

# **POSCO**

**Condensed Separate Interim Financial Statements**

**(Unaudited)**

**March 31, 2014**

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

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## **Independent Auditors' Review Report**

Based on a report originally issued in Korean

The Board of Directors and Shareholders  
POSCO:

### **Reviewed financial statements**

We have reviewed the accompanying condensed separate interim financial statements of POSCO (the "Company"), which comprise the condensed separate interim statement of financial position as of March 31, 2014, the condensed separate interim statements of comprehensive income (loss), changes in equity and cash flows for the three-month periods ended March 31, 2014 and 2013, and notes, comprising a summary of significant accounting policies and other explanatory information.

### **Management's responsibility**

Management is responsible for the preparation and fair presentation of the condensed separate interim financial information in accordance with Korean International Financial Reporting Standard ("K-IFRS") No. 1034 "Interim Financial Reporting". The Company's management is also responsible for the internal controls determined necessary to prepare condensed separate interim financial statements free of material misstatements due to error or fraud.

### **Auditor's review responsibility**

Our responsibility is to issue a report on the condensed separate interim financial statements based on our reviews.

We conducted our reviews in accordance with the Review Standards for Quarterly and Semiannual Financial Statements established by the Securities and Futures Commission of the Republic of Korea. A review of interim financial information consists of making inquiries primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of Korea and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying condensed separate interim financial statements referred to above are not prepared, in all material respects, in accordance with K-IFRS No. 1034 "Interim Financial Reporting".

**Other matters**

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

The separate statement of financial position of the Company as of December 31, 2013, and the related separate statements of comprehensive income, changes in equity and cash flows for the year then ended, which are not accompanying this report, were audited by us and our report thereon, dated February 25, 2014, expressed an unqualified opinion. The accompanying condensed separate statement of financial position of the Company as of December 31, 2013, presented for comparative purposes, is not different from that audited by us from which it was derived in all material respects.

Seoul, Korea  
May 14, 2014

<p>This report is effective as of May 14, 2014, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying condensed separate interim financial statements. Accordingly, the readers of the review report should understand that the above review report has not been updated to reflect the impact of such subsequent events or circumstances, if any.</p>
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**POSCO**  
**Condensed Separate Interim Statements of Financial Position**  
**As of March 31, 2014 and December 31, 2013**  
**(Unaudited)**

(in millions of Won)

	<u>Notes</u>		<u>March 31, 2014</u>	<u>December 31, 2013</u>
<b>Assets</b>				
Cash and cash equivalents	20	₩	2,033,215	1,394,315
Trade accounts and notes receivable, net	4,20,32		2,989,580	3,393,444
Other receivables, net	5,20,32		364,179	281,161
Other short-term financial assets	6,14,20		1,635,672	2,318,816
Inventories	7,29		4,974,804	4,538,657
Assets held for sale	8		-	1,304
Other current assets	9		56,948	25,782
			<u>12,054,398</u>	<u>11,953,479</u>
<b>Total current assets</b>				
Long-term trade accounts and notes receivable, net	4,20		4,761	4,464
Other receivables, net	5,20		16,987	45,738
Other long-term financial assets	6,14		3,064,378	3,362,594
Investments in subsidiaries, associates and joint ventures	10		15,411,842	15,092,836
Investment property, net	11		92,916	92,879
Property, plant and equipment, net	12		23,324,364	23,240,603
Intangible assets, net	13		426,338	438,783
Other long-term assets	9		10,468	10,902
			<u>42,352,054</u>	<u>42,288,799</u>
<b>Total non-current assets</b>				
			<u>₩ 54,406,452</u>	<u>54,242,278</u>
<b>Total assets</b>				

See accompanying notes to the condensed separate interim financial statements.

**POSCO**  
**Condensed Separate Interim Statements of Financial Position**  
**As of March 31, 2014 and December 31, 2013, Continued**  
**(Unaudited)**

(in millions of Won)

	<u>Notes</u>	<u>March 31, 2014</u>	<u>December 31, 2013</u>
<b>Liabilities</b>			
Trade accounts and notes payable	20,32	₩ 1,122,696	735,457
Short-term borrowings and current installments of long-term borrowings	14,20	1,767,016	1,931,283
Other payables	15,20,32	1,466,284	791,883
Other short-term financial liabilities	16,20	42,400	46,009
Current income tax liabilities		191,455	153,278
Provisions	17	5,625	8,501
Other current liabilities	19	55,925	38,109
<b>Total current liabilities</b>		<u>4,651,401</u>	<u>3,704,520</u>
Long-term borrowings, excluding current installments	14,20	6,685,267	6,731,788
Other payables	15,20	109,714	124,679
Other long-term financial liabilities	16,20	186,565	231,539
Net defined benefit liabilities	18	107,067	100,650
Deferred tax liabilities		958,207	1,034,102
Other long-term liabilities	19	3,462	3,538
<b>Total non-current liabilities</b>		<u>8,050,282</u>	<u>8,226,296</u>
<b>Total liabilities</b>		<u>12,701,683</u>	<u>11,930,816</u>
<b>Equity</b>			
Share capital	21	482,403	482,403
Capital surplus	21	1,233,051	1,233,040
Hybrid bonds	22	996,919	996,919
Reserves	23	184,512	403,939
Treasury shares	24	(1,579,093)	(1,579,123)
Retained earnings		40,386,977	40,774,284
<b>Total equity</b>		<u>41,704,769</u>	<u>42,311,462</u>
<b>Total liabilities and equity</b>		<u>₩ 54,406,452</u>	<u>54,242,278</u>

See accompanying notes to the condensed separate interim financial statements.

**POSCO**  
**Condensed Separate Interim Statements of Comprehensive Income (Loss)**  
**For the three-month periods ended March 31, 2014 and 2013**  
**(Unaudited)**

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

	<u>Notes</u>	<u>March 31, 2014</u>	<u>March 31, 2013</u>
<b>Revenue</b>	32	₩ 7,363,850	7,684,663
<b>Cost of sales</b>	7,29,32	<u>(6,393,438)</u>	<u>(6,646,856)</u>
<b>Gross profit</b>		970,412	1,037,807
Selling and administrative expenses	25,29,32		
Administrative expenses		(225,551)	(219,180)
Selling expenses		<u>(227,157)</u>	<u>(237,269)</u>
<b>Operating profit</b>	26	<u>517,704</u>	<u>581,358</u>
Finance income and costs	20,27		
Finance income		244,002	352,010
Finance costs		(219,889)	(458,121)
Other non-operating income and expenses	26,28,32		
Other non-operating income		3,382	34,240
Other non-operating expenses	29	<u>(273,061)</u>	<u>(57,826)</u>
<b>Profit before income taxes</b>		272,138	451,661
Income tax expense	30	<u>(160,619)</u>	<u>(68,236)</u>
<b>Profit for the period</b>		111,519	383,425
<b>Other comprehensive income (loss)</b>			
Items that will not be reclassified subsequently to profit or loss :			
Remeasurements of defined benefit pension plans, net of tax	18	(9,423)	(73,150)
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	6,20,23	<u>(219,427)</u>	<u>146,493</u>
<b>Total comprehensive income (loss), net of tax</b>		<u>₩ (117,331)</u>	<u>456,768</u>
<b>Basic and diluted earnings per share</b>	31	₩ 1,296	4,964

*See accompanying notes to the condensed separate interim financial statements.*

**POSCO**  
**Condensed Separate Interim Statements of Changes in Equity**  
**For the three-month periods ended March 31, 2014 and 2013**  
**(Unaudited)**

(in millions of Won)

	<u>Share capital</u>	<u>Capital surplus</u>	<u>Hybrid bonds</u>	<u>Reserves</u>	<u>Tresury shares</u>	<u>Retained earnings</u>	<u>Total</u>
<b>Balance as of January 1, 2013</b>	₩ 482,403	1,227,692	-	3,362	(2,391,406)	39,842,497	39,164,548
<b>Comprehensive income :</b>							
Profit for the period	-	-	-	-	-	383,425	383,425
Other comprehensive income							
Net changes in unrealized fair value of available-for-sale investments, net of tax	-	-	-	146,493	-	-	146,493
Remeasurements of defined benefit pension plans, net of tax	-	-	-	-	-	(73,150)	(73,150)
<b>Transactions with owners of the Company, recognized directly in equity :</b>							
Year-end dividends	-	-	-	-	-	(463,467)	(463,467)
Disposal of treasury shares	-	7	-	-	16	-	23
<b>Balance as of March 31, 2013</b>	<u>₩ 482,403</u>	<u>1,227,699</u>	<u>-</u>	<u>149,855</u>	<u>(2,391,390)</u>	<u>39,689,305</u>	<u>39,157,872</u>
	<u>Share capital</u>	<u>Capital surplus</u>	<u>Hybrid bonds</u>	<u>Reserves</u>	<u>Tresury shares</u>	<u>Retained earnings</u>	<u>Total</u>
<b>Balance as of January 1, 2014</b>	₩ 482,403	1,233,040	996,919	403,939	(1,579,123)	40,774,284	42,311,462
<b>Comprehensive income :</b>							
Profit for the period	-	-	-	-	-	111,519	111,519
Other comprehensive income							
Net changes in unrealized fair value of available-for-sale investments, net of tax	-	-	-	(219,427)	-	-	(219,427)
Remeasurements of defined benefit pension plans, net of tax	-	-	-	-	-	(9,423)	(9,423)
<b>Transactions with owners of the Company, recognized directly in equity :</b>							
Year-end dividends	-	-	-	-	-	(478,702)	(478,702)
Interest of hybrid bonds	-	-	-	-	-	(10,701)	(10,701)
Disposal of treasury shares	-	11	-	-	30	-	41
<b>Balance as of March 31, 2014</b>	<u>₩ 482,403</u>	<u>1,233,051</u>	<u>996,919</u>	<u>184,512</u>	<u>(1,579,093)</u>	<u>40,386,977</u>	<u>41,704,769</u>

See accompanying notes to the condensed separate interim financial statements.

