

POSCO  
Form 20-F  
April 29, 2015  
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As filed with the Securities and Exchange Commission on April 29, 2015

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 20-F**

(Mark One)

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**OR**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended December 31, 2014**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**OR**

**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
Date of event requiring this shell company report \_\_\_\_\_

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-13368

**POSCO**

*(Exact name of Registrant as specified in its charter)*

**POSCO**  
*(Translation of Registrant's name into English)*

**The Republic of Korea**  
*(Jurisdiction of incorporation or organization)*

**POSCO Center, 440 Teheran-ro, Gangnam-gu**

**Seoul, Korea 135-777**

*(Address of principal executive offices)*

**Kee, Hyojin**

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(Name, telephone, e-mail and/or facsimile number and address of company contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
American Depositary Shares, each representing  one-fourth of one share of common stock	New York Stock Exchange, Inc.
Common Stock, par value Won 5,000 per share * Securities registered or to be registered pursuant to Section 12(g) of the Act.	New York Stock Exchange, Inc. *

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

As of December 31, 2014, there were 79,993,028 shares of common stock, par value Won 5,000 per share, outstanding (not including 7,193,807 shares of common stock held by the company as treasury shares)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No "

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes " No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No "

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes " No "

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer " Non-accelerated filer "

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing. U.S. GAAP " IFRS x Other "

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 " Item 18 "

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes " No x

\*Not for trading, but only in connection with the registration of the American Depositary Shares.



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**GLOSSARY**

ADR	American Depositary Receipt evidencing ADSs.
ADR depositary	Citibank, N.A.
ADS	American Depositary Share representing one-fourth of one share of Common Stock.
Australian Dollar or A\$	The currency of the Commonwealth of Australia.
Commercial Code	Commercial Code of the Republic of Korea.
common stock	Common stock, par value Won 5,000 per share, of POSCO.
deposit agreement	Deposit Agreement, dated as of July 19, 2013, among POSCO, the ADR Depositary and all holders and beneficial owners from time to time of ADRs issued thereunder.
Dollars, \$ or US\$	The currency of the United States of America.
FSCMA	Financial Investment Services and Capital Markets Act of the Republic of Korea.
Government	The government of the Republic of Korea.
IASB	International Accounting Standards Board.
IFRS	International Financial Reporting Standards.
Yen or JPY	The currency of Japan.
Korea	The Republic of Korea.
Korean GAAP	Generally accepted accounting principles in the Republic of Korea.
Gwangyang Works	Gwangyang Steel Works.
We	POSCO and its consolidated subsidiaries.
Pohang Works	Pohang Steel Works.
POSCO Group	POSCO and its consolidated subsidiaries.
Renminbi	The currency of the People's Republic of China.
Securities Act	The United States Securities Act of 1933, as amended.
Securities Exchange Act	The United States Securities Exchange Act of 1934, as amended.
SEC	The United States Securities and Exchange Commission.
tons	Metric tons (1,000 kilograms), equal to 2,204.6 pounds.
U.S. GAAP	Generally accepted accounting principles in the United States of America.
Won or	The currency of the Republic of Korea.
Any discrepancies in any table between totals and the sums of the amounts listed are due to rounding.	

**Table of Contents****PART I****Item 1. *Identity of Directors, Senior Managers and Advisers*****Item 1.A. *Directors and Senior Management*****Not applicable****Item 1.B. *Advisers*****Not applicable****Item 1.C. *Auditors*****Not applicable****Item 2. *Offer Statistics and Expected Timetable*****Not applicable****Item 2.A. *Offer Statistics*****Not applicable****Item 2.B. *Method and Expected Timetable*****Not applicable****Item 3. *Key Information*****Item 3.A. *Selected Financial Data***

The selected financial data presented below should be read in conjunction with our Consolidated Financial Statements and related notes thereto and Item 5. Operating and Financial Review and Prospects included elsewhere in this annual report. The selected financial data in Won as of December 31, 2013 and 2014 and for each of the years in the three-year period ended December 31, 2014 were derived from our Consolidated Financial Statements included elsewhere in this annual report. Our Consolidated Financial Statements are prepared in accordance with IFRS as issued by the IASB.

In addition to preparing financial statements in accordance with IFRS as issued by the IASB included in this annual report, we also prepare financial statements in accordance with Korean International Financial Reporting Standards ( K-IFRS ) as adopted by the Korean Accounting Standards Board (the KASB ), which we are required to file with the Financial Services Commission and the Korea Exchange under the Financial Investment Services and Capital Markets Act of Korea. English translations of such financial statements are furnished to the Securities and Exchange Commission under Form 6-K. During the three years ended December 31, 2014, we are required to adopt certain amendments and interpretations to K-IFRS, relating to presentation of operating profit. Additionally, under K-IFRS, revenue from the development and sale of certain real estate is recognized using the percentage of completion method. However, under IFRS as issued by the IASB, revenue from the development and sale of real estate is recognized when an individual unit of residential real estate is delivered to the buyer. As a result, our consolidated statements of comprehensive income and our consolidated statements of financial position prepared in accordance with IFRS as issued by the IASB included in this annual report differ from our consolidated statements of comprehensive income and consolidated statements of financial position prepared in accordance with K-IFRS. See Item 5.A. Operating Results Explanatory Note Regarding Presentation of Certain Financial Information under K-IFRS.

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The information set forth below is not necessarily indicative of the results of future operations and should be read in conjunction with Item 5. Operating and Financial Review and Prospects and our consolidated financial statements and related notes included in this annual report.

**Selected consolidated statement of comprehensive income data**

	For the Year Ended December 31,					
	2010	2011	2012	2013	2014	2014
	(In billions of Won and millions of Dollars, except per share data)					
Revenue <sup>(1)</sup>	47,887	68,890	63,345	61,766	64,759	US\$ 58,914
Cost of sales <sup>(2)</sup>	39,722	59,784	55,921	54,914	57,465	52,279
Gross profit	8,165	9,105	7,425	6,852	7,293	6,635
Administrative expenses	1,492	2,035	2,129	2,232	2,310	2,101
Selling expenses	1,120	1,612	1,679	1,632	1,760	1,601
Other operating income	223	307	448	229	269	245
Other operating expenses	342	367	809	651	980	891
Operating profit	5,434	5,398	3,255	2,566	2,513	2,286
Share of profit (loss) of equity-accounted investees, net	183	51	(23)	(180)	(300)	(273)
Finance income	1,739	3,190	2,897	2,381	2,397	2,180
Finance costs	2,088	3,867	2,798	2,829	3,222	2,931
Profit before income tax	5,267	4,773	3,332	1,938	1,388	1,263
Income tax expense	1,081	1,066	974	589	824	749
Profit	4,186	3,707	2,358	1,349	564	513
Total comprehensive income	4,765	2,435	1,720	1,363	108	99
Profit (loss) for the period attributable to:						
Owners of the controlling company	4,106	3,641	2,437	1,371	633	576
Non-controlling interests	80	65	(79)	(22)	(69)	(63)
Total comprehensive income (loss) attributable to:						
Owners of the controlling company	4,640	2,524	1,887	1,439	182	165
Non-controlling interests	126	(89)	(167)	(75)	(73)	(66)
Basic and diluted earnings per share <sup>(3)</sup>	53,297	47,138	31,552	17,338	7,514	6.84
Dividends per share of common stock	10,000	10,000	8,000	8,000	8,000	
Dividends per share of common stock (in Dollars) <sup>(4)</sup>	US\$ 8.78	US\$ 8.67	US\$ 7.47	US\$ 7.58	US\$ 7.28	

