gain on disposals of property, plant and equipment | 6,773 | 27,688 |
| Gain on disposals of investments in subsidiaries, associates and joint ventures | 14,544 | 8,693 |
| Reversal of impairment loss of property, plant and equipment | - | 1,606 |
| Gain on disposals of assets held for sale | 67,875 | 1,150 |
| Others | 50,856 | 30,600 |
| | 140,048 | 69,737 |
| Deduct | | |
| Loss on disposals of property, plant and equipment | (94,533) | (84,990) |
| Impairment loss on property, plant and equipment | (5,697) | - |
| Impairment loss on intangible assets | (581) | (6,495) |
| Loss on disposals of intangible assets | (315) | (617) |
| Donations | (40,319) | (62,684) |
| Idle tangible assets expenses | (16,800) | (30,743) |
| Impairment loss on investments in subsidiaries, associates and joint ventures | (235,794) | (1,102) |
| Loss on disposals of investments in subsidiaries, associates and joint ventures | (12,295) | (17,575) |
| Impairment loss on assets held for sale | (1,814) | - |
| Loss on disposals of assets held for sale | - | (9,391) |
| Others | (10,451) | (120,704) |
| | (418,599) | (334,301) |
| Adjusted operating profit | ₩ 1,936,582 | 2,525,033 |

### 32. Finance Income and Costs

Details of finance income and costs for the years ended December 31, 2013 and 2012 were as follows:

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| Finance income | | | |
| Interest income | ₩ | 106,672 | 113,813 |
| Dividend income | | 188,212 | 223,411 |
| Gain on disposals of financial assets held for trading | | - | 556 |
| Gain on derivative transactions | | 9,144 | - |
| Gain on foreign currency transactions | | 299,574 | 276,642 |
| Gain on foreign currency translations | | 264,614 | 639,565 |
| Gain on disposals of available-for-sale investment | | 97,085 | 96,441 |
| Others | | 1,772 | 6,111 |
| | | 967,073 | 1,356,539 |
| Finance costs | | | |
| Interest expenses | | 271,020 | 391,767 |
| Loss on foreign currency transactions | | 261,019 | 213,350 |
| Loss on foreign currency translations | | 18,159 | 35,219 |
| Loss on valuation of derivatives | | 195,719 | - |
| Impairment loss on available-for-sale investment | | 170,805 | 63,466 |
| Others | | 1,638 | 55,489 |
| | ₩ | 918,360 | 759,291 |

### 33. Other Non-Operating Income and Expenses

Details of other non-operating income and expenses for the years ended December 31, 2013 and 2012 were as follows:

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| Other non-operating income | | | |
| Gain on disposals of property, plant and equipment | ₩ | 6,773 | 27,688 |
| Gain on disposals of investments in subsidiaries, associates and joint ventures | | 14,544 | 8,693 |
| Reversal of impairment loss of property, plant and equipment | | - | 1,606 |
| Gain on disposals of assets held for sale | | 67,875 | 1,150 |
| Others | | 50,856 | 30,600 |
| | | 140,048 | 69,737 |
| Other non-operating expenses | | | |
| Loss on disposals of property, plant and equipment | | 94,533 | 84,990 |
| Impairment loss on property, plant and equipment | | 5,697 | - |
| Impairment loss on intangible assets | | 581 | 6,495 |
| Loss on disposals of intangible assets | | 315 | 617 |
| Donations | | 40,319 | 62,684 |
| Idle tangible assets expenses | | 16,800 | 30,743 |
| Impairment loss on investments in subsidiaries, associates and joint ventures | | 235,794 | 1,102 |
| Loss on disposals of investments in subsidiaries, associates and joint ventures | | 12,295 | 17,575 |
| Impairment loss on assets held for sale | | 1,814 | - |
| Loss on disposals of assets held for sale | | - | 9,391 |
| Others | | 10,451 | 120,704 |
| | ₩ | 418,599 | 334,301 |

**34. Expenses by Nature**

Expenses that are recorded by nature as cost of sales, selling and administrative expenses and other non-operating expenses in the statements of comprehensive income for the years ended December 31, 2013 and 2012 were as follows (excluding finance costs and income tax expenses):

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| Changes in inventories(*1) | ₩ | 304,068 | 570,136 |
| Raw materials and consumables used | | 19,380,227 | 24,090,512 |
| Employee benefits expenses(*3) | | 1,425,008 | 1,335,949 |
| Outsourced processing cost | | 2,078,917 | 1,996,707 |
| Depreciation(*2) | | 1,932,002 | 1,840,807 |
| Amortization | | 38,067 | 40,386 |
| Ordinary research & development expenses | | 515,662 | 513,187 |
| Electricity and water expenses | | 836,199 | 634,045 |
| Service fees | | 243,954 | 218,019 |
| Advertising | | 89,584 | 102,744 |
| Freight and custody expenses | | 842,424 | 873,482 |
| Sales commissions | | 70,397 | 75,207 |
| Loss on disposals of property, plant and equipment | | 94,533 | 84,990 |
| Other expenses | | 895,969 | 833,466 |
| | ₩ | 28,747,011 | 33,209,637 |

(*1) Changes in inventories are the changes in product, semi-finished products and by-product.
(*2) Includes depreciation of investment property.
(*3) The details of employee benefits expenses for the years ended December 31, 2013 and 2012 were as follows:

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| Wages and salaries | ₩ | 1,286,449 | 1,215,810 |
| Expenses related to post-employment benefits | | 138,559 | 120,139 |
| | ₩ | 1,425,008 | 1,335,949 |

## 35. Income Taxes

(a) Income tax expense for the years ended December 31, 2013 and 2012 are as follows:

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| Current income taxes(*1) | ₩ | 291,035 | 212,107 |
| Deferred income taxes | | 254,790 | 330,760 |
| Less: Items credited directly to shareholders' equity | | (143,126) | 79,891 |
| Income tax expense | ₩ | 402,699 | 622,758 |

(*1) Additional tax payments (or tax returns) arising from finalized tax assessment are added or deducted in current income taxes.

