

POSCO

Condensed Separate Interim Financial Statements

(Unaudited)

June 30, 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 June 30, 2014, the condensed separate interim statements of comprehensive income (loss) for the three-month and six-month periods ended June 30, 2014 and 2013, the condensed separate interim statements of changes in equity and cash flows for the six-month periods ended June 30, 2014 and 2013, and notes to the interim financial statements.

Management's responsibility

Management is responsible for the preparation and fair presentation of these condensed separate interim financial statements 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 these 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.

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
August 12, 2014

<p>This report is effective as of August 12, 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 June 30, 2014 and December 31, 2013 (Unaudited)

(in millions of Won)

	<u>Notes</u>	<u>June 30, 2014</u>	<u>December 31, 2013</u>
Assets			
Cash and cash equivalents	20	₩ 1,325,519	1,394,315
Trade accounts and notes receivable, net	4,20,32	3,052,321	3,393,444
Other receivables, net	5,20,32	303,464	281,161
Other short-term financial assets	6,14,20	921,795	2,318,816
Inventories	7,29	5,035,537	4,538,657
Assets held for sale	8	-	1,304
Other current assets	9	35,586	25,782
Total current assets		<u>10,674,222</u>	<u>11,953,479</u>
Long-term trade accounts and notes receivable, net	4,20	4,588	4,464
Other receivables, net	5,20	27,327	45,738
Other long-term financial assets	6,14,20	2,802,582	3,362,594
Investments in subsidiaries, associates and joint ventures	10	15,709,477	15,092,836
Investment property, net	11	92,272	92,879
Property, plant and equipment, net	12	23,179,480	23,240,603
Intangible assets, net	13	429,513	438,783
Other long-term assets	9	10,260	10,902
Total non-current assets		<u>42,255,499</u>	<u>42,288,799</u>
Total assets		<u>₩ 52,929,721</u>	<u>54,242,278</u>

See accompanying notes to the condensed separate interim financial statements.

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Condensed Separate Interim Statements of Financial Position As of June 30, 2014 and December 31, 2013, Continued (Unaudited)

(in millions of Won)

	<u>Notes</u>	<u>June 30, 2014</u>	<u>December 31, 2013</u>
Liabilities			
Trade accounts and notes payable	20,32	₩ 1,004,185	735,457
Short-term borrowings and current portion of long-term borrowings	14,20	928,111	1,931,283
Other payables	15,20,32	843,804	791,883
Other short-term financial liabilities	16,20	47,032	46,009
Current income tax liabilities		195,677	153,278
Provisions	17	31,526	8,501
Other current liabilities	19	28,762	38,109
Total current liabilities		<u>3,079,097</u>	<u>3,704,520</u>
Long-term borrowings, excluding current portion	14,20	6,373,451	6,731,788
Other payables	15,20	94,705	124,679
Other long-term financial liabilities	16,20	108,662	231,539
Net defined benefit liabilities	18	98,824	100,650
Deferred tax liabilities		999,632	1,034,102
Provisions	17	46,103	-
Other long-term liabilities	19	385	3,538
Total non-current liabilities		<u>7,721,762</u>	<u>8,226,296</u>
Total liabilities		<u>10,800,859</u>	<u>11,930,816</u>
Equity			
Share capital	21	482,403	482,403
Capital surplus	21	1,233,088	1,233,040
Hybrid bonds	22	996,919	996,919
Reserves	23	91,847	403,939
Treasury shares	24	(1,578,992)	(1,579,123)
Retained earnings		40,903,597	40,774,284
Total equity		<u>42,128,862</u>	<u>42,311,462</u>
Total liabilities and equity		<u>₩ 52,929,721</u>	<u>54,242,278</u>

See accompanying notes to the condensed separate interim financial statements.

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Condensed Separate Interim Statements of Comprehensive Income (Loss) For the three-month and six-month periods ended June 30, 2014 and 2013 (Unaudited)

(in millions of Won, except per share informations)

	Notes	For the three-month periods ended June 30		For the six-month periods ended June 30	
		2014	2013	2014	2013
Revenue	32	₩ 7,419,784	7,739,748	14,783,634	15,424,412
Cost of sales	7,29,32	(6,394,538)	(6,586,411)	(12,787,976)	(13,233,268)
Gross profit		1,025,246	1,153,337	1,995,658	2,191,144
Selling and administrative expenses	25,29,32				
Administrative expenses		(224,245)	(217,093)	(449,796)	(436,274)
Selling expenses		(235,649)	(232,852)	(462,806)	(470,121)
Operating profit	26	565,352	703,392	1,083,056	1,284,749
Finance income and costs	20,27				
Finance income		351,467	195,542	595,469	547,552
Finance costs		(88,256)	(398,611)	(308,145)	(856,731)
Other non-operating income and expenses	26,28,32				
Other non-operating income		7,931	15,894	11,313	50,134
Other non-operating expenses	29	(117,246)	(67,957)	(390,307)	(125,783)
Profit before income taxes		719,248	448,260	991,386	899,921
Income tax expense	30	(172,013)	(66,642)	(332,632)	(134,878)
Profit for the period		547,235	381,618	658,754	765,043
Other comprehensive income (loss)					
Items that will not be reclassified subsequently to profit or loss :					
Remeasurements of defined benefit pension plans, net of tax	18	(19,744)	31,602	(29,167)	(41,548)
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	(92,665)	67,662	(312,092)	214,155
Total comprehensive income, net of tax		₩ 434,826	480,882	317,495	937,650
Basic and diluted earnings per share	31	₩ 6,756	4,913	8,052	9,877

See accompanying notes to the condensed separate interim financial statements.

POSCO
Condensed Separate Interim Statements of Changes in Equity
For the six-month periods ended June 30, 2014 and 2013
(Unaudited)

(in millions of Won)

	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	-	-	-	-	-	765,043	765,043
Other comprehensive income							
Net changes in unrealized fair value of available-for-sale investments, net of tax	-	-	-	214,155	-	-	214,155
Remeasurements of defined benefit pension plans, net of tax	-	-	-	-	-	(41,548)	(41,548)
Transactions with owners of the Company, recognized directly in equity :							
Year-end dividends	-	-	-	-	-	(463,467)	(463,467)
Issuance of hybrid bonds	-	-	996,919	-	-	-	996,919
Interest of hybrid bonds	-	-	-	-	-	(2,132)	(2,132)
Disposal of treasury shares	-	39	-	-	98	-	137
Balance as of June 30, 2013	₩ 482,403	1,227,731	996,919	217,517	(2,391,308)	40,100,393	40,633,655
	Share capital	Capital surplus	Hybrid bonds	Reserves	Tresury shares	Retained earnings	Total
Balance as of January 1, 2014	₩ 482,403	1,233,040	996,919	403,939	(1,579,123)	40,774,284	42,311,462
Comprehensive income :							
Profit for the period	-	-	-	-	-	658,754	658,754
Other comprehensive income							
Net changes in unrealized fair value of available-for-sale investments, net of tax	-	-	-	(312,092)	-	-	(312,092)
Remeasurements of defined benefit pension plans, net of tax	-	-	-	-	-	(29,167)	(29,167)
Transactions with owners of the Company, recognized directly in equity :							
Year-end dividends	-	-	-	-	-	(478,702)	(478,702)
Interest of hybrid bonds	-	-	-	-	-	(21,572)	(21,572)
Disposal of treasury shares	-	48	-	-	131	-	179
Balance as of June 30, 2014	₩ 482,403	1,233,088	996,919	91,847	(1,578,992)	40,903,597	42,128,862

See accompanying notes to the condensed separate interim financial statements.

POSCO

Condensed Separate Interim Statements of Cash Flows

For six-month periods ended June 30, 2014 and 2013

(Unaudited)

(in millions of Won)

	Notes	June 30, 2014	June 30, 2013
Cash flows from operating activities			
Profit for the period		₩ 658,754	765,043
Adjustments for:			
Costs for defined benefit plans		58,428	62,362
Depreciation		1,001,071	943,541
Amortization		37,463	18,669
Finance income		(438,278)	(370,849)
Finance costs		170,200	678,005
Gain on disposal of property, plant and equipment		(2,959)	(5,002)
Loss on disposal of property, plant and equipment		29,769	67,383
Loss on disposal of investments in subsidiaries, associates and joint ventures		-	12,271
Impairment loss on investments in subsidiaries, associates and joint ventures		88,048	-
Other provision expenses		69,452	-
Income tax expense		332,632	134,878
Others		34,013	(9,953)
Changes in operating assets and liabilities	34	(57,073)	586,880
Interest received		50,126	59,367
Interest paid		(170,103)	(206,269)
Dividends received		122,713	210,200
Income taxes paid		(215,767)	(91,141)
Net cash provided by operating activities		1,768,489	2,855,385
Cash flows from investing activities			
Proceeds from disposal of short-term financial instruments		2,614,240	1,929,975
Proceeds from disposal of long-term financial instruments		-	3
Decrease in held-to-maturity investments		-	30,000
Proceeds from disposal of available-for-sale investments		900	60,856
Collection of long-term loans		3,456	7,491
Proceeds from disposal of investment in subsidiaries, associates and joint ventures		-	5,153
Proceeds from disposal of intangible assets		464	1,100
Proceeds from disposal of assets held for sale		1,291	-
Acquisition of short-term financial investments		(1,217,219)	(1,670,441)
Acquisition of available-for-sale investments		(21,412)	(48,028)
Increase in long-term loans		(14,475)	(361)
Acquisition of investment in subsidiaries, associates and joint ventures		(704,054)	(565,192)
Acquisition of property, plant and equipment		(876,842)	(1,947,895)
Payment for disposal of property, plant and equipment		(9,597)	(20,814)
Acquisition of intangible assets		(25,480)	(56,465)
Net cash used in investing activities		(248,728)	(2,274,618)
Cash flows from financing activities			
Proceeds from borrowings		1,369,225	789,995
Increase in long-term financial liabilities		1,217	1,788
Receipt of government grants		-	5,000
Proceeds from issuance of hybrid bonds		-	996,919
Repayment of borrowings		(2,456,884)	(1,533,727)
Payment of long-term financial liabilities		(1,600)	(1,590)
Decrease in derivative liabilities		-	(23,348)
Payment of cash dividends		(478,775)	(463,508)
Payment of interest of hybrid bonds		(21,740)	-
Net cash used in financing activities		(1,588,557)	(228,471)
Net increase (decrease) in cash and cash equivalents		(68,796)	352,296
Cash and cash equivalents			
Cash and cash equivalents at beginning of the period		1,394,315	1,752,560
Cash and cash equivalents at end of the period		₩ 1,325,519	2,104,856

See accompanying notes to the condensed separate interim financial statements.