**POSCO**  
**Condensed Separate Interim Statements of Cash Flows**  
**For the three-month periods ended March 31, 2014 and 2013**  
**(Unaudited)**

<i>(in millions of Won)</i>	<u>Notes</u>	<u>March 31, 2014</u>	<u>March 31, 2013</u>
<b>Cash flows from operating activities</b>			
Profit for the period		₩ 111,519	383,425
Adjustments for :			
Costs for defined benefit plans		29,856	31,388
Depreciation		499,554	465,394
Amortization		18,515	9,344
Finance income		(184,515)	(303,085)
Finance costs		164,011	382,810
Gain on disposal of property, plant and equipment		(1,149)	(2,478)
Loss on disposal of property, plant and equipment		17,669	18,769
Loss on disposal of investments in subsidiaries, associates and joint ventures		-	12,271
Impairment loss on investments in subsidiaries, associates and joint ventures		67,729	-
Income tax expense		160,619	68,236
Others, net		31,648	(14,553)
Changes in operating assets and liabilities	34	396,584	487,683
Interest received		33,327	40,480
Interest paid		(100,907)	(107,781)
Dividends received		14,758	40,417
Income taxes paid		(88,496)	(4,693)
Net cash provided by operating activities		<u>1,170,722</u>	<u>1,507,627</u>
<b>Cash flows from investing activities</b>			
Proceeds from disposal of short-term financial instruments		1,373,031	746,067
Decrease in held-to-maturity investments		-	30,000
Collection of long-term loans		2,234	4,180
Proceeds from disposal of investment in subsidiaries, associates and joint ventures		-	5,153
Proceeds from disposal of assets held for sale		1,291	-
Acquisition of short-term financial investments		(689,886)	(1,207,760)
Acquisition of available-for-sale investments		(2,029)	(29,904)
Increase in long-term loans		(126)	(361)
Acquisition of investment in subsidiaries, associates and joint ventures		(388,564)	(415,845)
Acquisition of property, plant and equipment		(520,111)	(957,990)
Proceeds from (net payment for) disposal of property, plant and equipment		(8,546)	(7,893)
Acquisition of intangible assets		(5,165)	(33,724)
Net cash used in investing activities		<u>(237,871)</u>	<u>(1,868,077)</u>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		1,081,689	312,031
Increase in long-term financial liabilities		698	1,593
Receipt of government grants		-	3,800
Repayment of borrowings		(1,361,843)	(399,622)
Decrease in long-term financial liabilities		(3,491)	(838)
Payment of cash dividends		(253)	(24)
Payment of interest of hybrid bonds		(10,751)	-
Net cash used in financing activities		<u>(293,951)</u>	<u>(83,060)</u>
<b>Net increase(decrease) in cash and cash equivalents</b>		638,900	(443,510)
<b>Cash and cash equivalents</b>			
Cash and cash equivalents at beginning of the period		<u>1,394,315</u>	<u>1,752,560</u>
Cash and cash equivalents at end of the period		<u>₩ 2,033,215</u>	<u>1,309,050</u>

*See accompanying notes to the condensed separate interim financial statements.*

**POSCO**  
**Notes to the Condensed Separate Interim Financial Statements**  
**As of March 31, 2014**  
**(Unaudited)**

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**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 overseas 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 seven of its overseas liaison offices.

As of March 31, 2014, the shares of the Company are listed on the Korea Exchange, while its depository receipts are listed on the New York, Tokyo and London Stock Exchanges.

**2. Statement of Compliance**

**Statement of compliance**

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

These condensed separate interim financial statements have been prepared in accordance with K-IFRS No. 1034 “*Interim Financial Reporting*” as part of the period covered by the Company’s K-IFRS annual financial statements. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the last annual separate financial statements as of and for the year ended December 31, 2013. These condensed separate interim financial statements do not include all of the disclosures required for full annual financial statements.

These condensed interim financial statements are separate interim financial statements in accordance with K-IFRS No. 1027 “*Separate Financial Statements*” presented by a parent, an investor in a subsidiary, 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.

**Use of estimates and judgments**

The preparation of the condensed interim 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.

In preparing these condensed separate interim financial statements, the significant judgments made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the separate financial statements as of and for the year ended December 31, 2013.

**POSCO**  
**Notes to the Condensed Separate Interim Financial Statements**  
**As of March 31, 2014, Continued**  
**(Unaudited)**

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**3. Summary of Significant Accounting Policies**

Except as described in K-IFRS No. 1034 “*Interim Financial Reporting*” and below, the accounting policies applied by the Company in these condensed separate interim financial statements are the same as those applied by the Company in its separate financial statements as of and for the year ended December 31, 2013. The following changes in accounting policy are also expected to be reflected in the Company’s separate financial statements as of and for the year ending December 31, 2014.

**(a) Changes in accounting policies**

The Company has adopted the following new standards and amendments to standards with a date of initial application of January 1, 2014.

- 1) K-IFRS No. 1032, “*Financial Instruments: Presentation*”
- 2) K-IFRS No. 1036, “*Impairment of Assets*”
- 3) K-IFRS No. 2121, “*Levies*”

The details of changes in accounting policies are as follows:

1) Offsetting financial assets and financial liabilities

The Company has applied the amendments to K-IFRS No. 1032, “*Financial Instruments: Presentation*” since January 1, 2014. The amendments, which should be applied retrospectively, require that a financial asset and a financial liability shall be offset and the net amount presented in the statement of financial position only when the Company currently has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

A legally enforceable right of set-off must not be contingent on a future event and must be legally enforceable in the normal course of business, the event of default and the event of insolvency or bankruptcy of the Company or the counterparties.

If the Company can settle amounts in a manner such that the outcome is, in effect, equivalent to net settlement, the Company will meet the net settlement criterion. The net settlement criterion will occur only if the gross settlement mechanism has features that eliminate or result in insignificant credit and liquidity risk, and that will process receivables and payables in a single settlement process or cycle.

2) Disclosure of impairment loss

The Company has applied the amendments to K-IFRS No. 1036, “*Impairment of Assets*” since January 1, 2014. The amendments, which should be applied retrospectively, require disclosure of the recoverable amount only if the Company recognized an impairment loss on goodwill or an intangible asset with an indefinite useful life for an individual asset or cash-generating unit.

3) Levies

The Company has adopted K-IFRS No. 2121, “*Levies*” with a date of initial application of January 1, 2014. K-IFRS No. 2121, which should be applied retrospectively, defines the obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by legislation. The liability to pay a levy is recognized progressively if the obligating event occurs over a period of time. If the obligating event is the reaching of a minimum activity threshold, the corresponding liability is recognized when that minimum activity threshold is reached. The Company shall recognize an asset if it has prepaid a levy but does not yet have a present obligation to pay that levy.

# POSCO

## Notes to the Condensed Separate Interim Financial Statements As of March 31, 2014, Continued (Unaudited)

### (b) Impact of changes in accounting policy

Upon adoption of K-IFRS No. 1032 and K-IFRS No. 2121, there is no impact on the Company's prior year's separate financial statements. Upon adoption of K-IFRS No. 1036, the Company will make the required disclosures in the annual financial statements for the year ending December 31, 2014 as applicable.

### 4. Trade Accounts and Notes Receivable

Trade accounts and notes receivable as of March 31, 2014 and December 31, 2013 are as follows:

<i>(in millions of Won)</i>	<b>March 31, 2014</b>	<b>December 31, 2013</b>
Current		
Trade accounts and notes receivable	₩ 2,996,924	3,403,316
Less: Allowance for doubtful accounts	(7,344)	(9,872)
	<u>₩ 2,989,580</u>	<u>3,393,444</u>
Non-current		
Trade accounts and notes receivable	₩ 4,767	4,692
Less: Allowance for doubtful accounts	(6)	(228)
	<u>₩ 4,761</u>	<u>4,464</u>

Trade accounts and notes receivable sold to financial institutions, for which the derecognition conditions were not met, amounted to ₩196,875 million and ₩203,138 million as of March 31, 2014 and December 31, 2013, respectively, and are included in short-term borrowings.

### 5. Other Receivables

Other receivables as of March 31, 2014 and December 31, 2013 are as follows:

<i>(in millions of Won)</i>	<b>March 31, 2014</b>	<b>December 31, 2013</b>
Current		
Short-term loans	₩ 4,118	-
Other accounts receivable	363,066	281,667
Others	7,566	10,065
Less: Allowance for doubtful accounts	(10,571)	(10,571)
	<u>₩ 364,179</u>	<u>281,161</u>
Non-current		
Long-term loans	₩ 22,744	54,945
Long-term other accounts receivable	5,975	2,723
Others	2,721	2,523
Less: Allowance for doubtful accounts	(14,453)	(14,453)
	<u>₩ 16,987</u>	<u>45,738</u>

**POSCO**  
**Notes to the Condensed Separate Interim Financial Statements**  
**As of March 31, 2014, Continued**  
**(Unaudited)**

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**6. Other Financial Assets**

(a) Other short-term financial assets as of March 31, 2014 and December 31, 2013 are as follows:

*(in millions of Won)*

	<u>March 31, 2014</u>	<u>December 31, 2013</u>
Short-term financial instruments (*1)	₩ 1,632,771	2,317,867
Cash deposits (*2)	2,901	949
	<u>₩ 1,635,672</u>	<u>2,318,816</u>

(\*1) Short-term financial instruments amounting to ₩4,700 million are secured in relation to long term borrowings from National Forestry Cooperative Federation as of March 31, 2014 and December 31, 2013.

(\*2) Deposits are restricted in relation to government assigned projects.

(b) Other long-term financial assets as of March 31, 2014 and December 31, 2013 are as follows:

*(in millions of Won)*

	<u>March 31, 2014</u>	<u>December 31, 2013</u>
Derivatives assets held for trading	₩ 8,544	7,788
Long-term available-for-sale securities (equity instruments)	3,034,943	3,333,915
Long-term available-for-sale securities (bonds)	20,355	20,355
Long-term available-for-sale securities (others)	500	500
Cash deposits (*1)	36	36
	<u>₩ 3,064,378</u>	<u>3,362,594</u>

(\*1) The Company is required to provide deposits to maintain checking accounts and accordingly the withdrawal of these deposits is restricted.

**POSCO**  
**Notes to the Condensed Separate Interim Financial Statements**  
**As of March 31, 2014, Continued**  
**(Unaudited)**

(c) Long-term available-for-sale equity securities as of March 31, 2014 and December 31, 2013 are as follows:

(in millions of Won)

	March 31, 2014						December 31, 2013	
	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
<b>Marketable equity securities</b>								
Nippon Steel & Sumitomo Metal Corporation	238,352,000	2.38	₩ 719,622	698,185	(21,437)	-	698,185	842,909
SK Telecom Co., Ltd. (*1)	1,715,317	2.12	441,995	372,405	152,690	(222,280)	372,405	419,933
KB Financial group Inc.	11,590,550	3.00	536,517	431,748	35,351	(140,120)	431,748	489,701
Hyundai Heavy Industries Co., Ltd.	1,477,000	1.94	343,506	311,647	(31,859)	-	311,647	379,589
Shinhan Financial group Inc.	4,369,881	0.92	228,778	205,384	82,748	(106,142)	205,384	206,695
Hana Financial group Inc.	2,430,498	1.00	15,633	94,546	78,913	-	94,546	106,699
Others (11 companies) (*2)			150,779	117,229	44,920	(78,470)	117,229	108,895
			2,436,830	2,231,144	341,326	(547,012)	2,231,144	2,554,421
<b>Non-marketable equity securities</b>								
The Siam United Steel (*3)	11,071,000	12.30	34,658	62,247	50,114	(22,525)	62,247	57,643
Nacional Minerios S.A. (*3)	30,784,625	6.48	668,635	541,248	(127,387)	-	541,248	517,193
Dongbu Metal Co., Ltd. (*3)	3,000,000	10.00	98,242	79,926	(18,316)	-	79,926	85,371
Troika Fund (*3)	11,104,203,201	3.66	11,104	8,537	(2,567)	-	8,537	9,095
Others (38 companies) (*4)			123,565	111,841	250	(11,974)	111,841	110,192
			936,204	803,799	(97,906)	(34,499)	803,799	779,494
			₩ 3,373,034	3,034,943	243,420	(581,511)	3,034,943	3,333,915

(\*1) As of March 31, 2014, 1,715,315 shares equivalent to 15,437,833 American Depository Receipts (“ADRs”) of SK Telecom Co., Ltd. have been pledged as collateral for the exchangeable bonds issued.