(b) The expected amount of income tax expense based on statutory rates compared to the actual amount of taxes recorded by the Company for the years ended December 31, 2013 and 2012 are as follows:

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| Profit before income tax expense | ₩ | 1,985,295 | 3,122,281 |
| Income tax expense computed at statutory rate | | 480,441 | 755,592 |
| Adjustments: | | (77,742) | (132,834) |
| Tax credit | | (134,670) | (160,139) |
| Additional payment of income taxes | | 2,253 | 3,328 |
| Investments in subsidiaries and associates | | 57,823 | - |
| Tax effect due to permanent differences | | (11,071) | 29,722 |
| Others | | 7,923 | (5,745) |
| Income tax expense | ₩ | 402,699 | 622,758 |
| Effective tax rate (%) | | 20.3% | 19.9% |

(c) The income taxes credited (charged) directly to equity for the years ended December 31, 2013 and 2012 were as follows:

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| Net changes in the unrealized fair value of available-for-sale securities | ₩ | (144,194) | 65,262 |
| Defined benefit plan actuarial losses | | 2,775 | 14,629 |
| Gain on disposal of treasury shares | | (1,707) | - |
| | ₩ | (143,126) | 79,891 |

(d) The movements in deferred tax assets (liabilities) for the years ended December 31, 2013 and 2012 were as follows:

| *(in millions of Won)* | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | **Dec.31, 2012** | **Inc(Dec)** | **Dec.31, 2013** | **Dec.31, 2011** | **Inc(Dec)** | **Dec.31, 2012** |
| **Deferred income tax due to temporary differences** | | | | | | |
| Reserve for special repairs | ₩ (29,013) | 551 | (28,462) | (29,659) | 646 | (29,013) |
| Reserve for technology developments | (368,647) | (6,453) | (375,100) | (358,160) | (10,487) | (368,647) |
| Depreciation | (56,394) | 8,261 | (48,133) | (63,228) | 6,834 | (56,394) |
| Prepaid expenses | 29,781 | (2,101) | 27,680 | 21,879 | 7,902 | 29,781 |
| Revaluation of property, plant and equipment | (789,056) | (213,742) | (1,002,798) | (553,205) | (235,851) | (789,056) |
| Loss on foreign currency translation | (52,508) | (122,422) | (174,930) | 93,911 | (146,419) | (52,508) |
| Defined benefit obligations | 157,559 | 26,830 | 184,389 | 102,738 | 54,821 | 157,559 |
| Plan assets | (161,152) | (33,773) | (194,925) | (124,536) | (36,616) | (161,152) |
| Accrued revenue | (2,575) | 643 | (1,932) | (2,314) | (261) | (2,575) |
| Others | 162,669 | 127,759 | 290,428 | 283,880 | (121,211) | 162,669 |
| | (1,109,336) | (214,447) | (1,323,783) | (628,694) | (480,642) | (1,109,336) |
| **Deferred tax from tax credit** | | | | | | |
| Tax credit carryforward | 266,977 | 101,076 | 368,053 | 196,986 | 69,991 | 266,977 |
| | 266,977 | 101,076 | 368,053 | 196,986 | 69,991 | 266,977 |
| **Deferred income taxes recognized directly to equity** | | | | | | |
| Loss(gain) on valuation of available-for-sale securities | 15,232 | (144,194) | (128,962) | (50,030) | 65,262 | 15,232 |
| Defined benefit plan actuarial losses | 47,815 | 2,775 | 50,590 | 33,186 | 14,629 | 47,815 |
| | 63,047 | (141,419) | (78,372) | (16,844) | 79,891 | 63,047 |
| | ₩ (779,312) | (254,790) | (1,034,102) | (448,552) | (330,760) | (779,312) |

(e) Deferred tax assets (liabilities) as of December 31, 2013, December 31, 2012 are as follows:

| *(in millions of Won)* | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | **Assets** | **Liabilities** | **Net** | **Assets** | **Liabilities** | **Net** |
| **Deferred income tax due to temporary differences** | | | | | | |
| Reserve for special repairs | ₩ - | (28,462) | (28,462) | - | (29,013) | (29,013) |
| Reserve for technology developments | - | (375,100) | (375,100) | - | (368,647) | (368,647) |
| Depreciation | 12,961 | (61,094) | (48,133) | 13,373 | (69,767) | (56,394) |
| Prepaid expenses | 27,680 | - | 27,680 | 29,781 | - | 29,781 |
| Revaluation of property, plant and equipment | - | (1,002,798) | (1,002,798) | - | (789,056) | (789,056) |
| Loss on foreign currency translation | 60,196 | (235,126) | (174,930) | 150,083 | (202,591) | (52,508) |
| Defined benefit obligations | 184,389 | - | 184,389 | 157,559 | - | 157,559 |
| Plan assets | - | (194,925) | (194,925) | - | (161,152) | (161,152) |
| Accrued revenue | - | (1,932) | (1,932) | - | (2,575) | (2,575) |
| Others | 303,332 | (12,904) | 290,428 | 569,505 | (406,836) | 162,669 |
| | 588,558 | (1,912,341) | (1,323,783) | 920,301 | (2,029,637) | (1,109,336) |
| **Deferred tax from tax credit** | | | | | | |
| Tax credit carryforward | 368,053 | - | 368,053 | 266,977 | - | 266,977 |
| | 368,053 | - | 368,053 | 266,977 | - | 266,977 |
| **Deferred income taxes recognized directly to equity** | | | | | | |
| Loss (gain) on valuation of available-for-sale securities | 40,404 | (169,366) | (128,962) | 87,249 | (72,017) | 15,232 |
| Defined benefit plan actuarial losses | 50,590 | - | 50,590 | 47,815 | - | 47,815 |
| | 90,994 | (169,366) | (78,372) | 135,064 | (72,017) | 63,047 |
| | ₩ 1,047,605 | (2,081,707) | (1,034,102) | 1,322,342 | (2,101,654) | (779,312) |