POSCO

Notes to the Condensed Separate Interim Financial Statements As of June 30, 2014 (Unaudited)

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 June 30, 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

(a) Judgements, assumptions and estimation uncertainties

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.

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Notes to the Condensed Separate Interim Financial Statements As of June 30, 2014, Continued (Unaudited)

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 uncertainties were the same as those that applied to the separate financial statements as of and for the year ended December 31, 2013.

(b) Measurement of fair value

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 - unadjusted quoted prices 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 or indirectly.
- Level 3 - inputs for the assets or liability that are not based on observable market data.

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.

Further information about the assumptions made in measuring fair values is included in Note 20.

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 policies are also expected to be reflected in the Company's separate financial statements as of and for the year ending December 31, 2014.

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Notes to the Condensed Separate Interim Financial Statements As of June 30, 2014, Continued (Unaudited)

(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.

(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.

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Notes to the Condensed Separate Interim Financial Statements As of June 30, 2014, Continued (Unaudited)

4. Trade Accounts and Notes Receivable

Trade accounts and notes receivable as of June 30, 2014 and December 31, 2013 are as follows:

<i>(in millions of Won)</i>	<u>June 30, 2014</u>	<u>December 31, 2013</u>
Current		
Trade accounts and notes receivable	₩ 3,059,692	3,403,316
Less: Allowance for doubtful accounts	(7,371)	(9,872)
	<u>₩ 3,052,321</u>	<u>3,393,444</u>
Non-current		
Trade accounts and notes receivable	₩ 4,588	4,692
Less: Allowance for doubtful accounts	-	(228)
	<u>₩ 4,588</u>	<u>4,464</u>

Trade accounts and notes receivable sold to financial institutions, for which the derecognition conditions were not met, amounted to ₩217,624 million and ₩203,138 million as of June 30, 2014 and December 31, 2013, respectively, and are included in short-term borrowings.

5. Other Receivables

Other receivables as of June 30, 2014 and December 31, 2013 are as follows:

<i>(in millions of Won)</i>	<u>June 30, 2014</u>	<u>December 31, 2013</u>
Current		
Short-term loans	₩ 3,908	-
Other accounts receivable	303,086	281,667
Others	7,041	10,065
Less: Allowance for doubtful accounts	(10,571)	(10,571)
	<u>₩ 303,464</u>	<u>281,161</u>
Non-current		
Long-term loans	₩ 35,578	54,945
Long-term other accounts receivable	3,520	2,723
Others	2,682	2,523
Less: Allowance for doubtful accounts	(14,453)	(14,453)
	<u>₩ 27,327</u>	<u>45,738</u>

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Notes to the Condensed Separate Interim Financial Statements As of June 30, 2014, Continued (Unaudited)

6. Other Financial Assets

(a) Other financial assets as of June 30, 2014 and December 31, 2013 are as follows:

(in millions of Won)

	<u>June 30, 2014</u>	<u>December 31, 2013</u>
Current		
Short-term financial instruments (*1)	₩ 919,584	2,317,867
Cash deposits (*2)	2,211	949
	<u>₩ 921,795</u>	<u>2,318,816</u>
Non-current		
Long-term derivatives assets held for trading	₩ 9,841	7,788
Long-term available-for-sale securities (equity instruments)	2,775,347	3,333,915
Long-term available-for-sale securities (bonds)	16,858	20,355
Long-term available-for-sale securities (others)	500	500
Cash deposits (*3)	36	36
	<u>₩ 2,802,582</u>	<u>3,362,594</u>

(*1) Financial instruments, amounting to ₩5,200 million and ₩4,700 million as of June 30, 2014 and December 31, 2013, respectively, are collateralized for long-term borrowings from National Forestry Cooperative Federation.

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

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

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Notes to the Condensed Separate Interim Financial Statements As of June 30, 2014, Continued (Unaudited)

(b) Long-term available-for-sale equity securities as of June 30, 2014 and December 31, 2013 are as follows:

(in millions of Won)		June 30, 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
Marketable equity securities								
Nippon Steel & Sumitomo Metal Corporation	238,352,000	2.51	₩ 719,622	772,260	52,638	-	772,260	842,909
SK Telecom Co., Ltd. (*1)	603,259	0.75	154,572	142,865	64,163	(75,870)	142,865	419,933
KB Financial group Inc.	11,590,550	3.00	536,517	407,987	11,590	(140,120)	407,987	489,701
Hyundai Heavy Industries Co., Ltd.	1,477,000	1.94	343,506	261,429	(82,077)	-	261,429	379,589
Shinhan Financial group Inc.	4,369,881	0.92	228,778	204,729	82,093	(106,142)	204,729	206,695
Hana Financial group Inc.	2,430,498	0.84	15,633	91,144	75,511	-	91,144	106,699
Others (12 companies) (*2)			150,940	106,176	37,016	(81,780)	106,176	108,895
			2,149,568	1,986,590	240,934	(403,912)	1,986,590	2,554,421
Non-marketable equity securities								
The Siam United Steel (*3)	11,071,000	12.30	34,658	60,218	48,085	(22,525)	60,218	57,643
Nacional Minérios S.A. (*3)	30,784,625	6.48	668,635	526,503	(142,132)	-	526,503	517,193
Dongbu Metal Co., Ltd. (*3)	3,000,000	10.00	98,242	74,841	(23,401)	-	74,841	85,371
Others (39 companies) (*4)			141,485	127,195	(2,316)	(11,974)	127,195	119,287
			943,020	788,757	(119,764)	(34,499)	788,757	779,494
			₩ 3,092,588	2,775,347	121,170	(438,411)	2,775,347	3,333,915

(*1) As of June 30, 2014, 603,257 shares equivalent to 5,429,314 American Depositary Receipts (“ADRs”) of SK Telecom Co., Ltd. have been pledged as collateral for the exchangeable bonds issued.

(*2) The Company has recognized ₩1,252 million, ₩2,856 million and ₩465 million of impairment loss on securities of PT.Krakatau Steel, Steel Flower Co., Ltd and Dgenx Co., Ltd, respectively due to significant decline in the fair value of the shares.

(*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 June 30, 2014 and December 31, 2013 are as follows:

(in millions of Won)	June 30, 2014	December 31, 2013
Finished goods	₩ 797,503	755,286
Semi-finished goods	1,373,148	1,259,390
By-products	11,462	13,793
Raw materials	1,125,506	983,902
Fuel and materials	586,409	520,236
Materials-in-transit	1,148,493	1,009,996
Others	557	586
	5,043,078	4,543,189
Less: Allowance for inventories valuation	(7,541)	(4,532)
	₩ 5,035,537	4,538,657

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Notes to the Condensed Separate Interim Financial Statements As of June 30, 2014, Continued (Unaudited)

The amount of valuation losses of inventories recognized within cost of goods sold during the six-month period ended June 30, 2014 and the year ended December 31, 2013 were ₩7,541 million and ₩4,532 million, respectively.

8. Non-current Assets Held for Sale

Details of non-current assets held for sale as of June 30, 2014 and December 31, 2013 are as follows:

<i>(in millions of Won)</i>	<u>June 30, 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 six-month period ended June 30, 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 June 30, 2014 and December 31, 2013 are as follows:

<i>(in millions of Won)</i>	<u>June 30, 2014</u>	<u>December 31, 2013</u>
Other current assets		
Advance payments	₩ 4,886	4,871
Prepaid expenses	30,700	20,911
	<u>35,586</u>	<u>25,782</u>
Other long-term assets		
Long-term prepaid expenses	6,462	6,980
Others	3,798	3,935
Less: Allowance for doubtful accounts	-	(13)
	<u>₩ 10,260</u>	<u>10,902</u>

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Notes to the Condensed Separate Interim Financial Statements As of June 30, 2014, Continued (Unaudited)

10. Investments in Subsidiaries, Associates and Joint ventures

(a) Details of subsidiaries and carrying values as of June 30, 2014 and December 31, 2013 are as follows:

(in millions of Won)

	Country	Principal operations	Ownership (%)	June 30, 2014		December 31, 2013
				Book value	Book value	
[Domestic]						
Daewoo International Co., Ltd.	Korea	Trading	60.31	₩	3,371,481	3,371,481
POSCO ENGINEERING & CONSTRUCTION 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 Processing & Service 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
POSCO Venture Capital Co. Ltd. (formerly, 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 (13 companies)					188,264	178,264
				₩	7,629,841	7,619,841

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Notes to the Condensed Separate Interim Financial Statements As of June 30, 2014, Continued (Unaudited)

(in millions of Won)

	Country	Principal operations	Ownership (%)	June 30, 2014		December 31, 2013
				Book value		Book value
[Foreign]						
PT. KRAKATAU POSCO	Indonesia	Steel manufacturing and sales	70.00	₩	856,906	808,492
POSCO Thainox Public Co., Ltd.	Thailand	Stainless steel manufacturing	84.93		340,249	340,249
POSCO Australia Pty. Ltd.	Australia	Steel sales and mine development	100.00		330,623	330,623
POSCO WA Pty. Ltd.	Australia	Mine development	100.00		607,438	446,093
POSCO Maharashtra Steel Private Ltd.	India	Steel manufacturing and sales	100.00		435,163	355,987
Zhangjiagang Pohang Stainless Steel Co., Ltd.	China	Stainless steel manufacturing	58.60		284,564	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		181,760	182,080
POSCO-Vietnam Co., Ltd.	Vietnam	Steel manufacturing	85.00		157,038	157,295
POSCO VST Co., Ltd.	Vietnam	Stainless steel manufacturing	95.65		145,202	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		131,119	131,291
POSCO ASSAN TST STEEL Industry	Turkey	Steel manufacturing and sales	60.00		95,464	95,710
POSCO Investment Co., Ltd.	Hong Kong	Finance	99.99		86,989	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	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		58,552	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 sheet 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		30,243	29,341
POSCO COATED STEEL (THAILAND) CO., LTD.	Thailand	Plate steel manufacturing and sales	100.00		47,618	6,020
Others (31 companies)					311,502	297,286
					5,040,772	4,696,723
				₩	12,670,613	12,316,564

(*1) As of June 30, 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 June 30, 2014, this investment is collateral for the Company's guarantee provided for certain borrowings of its subsidiary from banks.