(\*2) The Company recognized ₩1,264 million of impairment loss on investment in Steel Flower Co., Ltd for the three-month period ended March 31, 2014 due to significant decline in the fair value of its shares for a prolonged period.

(\*3) Fair value is based on an analysis performed by an external professional evaluation agency.

(\*4) These non-marketable equity securities are recorded at cost since its fair value cannot be reliably measured.

## 7. Inventories

Inventories as of March 31, 2014 and December 31, 2013 are as follows:

(in millions of Won)

	March 31, 2014	December 31, 2013
Finished goods	₩ 784,825	755,286
Semi-finished goods	1,410,941	1,259,390
By-products	11,823	13,793
Raw materials	987,108	983,902
Fuel and materials	543,468	520,236
Materials-in-transit	1,241,451	1,009,996
Others	565	586
	4,980,181	4,543,189
Less: Allowance for inventories valuation	(5,377)	(4,532)
	₩ 4,974,804	4,538,657

The amount of valuation losses of inventories recognized within cost of goods sold during the three-month period ended March 31, 2014 and the year ended December 31, 2013 were ₩5,377 million and ₩4,532 million, respectively.

# POSCO

## Notes to the Condensed Separate Interim Financial Statements As of March 31, 2014, Continued (Unaudited)

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### 8. Non-current Assets Held for Sale

Details of non-current assets held for sale as of March 31, 2014 and December 31, 2013 are as follows:

<i>(in millions of Won)</i>	<u>March 31, 2014</u>	<u>December 31, 2013</u>
Investment in associates (*1)	₩ -	1,304

(\*1) 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 December 31, 2013. The Company completed the disposal of this investment during the three-month period ended March 31, 2014 and recognized a loss on disposal of asset held for sale of ₩14 million.

### 9. Other Assets

Other current assets and other long-term assets as of March 31, 2014 and December 31, 2013 are as follows:

<i>(in millions of Won)</i>	<u>March 31, 2014</u>	<u>December 31, 2013</u>
<b>Other current assets</b>		
Advance payments	₩ 5,454	4,871
Prepaid expenses	51,494	20,911
	<u>₩ 56,948</u>	<u>25,782</u>
<b>Other long-term assets</b>		
Long-term prepaid expenses	₩ 6,671	6,980
Others	3,810	3,935
Less : Allowance for doubtful accounts	(13)	(13)
	<u>₩ 10,468</u>	<u>10,902</u>

**POSCO**  
**Notes to the Condensed Separate Interim Financial Statements**  
**As of March 31, 2014, Continued**  
**(Unaudited)**

**10. Investments in Subsidiaries, Associates and Joint ventures**

(a) Details of subsidiaries and carrying values as of March 31, 2014 and December 31, 2013 are as follows:

(in millions of Won)

[Domestic]	Country	Principal operations	Ownership(%)		March 31, 2014	December 31, 2013
Daewoo International Co., Ltd.	Korea	Trading	60.31	₩	3,371,481	3,371,481
POSCO E&C Co., Ltd.	Korea	Engineering and Construction	89.53		1,510,716	1,510,716
POSCO Energy Corp.	Korea	Generation of Electricity	89.02		658,176	658,176
POSCO Specialty Steel Co., Ltd.	Korea	Steel manufacturing and sales	72.09		628,842	628,842
POSCO P&S Co., Ltd.	Korea	Steel sales and service	95.31		421,927	421,927
POSCO AST Co., Ltd.	Korea	Steel manufacturing and sales	100.00		176,609	176,609
POSCO Coated & Color Steel Co., Ltd.	Korea	Coated steel manufacturing	56.87		108,421	108,421
POSCO M-TECH Co., Ltd. (*1)	Korea	Packing materials manufacturing	48.85		107,278	107,278
POSTECH Venture Capital Corp	Korea	Investment in venture companies	95.00		103,780	103,780
POSCO Chemtec Company Ltd.	Korea	Manufacturing and sales	60.00		100,535	100,535
POSCO ICT Co., Ltd.	Korea	Computer hardware and software distribution	65.38		70,990	70,990
POSMATE Co., Ltd.	Korea	Business facility maintenance	54.46		63,222	63,222
POS-HIMETAL Co., Ltd.	Korea	Steel manufacturing and sales	65.00		49,452	49,452
POSCO Family Strategy Fund	Korea	Financial investment	60.79		40,000	40,000
Busan E&E Co. Ltd. (*2)	Korea	Municipal solid waste fuel and power generation	70.00		30,148	30,148
Others (12 companies)					178,264	178,264
				₩	7,619,841	7,619,841

[Foreign]	Country	Principal operations	Ownership(%)		March 31, 2014	December 31, 2013
PT. KRAKATAU POSCO	Indonesia	Steel manufacturing and sales	70.00	₩	856,867	808,492
POSCO-Thainox Public Co., Ltd.	Thailand	Stainless steel manufacturing and sales	84.93		340,249	340,249
POSCO Australia Pty. Ltd.	Australia	Iron ore sales and mine development	100.00		330,623	330,623
POSCO WA Pty. Ltd.	Australia	Steel sales and mine development	100.00		515,344	446,093
POSCO Maharashtra Steel Private Ltd.	India	Steel manufacturing and sales	100.00		419,570	355,987
Zhangjiagang Pohang Stainless Steel Co., Ltd.	China	Stainless steel manufacturing and sales	58.60		284,659	284,753
POSCO China Holding Corp.	China	Investment management	100.00		240,430	240,430
POSCO-India Private Ltd.	India	Steel manufacturing and sales	99.99		184,815	184,815
POSCO-Mexico S.A. DE C.V.	Mexico	Plate steel manufacturing	84.84		181,921	182,080
POSCO-Vietnam Co., Ltd.	Vietnam	Steel manufacturing	85.00		157,167	157,295
POSCO VST Co., Ltd.	Vietnam	Stainless steel manufacturing	95.65		145,245	145,288
POSCO America Corporation	USA	Trading-Steel	99.45		140,381	140,381
POSCO(Guangdong) Automotive Steel Co., Ltd.	China	Steel manufacturing and selling	83.64		131,210	131,291
POSCO ASSAN TST STEEL Industry	Turkey	Steel manufacturing and sales	60.00		95,588	95,710
POSCO Investment Co., Ltd.	Hong Kong	Finance	99.99		87,387	87,211
POSCO-JAPAN Co., Ltd.	Japan	Trading-Steel	100.00		68,436	68,436
Qingdao Pohang Stainless Steel Co., Ltd.	China	Stainless steel manufacturing and sales	70.00		65,982	65,982
POSCO (Suzhou) Automotive Processing Center Co., Ltd.	China	Steel manufacturing and sales	90.00		62,494	62,494
POSCO Electrical Steel Inida Private Limited	India	Electrical steel manufacturing and sales	100.00		58,607	58,662
POSCO-Africa(Proprietary) LIMITED	South Africa	Trading	100.00		50,297	50,297
POSCO China Dalian Plate Processing Center Co., Ltd.	China	Heavy plate processing and marketing	80.00		32,992	32,992
POSCO Asia Co., Ltd.	Hong Kong	Steel transit trade	100.00		32,189	32,189
POSCO (Guangdong) Steel Co., Ltd.	China	Plate steel manufacturing	87.04		31,299	31,299
POSCO-Malaysia SDN. BHD.	Malaysia	Steel manufacturing and sales	80.07		31,027	31,027
POSCO-URUGUAY S.A.	Uruguay	Wood manufacturing and sales	98.04		29,341	29,341
Others (31 companies)					315,568	303,306
					4,889,688	4,696,723
				₩	12,509,529	12,316,564

# POSCO

## Notes to the Condensed Separate Interim Financial Statements As of March 31, 2014, Continued (Unaudited)

(\*1) As of March 31, 2014, this was classified as an investment in a subsidiary as the Company has control over of more than half of the voting rights by virtue of agreement with Postech, which has 4.72% of ownership in POSCO M-TECH Co., Ltd.

(\*2) As of March 31, 2014, this investment is collateral for the Company's guarantee provided for certain borrowings of its subsidiary from banks.

(b) Details of associates and carrying values as of March 31, 2014 and December 31, 2013 are as follows:

(in millions of Won)

<b>[Domestic]</b>	<b>Country</b>	<b>Principal operations</b>	<b>Ownership (%)</b>		<b>March 31, 2014</b>	<b>December 31, 2013</b>
EQP POSCO Global No 1 Natural Resources PEF	Korea	Mine investment	25.80	₩	169,106	169,106
POSCO PLANTEC Co., Ltd.(*1)	Korea	Industrial machinery manufacturing	34.52		138,920	185,786
SNNC Co., Ltd.	Korea	Material manufacturing	49.00		100,655	100,655
Others (5 companies)					21,572	18,921
					<u>430,253</u>	<u>474,468</u>
<b>[Foreign]</b>						
Nickel Mining Company SAS	New Caledonia	Raw material manufacturing and sales	49.00		189,197	189,197
7623704 Canada Inc.	Canada	Mine investment	10.40		124,341	124,341
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd	China	Tinplate manufacturing and sales	24.00		11,003	11,003
Others (8 companies)					26,227	26,188
					350,768	350,729
				₩	<u>781,021</u>	<u>825,197</u>

(\*1) As of March 31, 2014, there is objective evidence of impairment due to a prolonged decline on the fair value of the security. The Company recognized impairment loss of ₩67,729 million.