**36. Earnings per Share**

(a) Basic and diluted earnings per share for the years ended December 31, 2013 and 2012 were as follows:

| *(in millions of Won except per share information)* | | 2013 | 2012 |
|---|---|---|---|
| Profit for the period | ₩ | 1,582,596 | 2,499,523 |
| Interests of hybrid bonds | | (18,314) | - |
| Weighted-average number of common shares outstanding(*1) | | 78,009,654 | 77,244,444 |
| Basic and diluted earnings per share | ₩ | 20,052 | 32,359 |

(*1) The weighted-average number of common shares used to calculate basic and diluted earnings per share are as follows:

| *(share)* | 2013 | 2012 |
|---|---|---|
| Total number of common shares issued | 87,186,835 | 87,186,835 |
| Weighted-average number of treasury shares | (9,177,181) | (9,942,391) |
| Weighted-average number of common shares outstanding | 78,009,654 | 77,244,444 |

Since there were no potential shares of common stock which had dilutive effects as of December 31, 2013 and 2012, diluted earnings per share is equal to basic earnings per share.
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## 37. Related Party Transactions

(a) Significant transactions with related companies for the years ended December 31, 2013 and 2012 are as follows:

1) For the year ended December 31, 2013

| *(in millions of Won)* | Sales and others(*1) | | | Purchase and others(*2) | | | | |
|---|---|---|---|---|---|---|---|---|
| | Sales | Others | Total | Purchase of material | Purchase of fixed assets | Outsourced processing cost | Others | Total |
| **Subsidiaries(*3)** | | | | | | | | |
| POSCO ENGINEERING & CONSTRUCTION Co., LTD. | ₩ 16,439 | 3,421 | ₩ 19,860 | ₩ 3,042 | 2,235,798 | 5,855 | 9,242 | ₩ 2,253,937 |
| POSCO Processing&Service | 987,424 | 8 | 987,432 | 1,215,510 | - | - | 805 | 1,216,315 |
| POSCO COATED & COLOR STEEL Co., Ltd. | 472,353 | 25 | 472,378 | - | - | 10,648 | 98 | 10,746 |
| POSCO PLANTEC Co., Ltd. | 2,324 | 19 | 2,343 | 1,499 | 67,081 | 13,733 | 2,492 | 84,805 |
| POSCO ICT | 1,210 | 195 | 1,405 | 679 | 279,660 | 31,231 | 157,126 | 468,696 |
| POSMATE | 1,419 | 85 | 1,504 | 805 | 1,041 | 15,732 | 32,894 | 50,472 |
| eNtoB Corporation | - | 10 | 10 | 234,352 | 13,241 | 149 | 20,079 | 267,821 |
| POSCO CHEMTECH | 512,139 | 25,868 | 538,007 | 491,562 | 21,832 | 287,584 | 1,223 | 802,201 |
| POSCO M-TECH | 11,122 | 94 | 11,216 | 158,709 | 2,336 | 220,986 | 141 | 382,172 |
| POSCO ENERGY CO., LTD. | 104,209 | 915 | 105,124 | - | 5,178 | - | 7 | 5,185 |
| POSCO TMC Co., Ltd. | 188,915 | 15 | 188,930 | - | - | 1,051 | 1,298 | 2,349 |
| POSCO AST | 500,193 | 10 | 500,203 | 6,985 | - | 56,520 | 2,029 | 65,534 |
| POSHIMETAL Co., Ltd. | 18,922 | 137 | 19,059 | 166,042 | - | - | 5 | 166,047 |
| Daewoo International Corporation | 3,522,678 | 65 | 3,522,743 | 16,297 | - | - | 2,843 | 19,140 |
| POSCO America Corporation | 596,681 | 1 | 596,682 | - | - | - | 339 | 339 |
| POSCO Canada Ltd. | - | - | - | 144,329 | - | - | - | 144,329 |
| POSCO Asia Co., Ltd. | 2,068,965 | 221 | 2,069,186 | 64,434 | 182 | - | 1,673 | 66,289 |
| POSCO (Thailand) Company Limited | 56,210 | 56 | 56,266 | - | - | - | 85 | 85 |
| Qingdao Pohang Stainless Steel Co., Ltd. | 58,502 | - | 58,502 | - | - | - | 14 | 14 |
| POSCO(Suzhou) Automotive Processing Center Co., Ltd. | 129,345 | 1 | 129,346 | - | - | - | - | - |
| POSCO JAPAN Co., Ltd. | 1,270,325 | - | 1,270,325 | 19,978 | 2 | - | 2,972 | 22,952 |
| POSCO-India Pune Processing Center. Pvt. Ltd. | 119,503 | 7 | 119,510 | - | - | - | - | - |
| POSCO MEXICO S.A. DE C.V. | 256,014 | 693 | 256,707 | - | - | - | 621 | 621 |
| POSCO Maharashtra Steel Private Limited | 176,425 | 3,157 | 179,582 | - | - | - | 236 | 236 |
| DAEWOO INTERNATIONAL SINGAPORE PTE. LTD. | - | - | - | 108,179 | - | - | - | 108,179 |
| Others | 558,923 | 7,569 | 566,492 | 92,527 | 38,843 | 18,782 | 77,101 | 227,253 |
| | ₩ 11,630,240 | 42,572 | ₩ 11,672,812 | ₩ 2,724,929 | 2,665,194 | 662,271 | 313,323 | ₩ 6,365,717 |
| **Associates and joint ventures(*3)** | | | | | | | | |
| SNNC | 1,532 | 458 | 1,990 | 402,639 | - | - | - | 402,639 |
| POSCO PLANTEC Co., Ltd.(*4) (formerly, SUNGJIN GEOTEC Co., Ltd.) | 15,028 | 48 | 15,076 | 1,735 | 65,802 | 9,781 | 6,883 | 84,201 |
| POSCHROME (PROPRIETARY) LIMITED | - | - | - | 66,762 | - | - | - | 66,762 |
| PT. POSMI Steel Indonesia | 6,538 | - | 6,538 | - | - | - | - | - |
| POSK(Pinghu) Steel Processing Center Co., Ltd. | 3,786 | - | 3,786 | - | - | - | - | - |
| POSCO-SAMSUNG-Slovakia Processing Center | 19,906 | - | 19,906 | - | - | - | - | - |
| POSCO-SAMSUNG Suzhou Processing Center Co., Ltd. | 6,429 | - | 6,429 | - | - | - | - | - |
| Others | 546 | 165 | 711 | 3,937 | - | - | 176 | 4,113 |
| | ₩ 53,765 | 671 | ₩ 54,436 | ₩ 475,073 | 65,802 | 9,781 | 7,059 | ₩ 557,715 |
| | ₩ 11,684,005 | 43,243 | ₩ 11,727,248 | ₩ 3,200,002 | 2,730,996 | 672,052 | 320,382 | ₩ 6,923,432 |