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Notes to the Condensed Separate Interim Financial Statements
As of June 30, 2014, Continued
(Unaudited)

(b) Details of associates and carrying values as of June 30, 2014 and December 31, 2013 are as follows:

(in millions of Won)

					June 30, 2014	December 31, 2013
	Country	Principal operations	Ownership (%)		Book value	Book value
[Domestic]						
EQP POSCO Global NO1 Natural Resources PEF	Korea	Mine investment	25.80	₩	169,106	169,106
POSCO PLANTEC Co., Ltd. (*1)	Korea	Industrial machinery manufacturing	34.52		118,601	185,786
SNNC Co., Ltd.	Korea	Material manufacturing	49.00		100,655	100,655
Others (5 companies)					22,802	18,921
					<u>411,164</u>	<u>474,468</u>
[Foreign]						
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 (9 companies)					31,866	26,188
					<u>356,407</u>	<u>350,729</u>
				₩	<u>767,571</u>	<u>825,197</u>

(*1) As of June 30, 2014, there is objective evidence of impairment due to a prolonged decline on the fair value of the investment. 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 June 30, 2014. The Company recognized an impairment loss of ₩88,048 million as the carrying value was higher than its recoverable amount as of June 30, 2014.

(c) Details of joint ventures and carrying values as of June 30, 2014 and December 31, 2013 are as follows:

(in millions of Won)

					June 30, 2014	December 31, 2013
	Country	Principal operations	Ownership (%)		Book value	Book value
Roy Hill Holdings Pty Ltd	Australia	Mine development	10.00	₩	1,225,464	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	20.00		469,891	393,925
Others (5 companies)					112,367	110,010
				₩	<u>2,271,293</u>	<u>1,951,075</u>

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Notes to the Condensed Separate Interim Financial Statements As of June 30, 2014, Continued (Unaudited)

11. Investment Property, Net

Changes in the carrying value in investment property for the six-month period ended June 30, 2014 and the year ended December 31, 2013 were as follows:

1) For the six-month period ended June 30, 2014

(in millions of Won)

		Beginning	Depreciation (*1)	Transfer (*2)	Ending
Land	₩	36,020	-	347	36,367
Buildings		52,682	(1,208)	307	51,781
Structures		4,177	(80)	27	4,124
Total	₩	92,879	(1,288)	681	92,272

(*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)

		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.

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Notes to the Condensed Separate Interim Financial Statements As of June 30, 2014, Continued (Unaudited)

12. Property, Plant and Equipment, Net

Changes in the carrying value of property, plant and equipment for the six-month period ended June 30, 2014 and the year ended December 31, 2013 were as follows:

1) For the six-month period ended June 30, 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)	-	908	1,398,215
Buildings		2,637,774	2,397	(663)	(122,151)	81,980	2,599,337
Structures		2,469,046	1,031	(690)	(96,227)	222,029	2,595,189
Machinery and equipment		13,202,710	29,516	(15,805)	(758,289)	1,152,389	13,610,521
Vehicles		10,769	108	-	(3,812)	1,713	8,778
Tools		25,680	1,931	(51)	(7,786)	2,360	22,134
Furniture and fixtures		47,394	3,640	(1)	(11,199)	1,260	41,094
Lease assets		7,007	-	-	(319)	-	6,688
Construction-in-progress		3,442,952	947,691	-	-	(1,493,119)	2,897,524
Total	₩	<u>23,240,603</u>	<u>986,353</u>	<u>(17,213)</u>	<u>(999,783)</u>	<u>(30,480)</u>	<u>23,179,480</u>

(*1) Represents assets transferred from construction-in-progress to property, plant and equipment, investment property and intangible assets.

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
Lease assets		7,644	-	-	(637)	-	7,007
Construction-in-progress		2,943,903	3,009,545	-	-	(2,510,496)	3,442,952
Total	₩	<u>22,166,735</u>	<u>3,154,743</u>	<u>(73,462)</u>	<u>(1,929,023)</u>	<u>(78,390)</u>	<u>23,240,603</u>

(*1) Represents assets transferred from construction-in-progress to property, plant and equipment, investment property and intangible assets.

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Notes to the Condensed Separate Interim Financial Statements As of June 30, 2014, Continued (Unaudited)

13. Intangible Assets, Net

Changes in the carrying value of intangible assets for the six-month period ended June 30, 2014 and the year ended December 31, 2013 were as follows:

1) For the six-month period ended June 30, 2014

(in millions of Won)

		<u>Beginning</u>	<u>Acquisitions</u>	<u>Disposals</u>	<u>Amortization</u>	<u>Transfer (*2)</u>	<u>Ending</u>
Intellectual property rights	₩	13,812	-	-	(1,021)	2,479	15,270
Membership (*1)		48,877	5,829	(501)	-	-	54,205
Development expense		29,468	-	-	(24,503)	140,383	145,348
Port facilities usage rights		172,209	-	-	(6,155)	1,837	167,891
Construction-in-progress		153,719	7,828	-	-	(143,904)	17,643
Other intangible assets		20,698	11,823	-	(5,784)	2,419	29,156
	₩	<u>438,783</u>	<u>25,480</u>	<u>(501)</u>	<u>(37,463)</u>	<u>3,214</u>	<u>429,513</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.

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Notes to the Condensed Separate Interim Financial Statements As of June 30, 2014, Continued (Unaudited)

14. Borrowings

(a) Borrowings as of June 30, 2014 and December 31, 2013 are as follows:

(in millions of Won)

		June 30, 2014	December 31, 2013
Short-term borrowings			
Short-term borrowings	₩	404,262	203,138
Current portion of long-term borrowings		223,382	188,381
Current portion of loans from foreign financial institutions		657	927
Current portion of debentures		300,000	1,540,109
Less: Current portion of discount on debentures		(190)	(1,272)
	₩	928,111	1,931,283
Long-term borrowings			
Long-term borrowings	₩	525,024	648,251
Loans from foreign financial institutions		866	1,140
Debentures		5,868,440	6,107,973
Less: Discount on debentures issued		(24,965)	(38,167)
Add: Premium on debentures redemption		4,086	12,591
	₩	6,373,451	6,731,788

(b) Short-term borrowings as of June 30, 2014 and December 31, 2013 are as follows:

(in millions of Won)

Lenders	Issuance date	Maturity date	Annual interest rate (%)		June 30, 2014	December 31, 2013
RBS	2014.04.02	2014.07.01	0.56	₩	27,709	-
DBS	2014.04.02	2014.07.01	0.62		34,927	-
HSBC	2014.04.04	2014.07.03	0.58		32,735	-
CA	2014.04.09	2014.07.10	0.56		41,428	-
Mizuho	2014.04.09	2014.07.10	0.60		49,839	-
Others (Transfer of account receivables that does not qualify for derecognition)					217,624	203,138
				₩	404,262	203,138

(c) Current portion of long-term borrowings as of June 30, 2014 and December 31, 2013 are as follows:

(in millions of Won)

	Lenders	Issuance date	Maturity date	Annual interest rate (%)		June 30, 2014	December 31, 2013
Borrowings	Woori Bank and others	2006.10.31~ 2013.05.08	2017.03.15~ 2041.05.08	0.75~1.75	₩	15,532	14,969
Borrowings	Korea EXIM Bank	2010.02.18~ 2011.03.23	2014.09.23~ 2017.07.26	4.09~4.50		207,851	173,412
Loans from foreign financial institutions	NATIXIS (*1)	1984.06.30~ 1986.03.31	2014.12.30~ 2017.03.31	2.00		657	927
Debentures	Domestic debentures 292	-	-	-		-	499,975
Debentures	Samurai bonds 10	2011.10.20	2014.10.20	1.67		299,809	300,921
	Global fund I	-	-	-		-	737,941
					₩	523,849	1,728,145

(*1) As of June 30, 2014 and December 31, 2013, Korea Development Bank has provided guarantees to the Company for loans from foreign financial institutions.

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Notes to the Condensed Separate Interim Financial Statements As of June 30, 2014, Continued (Unaudited)

(d) Long-term borrowings excluding current portion as of June 30, 2014 and December 31, 2013 are as follows:

(in millions of Won)

	Lenders	Issuance date	Maturity date	Annual interest rate (%)		June 30, 2014	December 31, 2013
Borrowings	Woori Bank and others (*1)	2006.10.31~ 2013.05.08	2017.03.15~ 2041.05.08	0.75~1.75	₩	63,428	71,194
Borrowings	Korea National Oil Corporation	2007.12.27~ 2013.12.30	2022.06.25~ 2026.12.29	Government bond -2.25		13,066	13,593
Borrowings	Korea EXIM Bank	2010.07.26~ 2013.07.03	2017.07.26~ 2018.03.23	4.09~4.50		448,530	563,464
Loans from foreign financial institutions	NATIXIS (*2)	1986.03.31	2017.03.31	2.00		866	1,140
Debentures	Domestic debentures 301 and others	2010.08.04~ 2013.10.04	2015.08.04~ 2023.10.04	3.35~4.81		3,293,642	3,292,417
Debentures	Exchangeable Bond (*3) and others	2006.08.10~ 2013.12.11	2016.08.10~ 2021.12.22	0~5.88		2,553,919	2,789,980
					₩	6,373,451	6,731,788

- (*1) Short-term financial instruments amounting to ₩5,200 million and ₩4,700 million as of June 30, 2014 and December 31, 2013, respectively, are collateralized for long-term borrowings from National Forestry Cooperative Federation.
- (*2) As of June 30, 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.