**Selected consolidated statements of financial position data**

	As of December 31,					
	2010	2011	2012	2013	2014	2014
	(In billions of Won and millions of Dollars)					
Working capital <sup>(5)</sup>	9,395	13,942	11,993	11,681	10,833	US\$ 9,855
Total current assets	27,672	33,547	31,817	32,039	33,208	30,211
Property, plant and equipment, net	25,438	28,453	32,276	35,760	35,241	32,061
Total non-current assets	41,746	44,854	47,711	52,802	52,636	47,885
Total assets	69,418	78,401	79,527	84,841	85,844	78,096
Short-term borrowings and current portion of long-term borrowings	10,476	10,792	10,509	10,714	12,195	11,095
Long-term borrowings, excluding current portion	10,664	16,020	14,412	15,533	15,233	13,858
Total liabilities	30,881	37,679	37,133	39,060	40,586	36,923
Share capital	482	482	482	482	482	439
Total equity	38,537	40,722	42,394	45,781	45,257	41,173



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	2010	For the Year Ended December 31,				2014	US\$	2014
		2011	2012	2013	2014			
		(In billions of Won and millions of Dollars)						
Net cash provided by operating activities	3,582	1,692	7,319	4,858	3,412		3,104	
Net cash used in investing activities	(6,915)	(5,517)	(6,169)	(8,752)	(3,745)		(3,406)	
Net cash provided by (used in) financing activities	4,588	4,900	(908)	3,532	135		123	
Net increase (decrease) in cash and cash equivalents	1,248	1,078	82	(472)	(187)		(170)	
Cash and cash equivalents at beginning of the year	2,273	3,521	4,599	4,681	4,209		3,829	
Cash and cash equivalents at end of the year	3,521	4,599	4,681	4,209	4,022		3,659	

- (1) Includes sales by our consolidated subsidiaries of steel products purchased by such subsidiaries from third parties, including trading companies to which we sell steel products.
- (2) Includes purchases of steel products by our consolidated subsidiaries from third parties, including trading companies to which we sell steel products.
- (3) See Note 36 of Notes to Consolidated Financial Statements for method of calculation. The weighted average number of common shares outstanding used to calculate basic and diluted earnings per share was 77,032,878 shares as of December 31, 2010, 77,251,818 shares as of December 31, 2011, 77,244,444 shares as of December 31, 2012, 78,009,654 shares as of December 31, 2013 and 79,801,539 shares as of December 31, 2014.
- (4) Translated into Dollars by applying the exchange rate at the end of the applicable year as announced by Seoul Money Brokerage Services, Ltd.
- (5) Working capital means current assets minus current liabilities.

**EXCHANGE RATE INFORMATION**

The following table sets out information concerning the market average exchange rate for the periods and dates indicated.

Period	At End of Period	Average Rate (1)		
		(Per US\$1.00)		
		High	Low	
2010	1,138.9	1,156.3	1,261.5	1,104.0
2011	1,153.3	1,108.1	1,199.5	1,049.5
2012	1,071.1	1,126.9	1,181.8	1,071.1
2013	1,055.3	1,095.0	1,159.1	1,051.5
2014	1,099.2	1,053.2	1,118.3	1,008.9
October	1,054.0	1,060.3	1,072.3	1,047.0
November	1,101.1	1,095.1	1,113.1	1,058.8
December	1,099.2	1,104.2	1,118.3	1,088.1
2015 (through April 28)	1,074.5	1,097.8	1,133.9	1,074.5
January	1,090.8	1,088.9	1,108.7	1,077.3
February	1,099.2	1,098.4	1,109.8	1,088.3
March	1,104.2	1,112.6	1,133.9	1,096.5
April (through April 28)	1,074.5	1,090.6	1,109.4	1,074.5

Source: Seoul Money Brokerage Services, Ltd.

- (1) The average rate for each year is calculated as the average of the market average exchange rates on the last business day of each month during the relevant year (or portion thereof). The average rate for a month is calculated as the average of the market average exchange rates on each business day during the relevant month (or portion thereof).

**Item 3.B. *Capitalization and Indebtedness***

**Not applicable**

**Item 3.C. *Reasons for Offer and Use of Proceeds***

**Not applicable**

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**Item 3.D. Risk Factors**

You should carefully consider the risks described below.

***The global economic downturn may adversely affect our business and performance. The global economic outlook for the near future remains uncertain.***

Our business is affected by highly cyclical market demand for our steel products from a number of industries, including the construction, automotive, shipbuilding and electrical appliances industries as well as downstream steel processors, which are sensitive to general conditions in the global economy. Macroeconomic factors, such as the economic growth rate, employment levels, interest rates, inflation rates, exchange rates, commodity prices, demographic trends and fiscal policies of governments can have a significant effect on such industries. From time to time, these industries have experienced significant and sometimes prolonged downturns, which, in turn, have negatively impacted our steel business. The global economic outlook for the near future remains uncertain, particularly in light of concerns regarding the financial difficulties affecting many governments worldwide, including southern Europe and Latin America, as well as the recent slowdown of economic growth in China and other major emerging market economies and political and social instability in various countries in the Middle East and Northern Africa, including Iraq, Syria and Yemen, as well as in Ukraine and Russia.

An actual or anticipated further deterioration of global economic conditions may result in a decline in demand for our products that could have a negative impact on the prices at which they can be sold. In such a case, we will likely face pressure to reduce prices and we may need to rationalize our production capacity and reduce fixed costs. In the past, we have adjusted our crude steel production levels and sales prices in response to sluggish demand from our customers in industries adversely impacted by the deteriorating economic conditions. We recorded crude steel production of 39.7 million tons in 2012, 38.3 million tons in 2013 and 37.7 million tons in 2014. The average unit sales prices for our semi-finished and finished steel products were Won 1,071 thousand per ton in 2012, Won 998 thousand per ton in 2013 and Won 936 thousand per ton in 2014.

We expect that fluctuation in demand for our steel products and trading services to continue to prevail at least in the near future. We may decide to further adjust our future crude steel production or our sales prices on an on-going basis subject to market demand for our products, the production outlook of the global steel industry and global economic conditions in general. In addition, economic downturns in the Korean and global economies could result in market conditions characterized by weaker demand for steel products from a number of industries as well as falling prices for export and import products and reduced trade levels. Deterioration of market conditions may result in changes in assumptions underlying the carrying value of certain assets, which in turn could result in impairment of such assets, including intangible assets such as goodwill. In addition, our ability to reduce expenditures for production facilities and research and development during an industry downturn is limited because of the need to maintain our competitive position. If we are unable to reduce our expenses sufficiently to offset reductions in price and sales volume, our margins will suffer and our business, financial condition and results of operations may be materially and adversely affected.

***Korea is our most important market, and our current business and future growth could be materially and adversely affected if economic conditions in Korea deteriorate.***

We are incorporated in Korea, and a substantial portion of our operations and assets are located in Korea. Korea is our most important market, accounting for 44.6% of our total revenue from steel products produced and sold by us in 2014. Domestic demand for our products is affected by the condition of major steel consuming industries, such as construction, shipbuilding, automotive, electrical appliances and downstream steel processors, and the Korean economy in general. In addition, the trading operations of Daewoo International Corporation ( Daewoo International ), our consolidated subsidiary in which we hold a 60.3% interest, are affected by the general level of trade between Korea and other countries, which in turn tends to fluctuate based on general conditions in the Korean and

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global economies. As a result, we are subject to political, economic, legal and regulatory risks specific to Korea. The economic indicators in Korea in recent years have shown mixed signs, and future growth of the Korean economy is subject to many factors beyond our control, including developments in the global economy.

Due to recent liquidity and credit concerns and volatility in the global financial markets, the value of the Won relative to the Dollar and other foreign currencies and the stock prices of Korean companies have fluctuated significantly in recent years. In particular, there has been increased volatility in light of concerns regarding the financial difficulties affecting many governments worldwide, including southern Europe and Latin America, as well as the recent slowdown of economic growth in China and other major emerging market economies. In addition, political and social instability in various countries in the Middle East and Northern Africa, including Iraq, Syria and Yemen, as well as in Ukraine and Russia, have resulted in an increase in volatility in the global financial markets. Accordingly, the overall prospects for the Korean and global economies in the remainder of 2015 and beyond remain uncertain. Any future deterioration of the Korean or global economy could adversely affect our business, financial condition and results of operations.