(c) Details of joint ventures and carrying values as of March 31, 2014 and December 31, 2013 are as follows:

(in millions of Won)

	<b>Country</b>	<b>Principal operations</b>	<b>Ownership (%)</b>		<b>March 31, 2014</b>	<b>December 31, 2013</b>
Roy Hill Holdings Pty Ltd	Australia	Mine development	10.00	₩	1,106,110	983,569
POSCO-NPS Niobium LLC.	USA	Mine development	50.00		364,609	364,609
KOBRASCO	Brazil	Facilities lease	50.00		98,962	98,962
CSP-Compania Siderurgica do Pecem	Brazil	Steel manufacturing and sales	20.00		441,607	393,925
Others (4 companies)					110,004	110,010
				₩	<u>2,121,292</u>	<u>1,951,075</u>

**POSCO**  
**Notes to the Condensed Separate Interim Financial Statements**  
**As of March 31, 2014, Continued**  
**(Unaudited)**

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**11. Investment Property, Net**

Changes in the carrying value in investment property for the three-month period ended March 31, 2014 and the year ended December 31, 2013 were as follows:

1) For the three-month period ended March 31, 2014

*(in millions of Won)*

		<u>Beginning</u>	<u>Depreciation (*1)</u>	<u>Transfer (*2)</u>	<u>Ending</u>
Land	₩	36,020	-	347	36,367
Buildings		52,682	(604)	307	52,385
Structures		4,177	(40)	27	4,164
Total	₩	<u>92,879</u>	<u>(644)</u>	<u>681</u>	<u>92,916</u>

(\*1) The useful life and depreciation method of investment property are identical to those of property, plant and equipment.

(\*2) Mainly includes assets transferred from property, plant and equipment in relation to change in rental ratio and the purpose of use.

2) For the year ended December 31, 2013

*(in millions of Won)*

		<u>Beginning</u>	<u>Depreciation (*1)</u>	<u>Transfer (*2)</u>	<u>Ending</u>
Land	₩	41,811	-	(5,791)	36,020
Buildings		63,697	(2,793)	(8,222)	52,682
Structures		5,018	(186)	(655)	4,177
Total	₩	<u>110,526</u>	<u>(2,979)</u>	<u>(14,668)</u>	<u>92,879</u>

(\*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.

**POSCO**  
**Notes to the Condensed Separate Interim Financial Statements**  
**As of March 31, 2014, Continued**  
**(Unaudited)**

**12. Property, Plant and Equipment, Net**

Changes in the carrying value of property, plant and equipment for the three-month period ended March 31, 2014 and the year ended December 31, 2013 were as follows:

1) For the three-month period ended March 31, 2014

<i>(in millions of Won)</i>	<u>Beginning</u>	<u>Acquisitions</u>	<u>Disposals</u>	<u>Depreciation</u>	<u>Others (*1)</u>	<u>Ending</u>
Land	₩ 1,397,271	39	(3)	-	899	1,398,206
Buildings	2,637,774	2,300	(476)	(62,070)	94,252	2,671,780
Structures	2,469,046	33	(84)	(48,110)	171,847	2,592,732
Machinery and equipment	13,202,710	13,245	(7,379)	(377,045)	956,041	13,787,572
Vehicles	10,769	3	-	(1,996)	662	9,438
Tools	25,680	839	(32)	(3,907)	906	23,486
Furniture and fixtures	47,394	2,145	-	(5,623)	292	44,208
Finance lease assets	7,007	-	-	(159)	-	6,848
Construction-in-progress	3,442,952	576,943	-	-	(1,229,801)	2,790,094
Total	₩ 23,240,603	595,547	(7,974)	(498,910)	(4,902)	23,324,364

(\*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, 2013

<i>(in millions of Won)</i>	<u>Beginning</u>	<u>Acquisitions</u>	<u>Disposals</u>	<u>Depreciation</u>	<u>Others(*1)</u>	<u>Ending</u>
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.

**POSCO**  
**Notes to the Condensed Separate Interim Financial Statements**  
**As of March 31, 2014, Continued**  
**(Unaudited)**

**13. Intangible Assets, Net**

Changes in the carrying value of intangible assets for the three-month period ended March 31, 2014 and the year ended December 31, 2013 were as follows:

1) For the three-month period ended March 31, 2014

(in millions of Won)

		<u>Beginning</u>	<u>Acquisitions</u>	<u>Amortization</u>	<u>Transfer (*2)</u>	<u>Ending</u>
Intellectual property rights	₩	13,812	-	(487)	1,203	14,528
Membership (*1)		48,877	-	-	-	48,877
Development expense		29,468	-	(12,052)	136,382	153,798
Port facilities usage rights		172,209	-	(3,055)	-	169,154
Construction in progress		153,719	5,114	-	(138,822)	20,011
Other intangible assets		20,698	51	(2,921)	2,142	19,970
	₩	<u>438,783</u>	<u>5,165</u>	<u>(18,515)</u>	<u>905</u>	<u>426,338</u>

(\*1) Economic useful life of membership is indefinite.

(\*2) 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, 2013

(in millions of Won)

		<u>Beginning</u>	<u>Acquisitions</u>	<u>Disposals</u>	<u>Amortization</u>	<u>Impairment (*2)</u>	<u>Transfer (*3)</u>	<u>Ending</u>
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
	₩	<u>293,841</u>	<u>103,041</u>	<u>(1,415)</u>	<u>(38,067)</u>	<u>(581)</u>	<u>81,964</u>	<u>438,783</u>

(\*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.

**POSCO**  
**Notes to the Condensed Separate Interim Financial Statements**  
**As of March 31, 2014, Continued**  
**(Unaudited)**

**14. Borrowings**

(a) Borrowings as of March 31, 2014 and December 31, 2013 are as follows:

(in millions of Won)

	<u>March 31, 2014</u>	<u>December 31, 2013</u>
<b>Short-term borrowings</b>		
Short-term borrowings	₩ 1,220,321	203,138
Current portion of long-term borrowings	234,486	188,381
Current portion of loans from foreign financial institutions	935	927
Current portion of debentures	311,620	1,540,109
Less : Current portion of discount on debentures issued	(346)	(1,272)
	<u>₩ 1,767,016</u>	<u>1,931,283</u>
<b>Long-term borrowings</b>		
Long-term borrowings	₩ 553,662	648,251
Loans from foreign financial institutions	920	1,140
Debentures	6,153,883	6,107,973
Less : Discount on debentures issued	(35,632)	(38,167)
Add : Premium on debentures redemption	12,434	12,591
	<u>₩ 6,685,267</u>	<u>6,731,788</u>

(b) Short-term borrowings as of March 31, 2014 and December 31, 2013 are as follows:

(in millions of Won)

<u>Bank</u>	<u>Issuance date</u>	<u>Maturity date</u>	<u>Annual interest rate (%)</u>		<u>March 31, 2014</u>	<u>December 31, 2013</u>
Mizuho	2014.01.06~ 2014.03.12	2014.04.07~ 2014.06.09	0.53~0.55	₩	208,160	-
Credit agricole	2014.01.07~ 2014.02.19	2014.04.07~ 2014.05.12	0.54~0.57		104,204	-
Deutsche	2014.01.10~ 2014.03.14	2014.04.10~ 2014.06.10	0.53~0.54		207,901	-
BTMU	2014.01.14~ 2014.02.06	2014.04.14~ 2014.05.07	0.54		100,922	-
RBS	2014.01.15~ 2014.03.13	2014.04.15~ 2014.06.09	0.56~0.57		127,007	-
ING	2014.02.25~ 2014.03.31	2014.05.12~ 2014.06.30	0.61		100,538	-
DBS	2014.02.25~ 2014.03.12	2014.05.12~ 2014.06.09	0.58		108,520	-
HSBC	2014.03.21	2014.06.19	0.58		66,194	-
Others (Transfer of account receivables not qualify for derecognition)					196,875	203,138
					<u>₩ 1,220,321</u>	<u>203,138</u>

**POSCO**  
**Notes to the Condensed Separate Interim Financial Statements**  
**As of March 31, 2014, Continued**  
**(Unaudited)**

(c) Current portion of long-term borrowings as of March 31, 2014 and December 31, 2013 are as follows:

(in millions of Won)

	<b>Borrowers</b>	<b>Issuance date</b>	<b>Maturity date</b>	<b>Annual interest rate (%)</b>		<b>March 31, 2014</b>	<b>December 31, 2013</b>
Borrowings	Woori Bank and others	2006.10.31~ 2011.04.28	2017.03.15~ 2024.06.15	0.75~1.75	₩	15,489	14,969
Borrowings	Korea Export-Import Bank of Korea	2010.02.18~ 2011.03.23	2017.02.18~ 2018.03.23	4.09~4.50		218,997	173,412
Loans from foreign financial institutions	NATIXIS (*1)	1984.06.30~ 1986.03.31	2014.12.30~ 2017.03.31	2.00		935	927
Debentures	Domestic debentures 292	-	-	-		-	499,975
Debentures	Samurai Bond of 10th	2011.10.20	2014.10.20	1.67		311,274	300,921
Debentures	Global Bond of 1st	-	-	-		-	737,941
					₩	<u>546,695</u>	<u>1,728,145</u>

(\*1) As of March 31, 2014, and 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 March 31, 2014 and December 31, 2013 are as follows:

(in millions of Won)

	<b>Borrowers</b>	<b>Issuance date</b>	<b>Maturity date</b>	<b>Annual interest rate (%)</b>		<b>March 31, 2014</b>	<b>December 31, 2013</b>
Borrowings	Woori Bank and others (*1)	2006.10.31~ 2013.05.08	2017.03.15~ 2041.05.08	0.75~1.75	₩	67,311	71,194
Borrowings	Korea National Oil Corporation	2007.12.27~ 2013.12.30	2022.06.25~ 2026.12.29	Government bond -2.25		13,767	13,593
Borrowings	Korea Export-Import Bank of Korea	2010.02.18~ 2013.07.03	2017.02.18~ 2018.03.23	4.09~4.50		472,584	563,464
Loans from foreign financial institutions	NATIXIS (*2)	1986.03.31	2017.03.31	2.00		920	1,140
Debentures	Domestic debentures 301 and others	2010.08.04~ 2013.10.04	2015.08.04~ 2023.10.04	3.35~4.81		3,293,027	3,292,417
Debentures	Exchangeable Bond (*3) and others	2006.08.10~ 2013.12.11	2016.08.10~ 2021.12.22	0~5.88		2,837,658	2,789,980
					₩	<u>6,685,267</u>	<u>6,731,788</u>

(\*1) Short-term financial instruments amounting to ₩4,700 million are collateral for long-term borrowings from National Forestry Cooperative Federation as of March 31, 2014 and December 31, 2013.

(\*2) As of March 31, 2014 and 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.