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Notes to the Condensed Separate Interim Financial Statements As of June 30, 2014, Continued (Unaudited)

15. Other Payables

Other payables as of June 30, 2014 and December 31, 2013 are as follows:

(in millions of Won)

	<u>June 30, 2014</u>	<u>December 31, 2013</u>
Current		
Accounts payable	₩ 420,254	463,196
Accrued expenses	405,287	306,723
Dividend payable	8,938	9,180
Finance lease liabilities	1,111	1,124
Withholdings	8,214	11,660
	<u>₩ 843,804</u>	<u>791,883</u>
Non-current		
Long-term accounts payable	₩ 66,139	91,827
Accrued expenses	16,730	22,922
Finance lease liabilities	4,310	5,042
Long-term withholdings	7,526	4,888
	<u>₩ 94,705</u>	<u>124,679</u>

16. Other Financial Liabilities

Other financial liabilities as of June 30, 2014 and December 31, 2013 are as follows:

(in millions of Won)

	<u>June 30, 2014</u>	<u>December 31, 2013</u>
Current		
Derivative liabilities	₩ 38,484	36,964
Financial guarantee liabilities	8,548	9,045
	<u>₩ 47,032</u>	<u>46,009</u>
Non-current		
Derivative liabilities	₩ 58,146	175,463
Financial guarantee liabilities	50,516	56,076
	<u>₩ 108,662</u>	<u>231,539</u>

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Notes to the Condensed Separate Interim Financial Statements As of June 30, 2014, Continued (Unaudited)

17. Provisions

(a) Provisions as of June 30, 2014 and December 31, 2013 are as follows:

(in millions of Won)

	June 30, 2014		December 31, 2013	
	Current	Non-current	Current	Non-current
Estimated allowance (*1)	₩ 8,177	-	8,501	-
Provision for recovery (*2)	23,349	38,817	-	-
Provision for litigation (*3)	-	7,286	-	-
	₩ 31,526	46,103	8,501	-

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

(*2) Due to contamination of the land near the Company's magnesium plant located in Gangneung, the Company recognized a provision of ₩62,166 million related to restoration costs. When estimating related costs, the Company has assumed that it would use all of technologies and materials available to recover the land. In addition, the Company has applied a discount rate of 3.83% to assess the present value of these costs.

(*3) The Company recognized a provision for several litigations based on the Company's estimates.

(b) Changes in provisions for the six-month period ended June 30, 2014 and the year ended December 31, 2013 were as follows:

1) For the six-month period ended June 30, 2014

(in millions of Won)

	Beginning	Increase	Utilization	Ending
Estimated allowance at the end of period	₩ 8,501	5,538	(5,862)	8,177
Provision for recovery at the end of period	-	62,166	-	62,166
Provision for litigation at the end of period	-	7,286	-	7,286
	₩ 8,501	74,990	(5,862)	77,629

2) For the year ended December 31, 2013

(in millions of Won)

	Beginning	Increase	Utilization	Ending
Estimated allowance at the end of period	₩ 6,239	12,428	(10,166)	8,501

POSCO

Notes to the Condensed Separate Interim Financial Statements As of June 30, 2014, Continued (Unaudited)

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 six-month periods ended June 30, 2014 and 2013 were as follows:

<i>(in millions of Won)</i>	For the three-month periods		For the six-month periods	
	ended June 30		ended June 30	
	2014	2013	2014	2013
Expense related to post-employment benefit plans under defined contribution plans	₩ 4,888	3,847	9,351	7,352

(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 obligations in the statements of financial position as of June 30, 2014 and December 31, 2013 are as follows:

<i>(in millions of Won)</i>	June 30, 2014	December 31, 2013
Present value of funded obligations	₩ 966,763	905,918
Fair value of plan assets	(867,939)	(805,268)
Net defined benefit liabilities	<u>₩ 98,824</u>	<u>100,650</u>

POSCO

Notes to the Condensed Separate Interim Financial Statements As of June 30, 2014, Continued (Unaudited)

- (d) Changes in present value of defined benefit obligations for the six-month period ended June 30, 2014 and the year ended December 31, 2013 were as follows:

<i>(in millions of Won)</i>		June 30, 2014	December 31, 2013
Defined benefit obligation at the beginning of period	₩	905,918	817,618
Current service costs		58,086	118,975
Interest costs		16,297	27,942
Remeasurement		34,221	11,553
Transfer-in		1,960	-
Benefits paid		(49,719)	(70,170)
Defined benefit obligation at the end of period	₩	<u>966,763</u>	<u>905,918</u>

- (e) Changes in fair value of plan assets for the six-month period ended June 30, 2014 and the year ended December 31, 2013 were as follows:

<i>(in millions of Won)</i>		June 30, 2014	December 31, 2013
Fair value of plan assets at the beginning of period	₩	805,268	677,362
Interest on plan assets		15,955	24,261
Remeasurement of plan assets		(4,258)	86
Contributions to plan assets		71,000	140,000
Transfer-in		1,960	-
Benefits paid		(21,986)	(36,441)
Fair value of plan assets at the end of period	₩	<u>867,939</u>	<u>805,268</u>

- (f) The amounts recognized in the statements of comprehensive income for the six-month period ended June 30, 2014 and 2013 were as follows:

<i>(in millions of Won)</i>		For the three-month periods ended June 30		For the six-month periods ended June 30	
		2014	2013	2014	2013
Current service costs	₩	28,401	30,054	58,086	60,521
Net interest costs		171	921	342	1,841
	₩	<u>28,572</u>	<u>30,975</u>	<u>58,428</u>	<u>62,362</u>

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Notes to the Condensed Separate Interim Financial Statements As of June 30, 2014, Continued (Unaudited)

19. Other Liabilities

Other liabilities as of June 30, 2014 and December 31, 2013 are as follows:

(in millions of Won)

	<u>June 30, 2014</u>	<u>December 31, 2013</u>
Current		
Advances received	₩ 9,221	20,912
Withholding	18,222	15,905
Unearned revenue	1,319	1,292
	<u>28,762</u>	<u>38,109</u>
Non-current		
Unearned revenue	385	538
Others	-	3,000
	<u>₩ 385</u>	<u>3,538</u>

20. Financial Instruments

(a) Classification of financial instruments

1) Financial assets as of June 30, 2014 and December 31, 2013 are as follows:

(in millions of Won)

	<u>June 30, 2014</u>	<u>December 31, 2013</u>
Financial assets at fair value through profit or loss		
Derivatives assets held for trading	₩ 9,841	7,788
Available-for-sale financial assets	2,792,705	3,354,770
Loans and receivables	5,499,091	7,263,709
	<u>₩ 8,301,637</u>	<u>10,626,267</u>

2) Financial liabilities as of June 30, 2014 and December 31, 2013 are as follows:

(in millions of Won)

	<u>June 30, 2014</u>	<u>December 31, 2013</u>
Financial liabilities at fair value through profit or loss		
Derivatives liabilities held for trading	₩ 96,630	212,427
Financial liabilities measured as amortized cost		
Trade accounts and notes payable	1,004,185	735,457
Borrowings	7,301,562	8,663,071
Financial guarantee liabilities (*1)	59,064	65,121
Others	876,064	916,562
	<u>9,240,875</u>	<u>10,380,211</u>
	<u>₩ 9,337,505</u>	<u>10,592,638</u>

POSCO

Notes to the Condensed Separate Interim Financial Statements As of June 30, 2014, Continued (Unaudited)

(*1) Financial liabilities were recognized in connection with financial guarantee contracts as of June 30, 2014. 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	10,144
Automotive Steel Co., Ltd.	BOA	USD 30,000,000	30,432
	BTMU	USD 24,000,000	24,346
	ING	USD 23,600,000	23,940
	SMBC	USD 35,000,000	35,504
	BTMU	USD 30,000,000	30,432
Zhangjiagang Pohang Stainless Steel Co., Ltd.	Credit Agricole	USD 50,000,000	50,720
	Mizuho	USD 50,000,000	50,720
	Citi	USD 60,000,000	60,864
POSCO Maharashtra Steel Pvt. Ltd.	DBS	USD 100,000,000	101,440
	HSBC	USD 80,000,000	81,152
	ING	USD 30,000,000	30,432
	KDB	USD 30,000,000	30,432
	Export-Import Bank of Korea	USD 193,000,000	195,779
	SCB	USD 73,069,000	74,121
	HSBC	USD 27,000,000	27,389
	ING	USD 45,000,000	45,648
	KDB	USD 45,000,000	45,648
POSCO ASSAN TST STEEL Industry	SMBC	USD 71,392,500	72,421
	ING	USD 50,000,000	50,720
	SCB	USD 33,784,000	34,270
	BOA	USD 45,000,000	45,648
	BOC	CNY 350,000,000	57,096
POSCO Electrical Steel India Private Limited	BTMU	USD 30,000,000	30,432
	HSBC	USD 50,000,000	50,720
	ING	USD 30,000,000	30,432
	JP Morgan	USD 50,000,000	50,720
	Mizuho	USD 50,000,000	50,720
	SCB	USD 45,000,000	45,648
	SMBC	USD 30,000,000	30,432
	BOA	USD 40,000,000	40,576
	HSBC	USD 40,000,000	40,576
	KDB	USD 50,000,000	50,720
POSCO-Mexico S.A. DE C.V	Mizuho	USD 45,000,000	45,648
	SMBC	USD 69,725,000	70,729
	Export-Import Bank of Korea	USD 196,000,000	198,822
	ANZ	USD 25,000,000	25,360
	HSBC	USD 20,000,000	20,288
POSCO-Vietnam Co., Ltd. POSCO VST Co., Ltd.	Mizuho	USD 20,000,000	20,288
	ANZ	USD 73,500,000	74,558
	BOA	USD 35,000,000	35,504
	BTMU	USD 119,000,000	120,714
	Credit Suisse AG	USD 91,000,000	92,310
PT. KRAKATAU POSCO	HSBC	USD 91,000,000	92,310
	Export-Import Bank of Korea	USD 567,000,000	575,165
	Mizuho	USD 105,000,000	106,512
	SCB	USD 107,800,000	109,352
	SMBC	USD 140,000,000	142,016
	The Tokyo Star Bank, Ltd.	USD 21,000,000	21,302
	Shinhan Bank	USD 24,500,000	24,853
	Kookmin Bank	USD 15,000,000	15,216
		USD 3,316,370,500	3,364,125
		CNY 350,000,000	57,096
United Spiral Pipe, LLC LLP POSUK Titanium			

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Notes to the Condensed Separate Interim Financial Statements As of June 30, 2014, Continued (Unaudited)

3) Finance income and costs by category of financial instrument for the six-month periods ended June 30, 2014 and 2013 were as follows:

① June 30, 2014

(in millions of Won)

	Finance income and costs							Other comprehensive loss
	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	₩ -	-	-	-	-	2,053	2,053	-
Available-for-sale financial assets	236	35,155	-	-	117,682	(4,573)	148,500	(312,092)
Loans and receivables	47,449	-	7,796	(11,016)	-	(450)	43,779	-
Financial liabilities at fair value through profit or loss	-	-	-	-	(38,581)	13,520	(25,061)	-
Financial liabilities at amortized cost	(125,351)	-	50,573	116,980	(17,631)	(91)	24,480	-
	₩ (77,666)	35,155	58,369	105,964	61,470	10,459	193,751	(312,092)

(*1) Finance income in the statement of comprehensive income includes the dividends from subsidiaries, associates and joint ventures of ₩93,573 million for the six-month period ended June 30, 2014.