Developments that could have an adverse impact on Korea's economy include:

difficulties in the financial sectors in Europe and elsewhere and increased sovereign default risks in select countries and the resulting adverse effects on the global financial markets;

declines in consumer confidence and a slowdown in consumer spending;

adverse changes or volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including fluctuation of the Dollar, the Euro or the Yen exchange rates or revaluation of the Renminbi), interest rates, inflation rates or stock markets;

continuing adverse conditions in the economies of countries and regions that are important export markets for Korea, such as the United States, Europe, Japan and China, or in emerging market economies in Asia or elsewhere;

increasing delinquencies and credit defaults by retail and small- and medium-sized enterprise borrowers;

the continued emergence of the Chinese economy, to the extent its benefits (such as increased exports to China) are outweighed by its costs (such as competition in export markets or for foreign investment and the relocation of the manufacturing base from Korea to China), as well as a slowdown in the growth of China's economy;

the economic impact of any pending or future free trade agreements;

social and labor unrest;

substantial decreases in the market prices of Korean real estate;

a decrease in tax revenues and a substantial increase in the Government's expenditures for fiscal stimulus measures, unemployment compensation and other economic and social programs that, together, would lead to an increased government budget deficit;

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financial problems or lack of progress in the restructuring of Korean conglomerates, other large troubled companies, their suppliers or the financial sector;

loss of investor confidence arising from corporate accounting irregularities and corporate governance issues concerning certain Korean conglomerates;

increases in social expenditures to support an aging population in Korea or decreases in economic productivity due to the declining population size in Korea;

geo-political uncertainty and risk of further attacks by terrorist groups around the world;

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the occurrence of severe health epidemics in Korea and other parts of the world, including the recent Ebola outbreak;

deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including deterioration resulting from trade disputes or disagreements in foreign policy;

political uncertainty or increasing strife among or within political parties in Korea;

hostilities or political or social tensions involving oil producing countries in the Middle East and North Africa and any material disruption in the global supply of oil or increase in the price of oil;

the occurrence of severe earthquakes, tsunamis and other natural disasters in Korea and other parts of the world, particularly in trading partners (such as the March 2011 earthquake in Japan, which also resulted in the release of radioactive materials from a nuclear plant that had been damaged by the earthquake); and

an increase in the level of tensions or an outbreak of hostilities between North Korea and Korea or the United States.

***We rely on export sales for a significant portion of our total sales. Adverse economic and financial developments in Asia in the future may have an adverse effect on demand for our products in Asia and increase our foreign exchange risks.***

Our export sales and overseas sales to customers abroad accounted for 55.4% of our total revenue from steel products produced and sold by us in 2014. Our export sales volume to customers in Asia, including China, Japan, Indonesia, Thailand and Malaysia, accounted for 66.7% of our total export sales revenue from steel products produced and exported by us in 2014, and we expect our sales to these countries, especially to China, to remain important in the future. Accordingly, adverse economic and financial developments in these countries may have an adverse effect on demand for our products. Economic weakness in Asia may also adversely affect our sales to the Korean companies that export to the region, especially companies in the construction, shipbuilding, automotive, electrical appliances and downstream steel processing industries. Weaker demand in these countries, combined with addition of new steel production capacity, particularly in China, may also reduce export prices in Dollar terms of our principal products. We attempt to maintain and expand our export sales to generate foreign currency receipts to cover our foreign currency purchases and debt service requirements. Consequently, any decrease in our export sales could also increase our foreign exchange risks.

***Depreciation of the value of the Won against the Dollar and other major foreign currencies may have a material adverse effect on the results of our operations and on the price of the ADSs.***

Our consolidated financial statements are prepared from our local currency denominated financial results, assets and liabilities and our subsidiaries around the world, which are then translated into Won. A substantial proportion of our consolidated financial results is accounted for in currencies other than the Won. Accordingly, our consolidated financial results and assets and liabilities may be materially affected by changes in the exchange rates of foreign currencies. In 2014, 55.4% of our total revenue from steel products produced and sold by us was in overseas markets outside of Korea. To the extent that we incur costs in one currency and make sales in another, our profit margins may be affected by changes in the exchange rates between the two currencies. Since the currency in which sales are recorded may not be the same as the currency in which expenses are incurred, foreign exchange rate fluctuations may materially affect our results of operations. Depreciation of the Won may materially affect the results of our operations because, among other things, it causes:

an increase in the amount of Won required for us to make interest and principal payments on our foreign currency-denominated debt;

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an increase in Won terms in the costs of raw materials and equipment that we purchase from overseas sources and a substantial portion of our freight costs, which are denominated primarily in Dollars; and

foreign exchange translation losses on liabilities, which lower our earnings for accounting purposes.

Appreciation of the Won against major currencies, on the other hand, causes:

our export products to be less competitive by raising our prices in Dollar, Yen and Renminbi terms; and

a reduction in net sales and accounts receivables in Won from export sales, which are primarily denominated in Dollars and to a lesser extent in Yen and Renminbi.

We strive to naturally offset our foreign exchange risk by matching foreign currency receivables with our foreign currency payables and our overseas subsidiaries have sought to further mitigate the adverse impact of exchange rate fluctuations by conducting business transactions in the local currency of the respective market in which the transactions occur. In particular, Daewoo International's exposure to fluctuations in exchange rates, including the Won/Dollar exchange rate, is limited because trading transactions typically involve matched purchase and sale contracts, which result in limited settlement exposure, and because Daewoo International's contracts with domestic suppliers of products for export and with domestic purchasers of imported products are generally denominated in Dollars. Although the impact of exchange rate fluctuations is partially mitigated by such strategies, we and our subsidiaries, particularly Daewoo International and POSCO Engineering & Construction Co., Ltd. ( POSCO E&C ), also periodically enter into derivative contracts, primarily foreign currency swaps and forward exchange contracts, to further hedge our foreign exchange risks. However, our results of operations have historically been affected by exchange rate fluctuations and there can be no assurance that such strategies will be sufficient to reduce or eliminate the adverse impact of such fluctuations in the future. Because of the larger positive effects of the appreciation of the Won (i.e., the reverse of the negative effects caused by the depreciation of the Won, as discussed above), depreciation of the Won generally has a negative impact on our results of operations.

Fluctuations in the exchange rate between the Won and the Dollar will also affect the Dollar equivalent of the Won price of the shares of our common stock on the KRX KOSPI Market and, as a result, will likely affect the market price of the ADSs. These fluctuations will also affect the Dollar conversion by the depositary for the ADRs of cash dividends, if any, paid in Won on shares of common stock represented by the ADSs.

***We are dependent on imported raw materials, and significant increases in market prices of essential raw materials could adversely affect our margins and profits.***

We purchase substantially all of the principal raw materials we use from sources outside Korea, including iron ore and coal. POSCO imported approximately 53.8 million dry metric tons of iron ore and 28.4 million wet metric tons of coal in 2014. Iron ore is imported primarily from Australia, Brazil and Canada. Coal is imported primarily from Australia, Canada, Russia and the United States. Although we have not experienced significant unanticipated supply disruptions in the past, supply disruptions, which could be caused by political or other events in the countries from which we import these materials, could adversely affect our operations. In addition, we are particularly exposed to increases in the prices of coal, iron ore and nickel, which represent the largest components of our cost of goods sold. The prices of our key raw materials have fluctuated significantly in recent years. For example, the average market price of coal per wet metric ton (benchmark free on board price of Australian premium hard coking coal) was US\$209 in 2012, US\$159 in 2013 and US\$125 in 2014. The average market price of iron ore per dry metric ton (free on board price of Platts Iron Ore index with iron (Fe) 62% content) was US\$122 in 2012, US\$126 in 2013 and US\$88 in 2014.