## POSCO

### Notes to the Condensed Separate Interim Financial Statements As of March 31, 2014, Continued (Unaudited)

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#### 15. Other Payables

Other payables as of March 31, 2014 and December 31, 2013 are as follows:

*(in millions of Won)*

	<u>March 31, 2014</u>	<u>December 31, 2013</u>
Current		
Accounts payable	₩ 572,572	463,196
Accrued expenses	390,380	306,723
Dividend payable	487,579	9,180
Finance lease liabilities	1,149	1,124
Withholdings	14,604	11,660
	<u>₩ 1,466,284</u>	<u>791,883</u>
Non-current		
Long-term accounts payable	₩ 89,035	91,827
Accrued expenses	13,605	22,922
Finance lease liabilities	4,806	5,042
Long-term withholdings	2,268	4,888
	<u>₩ 109,714</u>	<u>124,679</u>

#### 16. Other Financial Liabilities

Other financial liabilities as of March 31, 2014 and December 31, 2013 are as follows:

*(in millions of Won)*

	<u>March 31, 2014</u>	<u>December 31, 2013</u>
Current		
Derivative instruments liabilities	₩ 33,177	36,964
Financial guarantee liabilities	9,223	9,045
	<u>₩ 42,400</u>	<u>46,009</u>
Non-current		
Derivative instruments liabilities	₩ 131,684	175,463
Financial guarantee liabilities	54,881	56,076
	<u>₩ 186,565</u>	<u>231,539</u>

**POSCO**  
**Notes to the Condensed Separate Interim Financial Statements**  
**As of March 31, 2014, Continued**  
**(Unaudited)**

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**17. Provisions**

Changes in provisions for the three-month period ended March 31, 2014 and the year ended December 31, 2013 were as follows:

(a) For the three-month period ended March 31, 2014

<i>(in millions of Won)</i>	<u>Beginning</u>	<u>Increase</u>	<u>Utilization</u>	<u>Ending</u>
Estimated allowance at the end of period (*1) ₩	8,501	2,986	(5,862)	5,625

(\*1) Represents the provision for bonuses for executives.

(b) For the year ended December 31, 2013

<i>(in millions of Won)</i>	<u>Beginning</u>	<u>Increase</u>	<u>Utilization</u>	<u>Ending</u>
Estimated allowance at the end of period (*1) ₩	6,239	12,428	(10,166)	8,501

(\*1) Represents the provision for bonuses for executives.

**18. 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 in the future 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 Company's assets.

The expense related to post-employment benefit plans under defined contribution plans for the three-month periods ended March 31, 2014 and 2013 were as follows:

<i>(in millions of Won)</i>	<u>March 31, 2014</u>	<u>March 31, 2013</u>
Expense related to post-employment benefit plans under defined contribution plans	₩ 4,463	3,505

(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.

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### Notes to the Condensed Separate Interim Financial Statements As of March 31, 2014, Continued (Unaudited)

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(c) The amounts recognized in relation to net defined benefit obligations in the statements of financial position as of March 31, 2014 and December 31, 2013 are as follows:

<i>(in millions of Won)</i>	<u>March 31, 2014</u>	<u>December 31, 2013</u>
Present value of funded obligations	₩ 921,558	905,918
Fair value of plan assets	(814,491)	(805,268)
Net defined benefit liabilities	<u>₩ 107,067</u>	<u>100,650</u>

(d) Changes in present value of defined benefit obligations for the three-month period ended March 31, 2014 and the year ended December 31, 2013 were as follows:

<i>(in millions of Won)</i>	<u>March 31, 2014</u>	<u>December 31, 2013</u>
Defined benefit obligation at the beginning of period	₩ 905,918	817,618
Current service costs	29,685	118,975
Interest costs	8,149	27,942
Remeasurement	11,189	11,553
Benefits paid	(33,383)	(70,170)
Defined benefit obligation at the end of period	<u>₩ 921,558</u>	<u>905,918</u>

(e) Changes in fair value of plan assets for the three-month period ended March 31, 2014 and the year ended December 31, 2013 were as follows:

<i>(in millions of Won)</i>	<u>March 31, 2014</u>	<u>December 31, 2013</u>
Fair value of plan assets at the beginning of period	₩ 805,268	677,362
Interest on plan assets	7,978	24,261
Remeasurement of plan assets	(1,242)	86
Contributions to plan assets	15,000	140,000
Benefits paid	(12,513)	(36,441)
Fair value of plan assets at the end of period	<u>₩ 814,491</u>	<u>805,268</u>

(f) The amounts recognized in the statements of comprehensive income for the three-month periods ended March 31, 2014 and 2013 were as follows:

<i>(in millions of Won)</i>	<u>March 31, 2014</u>	<u>March 31, 2013</u>
Current service costs	₩ 29,685	30,467
Net interest costs	171	921
	<u>₩ 29,856</u>	<u>31,388</u>

**POSCO**  
**Notes to the Condensed Separate Interim Financial Statements**  
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**19. Other Liabilities**

Other liabilities as of March 31, 2014 and December 31, 2013 are as follows:

*(in millions of Won)*

	<u>March 31, 2014</u>	<u>December 31, 2013</u>
Current		
Advances received	₩ 21,215	20,912
Withholding	32,571	15,905
Unearned revenue	2,139	1,292
	<u>₩ 55,925</u>	<u>38,109</u>
Non-current		
Unearned revenue	₩ 462	538
Others	3,000	3,000
	<u>₩ 3,462</u>	<u>3,538</u>

**20. Financial Instruments**

(a) Classification of financial instruments

1) Financial assets as of March 31, 2014 and December 31, 2013 are as follows:

*(in millions of Won)*

	<u>March 31, 2014</u>	<u>December 31, 2013</u>
Financial assets at fair value through profit or loss		
Derivatives assets held for trading	₩ 8,544	7,788
Available-for-sale financial assets	3,055,798	3,354,770
Loans and receivables	6,879,470	7,263,709
	<u>₩ 9,943,812</u>	<u>10,626,267</u>

2) Financial liabilities as of March 31, 2014 and December 31, 2013 are as follows:

*(in millions of Won)*

	<u>March 31, 2014</u>	<u>December 31, 2013</u>
Financial liabilities at fair value through profit or loss		
Derivatives liabilities held for trading	₩ 164,861	212,427
Financial liabilities measured as amortised cost		
Trade accounts and notes payable	1,122,696	735,457
Borrowings	8,452,283	8,663,071
Financial guarantee liabilities (*1)	64,104	65,121
Others	1,548,401	916,562
	<u>11,187,484</u>	<u>10,380,211</u>
	<u>₩ 11,352,345</u>	<u>10,592,638</u>

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**Notes to the Condensed Separate Interim Financial Statements**  
**As of March 31, 2014, Continued**  
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(\*1) Financial liabilities were recognized in connection with financial guarantee contracts as of March 31, 2014. The details of the amount of guarantees provided are as follows:

(in millions of Won)

<u>Guarantee beneficiary</u>	<u>Financial institution</u>	<u>Foreign currency</u>		<u>Won equivalent</u>
POSCO(Guangdong) Automotive Steel Co., Ltd.	ANZ	USD	10,000,000	10,688
	BOA	USD	30,000,000	32,064
	BTMU	USD	24,000,000	25,651
	ING	USD	23,600,000	25,224
	SMBC	USD	35,000,000	37,408
Zhangjiagang Pohang Stainless Steel Co., Ltd.	BTMU	USD	30,000,000	32,064
	Credit Agricole	USD	50,000,000	53,440
	Mizuho	USD	80,000,000	85,504
POSCO Maharashtra Steel Pvt. Ltd.	Citi	USD	60,000,000	64,128
	DBS	USD	100,000,000	106,880
	HSBC	USD	80,000,000	85,504
	ING	USD	30,000,000	32,064
	KDB	USD	30,000,000	32,064
	The Export-Import Bank of Korea	USD	193,000,000	206,278
	SCB	USD	73,069,000	78,096
	HSBC	USD	27,000,000	28,858
	ING	USD	45,000,000	48,096
POSCO ASSAN TST STEEL Industry	KDB	USD	45,000,000	48,096
	SMBC	USD	71,392,500	76,304
	ING	USD	50,000,000	53,440
	SCB	USD	33,784,000	36,108
POSCO Electrical Steel India Private Limited	BOA	USD	45,000,000	48,096
	BOC	CNY	350,000,000	60,218
	BTMU	USD	30,000,000	32,064
	HSBC	USD	50,000,000	53,440
	ING	USD	30,000,000	32,064
	JP Morgan	USD	50,000,000	53,440
	Mizuho	USD	50,000,000	53,440
	SCB	USD	45,000,000	48,096
	SMBC	USD	30,000,000	32,064
	BOA	USD	40,000,000	42,752
	HSBC	USD	40,000,000	42,752
	KDB	USD	50,000,000	53,440
	Mizuho	USD	45,000,000	48,096
	SMBC	USD	69,725,000	74,522
POSCO-Vietnam Co., Ltd. POSCO-VST Co., Ltd.	The Export-Import Bank of Korea	USD	196,000,000	209,485
	ANZ	USD	25,000,000	26,720
	HSBC	USD	20,000,000	21,376
	Mizuho	USD	20,000,000	21,376
POSUK Titanium LLP PT. KRAKATAU POSCO	Shinhan Bank	USD	18,000,000	19,238
	ANZ	USD	73,500,000	78,557
	BOA	USD	35,000,000	37,408
	BTMU	USD	119,000,000	127,187
	Credit Suisse AG	USD	91,000,000	97,261
	HSBC	USD	91,000,000	97,261
	The Export-Import Bank of Korea	USD	567,000,000	606,010
	Mizuho	USD	105,000,000	112,224
	SCB	USD	107,800,000	115,217
	SMBC	USD	140,000,000	149,632
	The Tokyo Star Bank, Ltd	USD	21,000,000	22,445
	Shinhan Bank	USD	24,500,000	26,186
		USD	3,349,370,500	3,579,808
		CNY	350,000,000	60,218

**POSCO**  
**Notes to the Condensed Separate Interim Financial Statements**  
**As of March 31, 2014, Continued**  
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3) Financial income and costs by category of financial instrument for the three-month periods ended March 31, 2014 and 2013 were as follows:

① March 31, 2014

(in millions of Won)

	Financial income and costs						Other comprehensive income	
	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
Financial assets at fair value through profit or loss	₩ -	-	-	-	-	756	756	-
Available-for-sale financial assets	64	27,878	-	-	7,073	(1,264)	33,751	(219,427)
Loans and receivables	30,797	-	31,855	725	(4)	(328)	63,045	-
Financial liabilities at fair value through profit or loss	-	-	-	-	5,278	33,086	38,364	-
Financial liabilities at amortised cost	(73,059)	-	(33,151)	(75,641)	1,500	(45)	(180,396)	-
	₩ (42,198)	27,878	(1,296)	(74,916)	13,847	32,205	(44,480)	(219,427)

(\*1) Financial income in the statement of comprehensive income includes the dividends from subsidiaries, associates and joint ventures of ₩68,593 million for the three-month period ended March 31, 2014.