② June 30, 2013

(in millions of Won)

	Finance 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	₩ -	-	-	-	8,463	1,570	10,033	-
Available-for-sale financial assets	1,184	38,404	-	-	42,064	(159,754)	(78,102)	214,155
Held-to-maturity investments	367	-	-	-	-	-	367	-
Loans and receivables	55,467	-	37,102	10,985	(127)	(258)	103,169	-
Financial liabilities at fair value through profit or loss	-	-	-	-	-	(91,756)	(91,756)	-
Financial liabilities at amortized cost	(148,094)	-	(46,442)	(193,532)	-	(189)	(388,257)	-
	₩ (91,076)	38,404	(9,340)	(182,547)	50,400	(250,387)	(444,546)	214,155

(*1) Finance income in the statement of comprehensive income includes the dividends from subsidiaries, associates and joint ventures of ₩135,367 million for the six-month period ended June 30, 2013.

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Notes to the Condensed Separate Interim Financial Statements As of June 30, 2014, Continued (Unaudited)

- 4) Finance income and costs by category of financial instrument for the three-month periods ended June 30, 2014 and 2013 were as follows:

① June 30, 2014

(in millions of Won)

	Finance income and costs							Other comprehensive loss
	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	₩ -	-	-	-	-	1,297	1,297	-
Available-for-sale financial assets	172	7,277	-	-	110,609	(3,309)	114,749	(92,665)
Loans and receivables	16,652	-	(24,059)	(11,741)	4	(122)	(19,266)	-
Financial liabilities at fair value through profit or loss	-	-	-	-	(43,859)	(19,566)	(63,425)	-
Financial liabilities at amortized cost	(52,292)	-	83,724	192,621	(19,131)	(46)	204,876	-
	₩ (35,468)	7,277	59,665	180,880	47,623	(21,746)	238,231	(92,665)

- (*1) Finance income in the statement of comprehensive income includes the dividends from subsidiaries, associates and joint ventures of ₩24,980 million for the three-month period ended June 30, 2014.

② June 30, 2013

(in millions of Won)

	Finance 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	₩ -	-	-	-	8,463	898	9,361	-
Available-for-sale financial assets	268	2,862	-	-	42,064	(57,884)	(12,690)	67,662
Loans and receivables	16,248	-	29,877	(4,205)	(127)	(127)	41,666	-
Financial liabilities at fair value through profit or loss	-	-	-	-	-	(40,261)	(40,261)	-
Financial liabilities at amortized cost	(71,706)	-	(13,004)	(142,597)	-	(147)	(227,454)	-
	₩ (55,190)	2,862	16,873	(146,802)	50,400	(97,521)	(229,378)	67,662

- (*1) Finance income in the statement of comprehensive income includes the dividends from subsidiaries, associates and joint ventures of ₩26,308 million for the three-month period ended June 30, 2013.

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Notes to the Condensed Separate Interim Financial Statements As of June 30, 2014, Continued (Unaudited)

(b) Fair value

1) Fair value and book value

The carrying amount and the fair value of financial instruments as of June 30, 2014 and December 31, 2013 are as follows :

(in millions of Won)

	June 30, 2014		December 31, 2013	
	Book value	Fair value	Book value	Fair value
Assets measured at fair value				
Available-for-sale financial assets (*1)	₩ 2,658,507	2,658,507	₩ 3,224,711	3,224,711
Derivatives assets held for trading (*2)	9,841	9,841	7,788	7,788
	<u>2,668,348</u>	<u>2,668,348</u>	<u>3,232,499</u>	<u>3,232,499</u>
Assets measured amortized cost (*3)				
Cash and cash equivalents	1,325,519	1,325,519	1,394,315	1,394,315
Trade accounts and notes receivable	3,056,909	3,056,909	3,397,908	3,397,908
Loans and other receivables	1,116,663	1,116,663	2,471,486	2,471,486
	<u>5,499,091</u>	<u>5,499,091</u>	<u>7,263,709</u>	<u>7,263,709</u>
Liabilities measured at fair value				
Derivatives liabilities held for trading (*2)	96,630	96,630	212,427	212,427
Liabilities measured amortized cost (*3)				
Trade accounts and notes payable	1,004,185	1,004,185	735,457	735,457
Borrowings	7,301,562	7,670,330	8,663,071	8,943,063
Financial guarantee liabilities	59,064	59,064	65,121	65,121
Others	876,064	876,064	916,562	916,562
	<u>₩ 9,240,875</u>	<u>9,609,643</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. The book value of available-for-sale financial assets accounted for at cost is not included.
- (*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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Notes to the Condensed Separate Interim Financial Statements As of June 30, 2014, Continued (Unaudited)

2) The fair value hierarchy

The fair values of financial instruments by fair value hierarchy as of June 30, 2014 and December 31, 2013 are as follows :

① June 30, 2014

(in millions of Won)

	Level 1	Level 2	Level 3	Total
Financial Assets				
Available-for-sale financial assets	₩ 1,986,590	-	671,917	2,658,507
Derivatives assets held for trading	-	9,841	-	9,841
	₩ 1,986,590	9,841	671,917	2,668,348
Financial Liabilities				
Derivatives liabilities held for trading	₩ -	96,630	-	96,630

② 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

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.

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Notes to the Condensed Separate Interim Financial Statements As of June 30, 2014, Continued (Unaudited)

21. Share Capital and Capital Surplus

(a) Share capital as of June 30, 2014 and December 31, 2013 are as follows:

(Share, Won)

	<u>June 30, 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 June 30, 2014, total shares of ADRs of 54,117,228 are equivalent to 13,529,307 of common stock.

(*2) As of June 30, 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 June 30, 2014 and December 31, 2013 are as follows:

(in millions of Won)

	<u>June 30, 2014</u>	<u>December 31, 2013</u>
Share premium	₩ 463,825	463,825
Gain on disposal of treasury shares	769,263	769,215
	<u>₩ 1,233,088</u>	<u>1,233,040</u>

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Notes to the Condensed Separate Interim Financial Statements As of June 30, 2014, Continued (Unaudited)

22. Hybrid Bonds

Hybrid bonds classified as equity as of June 30, 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>June 30, 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 June 30, 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 June 30, 2014 amounts to ₩2,133 million.

23. Reserves

Reserves as of June 30, 2014 and December 31, 2013 are as follows:

(in millions of Won)

	<u>June 30, 2014</u>	<u>December 31, 2013</u>
Accumulated unrealized changes in the fair value of available-for-sale investments, net of tax	₩ 91,847	403,939

24. Treasury Shares

As of June 30, 2014, the Company holds 7,402,597 shares of treasury stock for price stabilization in accordance with the Board of Director's resolution.

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Notes to the Condensed Separate Interim Financial Statements As of June 30, 2014, Continued (Unaudited)

25. Selling and Administrative Expenses

(a) Administrative expenses

Administrative expenses for the three-month and six-month periods ended June 30, 2014 and 2013 were as follows:

(in millions of Won)	For the three-month periods		For the six-month periods	
	ended June 30		ended June 30	
	2014	2013	2014	2013
Wages and salaries	₩ 48,564	50,418	100,932	100,888
Expenses related to post-employment benefits	5,311	6,258	13,146	12,976
Other employee benefits	12,699	11,639	24,741	22,308
Travel	3,566	4,127	6,587	7,762
Depreciation	5,964	6,235	11,896	12,460
Amortization	13,490	4,398	26,553	9,046
Rental	17,275	13,326	35,065	25,103
Repairs	2,549	2,915	6,225	6,702
Advertising	21,396	22,794	42,312	40,146
Research and development	32,813	31,518	56,412	79,654
Service fees	43,317	42,061	90,081	81,027
Vehicles maintenance	1,755	1,664	3,501	3,481
Industry association fee	1,638	2,092	5,178	5,199
Training	3,204	2,790	4,825	4,456
Conference	1,147	1,131	2,362	2,263
Bad debt expenses	13	5,040	516	4,384
Others	9,544	8,687	19,464	18,419
	₩ 224,245	217,093	449,796	436,274

(b) Selling expenses

Selling expenses for the three-month and six-month periods ended June 30, 2014 and 2013 were as follows:

(in millions of Won)	For the three-month periods		For the six-month periods	
	ended June 30		ended June 30	
	2014	2013	2014	2013
Freight and custody expenses	₩ 212,706	207,494	418,781	423,702
Operating expenses for distribution center	2,424	2,318	4,893	4,452
Sales commissions	17,188	18,106	32,601	32,647
Sales advertising	510	1,022	770	1,492
Sales promotion	1,114	1,665	2,251	3,136
Sample	327	318	770	690
Sales insurance premium	1,380	1,929	2,740	4,002
	₩ 235,649	232,852	462,806	470,121