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Our long-term supply contracts generally have terms of three to ten years and provide for periodic price adjustments to the then-market prices. We typically adjust the prices on a quarterly basis and maintain approximately one month of inventory of raw materials. Such price negotiations are driven by various factors, including the global economic outlook, global market prices of raw materials and steel products, supply and demand outlook of raw materials and production costs of raw materials. Typically, globally influenced buyers and sellers of raw materials determine benchmark prices of raw materials, based on which other buyers and sellers negotiate their prices after taking into consideration the quality of raw materials and other factors. In the case of iron ore, if we fail to agree on the quarterly price adjustment within a predetermined deadline, the supplier and we typically agree on the purchase price based on the price formula that reflects the spot market price as well as the quality of iron ore and transportation expense. As of December 31, 2014, 137 million tons of iron ore and 32 million tons of coal remained to be purchased under long-term supply contracts. Future increases in prices of our key raw materials and our inability to pass along such increases to our customers could adversely affect our margins and profits. Increased prices may also cause potential customers to defer purchase of steel products, which would have an adverse effect on our business, financial condition and results of operations.

***We operate in the highly competitive steel, trading and constructing industries, and our failure to successfully compete would adversely affect our market position and business.***

***Steel.*** The markets for our steel products are highly competitive and we face intense global competition. In recent years, driven in part by strong growth in steel consumption in the developing world, particularly in China, the global steel industry has experienced renewed interest in expansion of steel production capacity. China is the largest steel producing country in the world by a significant margin, with the balance between its domestic production and demand being an important factor in the determination of global steel prices. In addition, the global steel industry has experienced consolidation in the past decade, including through the merger of Mittal and Arcelor in 2006 that created a company with approximately 10% of global steel production capacity. Competition from global steel manufacturers with expanded production capacity such as ArcelorMittal S.A. and new market entrants, especially from China and India, have resulted in significant price competition and may result in declining margins and reductions in revenue. Our larger competitors may use their resources, which may be greater than ours, against us in a variety of ways, including by making additional acquisitions, investing more aggressively in product development and capacity and displacing demand for our export products.

The increased production capacity, combined with a decrease in demand due to the recent slowdown of the global economy, has resulted in production over-capacity in the global steel industry. Production over-capacity in the global steel industry may intensify if the slowdown of the global economy is prolonged or demand from developing countries, particularly from China, does not meet the recent growth in production capacity. Production over-capacity in the global steel industry is likely to:

reduce export prices in Dollar terms of our principal products, which in turn may reduce our sales prices in Korea;

increase competition in the Korean market as foreign producers seek to export steel products to Korea as other markets experience a slowdown;

negatively affect demand for our products abroad and our ability to expand export sales; and

affect our ability to increase steel production in general.

Steel also competes with other natural and synthetic materials that may be used as steel substitutes, such as aluminum, cement, composites, glass, plastic and wood. Government regulatory



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initiatives mandating the use of such materials instead of steel, whether for environmental or other reasons, as well as the development of attractive alternative substitutes for steel products, may reduce demand for steel products and increase competition in the global steel industry.

As part of our strategy to compete in this challenging landscape, we will continue to invest in developing innovative products that offer the greatest potential returns and enhance the overall quality of our products, as well as make additional investments in the development of new manufacturing technologies. However, there is no assurance that we will be able to continue to compete successfully in this economic environment or that the prolonged slowdown of the global economy or production over-capacity will not have a material adverse effect on our business, results of operations or financial condition.

**Trading.** Daewoo International competes principally with six other Korean general trading companies, each of which is affiliated with a major domestic business group, as well as global trading companies based in other countries. In the domestic market, competition for export transactions on behalf of domestic suppliers and import transactions on behalf of domestic purchasers was limited, as most affiliated general trading companies of large Korean business groups generally relied on affiliate transactions for the bulk of their trading business. However, in recent years, many of these Korean general trading companies have reduced their reliance on their affiliated business group and transactions carried out on behalf of their member companies and instead have generally evolved to focus on segments of the import and export markets in which they have a competitive advantage. As a result, competition among Korean general trading companies in the area of traditional trade has become more intense.

The overseas trading markets in which Daewoo International operates are also highly competitive. Daewoo International's principal competitors in the overseas trading markets include Korean trading companies that operate in various international markets, as well as foreign trading companies, particularly those based in Japan. As Daewoo International diversifies into businesses other than traditional trading such as natural resources development, it also increasingly competes with other Korean and international companies involved in these businesses. Some of Daewoo International's competitors may be more experienced and have greater financial resources and pricing flexibility than Daewoo International, as well as more extensive global networks and wider access to customers. There is no assurance that Daewoo International will be able to continue to compete successfully in this economic environment or that the prolonged slowdown of the global economy will not have a material adverse effect on its business, results of operations or financial condition.

**Construction.** POSCO E&C, our consolidated subsidiary in which we hold an 89.5% interest, operates in the highly competitive construction industry. Competition is based primarily on price, reputation for quality, reliability, punctuality and financial strength of contractors. Intense competition among construction companies may result in, among other things, a decrease in the price POSCO E&C can charge for its services, difficulty in winning bids for construction projects, an increase in construction costs and difficulty in obtaining high-quality contractors and qualified employees.

In Korea, POSCO E&C's main competition in the construction of residential and non-residential buildings, EPC (or engineering, procurement and construction) projects, urban planning and development projects and civil works projects consists of approximately ten major domestic construction companies, all of which are member companies of other large business groups in Korea and are capable of undertaking larger-scale, higher-value-added projects that offer greater potential returns. A series of measures introduced by the Government over the past few years to regulate housing prices in Korea, as well as increasing popularity of low-bid contracts in civil works project mandates, have contributed to increased competition in the Korean construction industry in recent years.

Competition for new project awards in overseas markets is also intense. In these markets, POSCO E&C faces competition from local construction companies, as well as international

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construction companies from other countries, including other major Korean construction companies with overseas operations. Construction companies from other developed countries may be more experienced, have greater financial resources and possess more sophisticated technology than POSCO E&C, while construction companies from developing countries often have the advantage of lower wage costs. Some of these competitors have achieved higher market penetration than POSCO E&C has in specific markets in which it competes, and POSCO E&C may need to accept lower margins in order for it to compete successfully against them. POSCO E&C's failure to successfully compete in the domestic or overseas construction markets could adversely affect its market position and its results of operations and financial condition.

*We may not be able to successfully execute our diversification strategy.*

In part to prepare for the eventual maturation of the Korean steel market, our overall strategy includes securing new growth engines by diversifying into new businesses related to our steel operations that we believe will offer greater potential returns, such as participation in EPC projects in the steel sector and natural resources development, as well as entering into new businesses not related to our steel operations such as power generation and alternative energy solutions, production of comprehensive materials such as lithium, nickel, silicon, carbon and magnesium, information and technology consulting services, and automation and system integration engineering services. From time to time, we may selectively acquire or invest in companies to pursue such diversification strategy. For example, in September 2010, we acquired a controlling interest in Daewoo International for Won 3.37 trillion. Daewoo International is a global trading company that primarily engages in trading of steel and raw materials as well as investing in energy and mineral development projects.

The success of the overall diversification strategy will depend, in part, on our ability to realize the growth opportunities and anticipated synergies. The realization of the anticipated benefits depends on numerous factors, some of which are outside our control, including the availability of qualified personnel, establishment of new relationships and expansion of existing relationships with various customers and suppliers, procurement of necessary technology and know-how to engage in such businesses and access to investment capital at reasonable costs. The realization of the anticipated benefits may be impeded, delayed or reduced as a result of numerous factors, some of which are outside our control. These factors include:

difficulties in integrating the operations of the acquired business, including information and accounting systems, personnel, policies and procedures, and in reorganizing or reducing overlapping operations, marketing networks and administrative functions, which may require significant amounts of time, financial resources and management attention;

unforeseen contingent risks or latent liabilities relating to the acquisition that may become apparent in the future;

difficulties in managing a larger business; and

loss of key management personnel or customers.

Accordingly, we cannot assure you that our diversification strategy can be completed profitably or that the diversification efforts will not adversely affect our combined business, financial condition and results of operations.