② March 31, 2013

(in millions of Won)

	Financial income and costs						Other comprehensive income
	Interest income (cost)	Dividend income (*1)	Gain and loss on foreign currency transactions	Gain and loss on foreign currency translations	Others	Total	
Financial assets at fair value through profit or loss	₩ -	-	-	-	672	672	-
Available-for-sale financial assets	916	35,542	-	-	(101,871)	(65,413)	146,493
Held-to-maturity investments	367	-	-	-	-	367	-
Loans and receivables	39,219	-	7,225	15,189	(131)	61,502	-
Financial liabilities at fair value through profit or loss	-	-	-	-	(51,495)	(51,495)	-
Financial liabilities at amortised cost	(76,388)	-	(33,438)	(50,935)	(42)	(160,803)	-
	₩ (35,886)	35,542	(26,213)	(35,746)	(152,867)	(215,170)	146,493

(\*1) Financial income in the statement of comprehensive income includes the dividends from subsidiaries, associates and joint ventures of ₩109,059 million for the three-month period ended March 31, 2013.

**POSCO**  
**Notes to the Condensed Separate Interim Financial Statements**  
**As of March 31, 2014, Continued**  
**(Unaudited)**

(b) Fair value

1) Fair value and book value

The carrying amount and the fair value of financial instruments as of March 31, 2014 and December 31, 2013 are as follows :

(in millions of Won)

	<b>March 31, 2014</b>		<b>December 31, 2013</b>	
	<b>Book Value</b>	<b>Fair Value</b>	<b>Book Value</b>	<b>Fair Value</b>
<b>Assets measured at fair value</b>				
Available-for-sale financial assets (*1)	₩ 2,924,089	2,924,089	₩ 3,224,711	3,224,711
Derivatives assets held for trading (*2)	8,544	8,544	7,788	7,788
	<u>2,932,633</u>	<u>2,932,633</u>	<u>3,232,499</u>	<u>3,232,499</u>
<b>Assets measured amortised cost (*3)</b>				
Cash and cash equivalents	2,033,215	2,033,215	1,394,315	1,394,315
Trade accounts and notes receivable	2,994,341	2,994,341	3,397,908	3,397,908
Loans and other receivables	1,851,914	1,851,914	2,471,486	2,471,486
	<u>6,879,470</u>	<u>6,879,470</u>	<u>7,263,709</u>	<u>7,263,709</u>
<b>Liabilities measured at fair value</b>				
Derivatives liabilities held for trading (*2)	164,861	164,861	212,427	212,427
<b>Liabilities measured amortised cost (*3)</b>				
Trade accounts and notes payable	1,122,696	1,122,696	735,457	735,457
Borrowings	8,452,283	8,816,755	8,663,071	8,943,063
Financial guarantee liabilities	64,104	64,104	65,121	65,121
Others	1,548,401	1,548,401	916,562	916,562
	<u>₩ 11,187,484</u>	<u>11,551,956</u>	<u>₩ 10,380,211</u>	<u>10,660,203</u>

(\*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 are 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.

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**As of March 31, 2014, Continued**  
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2) 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 asset 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 March 31, 2014 and December 31, 2013 are as follows:

a. March 31, 2014

<i>(in millions of Won)</i>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial Assets				
Available-for-sale financial assets	₩ 2,231,144	-	692,945	2,924,089
Derivatives assets held for trading	-	8,544	-	8,544
	<u>₩ 2,231,144</u>	<u>8,544</u>	<u>692,945</u>	<u>2,932,633</u>
Financial Liabilities				
Derivatives liabilities held for trading	₩ -	164,861	-	164,861

b. December 31, 2013

<i>(in millions of Won)</i>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial Assets				
Available-for-sale financial assets	₩ 2,554,421	-	670,290	3,224,711
Derivatives assets held for trading	-	7,788	-	7,788
	<u>₩ 2,554,421</u>	<u>7,788</u>	<u>670,290</u>	<u>3,232,499</u>
Financial Liabilities				
Derivatives liabilities held for trading	₩ -	212,427	-	212,427

3) Financial risk management

The Company is exposed to credit risk, liquidity risk and market risk arising from financial assets and liabilities. The Company's financial risk management objectives and policies are consistent with those disclosed in the separate financial statements as of and for the year ended December 31, 2013.

**POSCO**  
**Notes to the Condensed Separate Interim Financial Statements**  
**As of March 31, 2014, Continued**  
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**21. Share Capital and Capital Surplus**

(a) Share capital as of March 31, 2014 and December 31, 2013 are as follows:

*(Share, in Won)*

	<u>March 31, 2014</u>	<u>December 31, 2013</u>
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 March 31, 2014, total shares of ADRs of 53,749,064 are equivalent to 13,437,266 of common stock.

(\*2) As of March 31, 2014, 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) Capital surplus as of March 31, 2014 and December 31, 2013 are as follows:

*(in millions of Won)*

	<u>March 31, 2014</u>	<u>December 31, 2013</u>
Share premium	₩ 463,825	463,825
Gain on disposal of treasury shares	769,226	769,215
	<u>₩ 1,233,051</u>	<u>1,233,040</u>

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**22. Hybrid Bonds**

Hybrid bonds classified as equity as of March 31, 2014 and December 31, 2013 are as follows:

(in millions of Won)

	<u>Date of issue</u>	<u>Date of maturity</u>	<u>Rate of interest (%)</u>		<u>March 31, 2014</u>	<u>December 31, 2013</u>
Hybrid bond 1-1 (*1)	2013-06-13	2043-06-13	4.30	₩	800,000	800,000
Hybrid bond 1-2 (*1)	2013-06-13	2043-06-13	4.60		200,000	200,000
Issuance cost					(3,081)	(3,081)
				₩	<u>996,919</u>	<u>996,919</u>

(\*1) Details of hybrid bonds as of March 31, 2014 and December 31, 2013 are as follows:

(in millions of Won)	<u>Hybrid bond 1-1</u>	<u>Hybrid bond 1-2</u>
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% reset every 5 years as follows; · After 5 years : return on government bond (5 years) + 1.3% · After 10 years : additionally + 0.25% according to Step-up clauses · After 25 years : additionally + 0.75%	Issue date ~ 2023-06-12 : 4.6% reset every 10 years as follows; · After 10 years : return on government bond (10 years) + 1.4% · After 10 years : additionally + 0.25% according to Step-up clauses · After 30 years : additionally + 0.75%
Interest payments condition	Quarterly (Optional deferral of interest payment is available to the Company)	Quarterly (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 March 31, 2014 amounts to ₩2,251 million.

**23. Reserves**

(a) Reserves as of March 31, 2014 and December 31, 2013 are as follows:

(in millions of Won)

	<u>March 31, 2014</u>	<u>December 31, 2013</u>
Accumulated changes in the unrealized fair value of available-for-sale investments, net of tax	₩ 184,512	403,939

**24. Treasury Shares**

As of March 31, 2014, the Company holds 7,403,072 shares of treasury stock for price stabilization in accordance with the Board of Director's resolution.

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**25. Selling and Administrative Expenses**

(a) Administrative expenses

Administrative expenses for the three-month periods ended March 31, 2014 and 2013 were as follows:

<i>(in millions of Won)</i>	<u>March 31, 2014</u>	<u>March 31, 2013</u>
Wages and salaries	₩ 52,368	50,470
Expenses related to post-employment benefits	7,835	6,718
Other employee benefits	12,042	10,669
Travel	3,021	3,635
Depreciation	5,932	6,225
Amortization	13,063	4,648
Rental	17,790	11,777
Repairs	3,676	3,787
Advertising	20,916	17,352
Research and development	23,599	48,136
Service fees	46,764	38,966
Vehicles maintenance	1,746	1,817
Industry association fee	3,540	3,107
Training	1,621	1,666
Conference	1,215	1,132
(Reversal of) bad debt expenses	503	(656)
Others	9,920	9,731
	<u>₩ 225,551</u>	<u>219,180</u>

(b) Selling expenses

Selling expenses for the three-month periods ended March 31, 2014 and 2013 were as follows:

<i>(in millions of Won)</i>	<u>March 31, 2014</u>	<u>March 31, 2013</u>
Freight and custody expenses	₩ 206,075	216,208
Operating expenses for distribution center	2,469	2,134
Sales commissions	15,413	14,541
Sales advertising	260	470
Sales promotion	1,137	1,471
Sample	443	372
Sales insurance premium	1,360	2,073
	<u>₩ 227,157</u>	<u>237,269</u>

**POSCO**  
**Notes to the Condensed Separate Interim Financial Statements**  
**As of March 31, 2014, Continued**  
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**26. Adjusted Operating Profit**

Adjusted operating profits which include the other profits or losses excluded in operating profit but reflect the results of the Company's operations for the three-month periods ended March 31, 2014 and 2013 were as follows:

<i>(in millions of Won)</i>	<u>March 31, 2014</u>	<u>March 31, 2013</u>
Operating profits on the statement of comprehensive income	₩ 517,704	581,358
Add		
Gain on disposals of property, plant, and equipment	1,149	2,478
Gain on disposals of other long-term assets	-	246
Gain on disposals of investment in subsidiaries, associates and joint ventures	-	14,544
Others	2,233	16,972
	<u>3,382</u>	<u>34,240</u>
Deduct		
Loss on disposals of property, plant and equipment	(17,669)	(18,769)
Other provision for doubtful account	(25,704)	-
Donations	(18,958)	(12,331)
Idle tangible assets expenses	(238)	(6,920)
Impairment loss on investment in subsidiaries, associates and joint ventures	(67,729)	-
Loss on disposals of investment in subsidiaries, associates and joint ventures	-	(12,271)
Others	(142,763)	(7,535)
	<u>(273,061)</u>	<u>(57,826)</u>
Adjusted operating profit	<u>₩ 248,025</u>	<u>557,772</u>

**27. Finance Income and Costs**

Details of finance income and costs for the three-month periods ended March 31, 2014 and 2013 were as follows:

<i>(in millions of Won)</i>	<u>March 31, 2014</u>	<u>March 31, 2013</u>
Finance income		
Interest income	₩ 30,860	40,502
Dividend income	96,471	144,601
Gain on foreign currency transactions	53,386	48,926
Gain on foreign currency translation	9,499	117,309
Gain on valuation of derivatives	39,111	672
Gain on derivative transactions	6,102	-
Gain on redemption of debentures	1,500	-
Gain on disposals of available-for-sale investment	7,073	-
	<u>₩ 244,002</u>	<u>352,010</u>
Finance costs		
Interest expenses	₩ 73,058	76,388
Loss on foreign currency transactions	54,682	75,139
Loss on foreign currency translation	84,415	153,055
Loss on valuation of derivatives	5,269	51,495
Loss on derivative transactions	824	-
Impairment loss on available-for-sale investment	1,264	101,871
Others	377	173
	<u>₩ 219,889</u>	<u>458,121</u>

**POSCO**  
**Notes to the Condensed Separate Interim Financial Statements**  
**As of March 31, 2014, Continued**  
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**28. Other Non-Operating Income and Expenses**

Details of other non-operating income and expenses for the three-month periods ended March 31, 2014 and 2013 were as follows:

<i>(in millions of Won)</i>	<u>March 31, 2014</u>	<u>March 31, 2013</u>
Other non-operating income		
Gain on disposals of property, plant and equipment	₩ 1,149	2,478
Gain on disposals of other long-term assets	-	246
Gain on disposals of investment in subsidiaries, associates and joint ventures	-	14,544
Others	2,233	16,972
	<u>₩ 3,382</u>	<u>34,240</u>
Other non-operating expenses		
Loss on disposals of property, plant and equipment	₩ 17,669	18,769
Other provision for doubtful account	25,704	-
Donations	18,958	12,331
Idle tangible assets expenses	238	6,920
Impairment loss on investment in subsidiaries, associates and joint ventures	67,729	-
Loss on disposals of investment in subsidiaries, associates and joint ventures	-	12,271
Others(*1)	142,763	7,535
	<u>₩ 273,061</u>	<u>57,826</u>

(\*1) As a result of Korea National Tax Service's periodic audit of tax payments and refunds of the Company, the Company recognized additional tax payments amounting to ₩137,917 million, primarily related to VAT, in the three-month period ended March 31, 2014.