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Notes to the Condensed Separate Interim Financial Statements As of June 30, 2014, Continued (Unaudited)

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 and six-month periods ended June 30, 2014 and 2013 were as follows:

(in millions of Won)	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2014	2013	2014	2013
Operating profits on the statement of comprehensive income	₩ 565,352	703,392	1,083,056	1,284,749
Add				
Gain on disposals of property, plant and equipment	1,810	2,524	2,959	5,002
Gain on disposals of other long-term assets	-	-	-	246
Gain on disposals of investment in subsidiaries, associates and joint ventures	-	-	-	14,544
Others	6,121	13,370	8,354	30,342
	<u>7,931</u>	<u>15,894</u>	<u>11,313</u>	<u>50,134</u>
Deduct				
Loss on disposals of property, plant and equipment	(12,100)	(48,614)	(29,769)	(67,383)
Other bad debt expenses	-	-	(25,704)	-
Donations	(9,828)	(6,145)	(28,786)	(18,476)
Idle tangible assets expenses	(235)	(9,823)	(473)	(16,743)
Impairment loss on investment in subsidiaries, associates and joint ventures	(20,319)	-	(88,048)	-
Loss on disposals of investment in subsidiaries, associates and joint ventures	-	-	-	(12,271)
Contribution to provisions	(69,452)	-	(69,452)	-
Others	(5,312)	(3,375)	(148,075)	(10,910)
	<u>(117,246)</u>	<u>(67,957)</u>	<u>(390,307)</u>	<u>(125,783)</u>
Adjusted operating profit	<u>₩ 456,037</u>	<u>651,329</u>	<u>704,062</u>	<u>1,209,100</u>

27. Finance Income and Costs

Details of finance income and costs for the three-month and six-month periods ended June 30, 2014 and 2013 were as follows:

(in millions of Won)	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2014	2013	2014	2013
Finance income				
Interest income	₩ 16,825	16,516	47,685	57,018
Dividend income	32,257	29,170	128,728	173,771
Gain on foreign currency transactions	97,704	120,014	151,090	168,939
Gain on foreign currency translations	109,479	(21,583)	118,978	95,727
Gain on valuation of derivatives	(15,407)	898	23,704	1,570
Gain on derivative transactions	-	8,463	6,102	8,463
Gain on disposals of available-for-sale investment	110,609	42,064	117,682	42,064
Gain on redemption of debentures	-	-	1,500	-
	<u>₩ 351,467</u>	<u>195,542</u>	<u>595,469</u>	<u>547,552</u>
Finance costs				
Interest expenses	₩ 52,293	71,706	125,351	148,094
Loss on foreign currency transactions	38,039	103,140	92,721	178,279
Loss on foreign currency translations	(71,401)	125,219	13,014	278,274
Loss on valuation of derivatives	2,862	40,261	8,131	91,756
Loss on derivative transactions	43,859	-	44,683	-
Impairment loss on available-for-sale investment	3,309	57,883	4,573	159,754
Loss on redemption of debentures	19,131	-	19,131	-
Others	164	402	541	574
	<u>₩ 88,256</u>	<u>398,611</u>	<u>308,145</u>	<u>856,731</u>

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Notes to the Condensed Separate Interim Financial Statements As of June 30, 2014, Continued (Unaudited)

28. Other Non-Operating Income and Expenses

Details of other non-operating income and expenses for the three-month and six-month periods ended June 30, 2014 and 2013 were as follows:

(in millions of Won)	For the three-month periods		For the six-month periods	
	ended June 30		ended June 30	
	2014	2013	2014	2013
Other non-operating income				
Gain on disposals of property, plant and equipment	₩ 1,810	2,524	2,959	5,002
Gain on disposals of other long-term assets	-	-	-	246
Gain on disposals of investment in subsidiaries, associates and joint ventures	-	-	-	14,544
Others	6,121	13,370	8,354	30,342
	<u>₩ 7,931</u>	<u>15,894</u>	<u>11,313</u>	<u>50,134</u>
Other non-operating expenses				
Loss on disposals of property, plant and equipment	₩ 12,100	48,614	29,769	67,383
Other bad debt expenses	-	-	25,704	-
Donations	9,828	6,145	28,786	18,476
Idle tangible assets expenses	235	9,823	473	16,743
Impairment loss on investment in subsidiaries, associates and joint ventures	20,319	-	88,048	-
Loss on disposals of investment in subsidiaries, associates and joint ventures	-	-	-	12,271
Contribution to provisions	69,452	-	69,452	-
Others (*1)	5,312	3,375	148,075	10,910
	<u>₩ 117,246</u>	<u>67,957</u>	<u>390,307</u>	<u>125,783</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 ₩139,569 million, primarily related to VAT, in the six-month period ended June 30, 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 and six month periods ended June 30, 2014 and 2013 were as follows (excluding finance costs and income tax expense):

(in millions of Won)	For the three-month periods		For the six-month periods	
	ended June 30		ended June 30	
	2014	2013	2014	2013
Changes in inventories (*1)	₩ 27,641	97,995	(150,635)	246,204
Raw materials and consumables used	4,564,616	4,793,915	9,316,441	9,676,491
Employee benefits expenses	342,482	352,035	717,421	724,567
Outsourced processing cost	563,096	515,839	1,104,418	1,014,854
Depreciation (*2)	501,517	478,146	1,001,071	943,541
Amortization	18,948	9,325	37,463	18,669
Electricity and water expenses	269,269	213,102	525,798	400,073
Service fees	57,724	56,055	117,885	109,461
Rental	21,654	18,752	44,730	36,085
Advertising	21,396	22,794	42,312	40,146
Freight and custody expenses	212,706	207,494	418,781	423,702
Sales commissions	17,188	18,106	32,601	32,647
Loss on disposals of property, plant and equipment	12,100	48,614	29,769	67,383
Bad debt expenses	13	5,040	26,220	4,384
Impairment loss on investment in subsidiaries, associates and joint ventures	20,319	-	88,048	-
Contribution to provisions	69,452	-	69,452	-
Other expenses	251,557	267,101	669,110	527,239
	<u>₩ 6,971,678</u>	<u>7,104,313</u>	<u>14,090,885</u>	<u>14,265,446</u>

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

(*2) Includes depreciation of investment property.

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Notes to the Condensed Separate Interim Financial Statements As of June 30, 2014, Continued (Unaudited)

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 six-month periods ended June 30, 2014 and 2013 was 33.6% and 15.0%, respectively. The change in effective tax rate was caused mainly by additional income tax payment (₩59,168 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 and six-month periods ended June 30, 2014 and 2013 were as follows:

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2014	2013	2014	2013
<i>(in Won except for share information)</i>				
Profit for the period	₩ 547,235,317,164	381,617,578,251	658,754,438,229	765,042,537,146
Interests of hybrid bonds	(8,240,301,971)	(2,132,608,696)	(16,351,402,838)	(2,132,608,696)
Weighted-average number of common shares outstanding (*1)	79,784,165	77,244,901	79,783,960	77,244,685
Basic and diluted earnings per share	₩ 6,756	4,913	8,052	9,877

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

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2014	2013	2014	2013
<i>(share)</i>				
Total number of common shares issued	87,186,835	87,186,835	87,186,835	87,186,835
Weighted-average number of treasury shares	(7,402,670)	(9,941,934)	(7,402,875)	(9,942,150)
Weighted-average number of common shares outstanding	79,784,165	77,244,901	79,783,960	77,244,685

Since there were no potential shares of common stock which had dilutive effects as of June 30, 2014 and 2013, diluted earnings per share is equal to basic earnings per share.

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Notes to the Condensed Separate Interim Financial Statements As of June 30, 2014, Continued (Unaudited)

32. Related Party Transactions

(a) Significant transactions with related companies for the six-month periods ended June 30, 2014 and 2013 were as follows:

1) For the six-month period ended June 30, 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
Subsidiaries (*3)								
POSCO ENGINEERING & CONSTRUCTION Co., Ltd.	W 6,631	16,674	23,305	-	590,485	3,260	12,519	606,264
POSCO Processing & Service Co., Ltd.	518,057	8,578	526,635	473,808	-	-	261	474,069
POSCO Coated & Color Steel Co., Ltd.	228,638	1	228,639	-	-	5,270	66	5,336
POSCO ICT Co., Ltd.	607	2,490	3,097	-	98,062	12,685	79,974	190,721
POSMATE Co., Ltd.	258	2,018	2,276	210	-	7,256	16,491	23,957
eNtoB Co., Ltd.	-	-	-	122,887	1,679	35	9,064	133,665
POSCO Chemtech Company Ltd.	267,799	15,434	283,233	252,731	2,748	152,698	557	408,734
POSCO M-TECH Co., Ltd.	95	16	111	63,612	890	101,477	4,511	170,490
POSCO Energy Corp.	84,605	598	85,203	-	2,263	-	20	2,283
POSCO TMC Co., Ltd.	115,404	-	115,404	-	-	528	764	1,292
POSCO AST Co., Ltd.	266,677	-	266,677	4,836	-	32,579	851	38,266
POS-Himetal Co., Ltd.	5,267	2,313	7,580	80,988	-	-	-	80,988
Daewoo International Corp.	1,707,132	20,605	1,727,737	70,065	-	-	1,656	71,721
POSCO America Corporation	362,592	2	362,594	-	-	-	179	179
POSCO Canada Ltd.	-	-	-	82,489	-	-	-	82,489
POSCO Asia Co., Ltd.	1,010,153	53	1,010,206	96,937	-	8,881	668	106,486
POSCO (Thailand) Company Ltd.	24,771	12	24,783	-	-	-	8	8
Qingdao Pohang Stainless Steel Co., Ltd.	34,895	2	34,897	-	-	-	-	-
POSCO (Suzhou) Automotive Processing Center Co., Ltd.	59,460	-	59,460	-	-	-	-	-
POSCO-Japan Co., Ltd.	719,380	-	719,380	6,362	459	3	447	7,271
POSCO-India Pune Processing Center. Pvt. Ltd.	60,180	62	60,242	-	-	-	-	-
POSCO-Mexico S.A. DE C.V.	136,055	775	136,830	-	-	-	-	-
POSCO Maharashtra Steel Pvt. Ltd.	111,783	581	112,364	-	-	-	-	-
Daewoo International Singapore Pte. Ltd.	-	-	-	45,492	-	-	11,513	57,005
Others	318,813	6,526	325,339	64,950	25,678	9,715	30,280	130,623
	<u>6,039,252</u>	<u>76,740</u>	<u>6,115,992</u>	<u>1,365,367</u>	<u>722,264</u>	<u>334,387</u>	<u>169,829</u>	<u>2,591,847</u>
Associates and joint ventures (*3)								
SNNC Co., Ltd.	2,043	5,273	7,316	163,758	-	-	5	163,763
POSCO PLANTEC Co., Ltd.	8,400	24	8,424	1,500	37,355	6,347	2,658	47,860
(formerly, Sungjin Geotec Co., Ltd.) (*4)	-	-	-	30,496	-	-	-	30,496
POSCHROME (PROPRIETARY) LIMITED	1,840	-	1,840	-	-	-	-	-
PT. POSMI Steel Indonesia	1,379	-	1,379	-	-	-	-	-
POSK (PingHu) Steel Processing Center Co., Ltd.	9,519	-	9,519	-	-	-	-	-
POSCO-SAMSUNG-Slovakia Processing Center Co., Ltd.	1,396	-	1,396	-	-	-	-	-
POSCO SAMSUNG Suzhou Steel Processing Center Co., Ltd.	4	29,466	29,470	2,103	-	-	-	2,103
Others	24,581	34,763	59,344	197,857	37,355	6,347	2,663	244,222
	<u>W 6,063,833</u>	<u>111,503</u>	<u>6,175,336</u>	<u>1,563,224</u>	<u>759,619</u>	<u>340,734</u>	<u>172,492</u>	<u>2,836,069</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 June 30, 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..