(*1) Sales and others mainly consist of sales of steel products to subsidiaries, associates and joint ventures. These are priced on an arm's length basis.

(*2) Purchases and others mainly consist of subsidiaries' purchases of construction services and purchases of raw materials to manufacture steel products. These are priced on an arm's length basis

(*3) As of December 31, 2013, the Company provided guarantees to related parties (note 22).

(*4) Sungjin Geotec Co., Ltd. merged with POSCO Plant Engineering Co., Ltd. and changed its name to POSCO PLANTEC Co., Ltd..

2) For the year ended December 31, 2012

| *(in millions of Won)* | Sales and others | | | Purchase and others | | | | |
|---|---|---|---|---|---|---|---|---|
| | Sales | Others | Total | Purchase of material | Purchase of fixed assets | Outsourced processing cost | Others | Total |
| **Subsidiaries** | | | | | | | | |
| POSCO ENGINEERING & CONSTRUCTION Co., LTD. | ₩ 27,401 | 709 | ₩ 28,110 | ₩ 46 | 1,408,787 | 7 | 42,246 | ₩ 1,451,086 |
| POSCO Processing&Service | 897,017 | 34 | 897,051 | 1,392,988 | - | - | 2,903 | 1,395,891 |
| POSCO COATED & COLOR STEEL Co., Ltd. | 489,507 | 38 | 489,545 | - | - | 5,574 | 922 | 6,496 |
| POSCO PLANTEC Co., Ltd. | 3,253 | 63 | 3,316 | 3,331 | 233,788 | 23,372 | 17,455 | 277,946 |
| POSCO ICT | 1,330 | 217 | 1,547 | 1,151 | 285,093 | 31,050 | 151,621 | 468,915 |
| eNtoB Corporation | - | 11 | 11 | 211,449 | 3,490 | 225 | 20,978 | 236,142 |
| POSCO CHEMTECH | 492,720 | 19,197 | 511,917 | 507,215 | 10,153 | 279,507 | 1,275 | 798,150 |
| POSCO M-TECH | 27,770 | 136 | 27,906 | 130,363 | 9,018 | 176,263 | 2,904 | 318,548 |
| POSCO ENERGY CO., LTD. | 87,387 | 820 | 88,207 | - | 482 | - | 1,772 | 2,254 |
| POSCO TMC Co., Ltd. | 230,215 | 20 | 230,235 | 25 | - | 995 | 12 | 1,032 |
| POSCO AST | 278,446 | 17 | 278,463 | 8,114 | - | 50,320 | 213 | 58,647 |
| POSHIMETAL Co., Ltd. | 23,882 | 130 | 24,012 | 149,809 | 180 | - | 5 | 149,994 |
| Daewoo International Corporation | 4,271,317 | 133 | 4,271,450 | 10,562 | - | 389 | 4,780 | 15,731 |
| POSCO NST Co., Ltd. | 212,534 | 2 | 212,536 | 1,229 | - | 2,147 | 242 | 3,618 |
| POSCO America Corporation | 726,450 | - | 726,450 | - | - | - | 733 | 733 |
| POSCO Canada Ltd. | - | - | - | 205,129 | - | - | - | 205,129 |
| POSCO Asia Co., Ltd. | 1,928,881 | 627 | 1,929,508 | 105,392 | 592 | - | 1,329 | 107,313 |
| POSCO (Thailand) Company Limited | 119,031 | 247 | 119,278 | - | - | - | 182 | 182 |
| Qingdao Pohang Stainless Steel Co., Ltd. | 62,347 | 2 | 62,349 | - | - | - | - | - |
| POSCO(Suzhou) Automotive Processing Center Co., Ltd. | 128,974 | - | 128,974 | - | - | - | - | - |
| POSCO JAPAN Co., Ltd. | 1,439,580 | - | 1,439,580 | 20,472 | 2,857 | - | 5,381 | 28,710 |
| POSCO-India Pune Processing Center. Pvt. Ltd. | 164,450 | 33 | 164,483 | - | - | - | 15 | 15 |
| POSCO MEXICO S.A. DE C.V. | 337,921 | 724 | 338,645 | - | - | - | 492 | 492 |
| POSCO Maharashtra Steel Private Limited | 154,055 | 1,587 | 155,642 | - | - | - | - | - |
| DAEWOO INTERNATIONAL SINGAPORE PTE. LTD. | - | - | - | 73,471 | - | - | - | 73,471 |
| Others | 569,076 | 2,787 | 571,863 | 81,411 | 56,570 | 17,673 | 132,115 | 287,769 |
| | ₩ 12,673,544 | 27,534 | ₩ 12,701,078 | ₩ 2,902,157 | 2,011,010 | 587,522 | 387,575 | ₩ 5,888,264 |
| **Associates and joint ventures** | | | | | | | | |
| POSMATE | 951 | 21,093 | 22,044 | 1,058 | 21 | 14,947 | 30,032 | 46,058 |
| SNNC | 2,162 | 349 | 2,511 | 379,050 | - | - | - | 379,050 |
| POSCO PLANTEC Co., Ltd. (formerly, SUNGJIN GEOTEC Co., Ltd.) | 27,697 | - | 27,697 | - | - | - | - | - |