*Expansion of our production operations abroad is important to our long-term success, and our limited experience in the operation of our business outside Korea increases the risk that our international expansion efforts will not be successful.*

We conduct international trading and construction operations abroad, and our business relies on a global trading network comprised of overseas subsidiaries, branches and representative offices. Although many of our subsidiaries and overseas branches are located in developed countries, we also

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operate in numerous countries with developing economies. In addition, we intend to continue to expand our steel production operations internationally by carefully seeking out promising investment opportunities, particularly in China, India, Southeast Asia and Latin America, in part to prepare for the eventual maturation of the Korean steel market. We may enter into joint ventures with foreign steel producers that would enable us to rely on these businesses to conduct our operations, establish local networks and coordinate our sales and marketing efforts abroad. To the extent that we enter into these arrangements, our success will depend in part on the willingness of our partner companies to dedicate sufficient resources to their partnership with us.

In other situations, we may decide to establish manufacturing facilities by ourselves instead of relying on partners. The demand and market acceptance for our products produced abroad are subject to a high level of uncertainty and are substantially dependent upon the market condition of the global steel industry. We cannot assure you that our international expansion plan will be profitable or that we can recoup the costs related to such investments.

Expansion of our trading, construction and production operations abroad requires management attention and resources. In addition, we face additional risks associated with our expansion outside Korea, including:

challenges caused by distance, language and cultural differences;

higher costs associated with doing business internationally;

legal and regulatory restrictions, including foreign exchange controls that might prevent us from repatriating cash earned in countries outside Korea;

longer payment cycles in some countries;

credit risk and higher levels of payment fraud;

currency exchange risks;

potentially adverse tax consequences;

political and economic instability; and

seasonal reductions in business activity during the summer months in some countries.

***We have limited insurance coverage and may incur significant losses resulting from operating hazards, product liability claims from customers or business interruptions.***

The normal operation of our manufacturing facilities may be interrupted by accidents caused by operating hazards, power supply disruptions and equipment failures, as well as natural disasters. As with other industrial companies, our operations involve the use, handling, generation, processing, storage, transportation and disposal of hazardous materials, which may result in fires, explosions, spills and other unexpected or dangerous accidents causing property damage as well as personal injuries or death. We are also exposed to risks associated with product liability claims in the event that the use of the products we sell results in injury. We maintain property insurance for our property, plant and equipment that we believe to be consistent with market practice in Korea. However, we may not have adequate resources to satisfy a judgment in excess of our insurance coverage in the event of a successful claim against us. Any occurrence of accidents or other events affecting our operations could result in potentially significant monetary damages, diversion of resources, production disruption and delay in delivery of our products, which

may have a material adverse effect on our business, financial condition and results of operations.

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***We may from time to time engage in acquisitions for which we may be required to seek additional sources of capital.***

From time to time, we may selectively acquire or invest in companies or businesses that may complement our business. In order to finance these acquisitions, we intend to use cash on hand, funds from operations, issuances of equity and debt securities, and, if necessary, financings from banks and other sources as well as entering into consortiums with financial investors. However, no assurance can be given that we will be able to obtain sufficient financing for such acquisitions or investments on terms commercially acceptable to us or at all. We also cannot assure you that such financings and related debt payment obligations will not have a material adverse impact on our financial condition, results of operations or cash flow.

***Further increases in, or new impositions of, anti-dumping, safeguard or countervailing duty proceedings may have an adverse impact on our export sales.***

In recent years, we have become subject to a number of anti-dumping duties in the United States, Canada, India, Indonesia, Australia, Thailand, Brazil, Taiwan and Malaysia and safeguard duties in Thailand. We are also subject to a number of on-going anti-dumping and safeguard investigations in Malaysia, the European Union, Indonesia, India and Thailand. In addition, the Mexican government initiated an anti-dumping investigation in October 2012 relating to our exports of cold rolled steel products, and the investigation was suspended until 2018 on condition that we comply with supply undertakings. Our products that are subject to anti-dumping, safeguard or countervailing duty proceedings in the aggregate currently do not account for a material portion of our total sales, and such proceedings have not had a material adverse impact on our business and operations in recent years. However, there can be no assurance that increases in, or new impositions of, anti-dumping duties, safeguard duties, countervailing duties, quotas or tariffs on our exports of products abroad may not have a material adverse impact on our exports in the future. See Item 4. Information on the Company Item 4.B. Business Overview Markets Exports.

***We participate in overseas natural resources exploration, development and production projects abroad, which expose us to various risks.***

As part of consortia or through acquisitions of minority interests, we engage in overseas natural resources exploration, development and production projects in various locations, including a gas field exploration project in Myanmar, in which Daewoo International had invested approximately US\$ 1,808 million as of December 31, 2014 and plans to make further investments in the future. Daewoo International began recognizing revenue from the Myanmar gas field project starting in November 2013. We may also selectively acquire or invest in companies or businesses that engage in such activities. As part of our efforts to diversify our operations, we intend to continue to expand our operations by carefully seeking out promising exploration, development and production opportunities abroad. To the extent that we enter into these arrangements, our success in these endeavors will depend in part on the willingness of our partner companies to dedicate sufficient resources to their partnership with us.

The demand and market acceptance for such activities abroad are subject to a substantially higher level of uncertainty than our traditional steel business and are substantially dependent upon the market condition of the global natural resources industry as well as the political and social environment of the target countries. The performance of projects in which we participate may be adversely affected by the occurrence of military hostility, political unrest or acts of terrorism. In addition, some of our current exploration, development and production projects involve drilling exploratory wells on properties with no proven amount of natural resource reserves. Although all drilling, whether developmental or exploratory, involves risks, exploratory drilling involves greater risks of dry holes or failure to find commercial quantities of natural resources. We have limited experience in this business, and we cannot assure you that our overseas natural resources exploration, development and

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production projects will be profitable, that we will be able to meet the financing requirements for such projects, or that we can recoup the costs related to such investments, which in turn could materially and adversely affect our business, financial condition and results of operations.

*We may encounter problems with joint overseas natural resources exploration, development and production projects and large-scale infrastructure projects, which may materially and adversely affect our business.*

In recent years, we have begun to focus increasingly on overseas natural resources exploration, development and production projects. We typically pursue these natural resources exploration, development and production projects jointly with consortium partners or through acquisition of minority interests in such projects, and we expect to be involved in other joint projects in the future. We sometimes hold a majority interest in the projects among the consortium partners, but we often lack a controlling interest in the joint projects. Therefore, we may not be able to require that our joint ventures sell assets or return invested capital, make additional capital contributions or take any other action without the vote of at least a majority of our consortium partners. If there are disagreements between our consortium partners and us regarding the business and operations of the joint projects, we cannot assure you that we will be able to resolve them in a manner that will be in our best interests. Certain major decisions, such as selling a stake in the joint project, may require the consent of all other partners. These limitations may adversely affect our ability to obtain the economic and other benefits we seek from participating in these projects.

In addition, our consortium partners may:

have economic or business interests or goals that are inconsistent with us;

take actions contrary to our instructions, requests, policies or objectives;

be unable or unwilling to fulfill their obligations;

have financial difficulties; or

have disputes with us as to their rights, responsibilities and obligations.

Any of these and other factors may have a material adverse effect on the performance of our joint projects and expose us to a number of risks, including the risk that the partners may be incapable of providing the required financial support to the partnerships and the risk that the partners may not be able to fulfill their other obligations, resulting in disputes not only between our partners and us, but also between the joint ventures and their customers. Such a material adverse effect on the performance of our joint projects may in turn materially and adversely affect our business, results of operations and financial condition.