**29. 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 three-month periods ended March 31, 2014 and 2013 were as follows (excluding financial costs and income tax expense):

<i>(in millions of Won)</i>	<u>March 31, 2014</u>	<u>March 31, 2013</u>
Changes in inventories (*1)	₩ (178,276)	148,209
Raw materials and consumables used	4,751,825	4,882,576
Employee benefits expenses	374,939	372,532
Outsourced processing cost	541,322	499,015
Depreciation (*2)	499,554	465,394
Amortization	18,515	9,344
Ordinary research & development expenses	108,849	140,083
Electricity and water expenses	256,529	186,971
Service fees	60,161	53,406
Advertising	20,916	17,352
Freight and custody expenses	206,075	216,208
Sales Commissions	15,413	14,541
Loss on disposals of property, plant and equipment	17,669	18,769
(Reversal of) bad debt expenses	26,207	(656)
Impairment loss on investment in subsidiaries, associates and joint ventures	67,729	-
Other expenses	331,780	137,387
	<u>₩ 7,119,207</u>	<u>7,161,131</u>

(\*1) Changes in inventories are the changes in product, semi-finished products and by-product.

(\*2) Includes depreciation of investment property.

# POSCO

## Notes to the Condensed Separate Interim Financial Statements As of March 31, 2014, Continued (Unaudited)

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### 30. Income Taxes

Income tax expense was recognized as current tax expense adjusted to current adjustments for prior periods, deferred tax benefit/expenses by origination and reversal of deferred assets/liabilities and temporary differences, and income tax recognized in other comprehensive income. The effective tax rate of the Company for the three-month periods ended March 31, 2014 and 2013 was 59.02% and 15.11%, respectively. The change in effective tax rate was caused mainly by additional income tax payment (₩57,665 million) due to tax investigation and non-deductible expense primarily related to additional VAT payment (note 28) in 2014.

### 31. Earnings Per Share

Basic and diluted earnings per share for the three-month periods ended March 31, 2014 and 2013 were as follows:

*(in millions of Won*

*except per share information)*

	<b>March 31, 2014</b>	<b>March 31, 2013</b>
Profit for the period	₩ 111,519	383,425
Interests of hybrid bonds	(8,111)	-
Weighted-average number of common shares outstanding (*1)	79,783,754	77,244,466
Basic and diluted earnings per share	<u>₩ 1,296</u>	<u>4,964</u>

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

*(share)*

	<b>March 31, 2014</b>	<b>March 31, 2013</b>
Total number of common shares issued	87,186,835	87,186,835
Weighted-average number of treasury shares	<u>(7,403,081)</u>	<u>(9,942,369)</u>
Weighted-average number of common shares outstanding	<u>79,783,754</u>	<u>77,244,466</u>

Since there were no potential shares of common stock which had dilutive effects as of March 31, 2014 and 2013, diluted earnings per share is equal to basic earnings per share.

**POSCO**  
**Notes to the Condensed Separate Interim Financial Statements**  
**As of March 31, 2014, Continued**  
**(Unaudited)**

**32. Related Party Transactions**

(a) Significant transactions with related companies for the three-month periods ended March 31, 2014 and 2013 were as follows:

1) For the three-month periods ended March 31, 2014

(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
<b>Subsidiaries (*3)</b>								
POSCO E&C Co., Ltd.	₩ 1,505	16,583	18,088	₩ -	427,486	2,090	10,972	440,548
POSCO Processing & Service Co., Ltd.	255,304	8,578	263,882	260,449	-	-	106	260,555
POSCO Coated & Color Steel Co., Ltd.	122,752	-	122,752	-	-	2,429	30	2,459
POSCO ICT Co., Ltd.	227	4	231	-	75,084	6,265	37,465	118,814
POSMATE Co., Ltd.	129	1	130	132	-	3,286	8,270	11,688
eNtoB Co., Ltd.	-	35	35	58,213	660	13	5,250	64,136
POSCO Chemtech Company Ltd.	129,572	4,941	134,513	132,202	1,450	75,916	386	209,954
POSCO M-TECH Co., Ltd.	20	535	555	36,970	493	50,426	56	87,945
POSCO Energy Corp.	36,133	299	36,432	-	1,592	-	20	1,612
POSCO TMC Co., Ltd.	49,887	-	49,887	-	-	277	421	698
POSCO AST Co., Ltd.	132,400	-	132,400	1,722	-	14,898	250	16,870
POS-Himetal Co., Ltd.	3,009	1,185	4,194	40,447	-	-	-	40,447
Daewoo International Corp.	890,600	20,604	911,204	47,077	-	-	1,552	48,629
POSCO America Corporation	169,609	2	169,611	-	-	-	5	5
POSCO Canada Ltd.	-	-	-	47,370	-	-	-	47,370
POSCO Asia Co., Ltd.	514,542	23	514,565	40,194	-	1,379	79	41,652
POSCO (Thailand) Company Ltd.	22,236	4	22,240	-	-	-	7	7
Qingdao Pohang Stainless Steel Co., Ltd.	14,084	-	14,084	-	-	-	-	-
POSCO (Suzhou) Automotive Processing Center Co., Ltd.	62,811	-	62,811	-	-	-	-	-
POSCO-Japan Co., Ltd.	361,108	-	361,108	2,275	-	-	197	2,472
POSCO-India Pune Processing Center. Pvt. Ltd.	45,766	59	45,825	-	-	-	-	-
POSCO-Mexico S.A. DE C.V.	61,124	775	61,899	-	-	-	-	-
POSCO Maharashtra Steel Private Limited.	64,467	214	64,681	-	-	-	-	-
Daewoo International Singapore Pte. Ltd.	-	-	-	28,578	-	-	-	28,578
Others	474,111	134	474,245	25,225	4,569	5,952	14,864	50,610
	<u>3,411,396</u>	<u>53,976</u>	<u>3,465,372</u>	<u>720,854</u>	<u>511,334</u>	<u>162,931</u>	<u>79,930</u>	<u>1,475,049</u>
<b>Associates and joint ventures (*3)</b>								
SNNC Co., Ltd.	563	63	626	88,246	-	-	5	88,251
POSCO PLANTEC Co., Ltd. (formerly, Sungjin Geotec Co., Ltd.) (*4)	2,820	18	2,838	572	13,383	2,960	714	17,629
POSCHROME (PROPRIETARY) LIMITED	-	-	-	15,580	-	-	-	15,580
PT. POSMI Steel Indonesia	5,812	-	5,812	-	-	-	-	-
POSK (PingHu) Steel Processing Center Co., Ltd.	4,270	-	4,270	-	-	-	-	-
POSCO-SAMSUNG-Slovakia Processing Center	2,539	-	2,539	-	-	-	-	-
POSCO SAMSUNG Suzhou Steel Processing Center Co., Ltd.	319	-	319	-	-	-	-	-
Others	3	1	4	1,033	-	-	-	1,033
	<u>16,326</u>	<u>82</u>	<u>16,408</u>	<u>105,431</u>	<u>13,383</u>	<u>2,960</u>	<u>719</u>	<u>122,493</u>
	<u>₩ 3,427,722</u>	<u>54,058</u>	<u>3,481,780</u>	<u>₩ 826,285</u>	<u>524,717</u>	<u>165,891</u>	<u>80,649</u>	<u>1,597,542</u>

(\*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 March 31, 2014, the Company provided guarantees to related parties (note 20).

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

**POSCO**  
**Notes to the Condensed Separate Interim Financial Statements**  
**As of March 31, 2014, Continued**  
**(Unaudited)**