| Dongbang Special Steel Co., Ltd. | 89,094 | - | 89,094 | - | - | - | - | - |
| POSCHROME (PROPRIETARY) LIMITED | - | 58 | 58 | 68,079 | - | - | - | 68,079 |
| PT. POSMI Steel Indonesia | 9,696 | - | 9,696 | - | - | - | - | - |
| POSK(Pinghu) Steel Processing Center Co., Ltd. | 3,889 | - | 3,889 | - | - | - | - | - |
| POSCO-SAMSUNG-Slovakia Processing Center | 16,309 | - | 16,309 | - | - | - | - | - |
| POSCO-SAMSUNG Suzhou Processing Center Co., Ltd. | 26,280 | - | 26,280 | - | - | - | - | - |
| Others | 7,774 | 117 | 7,891 | 5,303 | - | 6,579 | 2,530 | 14,412 |
| | ₩ 183,852 | 21,617 | ₩ 205,469 | ₩ 453,490 | 21 | 21,526 | 32,562 | ₩ 507,599 |
| | ₩ 12,857,396 | 49,151 | ₩ 12,906,547 | ₩ 3,355,647 | 2,011,031 | 609,048 | 420,137 | ₩ 6,395,863 |

(b) The related account balances of significant transactions with related companies as of December 31, 2013 and 2012 are as follows:

1) December 31, 2013

| *(in millions of Won)* | Receivables | | | Payables | | | |
|---|---|---|---|---|---|---|---|
| | Trade accounts and notes receivable | Others | Total | Trade accounts and notes payable | Accounts payable | Others | Total |
| **Subsidiaries** | | | | | | | |
| POSCO ENGINEERING & CONSTRUCTION Co., LTD. | ₩ 40 | 110,955 | ₩ 110,995 | ₩ - | 105,603 | - | ₩ 105,603 |
| POSCO Processing&Service | 103,400 | 73 | 103,473 | 17,914 | 683 | - | 18,597 |
| POSCO COATED & COLOR STEEL Co., Ltd. | 69,260 | 65 | 69,325 | - | 59 | 1,434 | 1,493 |
| POSCO ICT | 75 | 123 | 198 | - | 51,247 | - | 51,247 |
| POSMATE | 489 | 1,533 | 2,022 | 141 | 3,274 | 1,058 | 4,473 |
| eNtoB Corporation | - | - | - | 8,057 | 10,311 | - | 18,368 |
| POSCO CHEMTECH | 46,943 | 4,313 | 51,256 | 35,829 | 6,983 | 8,663 | 51,475 |
| POSCO M-TECH | 18 | 28 | 46 | 12,020 | 21,326 | 10,799 | 44,145 |
| POSCO ENERGY CO., LTD. | 14,733 | 2,894 | 17,627 | - | 421 | - | 421 |
| POSCO TMC Co., Ltd. | 20,510 | 26 | 20,536 | - | 16 | 50 | 66 |
| POSCO AST | 85,501 | 53 | 85,554 | - | 3,004 | 5,238 | 8,242 |
| POSHIMETAL Co., Ltd. | 1,721 | 12 | 1,733 | - | 12,624 | - | 12,624 |
| Daewoo International Corporation | 148,383 | 878 | 149,261 | 9,319 | - | - | 9,319 |
| POSCO America Corporation | 57,554 | - | 57,554 | - | - | - | - |
| POSCO Canada Ltd. | - | - | - | 12,323 | - | - | 12,323 |
| POSCO Asia Co., Ltd. | 134,602 | 142 | 134,744 | 2,063 | - | - | 2,063 |
| POSCO (Thailand) Company Limited | 6,052 | 7 | 6,059 | - | - | - | - |
| Qingdao Pohang Stainless Steel Co., Ltd. | 3,329 | - | 3,329 | - | - | - | - |
| POSCO JAPAN Co., Ltd. | 73,992 | - | 73,992 | 862 | 108 | 1 | 971 |
| POSCO-India Pune Processing Center. Pvt. Ltd. | 8,117 | - | 8,117 | - | - | - | - |
| POSCO MEXICO S.A. DE C.V. | 100,016 | 76 | 100,092 | - | - | - | - |
| POSCO Maharashtra Steel Private Limited | 55,392 | 3,218 | 58,610 | - | - | - | - |
| Others | 54,357 | 8,887 | 63,244 | 6,523 | 15,421 | 1,647 | 23,591 |
| | ₩ 984,484 | 133,283 | ₩ 1,117,767 | ₩ 105,051 | 231,080 | 28,890 | ₩ 365,021 |
| **Associates and joint ventures** | | | | | | | |
| SNNC | 140 | 40 | 180 | 16,669 | - | - | 16,669 |
| POSCO PLANTEC Co., Ltd. (formerly, SUNGJIN GEOTEC Co., Ltd.) | 879 | 46 | 925 | 353 | - | - | 353 |
| POSCHROME (PROPRIETARY) LIMITED | - | 67 | 67 | - | - | - | - |
| LLP POSUK Titanium | - | 4,066 | 4,066 | - | - | - | - |
| Others | - | 17 | 17 | 319 | 2 | - | 321 |
| | ₩ 1,019 | 4,236 | ₩ 5,255 | ₩ 17,341 | 2 | - | ₩ 17,343 |
| | ₩ 985,503 | 137,519 | ₩ 1,123,022 | ₩ 122,392 | 231,082 | 28,890 | ₩ 382,364 |