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Notes to the Condensed Separate Interim Financial Statements As of June 30, 2014, Continued (Unaudited)

2) For the six-month period ended June 30, 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
Subsidiaries								
POSCO ENGINEERING & CONSTRUCTION Co., Ltd.	₩ 6,474	3,104	9,578	3,042	1,719,415	3,750	6,844	1,733,051
POSCO Processing & Service Co., Ltd.	456,189	-	456,189	651,669	-	-	365	652,034
POSCO Coated & Color Steel Co., Ltd.	234,620	-	234,620	-	-	4,694	82	4,776
POSCO Plant Engineering Co., Ltd.	2,373	19	2,392	1,499	61,936	13,733	2,492	79,660
POSCO ICT Co., Ltd.	609	61	670	45	126,273	13,611	71,192	211,121
eNtoB Co., Ltd.	-	-	-	106,403	3,147	76	9,664	119,290
POSCO Chemtech Company Ltd.	246,231	8,454	254,685	234,608	13,862	134,068	800	383,338
POSCO M-TECH Co., Ltd.	8,785	25	8,810	71,855	544	104,057	244	176,700
POSCO Energy Corp.	41,878	298	42,176	-	-	-	5	5
POSCO TMC Co., Ltd.	94,820	-	94,820	-	-	418	559	977
POSCO AST Co., Ltd.	245,570	-	245,570	3,651	-	29,542	449	33,642
POS-Himetal Co., Ltd.	9,773	62	9,835	75,941	-	-	-	75,941
Daewoo International Corp.	1,726,238	-	1,726,238	3,337	-	-	2,364	5,701
POSCO America Corporation	289,413	1	289,414	-	-	-	260	260
POSCO Canada Ltd.	-	-	-	63,226	-	-	-	63,226
POSCO Asia Co., Ltd.	1,015,630	108	1,015,738	30,105	166	-	969	31,240
POSCO (Thailand) Company Ltd.	23,045	5,750	28,795	-	-	-	35	35
Qingdao Pohang Stainless Steel Co., Ltd.	33,047	-	33,047	-	-	-	14	14
POSCO (Suzhou) Automotive Processing Center Co., Ltd.	70,832	2	70,834	-	-	-	-	-
POSCO-Japan Co., Ltd.	574,209	-	574,209	5,639	-	-	880	6,519
POSCO-India Pune Processing Center. Pvt. Ltd.	69,071	6	69,077	-	-	-	-	-
POSCO-Mexico S.A. DE C.V.	147,446	956	148,402	-	-	-	460	460
POSCO Maharashtra Steel Pvt. Ltd.	89,596	621	90,217	-	-	-	157	157
Daewoo International Singapore Pte. Ltd.	-	-	-	38,339	-	-	-	38,339
Others	259,982	7,793	267,775	45,895	16,087	16,102	48,648	126,732
	<u>5,645,831</u>	<u>27,260</u>	<u>5,673,091</u>	<u>1,335,254</u>	<u>1,941,430</u>	<u>320,051</u>	<u>146,483</u>	<u>3,743,218</u>
Associates and joint ventures								
SNNC Co., Ltd.	738	284	1,022	213,740	-	-	-	213,740
POSCO PLANTEC Co., Ltd. (formerly, Sungjin Geotec Co., Ltd.)	5,993	-	5,993	-	-	-	-	-
POSCHROME (PROPRIETARY) LIMITED	-	-	-	32,603	-	-	-	32,603
PT. POSMI Steel Indonesia	4,606	56	4,662	-	-	-	-	-
POSK (PingHu) Steel Processing Center Co., Ltd.	2,065	-	2,065	-	-	-	-	-
POSCO-SAMSUNG-Slovakia Processing Center Co., Ltd.	8,419	-	8,419	-	-	-	-	-
POSCO SAMSUNG Suzhou Steel Processing Center Co., Ltd.	4,101	-	4,101	-	-	-	-	-
Others	541	26,305	26,846	1,668	-	-	174	1,842
	<u>26,463</u>	<u>26,645</u>	<u>53,108</u>	<u>248,011</u>	<u>-</u>	<u>-</u>	<u>174</u>	<u>248,185</u>
	<u>₩ 5,672,294</u>	<u>53,905</u>	<u>5,726,199</u>	<u>1,583,265</u>	<u>1,941,430</u>	<u>320,051</u>	<u>146,657</u>	<u>3,991,403</u>

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Notes to the Condensed Separate Interim Financial Statements As of June 30, 2014, Continued (Unaudited)

(b) Significant transactions with related companies for the three-month periods ended June 30, 2014 and 2013 were as follows:

1) For the three-month period ended June 30, 2014

(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.	₩ 5,126	91	5,217	-	162,999	1,170	1,547	165,716
POSCO Processing & Service Co., Ltd.	262,753	-	262,753	213,359	-	-	155	213,514
POSCO Coated & Color Steel Co., Ltd.	105,886	1	105,887	-	-	2,841	36	2,877
POSCO ICT Co., Ltd.	380	2,486	2,866	-	22,978	6,420	42,509	71,907
POSMATE Co., Ltd.	129	2,017	2,146	78	-	3,970	8,221	12,269
eNtoB Co., Ltd.	-	-	-	64,674	1,019	22	3,814	69,529
POSCO Chemtech Company Ltd.	138,227	10,493	148,720	120,529	1,298	76,782	171	198,780
POSCO M-TECH Co., Ltd.	75	16	91	26,642	397	51,051	4,455	82,545
POSCO Energy Corp.	48,472	299	48,771	-	671	-	-	671
POSCO TMC Co., Ltd.	65,517	-	65,517	-	-	251	343	594
POSCO AST Co., Ltd.	134,277	-	134,277	3,114	-	17,681	601	21,396
POS-Himetal Co., Ltd.	2,258	1,128	3,386	40,541	-	-	-	40,541
Daewoo International Corp.	816,532	1	816,533	22,988	-	-	104	23,092
POSCO America Corporation	192,983	-	192,983	-	-	-	174	174
POSCO Canada Ltd.	-	-	-	35,119	-	-	-	35,119
POSCO Asia Co., Ltd.	495,611	30	495,641	56,743	-	7,502	589	64,834
POSCO (Thailand) Company Ltd.	12,017	8	12,025	-	-	-	1	1
Qingdao Pohang Stainless Steel Co., Ltd.	20,811	2	20,813	-	-	-	-	-
POSCO (Suzhou) Automotive Processing Center Co., Ltd.	27,068	-	27,068	-	-	-	-	-
POSCO-Japan Co., Ltd.	358,272	-	358,272	4,087	459	3	250	4,799
POSCO-India Pune Processing Center Pvt. Ltd.	31,904	4	31,908	-	-	-	-	-
POSCO-Mexico S.A. DE C.V.	74,931	-	74,931	-	-	-	-	-
POSCO Maharashtra Steel Pvt. Ltd.	47,316	367	47,683	-	-	-	-	-
Daewoo International Singapore Pte. Ltd.	-	-	-	16,914	-	-	11,513	28,427
Others	153,692	6,392	160,084	39,725	21,109	3,763	15,416	80,013
	<u>2,994,237</u>	<u>23,335</u>	<u>3,017,572</u>	<u>644,513</u>	<u>210,930</u>	<u>171,456</u>	<u>89,899</u>	<u>1,116,798</u>
Associates and joint ventures								
SNNC Co., Ltd.	1,480	5,210	6,690	75,512	-	-	-	75,512
POSCO PLANTEC Co., Ltd. (formerly, Sungjin Geotec Co., Ltd.)	5,580	6	5,586	928	23,972	3,387	1,944	30,231
POSCHROME (PROPRIETARY) LIMITED	-	-	-	14,916	-	-	-	14,916
PT. POSMI Steel Indonesia	881	-	881	-	-	-	-	-
POSK (PingHu) Steel Processing Center Co., Ltd.	605	-	605	-	-	-	-	-
POSCO-SAMSUNG-Slovakia Processing Center Co., Ltd.	5,076	-	5,076	-	-	-	-	-
POSCO SAMSUNG Suzhou Steel Processing Center Co., Ltd.	1,396	-	1,396	-	-	-	-	-
Others	1	29,465	29,466	1,070	-	-	-	1,070
	<u>15,019</u>	<u>34,681</u>	<u>49,700</u>	<u>92,426</u>	<u>23,972</u>	<u>3,387</u>	<u>1,944</u>	<u>121,729</u>
W	3,009,256	58,016	3,067,272	736,939	234,902	174,843	91,843	1,238,527