2) For the three-month periods ended March 31, 2013

(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
<b>Subsidiaries</b>								
POSCO E&C Co., Ltd.	₩ 3,226	140	3,366	₩ 152	849,527	2,572	6,844	859,095
POSCO Processing & Service Co., Ltd.	209,378	-	209,378	364,819	-	-	147	364,966
POSCO Coated & Color Steel Co., Ltd.	112,079	-	112,079	-	-	2,247	27	2,274
POSCO PLANTEC Co., Ltd.	6	15	21	712	34,604	7,085	1,526	43,927
POSCO ICT Co., Ltd.	320	4	324	45	45,105	6,922	36,568	88,640
eNtoB Co., Ltd.	-	-	-	51,698	2,155	38	4,287	58,178
POSCO Chemtech Company Ltd.	125,425	4,455	129,880	120,280	7,067	68,781	284	196,412
POSCO M-TECH Co., Ltd.	4,357	23	4,380	28,098	-	51,274	244	79,616
POSCO Energy Corp.	19,113	133	19,246	-	-	-	5	5
POSCO TMC Co., Ltd.	46,753	-	46,753	-	-	196	208	404
POSCO AST Co., Ltd.	119,096	-	119,096	1,716	-	14,087	86	15,889
POS-Himetal Co., Ltd.	5,512	26	5,538	32,840	-	-	-	32,840
Daewoo International Corp.	905,200	-	905,200	1,437	-	-	1,547	2,984
POSCO America Corporation	113,718	1	113,719	-	-	-	59	59
POSCO Canada Ltd.	-	-	-	16,884	-	-	-	16,884
POSCO Asia Co., Ltd.	524,664	63	524,727	12,529	36	-	284	12,849
POSCO (Thailand) Company Ltd.	18,346	5,750	24,096	-	-	-	33	33
Qingdao Pohang Stainless Steel Co., Ltd.	11,939	-	11,939	-	-	-	-	-
POSCO (Suzhou) Automotive Processing Center Co., Ltd.	38,167	-	38,167	-	-	-	-	-
POSCO-Japan Co., Ltd.	280,373	-	280,373	1,723	-	-	545	2,268
POSCO-India Pune Processing Center. Pvt. Ltd.	32,371	5	32,376	-	-	-	-	-
POSCO-Mexico S.A. DE C.V.	73,005	956	73,961	-	-	-	460	460
POSCO Maharashtra Steel Private Limited.	35,139	-	35,139	-	-	-	40	40
Daewoo International Singapore Pte. Ltd.	-	-	-	18,816	-	-	-	18,816
Others	117,349	7,793	125,142	16,803	8,204	7,878	23,658	56,543
	<u>2,795,536</u>	<u>19,364</u>	<u>2,814,900</u>	<u>668,552</u>	<u>946,698</u>	<u>161,080</u>	<u>76,852</u>	<u>1,853,182</u>
<b>Associates and joint ventures</b>								
SNNC Co., Ltd.	384	62	446	105,455	-	-	-	105,455
POSCO PLANTEC Co., Ltd. (formerly, Sungjin Geotec Co., Ltd.)	2,307	-	2,307	-	-	-	-	-
POSCHROME (PROPRIETARY) LIMITED	-	-	-	15,552	-	-	-	15,552
PT. POSMI Steel Indonesia	1,975	-	1,975	-	-	-	-	-
POSK (PingHu) Steel Processing Center Co., Ltd.	1,198	-	1,198	-	-	-	-	-
POSCO-SAMSUNG-Slovakia Processing Center	2,728	-	2,728	-	-	-	-	-
POSCO SAMSUNG Suzhou Steel Processing Center Co., Ltd.	2,569	-	2,569	-	-	-	-	-
Others	538	58	596	971	-	-	174	1,145
	<u>11,699</u>	<u>120</u>	<u>11,819</u>	<u>121,978</u>	<u>-</u>	<u>-</u>	<u>174</u>	<u>122,152</u>
	<u>₩ 2,807,235</u>	<u>19,484</u>	<u>2,826,719</u>	<u>₩ 790,530</u>	<u>946,698</u>	<u>161,080</u>	<u>77,026</u>	<u>1,975,334</u>

**POSCO**  
**Notes to the Condensed Separate Interim Financial Statements**  
**As of March 31, 2014, Continued**  
**(Unaudited)**

(b) The related account balances of significant transactions with related companies as of March 31, 2014 and December 31, 2013 are as follows:

1) March 31, 2014

(in millions of Won)

	Receivables			Payables			
	Trade accounts and notes receivable	Others	Total	Trade accounts and notes payable	Accounts payable	Others	Total
<b>Subsidiaries</b>							
POSCO E&C Co., Ltd.	₩ 220	89,563	89,783	₩ -	119,117	27	119,144
POSCO Processing & Service Co., Ltd.	83,091	17,173	100,264	10,171	953	-	11,124
POSCO Coated & Color Steel Co., Ltd.	103,064	17	103,081	-	12	1,388	1,400
POSCO ICT Co., Ltd.	-	2,513	2,513	5	42,484	7,174	49,663
POSMATE Co., Ltd.	-	3,882	3,882	239	1,237	4,107	5,583
eNtoB Corp.	-	35	35	11,574	8,446	13	20,033
POSCO Chemtech Company Ltd.	43,429	8,835	52,264	64,259	15,839	17,333	97,431
POSCO M-TECH Co.,Ltd.	-	541	541	9,736	8,903	18,613	37,252
POSCO Energy Corp.	15,178	815	15,993	-	641	1,336	1,977
POSCO TMC Co., Ltd.	19,599	7	19,606	1	20	111	132
POSCO AST Co., Ltd.	59,060	13	59,073	-	3,064	6,034	9,098
POS-Himetal Co., Ltd.	-	1,285	1,285	-	15,305	11	15,316
Daewoo International Corp.	98,995	21,451	120,446	527	-	-	527
POSCO America Corporation	52,859	-	52,859	-	-	-	-
POSCO Canada Ltd.	-	-	-	2,539	-	-	2,539
POSCO Asia Co., Ltd.	75,407	350	75,757	3,794	-	6,551	10,345
POSCO (Thailand) Company Ltd.	6,782	28	6,810	-	-	-	-
Qingdao Pohang Stainless Steel Co., Ltd.	9,816	-	9,816	-	-	-	-
POSCO-Japan Co., Ltd.	38,468	89	38,557	557	-	-	557
POSCO-India Pune Processing Center. Pvt. Ltd.	14,736	-	14,736	-	-	-	-
POSCO MEXICO S.A. DE C.V.	95,526	1,409	96,935	-	-	-	-
POSCO Maharashtra Steel Private Limited.	67,538	4,161	71,699	-	-	-	-
Others	73,255	9,732	82,987	11,542	11,640	3,918	27,100
	<u>857,023</u>	<u>161,899</u>	<u>1,018,922</u>	<u>114,944</u>	<u>227,661</u>	<u>66,616</u>	<u>409,221</u>
<b>Associates and joint ventures</b>							
SNNC Co., Ltd.	140	23	163	23,961	-	-	23,961
POSCO PLANTEC Co., Ltd. (formerly, Sungjin Geotec Co., Ltd.)	1,282	14	1,296	2,285	4,188	16	6,489
POSCHROME (PROPRIETARY) LIMITED	-	288	288	-	-	-	-
LLP POSUK Titanium	-	4,118	4,118	-	-	-	-
Others	-	3	3	513	-	1	514
	<u>1,422</u>	<u>4,446</u>	<u>5,868</u>	<u>26,759</u>	<u>4,188</u>	<u>17</u>	<u>30,964</u>
	<u>₩ 858,445</u>	<u>166,345</u>	<u>1,024,790</u>	<u>₩ 141,703</u>	<u>231,849</u>	<u>66,633</u>	<u>440,185</u>

**POSCO**  
**Notes to the Condensed Separate Interim Financial Statements**  
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**(Unaudited)**

2) 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
<b>Subsidiaries</b>							
POSCO E&C Co., Ltd.	₩ 40	110,955	110,995	₩ -	105,603	-	105,603
POSCO Processing & Service Co., Ltd.	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 Co., Ltd.	75	123	198	-	51,247	-	51,247
POSMATE Co., Ltd.	489	1,533	2,022	141	3,274	1,058	4,473
eNtoB Corp.	-	-	-	8,057	10,311	-	18,368
POSCO Chemtech Company Ltd.	46,943	4,313	51,256	35,829	6,983	8,663	51,475
POSCO M-TECH Co.,Ltd.	18	28	46	12,020	21,326	10,799	44,145
POSCO Energy Corp.	14,733	2,894	17,627	-	421	-	421
POSCO TMC Co., Ltd.	20,510	26	20,536	-	16	50	66
POSCO AST Co., Ltd.	85,501	53	85,554	-	3,004	5,238	8,242
POS-Himetal Co., Ltd.	1,721	12	1,733	-	12,624	-	12,624
Daewoo International Corp.	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 Ltd.	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
	<u>984,484</u>	<u>133,283</u>	<u>1,117,767</u>	<u>105,051</u>	<u>231,080</u>	<u>28,890</u>	<u>365,021</u>
<b>Associates and joint ventures</b>							
SNNC Co., Ltd.	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
	<u>1,019</u>	<u>4,236</u>	<u>5,255</u>	<u>17,341</u>	<u>2</u>	<u>-</u>	<u>17,343</u>
	<u>₩ 985,503</u>	<u>137,519</u>	<u>1,123,022</u>	<u>₩ 122,392</u>	<u>231,082</u>	<u>28,890</u>	<u>382,364</u>

(c) For the three-month periods ended March 31, 2014 and 2013 details of compensation to key management officers were as follows:

(in millions of Won)

	March 31, 2014		March 31, 2013	
Short-term benefits	₩	8,410		7,686
Long-term benefits		3,012		2,080
Retirement benefits		2,851		2,298
	<u>₩</u>	<u>14,273</u>		<u>12,064</u>

# POSCO

## Notes to the Condensed Separate Interim Financial Statements As of March 31, 2014, Continued (Unaudited)

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### 33. Commitments and Contingencies

#### (a) 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 March 31, 2014, 179 million tons of iron ore and 10 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 March 31, 2014, 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 March 31, 2014, the Company has provided two blank checks 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.

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**Notes to the Condensed Separate Interim Financial Statements**  
**As of March 31, 2014, Continued**  
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(b) Litigation in progress

1) Civil lawsuits with Nippon Steel & Sumitomo Metal Corporation

During the April, 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 ₩1,024.2 billion. Through trials to the three-month periods ended March 31, 2014, 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 March 31, 2014, the Japan court has not made any judgments on this matter. Since the Company does not believe that it has any present obligation, the Company has not recorded any provision for this lawsuit as of March 31, 2014.

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. Since the Company does not believe that it has any present obligation, the Company has not recorded any provision for this lawsuit as of March 31, 2014. An estimate of possible loss cannot be reliably determined because the lawsuit is still in the discovery stage and no claim amount has been specified.

2) Other lawsuits and claims

The Company is involved in 37 other lawsuits and claims for alleged damages aggregating to ₩68.8 billion as of March 31, 2014 which arose in the ordinary course of business. Since the Company believes that the Company does not have a present obligation as a result of this lawsuit, the Company has not recorded any provision for this lawsuit as of March 31, 2014.

(c) 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.

# POSCO

## Notes to the Condensed Separate Interim Financial Statements As of March 31, 2014, Continued (Unaudited)

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### 34. Cash Flows from Operating Activities

Changes in operating assets and liabilities for the three-month periods ended March 31, 2014 and 2013 were as follows:

<i>(in millions of Won)</i>		<u>March 31, 2014</u>	<u>March 31, 2013</u>
Trade accounts and notes receivable	₩	403,024	238,951
Other accounts receivable		(2,333)	109,535
Accrued income		-	(2)
Advance payments		(583)	(5,958)
Prepaid expenses		(30,274)	(25,020)
Inventories		(441,524)	109,282
Long-term guarantee deposits		(194)	(291)
Other long-term assets		-	249
Trade accounts and notes payable		388,978	152,415
Other accounts payable		16,812	22,992
Accrued expenses		87,454	(72,016)
Advances received		303	(19,894)
Withholdings		16,667	7,659
Unearned revenue		771	(3,527)
Other long-term liabilities		(36)	(2,051)
Derivatives liabilities		(6,611)	-
Payment of severance benefits		(33,383)	(22,129)
Plan assets		(2,487)	(2,512)
	₩	<u>396,584</u>	<u>487,683</u>