2) December 31, 2012

| *(in millions of Won)* | Receivables | | | Payables | | | |
|---|---|---|---|---|---|---|---|
| | Trade accounts and notes receivable | Others | Total | Trade accounts and notes payable | Accounts payable | Others | Total |
| **Subsidiaries** | | | | | | | |
| POSCO ENGINEERING & CONSTRUCTION Co., LTD. | ₩ 5,084 | 2,893 | ₩ 7,977 | ₩ - | 403,630 | - | ₩ 403,630 |
| POSCO Processing&Service | 64,206 | 358 | 64,564 | 28,723 | 3,949 | - | 32,672 |
| POSCO COATED & COLOR STEEL Co., Ltd. | 108,465 | 40 | 108,505 | 114 | - | 2,504 | 2,618 |
| POSCO PLANTEC Co., Ltd. | 59 | 208 | 267 | 3,066 | 29,231 | - | 32,297 |
| POSCO ICT | - | 287 | 287 | 248 | 84,432 | 6,617 | 91,297 |
| eNtoB Corporation | - | 3 | 3 | 7,246 | 9,323 | 12 | 16,581 |
| POSCO CHEMTECH | 43,086 | 3,988 | 47,074 | 52,485 | 13,300 | 18,753 | 84,538 |
| POSCO M-TECH | 1,230 | 63 | 1,293 | 8,226 | 10,900 | 17,866 | 36,992 |
| POSCO ENERGY CO., LTD. | 9,177 | 2,934 | 12,111 | - | 2,292 | - | 2,292 |
| POSCO TMC Co., Ltd. | 64,832 | 30 | 64,862 | 1 | - | 144 | 145 |
| POSCO AST | 64,542 | 1,033 | 65,575 | 90 | 2,919 | 4,791 | 7,800 |
| POSHIMETAL Co., Ltd. | 1,233 | 221 | 1,454 | - | 15,191 | - | 15,191 |
| Daewoo International Corporation | 357,446 | 1,378 | 358,824 | 685 | - | 45 | 730 |
| POSCO America Corporation | 63,545 | - | 63,545 | - | - | - | - |
| POSCO Canada Ltd. | - | - | - | 12,973 | - | - | 12,973 |
| POSCO Asia Co., Ltd. | 102,666 | 183 | 102,849 | 2,244 | - | - | 2,244 |
| POSCO (Thailand) Company Limited | 17,965 | 21 | 17,986 | - | - | - | - |
| Qingdao Pohang Stainless Steel Co., Ltd. | 8,710 | - | 8,710 | - | - | - | - |
| POSCO JAPAN Co., Ltd. | 35,400 | - | 35,400 | 673 | - | - | 673 |
| POSCO MEXICO S.A. DE C.V. | 131,372 | 297 | 131,669 | - | - | - | - |
| POSCO Maharashtra Steel Private Limited | 55,249 | 2,628 | 57,877 | - | - | - | - |
| Others | 49,679 | 5,500 | 55,179 | 5,920 | 22,509 | 3,359 | 31,788 |
| | ₩ 1,183,946 | 22,065 | ₩ 1,206,011 | ₩ 122,694 | 597,676 | 54,091 | ₩ 774,461 |
| **Associates and joint ventures** | | | | | | | |
| POSMATE | - | 78 | 78 | 168 | 2,175 | 3,972 | 6,315 |
| SNNC | 194 | 35 | 229 | 37,145 | - | - | 37,145 |
| POSCO PLANTEC Co., Ltd. (formerly, SUNGJIN GEOTEC Co., Ltd.) | 4,849 | - | 4,849 | - | - | - | - |
| POSCHROME (PROPRIETARY) LIMITED | - | - | - | 2,273 | - | - | 2,273 |
| Others | - | 453 | 453 | 804 | - | - | 804 |
| | ₩ 5,043 | 566 | ₩ 5,609 | ₩ 40,390 | 2,175 | 3,972 | ₩ 46,537 |
| | ₩ 1,188,989 | 22,631 | ₩ 1,211,620 | ₩ 163,084 | 599,851 | 58,063 | ₩ 820,998 |