*Cyclical fluctuations based on macroeconomic factors may adversely affect POSCO E&C's business and performance.*

In order to complement our steel operations, we engage in engineering and construction activities through POSCO E&C, an 89.5%-owned subsidiary. The construction segment, which accounted for approximately 12.5% of our consolidated sales in 2014 after adjusting for inter-company sales and not taking into account the basis difference described in Note 42 of Notes to Consolidated Financial Statements, is highly cyclical and tends to fluctuate based on macroeconomic factors, such as consumer confidence and income, employment levels, interest rates, inflation rates, demographic trends and policies of the Government. Although we believe that POSCO E&C's strategy of focusing on high-value-added plant construction and urban planning and development projects such as Songdo New City has enabled it to be exposed to a lesser degree to general economic conditions in Korea in comparison to some of its domestic competitors, our construction revenues have fluctuated in the past depending on the level of domestic construction activity including new construction orders. POSCO

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E&C's construction operations could suffer in the future in the event of a general downturn in the construction market resulting in weaker demand, which could adversely affect POSCO E&C's business, results of operations or financial condition.

*Many of POSCO E&C's domestic and overseas construction projects are on a fixed-price basis, which could result in losses for us in the event that unforeseen additional expenses arise with respect to the project.*

Many of POSCO E&C's domestic and overseas construction projects are carried out on a fixed-price basis according to a predetermined timetable, pursuant to the terms of a fixed-price contract. Under such fixed-price contracts, POSCO E&C retains all cost savings on completed contracts but is also liable for the full amount of all cost overruns and may be required to pay damages for late delivery. The pricing of fixed-price contracts is crucial to POSCO E&C's profitability, as is its ability to quantify risks to be borne by it and to provide for contingencies in the contract accordingly.

POSCO E&C attempts to anticipate costs of labor, raw materials, parts and components in its bids on fixed-price contracts. However, the costs incurred and gross profits realized on a fixed-price contract may vary from its estimates due to factors such as:

unanticipated variations in labor and equipment productivity over the term of a contract;

unanticipated increases in labor, raw material, parts and components, subcontracting and overhead costs, including as a result of bad weather;

delivery delays and corrective measures for poor workmanship; and

errors in estimates and bidding.

If unforeseen additional expenses arise over the course of a construction project, such expenses are usually borne by POSCO E&C, and its profit from the project will be correspondingly reduced or eliminated. If POSCO E&C experiences significant unforeseen additional expenses with respect to its fixed price projects, it may incur losses on such projects, which could have a material adverse effect on its financial condition and results of operations.

*POSCO E&C's domestic residential property business is highly dependent on the real estate market in Korea.*

The performance of POSCO E&C's domestic residential property business is highly dependent on the general condition of the real estate market in Korea. The construction industry in Korea is experiencing a downturn due to excessive investment in recent years in residential property development projects, stagnation of real property prices and reduced demand for residential property, especially in areas outside of Seoul. In addition, as liquidity and credit concerns and volatility in the global financial markets increased significantly starting in September 2008, there has been a general decline in the willingness by banks and other financial institutions in Korea to engage in project financing and other lending activities to construction companies, which may adversely impact POSCO E&C's ability to meet its desired funding needs. The Government has taken measures to support the Korean construction industry, including easing of regulations imposed on redevelopment of apartment buildings and resale restrictions in the metropolitan areas, as well as reductions in property taxes. Although the Korean real estate market temporarily recovered in the second half of 2009 and into 2010, declines in demand and price took place in the Korean real estate market in recent years due to the downturn of the domestic economic cycle and financial risk in Europe, and the overall prospects for the Korean real estate market in 2015 and beyond remain uncertain.

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***We are subject to environmental regulations, and our operations could expose us to substantial liabilities.***

We are subject to national and local environmental laws and regulations, including increasing pressure to reduce emission of carbon dioxide relating to our manufacturing process, and our steel manufacturing and construction operations could expose us to risk of substantial liability relating to environmental or health and safety issues, such as those resulting from discharge of pollutants and carbon dioxide into the environment, the handling, storage and disposal of solid or hazardous materials or wastes and the investigation and remediation of contaminated sites. We may be responsible for the investigation and remediation of environmental conditions at currently and formerly operated manufacturing or construction sites. For example, we recognized provision expenses of Won 89 billion in 2014 related to restoration costs of contaminated land near our magnesium plant in Gangneung, Korea. We may also be subject to associated liabilities, including liabilities for natural resource damage, third party property damage or personal injury resulting from lawsuits brought by the Government or private litigants. In the course of our operations, hazardous wastes may be generated at third party-owned or operated sites, and hazardous wastes may be disposed of or treated at third party-owned or operated disposal sites. If those sites become contaminated, we could also be held responsible for the cost of investigation and remediation of such sites, for any associated natural resource damage, and for civil or criminal fines or penalties.

***Failure to protect our intellectual property rights could impair our competitiveness and harm our business and future prospects.***

We believe that developing new steel manufacturing technologies that can be differentiated from those of our competitors, such as FINEX, strip casting and silicon steel manufacturing technologies, is critical to the success of our business. We take active measures to obtain protection of our intellectual property by obtaining patents and undertaking monitoring activities in our major markets. However, we cannot assure you that the measures we are taking will effectively deter competitors from improper use of our proprietary technologies. Our competitors may misappropriate our intellectual property, disputes as to ownership of intellectual property may arise and our intellectual property may otherwise become known or independently developed by our competitors. Any failure to protect our intellectual property could impair our competitiveness and harm our business and future prospects.

***We rely on trade secrets and other unpatented proprietary know-how to maintain our competitive position, and unauthorized disclosure of our trade secrets or other unpatented proprietary know-how could negatively affect our business.***

We rely on trade secrets and unpatented proprietary know-how and information. We enter into confidentiality agreements with each of our employees and consultants upon the commencement of an employment or consulting relationship. These agreements generally provide that all inventions, ideas, discoveries, improvements and patentable material made or conceived by the individual arising out of the employment or consulting relationship and all confidential information developed or made known to the individual during the term of the relationship is our exclusive property. We cannot assure the enforceability of these types of agreements, or that they will not be breached. We also cannot be certain that we will have adequate remedies for any breach. The disclosure of our trade secrets or other know-how as a result of such a breach could adversely affect our business.

***We face the risk of litigation proceedings relating to infringement of intellectual property rights of third parties, which, if determined adversely to us, could cause us to lose significant rights, pay significant damage awards or suspend the sale of certain products.***

Our success depends largely on our ability to develop and use our technology and know-how in a proprietary manner without infringing the intellectual property rights of third parties. The validity and



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scope of claims relating to technology and patents involve complex scientific, legal and factual questions and analysis and, therefore, may be highly uncertain. In addition, because patent applications in many jurisdictions are kept confidential for an extended period before they are published, we may be unaware of other persons' pending patent applications that relate to our products or manufacturing processes. Accordingly, we face the risk of litigation proceedings relating to infringement of intellectual property rights of third parties. See Item 8.A. Consolidated Statements and Other Financial Information - Legal Proceedings.

The plaintiffs in actions relating to infringement of intellectual property rights typically seek injunctions and substantial damages. Although patent and other intellectual property disputes are often settled through licensing or similar arrangements, there can be no assurance that such licenses can be obtained on acceptable terms or at all. Accordingly, regardless of the scope or validity of disputed patents or the merits of any patent infringement claims by potential or actual litigants, we may have to engage in protracted litigation. The defense and prosecution of intellectual property suits, patent opposition proceedings and related legal and administrative proceedings can be both costly and time consuming and may significantly divert the efforts and resources of our technical and management personnel. An adverse determination in any such litigation or proceedings could subject us to pay substantial damages to third parties, require us to seek licenses from third parties and pay ongoing royalties or redesign certain products, or subject us to injunctions prohibiting the manufacture and sale of our products or the use of technologies in certain jurisdictions. The occurrence of any of the foregoing could have a material adverse effect on our reputation, business, financial condition and results of operations.

*We may be exposed to potential claims for unpaid wages and become subject to additional labor costs arising from the Supreme Court of Korea's interpretation of ordinary wages.*

Under the Labor Standards Act, an employee is legally entitled to ordinary wages. Under the guidelines previously issued by the Ministry of Employment and Labor (formerly the Ministry of Labor), ordinary wages include base salary and certain fixed monthly allowances for overtime work performed during night shifts and holidays. Prior to the Supreme Court of Korea's decision described below, we and other companies in Korea had interpreted these guidelines as excluding fixed bonuses that are paid other than on a monthly basis (such as bi-monthly, quarterly or biannually paid bonuses) from the scope of ordinary wages.