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Notes to the Condensed Separate Interim Financial Statements As of June 30, 2014, Continued (Unaudited)

2) For the three-month period ended June 30, 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
Subsidiaries								
POSCO ENGINEERING & CONSTRUCTION Co., Ltd.	W 3,248	2,964	6,212	2,890	869,888	1,178	-	873,956
POSCO Processing & Service Co., Ltd.	246,811	-	246,811	286,850	-	-	218	287,068
POSCO Coated & Color Steel Co., Ltd.	122,541	-	122,541	-	-	2,447	55	2,502
POSCO Plant Engineering Co., Ltd.	2,367	4	2,371	787	27,332	6,648	966	35,733
POSCO ICT Co., Ltd.	289	57	346	-	81,168	6,689	34,624	122,481
eNtoB Co., Ltd.	-	-	-	54,705	992	38	5,377	61,112
POSCO Chemtech Company Ltd.	120,806	3,999	124,805	114,328	6,795	65,287	516	186,926
POSCO M-TECH Co., Ltd.	4,428	2	4,430	43,757	544	52,783	-	97,084
POSCO Energy Corp.	22,765	165	22,930	-	-	-	-	-
POSCO TMC Co., Ltd.	48,067	-	48,067	-	-	222	351	573
POSCO AST Co., Ltd.	126,474	-	126,474	1,935	-	15,455	363	17,753
POS-Himetal Co., Ltd.	4,261	36	4,297	43,101	-	-	-	43,101
Daewoo International Corp.	821,038	-	821,038	1,900	-	-	817	2,717
POSCO America Corporation	175,695	-	175,695	-	-	-	201	201
POSCO Canada Ltd.	-	-	-	46,342	-	-	-	46,342
POSCO Asia Co., Ltd.	490,966	45	491,011	17,576	130	-	685	18,391
POSCO (Thailand) Company Ltd.	4,699	-	4,699	-	-	-	2	2
Qingdao Pohang Stainless Steel Co., Ltd.	21,108	-	21,108	-	-	-	14	14
POSCO (Suzhou) Automotive Processing Center Co., Ltd.	32,665	2	32,667	-	-	-	-	-
POSCO-Japan Co., Ltd.	293,836	-	293,836	3,916	-	-	335	4,251
POSCO-India Pune Processing Center. Pvt. Ltd.	36,700	1	36,701	-	-	-	-	-
POSCO-Mexico S.A. DE C.V.	74,441	-	74,441	-	-	-	-	-
POSCO Maharashtra Steel Pvt. Ltd.	54,457	621	55,078	-	-	-	117	117
Daewoo International Singapore Pte. Ltd.	-	-	-	19,523	-	-	-	19,523
Others	142,633	-	142,633	29,092	7,883	8,224	24,990	70,189
	<u>2,850,295</u>	<u>7,896</u>	<u>2,858,191</u>	<u>666,702</u>	<u>994,732</u>	<u>158,971</u>	<u>69,631</u>	<u>1,890,036</u>
Associates and jointventures								
SNNC Co., Ltd.	354	222	576	108,285	-	-	-	108,285
POSCO PLANTEC Co., Ltd. (formerly, Sungjin Geotec Co., Ltd.)	3,686	-	3,686	-	-	-	-	-
POSCHROME (PROPRIETARY) LIMITED	-	-	-	17,051	-	-	-	17,051
PT. POSMI Steel Indonesia	2,631	56	2,687	-	-	-	-	-
POSK (PingHu) Steel Processing Center Co., Ltd.	867	-	867	-	-	-	-	-
POSCO-SAMSUNG-Slovakia Processing Center Co., Ltd.	5,691	-	5,691	-	-	-	-	-
POSCO SAMSUNG Suzhou Steel Processing Center Co., Ltd.	1,532	-	1,532	-	-	-	-	-
Others	3	26,247	26,250	697	-	-	-	697
	<u>14,764</u>	<u>26,525</u>	<u>41,289</u>	<u>126,033</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>126,033</u>
W	<u>2,865,059</u>	<u>34,421</u>	<u>2,899,480</u>	<u>792,735</u>	<u>994,732</u>	<u>158,971</u>	<u>69,631</u>	<u>2,016,069</u>

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Notes to the Condensed Separate Interim Financial Statements As of June 30, 2014, Continued (Unaudited)

(c) The related account balances of significant transactions with related companies as of June 30, 2014 and December 31, 2013 are as follows:

1) June 30, 2014

(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.	₩ 1,817	72,803	74,620	-	50,830	41	50,871
POSCO Processing & Service Co., Ltd.	91,029	45	91,074	9,111	738	-	9,849
POSCO Coated & Color Steel Co., Ltd.	63,859	101	63,960	-	5	1,693	1,698
POSCO ICT Co., Ltd.	-	49	49	408	35,401	7,137	42,946
POSMATE Co., Ltd.	-	1,631	1,631	319	1,227	4,272	5,818
eNtoB Corp.	-	-	-	8,933	11,208	13	20,154
POSCO Chemtech Company Ltd.	46,036	3,714	49,750	51,334	15,362	17,022	83,718
POSCO M-TECH Co., Ltd.	-	19	19	7,609	7,641	27,455	42,705
POSCO Energy Corp.	17,142	1,450	18,592	-	-	1,336	1,336
POSCO TMC Co., Ltd.	28,592	15	28,607	-	10	116	126
POSCO AST Co., Ltd.	52,451	26	52,477	-	5,669	6,006	11,675
POS-Himetal Co., Ltd.	-	1,215	1,215	-	11,528	7	11,535
Daewoo International Corp.	104,753	1,253	106,006	14	-	-	14
POSCO America Corporation	54,288	-	54,288	-	-	-	-
POSCO Asia Co., Ltd.	153,223	2,059	155,282	13,487	-	-	13,487
POSCO (Thailand) Company Ltd.	2,605	-	2,605	-	-	-	-
Qingdao Pohang Stainless Steel Co., Ltd.	12,117	-	12,117	-	-	-	-
POSCO-Japan Co., Ltd.	36,156	89	36,245	977	459	-	1,436
POSCO-India Pune Processing Center. Pvt. Ltd.	14,944	-	14,944	-	-	-	-
POSCO MEXICO S.A. DE C.V.	97,526	406	97,932	-	-	-	-
POSCO Maharashtra Steel Pvt. Ltd.	147,437	6,415	153,852	-	-	-	-
Others	66,072	9,023	75,095	13,509	10,800	3,857	28,166
	<u>990,047</u>	<u>100,313</u>	<u>1,090,360</u>	<u>105,701</u>	<u>150,878</u>	<u>68,955</u>	<u>325,534</u>
Associates and jointventures							
SNNC Co., Ltd.	168	26	194	22,972	-	-	22,972
POSCO PLANTEC Co., Ltd. (formerly, Sungjin Geotec Co., Ltd.)	1,790	20	1,810	2,062	1,393	10	3,465
LLP POSUK Titanium	-	3,908	3,908	-	-	-	-
Others	-	9,228	9,228	386	-	1	387
	<u>1,958</u>	<u>13,182</u>	<u>15,140</u>	<u>25,420</u>	<u>1,393</u>	<u>11</u>	<u>26,824</u>
₩	992,005	113,495	1,105,500	131,121	152,271	68,966	352,358

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Notes to the Condensed Separate Interim Financial Statements As of June 30, 2014, Continued (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
Subsidiaries							
POSCO ENGINEERING & CONSTRUCTION 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 Pvt. Ltd.	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>
Associates and jointventures							
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>

(d) For the six-month periods ended June 30, 2014 and 2013 details of compensation to key management officers were as follows:

(in millions of Won)

	June 30, 2014		June 30, 2013	
Short-term benefits	₩	15,982		15,301
Long-term benefits		6,137		4,161
Retirement benefits		4,419		4,182
	₩	<u>26,538</u>		<u>23,644</u>

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Notes to the Condensed Separate Interim Financial Statements As of June 30, 2014, Continued (Unaudited)

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 June 30, 2014, 165 million tons of iron ore and 7 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 June 30, 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 June 30, 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.

(b) Litigation in progress

1) Civil lawsuits with Nippon Steel & Sumitomo Metal Corporation

In 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 ₩986 billion. Through trials to June 30, 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 June 30, 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 June 30, 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 June 30, 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.

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Notes to the Condensed Separate Interim Financial Statements As of June 30, 2014, Continued (Unaudited)

2) Other lawsuits and claims

The Company is involved in 36 other lawsuits and claims for alleged damages aggregating to ₩68.6 billion as of June 30, 2014 which arose in the ordinary course of business. The Company has recognized provisions amounting to ₩7.3 billion for 8 lawsuits and claims based on its reliable estimate of outflow of resources. However, the Company has not recognized any provisions for other 28 lawsuits and claims since the Company believes that it does not have a present obligation as of June 30, 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.

34. Cash Flows from Operating Activities

Changes in operating assets and liabilities for the six-month period ended June 30, 2014 and 2013 were as follows:

(in millions of Won)

	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Trade accounts and notes receivable, net	₩ 331,687	297,810
Other accounts receivable	(17,661)	65,704
Advance payments	(14)	(4,093)
Prepaid expenses	(9,271)	15,480
Inventories	(504,422)	419,586
Long-term guarantee deposits	(173)	(569)
Other long-term assets	-	(89)
Trade accounts and notes payable	269,796	(7,657)
Other accounts payable	(113,353)	(61,246)
Accrued expenses	105,486	(62,083)
Advances received	(11,691)	(1,155)
Withholdings	2,318	(1,160)
Unearned revenue	(125)	(3,505)
Other short-term liabilities	(1,306)	1,307
Derivatives liabilities	(6,611)	-
Payment of severance benefits	(49,719)	(41,520)
Plan assets	(49,014)	(29,930)
Other long-term liabilities	(3,000)	-
	<u>₩ (57,073)</u>	<u>586,880</u>