(c) For the years ended December 31, 2013 and 2012, details of compensation to key management officers were as follows:

| *(in millions of Won)* | 2013 | 2012 |
|---|---|---|
| Short-term benefits | ₩ 31,332 | 34,471 |
| Long-term benefits | 8,004 | 14,934 |
| Retirement benefits | 6,296 | 6,644 |
| | ₩ 45,632 | 56,049 |

Key management officers include directors (including non-standing directors), executive officials and fellow officials who have significant influence and responsibilities in the Company's business and operations. In addition to the compensation described above, the Company provided stock appreciation rights to its executive officers and recorded stock compensation expenses amounted to ₩436 million for the year ended December 31, 2012 (2013: nil).

## 38. Commitments and Contingencies

(a) Contingent liabilities

Contingent liabilities may develop in a way not initially expected. Therefore, management continuously assesses contingent liabilities to determine whether an outflow of resources embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognized in the financial statements of the period in which the change in probability occurs (except in the extremely rare circumstances where no reliable estimate can be made).

Management makes estimates and assumptions that affect disclosures of commitments and contingencies. All estimates and assumptions are based on the evaluation of current circumstances and appraisals with the supports of internal specialists or external consultants.

Management regularly analyzes current information about these matters and provides provisions for probable contingent losses including the estimate of legal expense to resolve the matters. Internal and external lawyers are used for these assessments. In making the decision regarding the need for provisions, management considers the degree of probability of an unfavorable outcome and the ability to make a sufficiently reliable estimate of the amount of loss.

(b) Commitments

The Company entered into long-term contracts to purchase iron ore, coal, nickel and others. The contracts of iron ore and coal generally have terms of more than three years and the contracts of nickel have terms of more than one year. These contracts provide for periodic price adjustments based on the market price. As of December 31, 2013, 193million tons of iron ore and 14 million tons of coal remained to be purchased under such long-term contracts.

The Company entered into an agreement with Tangguh Liquefied Natural Gas (LNG) Consortium in Indonesia to purchase 550 thousand tons of LNG annually for 20 years commencing in August 2005. The purchase price is subject to change, based on changes of the monthly standard oil price (JCC) and with a price ceiling.

As of December 31, 2013, the Company entered into commitments with Korea National Oil Corporation for long-term foreign currency borrowings, which are limited up to the amount of USD 6.86 million, USD 6.58 million and USD 4.12 million. The borrowings are related to the exploration of gas hydrates in Aral Sea, Uzbekistan, the exploration of gas hydrates in Namangan-Chust and the exploration of gas hydrates in Western Fergana-Chenavard, respectively. The repayment of the borrowings depends on the success of the projects. The Company is not liable for the repayment of full or part of the money borrowed if the respective projects fail. The Company has agreed to pay a certain portion of its profits under certain conditions, as defined by the borrowing agreements.

As of December 31, 2013, the Company has provided two blank promissory notes and a blank check to Korea Resources Corporation as collateral for long-term domestic borrowings, and has provided six blank promissory notes and three blank checks to Korea National Oil Corporation as collateral for long-term foreign currency borrowings.

(c) Litigation in progress

1) Civil lawsuits with Nippon Steel & Sumitomo Metal Corporation

During the year ended December 31, 2012, Nippon Steel & Sumitomo Metal Corporation filed a civil lawsuit in the Tokyo District Court of Japan against POSCO and POSCO Japan Co., Ltd., a subsidiary of POSCO, to prohibit production and sales of grain oriented electrical steel sheets using improperly acquired trade secrets and seeking compensation from the Company of JPY 98.6 billion (₩990.6 billion). Through trials to the year ended December 31, 2013, the Company submitted its responses that the Japan court did not have jurisdiction on this lawsuit as it should be judged by Korean law and the Company developed grain oriented electrical steel sheets using the Company's own technologies. As of December 31, 2013, the Japan court has not made any judgments on this matter. Since the Company does not believe that it is probable that an outflow of resources will be required, the Company has not recorded any provision for this lawsuit as of December 31, 2013.

In addition, Nippon Steel & Sumitomo Metal Corporation filed a civil lawsuit in the New Jersey federal court, United States, against POSCO and POSCO America Co., Ltd., a subsidiary of POSCO, claiming infringement of intellectual property rights related to the production of grain oriented electrical steel sheets. As of December 31, 2013, no claim amount has been made and the Company is under discovery proceedings related to this matter. Due to the early stage of the litigation and the inherent uncertainties, the Company is not able to reliably estimate the amount of compensation and timing, if any, that might be awarded to Nippon Steel & Sumitomo Metal Corporation. Consequently, it is not possible for the Company to make an estimate of the expected financial effect that will result from the ultimate resolution of this civil lawsuit. Therefore, the Company has not recorded any provision for this lawsuit in the U.S. as of December 31, 2013.