On December 18, 2013, the Supreme Court of Korea ruled that regularly paid bonuses, including those that are paid other than on a monthly basis, shall be deemed ordinary wages if these bonuses are paid regularly and uniformly on a fixed basis notwithstanding differential amounts based on seniority. The Supreme Court of Korea ruled that if regular bonus payments are limited to only those working for the employer on a specific date, such bonuses are not fixed and thus do not constitute part of ordinary wage. In addition, under this decision, any collective bargaining agreement or labor-management agreement that attempts to exclude such regular bonuses from ordinary wage will be deemed void for violation of the mandatory provisions of Korean law. However, the Supreme Court of Korea further ruled that an employee's claim for underpayments under the expanded scope of ordinary wages for the past three years within the statute of limitations may be denied based on principles of good faith if (i) there is an agreement between the employer and employees that the regular bonus shall be excluded from ordinary wage in determining the total amount of wage, (ii) such claim results in further wage payments that far exceed the level of total amount of wage agreed between the employer and employees, and (iii) such claim would cause an unexpected financial burden to the employer leading to material managerial difficulty or a threat to the employer's existence. The principles of good faith, however, do not apply to an agreement on wages entered into between the employer and employees after December 18, 2013, the date of the above decision of the Supreme Court of Korea.

In light of the Supreme Court of Korea's decision above, the Ministry of Employment and Labor published its new guidelines (the Guidelines) on January 23, 2014. According to the Guidelines, the

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Government excludes, from ordinary wage, regular bonuses contingent on employment on a specific date. Based on the Supreme Court of Korea's decision and the Guidelines, we believe that regular bonuses that we have paid to our employees are likely to be excluded from ordinary wage since we have paid regular bonuses to only those working for us on the initial date of payment calculation, the 15th day of each month. However, the Supreme Court decision may result in additional labor costs to us in the form of additional payments under the expanded scope of ordinary wages applicable in the past three years as well as to be incurred in the future, which may have an adverse effect on our financial condition and results of operations.

***Escalations in tensions with North Korea could have an adverse effect on us and the market value of our common shares and ADSs.***

Relations between Korea and North Korea have been tense throughout Korea's modern history. The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of future events. In particular, since the death of Kim Jong-il in December 2011, there has been increased uncertainty with respect to the future of North Korea's political leadership and concern regarding its implications for political and economic stability in the region. Although Kim Jong-il's third son, Kim Jong-eun, has assumed power as his father's designated successor, the long-term outcome of such leadership transition remains uncertain.

In addition, there have been heightened security concerns in recent years stemming from North Korea's nuclear weapon and long-range missile programs as well as its hostile military actions against Korea. Some of the significant incidents in recent years include the following:

In April 2013, North Korea blocked access to the inter-Korean industrial complex in its border city of Gaeseong to South Koreans, while the U.S. deployed nuclear-capable stealth bombers and destroyers to Korean air and sea space.

In March 2013, North Korea stated that it had entered a state of war with Korea, declaring the 1953 armistice invalid, and put its artillery at the highest level of combat readiness to protest the Korea-United States allies' military drills and additional sanctions imposed on North Korea for its missile and nuclear tests.

North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty in January 2003 and conducted three rounds of nuclear tests between October 2006 to February 2013, which increased tensions in the region and elicited strong objections worldwide. In response, the United Nations Security Council unanimously passed resolutions that condemned North Korea for the nuclear tests and expanded sanctions against North Korea, most recently in March 2013.

In December 2012, North Korea launched a satellite into orbit using a long-range rocket, despite concerns in the international community that such a launch would be in violation of the agreement with the United States as well as the United Nations Security Council resolutions that prohibit North Korea from conducting launches that use ballistic missile technology.

In March 2010, a Korean naval vessel was destroyed by an underwater explosion, killing many of the crewmen on board. The Government formally accused North Korea of causing the sinking, while North Korea denied responsibility. Moreover, in November 2010, North Korea fired more than one hundred artillery shells that hit Korea's Yeonpyeong Island near the Northern Limit Line, which acts as the de facto maritime boundary between Korea and North Korea on the west coast of the Korean peninsula, causing casualties and significant property damage. The Government condemned North Korea for the attack and vowed stern retaliation should there be further provocation.

North Korea's economy also faces severe challenges that may aggravate social and political pressures within North Korea. There can be no assurance that the level of tensions affecting the

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Korean peninsula will not escalate in the future. Any further increase in tensions, which may occur, for example, if North Korea experiences a leadership crisis, high-level contacts between Korea and North Korea break down or military hostilities occur, could have a material adverse effect on the Korean economy and on our business, results of operations and financial condition and the market value of our common shares and ADSs.

***If you surrender your ADRs to withdraw shares of our common stock, you may not be allowed to deposit the shares again to obtain ADRs.***

Under the deposit agreement, holders of shares of our common stock may deposit those shares with the ADR depositary's custodian in Korea and obtain ADRs, and holders of ADRs may surrender ADRs to the ADR depositary and receive shares of our common stock. However, under current Korean laws and regulations, the depositary bank is required to obtain our prior consent for the number of shares to be deposited in any given proposed deposit that exceeds the difference between (i) the aggregate number of shares deposited by us for the issuance of ADSs (including deposits in connection with the initial and all subsequent offerings of ADSs and stock dividends or other distributions related to these ADSs) and (ii) the number of shares on deposit with the depositary bank at the time of such proposed deposit. It is possible that we may not give the consent. As a result, if you surrender ADRs and withdraw shares of common stock, you may not be able to deposit the shares again to obtain ADRs. See Item 10. Additional Information—Item 10.D. Exchange Controls.

***You may not be able to exercise preemptive rights for additional shares of common stock and may suffer dilution of your equity interest in us.***

The Commercial Code and our articles of incorporation require us, with some exceptions, to offer shareholders the right to subscribe for new shares in proportion to their existing ownership percentage whenever new shares are issued. If we issue new shares to persons other than our shareholders (See Item 10.B. Memorandum and Articles of Association—Preemptive Rights and Issuance of Additional Shares), a holder of our ADSs will experience dilution of such holding. If none of these exceptions is available, we will be required to grant preemptive rights when issuing additional common shares under Korean law. Under the deposit agreement governing the ADSs, if we offer any rights to subscribe for additional shares of our common stock or any rights of any other nature, the ADR depositary, after consultation with us, may make the rights available to you or use reasonable efforts to dispose of the rights on your behalf and make the net proceeds available to you. The ADR depositary, however, is not required to make available to you any rights to purchase any additional shares unless it deems that doing so is lawful and feasible and:

a registration statement filed by us under the Securities Act is in effect with respect to those shares; or

the offering and sale of those shares is exempt from or is not subject to the registration requirements of the Securities Act.

We are under no obligation to file any registration statement under the Securities Act to enable you to exercise preemptive rights in respect of the common shares underlying the ADSs, and we cannot assure you that any registration statement would be filed or that an exemption from the registration requirement under the Securities Act would be available. Accordingly, if a registration statement is required for you to exercise preemptive rights but is not filed by us, you will not be able to exercise your preemptive rights for additional shares and may suffer dilution of your equity interest in us.

***U.S. investors may have difficulty enforcing civil liabilities against us and our directors and senior management.***

We are incorporated in Korea with our principal executive offices located in Seoul. The majority of our directors and senior management are residents of jurisdictions outside the United States, and

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the majority of our assets and the assets of such persons are located outside the United States. As a result, U.S. investors may find it difficult to effect service of process within the United States upon us or such persons or to enforce outside the United States judgments obtained against us or such persons in U.S. courts, including actions predicated upon the civil liability provisions of the U.S. federal securities laws. It may also be difficult for an investor to enforce in U.S. courts judgments obtained against us or such persons in courts in jurisdictions outside the United States, including actions predicated upon the civil liability provisions of the U.S. federal securities laws. It may also be difficult for a U.S. investor to bring an action in a Korean court predicated upon the civil liability provisions of the U.S. federal securities laws against our directors and senior management and non-U.S. experts named in this annual report.