2) Other lawsuits and claims

The Company is involved in 37 other lawsuits and claims for alleged damages aggregating to ₩69 billion as of December 31, 2013, which arose in the ordinary course of business. In the opinion of management, these 37 lawsuits and claims will not have a material adverse effect on the Company's financial position, operating results or cash flows. Additionally, no provision is recorded in connection with these 37 lawsuits and claims as of December 31, 2013 because the Company has not concluded that a probable loss has occurred on any of the lawsuits and claims.

(d) The Company has provided a supplemental funding agreement, as the largest shareholder, as requested from the creditors, including Norddeutsche Landesbank, for seamless funding to the construction of new power plant by POSCO Energy Co., Ltd..

### 39. Cash Flows from Operating Activities

Changes in operating assets and liabilities for the years ended December 31, 2013 and 2012 were as follows:

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| Financial assets held for trading | ₩ | - | 50,132 |
| Trade accounts and notes receivable, net | | 679,054 | 107,670 |
| Other accounts receivable | | 68,281 | (25,074) |
| Accured income | | - | 601 |
| Advance payments | | 1,162 | 307 |
| Prepaid expenses | | 18,502 | (18,273) |
| Inventories | | 860,472 | 1,740,679 |
| Long-term guarantee deposits | | (616) | (85) |
| Other long-term assets | | (1,120) | (348) |
| Trade accounts payable | | (242,871) | (415,787) |
| Other accounsts payable | | (367,521) | 19,072 |
| Accrued expenses | | (119,505) | 192,539 |
| Advances received | | (23,575) | 23,339 |
| Withholdings | | (5,058) | (4,572) |
| Unearned revenue | | (4,427) | 3,284 |
| Other long-term liabilities | | (1,069) | 907 |
| Payment severance benefits | | (70,170) | (66,109) |
| Plan assets | | (103,559) | (137,842) |
| | ₩ | 687,980 | 1,470,440 |

### 40. Non-Cash Transactions

Significant non-cash transactions for the years ended December 31, 2013 and 2012 are as follows:

| *(in millions of Won)* | | 2013 | 2012 |
|---|---|---|---|
| Construction-in-progress transferred to other accounts | ₩ | 2,501,603 | 1,927,489 |
| Other non-current asset transferred to investments in associates and joint ventures | | - | 257,878 |
| Acquisition of short-term financial statements through issuance of treasury stocks | | 804,496 | - |
| Financial guarantee liabilities | | 20,812 | 45,442 |

**Independent Auditors' Review Report on internal Accounting control system**

English Translation of a Report Originally Issued in Korean

To the President of
POSCO:

We have reviewed the accompanying Report on the Operations of Internal Accounting Control System ("IACS") of POSCO (the "Company") as of December 31, 2013. The Company's management is responsible for designing and maintaining effective IACS and for its assessment of the effectiveness of IACS. Our responsibility is to review management's assessment and issue a report based on our review. In the accompanying report of management's assessment of IACS, the Company's management stated: "Based on the assessment on the operations of the IACS, the Company's IACS has been effectively designed and is operating as of December 31, 2013, in all material respects, in accordance with the IACS Framework issued by the Internal Accounting Control System Operation Committee."

We conducted our review in accordance with IACS Review Standards, issued by the Korean Institute of Certified Public Accountants. Those Standards require that we plan and perform the review to obtain assurance of a level less than that of an audit as to whether Report on the Operations of Internal Accounting Control System is free of material misstatement. Our review consists principally of obtaining an understanding of the Company's IACS, inquiries of company personnel about the details of the report, and tracing to related documents we considered necessary in the circumstances. We have not performed an audit and, accordingly, we do not express an audit opinion.

A company's IACS is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in conformity with Korean International Financial Reporting Standards. Because of its inherent limitations, however, IACS may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our review, nothing has come to our attention that Report on the Operations of Internal Accounting Control System as of December 31, 2013 is not prepared in all material respects, in accordance with IACS Framework issued by the Internal Accounting Control System Operation Committee.

This report applies to the Company's IACS in existence as of December 31, 2013. We did not review the Company's IACS subsequent to December 31, 2013. This report has been prepared for Korean regulatory purposes, pursuant to the External Audit Law, and may not be appropriate for other purposes or for other users.

KPMG Samjong Accounting Corp.

Seoul, Korea
February 25, 2014

Notice to Readers

This report is annexed in relation to the audit of the separate financial statements as of December 31, 2013 and the review of internal accounting control system pursuant to Article 2-3 of the Act on External Audit for Joint-stock Companies of the Republic of Korea.

## Report on the Operations of Internal Accounting Control System

To the Board of Directors and Audit Committee of
POSCO:

I, as the Internal Accounting Control Officer ( "IACO" ) of POSCO (the Company" ), have assessed the status of the design and operations of the Company' s internal accounting control system( "IACS" ) as of December 31, 2013.

The Company' s management, including IACO, is responsible for the design and operations of its IACS. I, as the IACO, have assessed whether the IACS has been effectively designed and is operating to prevent and detect any error or fraud which may cause any misstatement of the financial statements, for the purpose of establishing the reliability of financial statement preparation and presentation for external uses. I, as the IACO, applied the IACS Standards established by the IACS Operations Committee for the assessment of design and operations of the IACS.

Based on the assessment of the operations of the IACS, the Company' s IACS has been effectively designed and is operating as of December 31, 2013, in all material respects, in accordance with the IACS Standards issued by the IACS Operations Committee.

January 27, 2014

Chung, Joon-Yang, Chief Executive Officer

Park, Ki-Hong, Internal Accounting Control Officer