*We could be adversely affected if the U.S. government were to determine that our affiliate s Iran-related business activities are sanctionable under the U.S. Iranian sanction laws and regulations.*

We acquired a controlling interest in Sungjin Geotec Co., Ltd. ( Sungjin Geotec ), a manufacturer of specialized equipment used in the power and energy industries in May 2010. Sungjin Geotec merged with POSCO Plantec Co., Ltd. ( POSCO Plantec ) in July 2013, and we currently hold a 73.9% interest in POSCO Plantec. Prior to the merger, Sungjin Geotec entered into contracts with various suppliers to supply equipment for the development of natural gas fields in Iran, including natural gas fields located in South Pars that is led by Pars Oil and Gas Company, a subsidiary of National Iranian Oil Company. Sungjin Geotec recognized revenues of approximately Won 27 billion in 2010, Won 240 billion in 2011 and Won 134 billion in 2012, and net profits of approximately Won 1 billion in 2010, Won 15 billion in 2011 and Won 25 billion in 2012 related to such activities. Sungjin Geotec has completed or terminated all of its remaining outstanding supply contracts to sell equipment for the development of natural gas fields in Iran, and neither Sungjin Geotec nor POSCO Plantec (subsequent to the merger with Sungjin Geotec in July 2013) recognized any revenues nor profits from such activities in 2013 and 2014. POSCO Plantec does not plan to engage in any sale of equipment in Iran related to the country s development of petroleum resources.

In July 2010, the United States adopted legislation that expands U.S. economic sanctions against foreign companies doing business with Iran in certain sectors. The Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010 (the CISADA ) expands the scope of sanctionable activities by, among other things, broadening the definition of investment under the Iran Sanctions Act (the ISA ) arguably to include the supply of goods for use in petroleum and gas production. The CISADA also expands the severity of potential sanctions available under the ISA and imposes mandatory investigation and reporting requirements designed to increase the likelihood of enforcement. The CISADA requires the imposition of sanctions against parties found by the U.S. administration, following an investigation, to have engaged in conduct sanctionable under the ISA, subject to certain waiver provisions and exceptions.

Under the ISA, as amended, sanctions can also be imposed against a company that has actual knowledge of, or should have known of, sanctionable conduct engaged in by another company that it owns or controls. A range of sanctions may be imposed on companies that engage in sanctionable activities, including among other things the blocking of any property subject to U.S. jurisdiction in which the sanctioned company has an interest, which could include a prohibition on transactions or dealings involving securities of the sanctioned company. By its terms, the CISADA is applicable to certain investments in Iran that commenced on or after July 1, 2010.

There can be no assurance that Sungjin Geotec s Iran-related business activities did not constitute sanctionable activities or that we will not be subjected to sanctions under the ISA as amended by the CISADA. Our business and reputation could be adversely affected if the U.S. government were to determine that Sungjin Geotec s Iran-related business activities constituted sanctionable activity attributable to us. Investors in our securities may also be adversely affected if we

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are sanctioned under the CISADA or if their investment in our securities is restricted under any sanctions regimes with which the investors are required to comply. As noted above, sanctions under the ISA could include the blocking of any property in which we have an interest, which would effectively prohibit all U.S. persons from receiving any payments from us, or otherwise acquiring, holding, withholding, using, transferring, withdrawing, transporting, importing, or exporting any property in which we have any interest.

*We expect to continue operations and investments relating to countries targeted by United States and European Union economic sanctions.*

The U.S. Department of the Treasury's Office of Foreign Assets Control, or OFAC, enforces certain laws and regulations (OFAC Sanctions) that impose restrictions upon U.S. persons and, in some instances, foreign entities owned or controlled by U.S. persons, with respect to activities or transactions with certain countries, governments, entities and individuals that are the subject of OFAC Sanctions (U.S. Sanctions Targets). U.S. persons are also generally strictly prohibited from facilitating such activities or transactions. Similarly, the European Union enforces certain laws and regulations (E.U. Sanctions) that impose restrictions upon nationals of E.U. member states, persons located within E.U. member states, entities incorporated or constituted under the law of an E.U. member state, or business conducted in whole or in part in E.U. member states with respect to activities or transactions with certain countries, governments, entities and individuals that are the subject of E.U. Sanctions (E.U. Sanctions Targets) and together with U.S. Sanctions Targets, Sanctions Targets). E.U. persons are also generally prohibited from activities that promote such activities or transactions.

We engage in limited business activities in countries that are deemed Sanctions Targets, including Cuba, Iran, Syria and Sudan. We produce and export, typically through our sales subsidiaries, steel products to such countries, including automotive steel sheets and other steel materials to Iranian entities. Our subsidiaries also engage in limited business activities in countries that are deemed Sanctions Targets. In particular, Daewoo International, a global trading company in which we hold a 60.3% interest, engages in the trading of steel, raw materials and other items with entities in countries that are deemed Sanctions Targets, including Iran and Sudan. We believe that such activities and investments do not involve any U.S. goods or services. Our activities and investments in Cuba, Iran, Syria and Sudan accounted for approximately 1.4% of our consolidated revenues in 2012, 0.2% in 2013 and 0.1% in 2014.

We expect to continue to engage in business activities and make investments in countries that are deemed Sanctions Targets over the foreseeable future. Although we believe that OFAC Sanctions under their current terms are not applicable to our current activities, our reputation may be adversely affected, some of our U.S. investors may be required to divest their investments in us under the laws of certain U.S. states or under internal investment policies or may decide for reputational reasons to divest such investments. We are aware of initiatives by U.S. governmental entities and U.S. institutional investors, such as pension funds, to adopt or consider adopting laws, regulations, or policies prohibiting transactions with or investment in, or requiring divestment from, entities doing business with countries identified as state sponsors of terrorism. We cannot assure you that the foregoing will not occur or that such occurrence will not have a material adverse effect on the value of our securities.

*This annual report contains forward-looking statements that are subject to various risks and uncertainties.*

This annual report contains forward-looking statements that are based on our current expectations, assumptions, estimates and projections about our company and our industry. The forward-looking statements are subject to various risks and uncertainties. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as anticipate, believe, estimate, expect, intend, project, similar expressions. Those statements include, among other things, the discussions of our business strategy and expectations

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concerning our market position, future operations, margins, profitability, liquidity and capital resources. We caution you that reliance on any forward-looking statement involves risks and uncertainties, and that although we believe that the assumptions on which our forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and, as a result, the forward-looking statements based on those assumptions could be incorrect. The uncertainties in this regard include, but are not limited to, those identified in the risk factors discussed above. In light of these and other uncertainties, you should not conclude that we will necessarily achieve any plans and objectives or projected financial results referred to in any of the forward-looking statements. We do not undertake to release the results of any revisions of these forward-looking statements to reflect future events or circumstances.

**Item 4. Information on the Company**
**Item 4.A. History and Development of the Company**

We were established by the Government on April 1, 1968, under the Commercial Code, to manufacture and distribute steel rolled products and plates in the domestic and overseas markets. The Government owned more than 70% of our equity until 1988, when the Government reduced its ownership of our common stock to 35% through a public offering and listing our shares on the KRX KOSPI Market. In December 1998, the Government sold all of our common stock it owned directly, and The Korea Development Bank completed the sale of our shares that it owned in September 2000. The Government no longer holds any direct interest in us, and our outstanding common stock is currently held by individuals and institutions. See Item 7. Major Shareholders and Related Party Transactions Item 7A. Major Stockholders.

Our legal and commercial name is POSCO. Our principal executive offices are located at POSCO Center, 440 Teheran-ro, Gangnam-gu, Seoul, Korea 135-777, and our telephone number is (822) 3457-0114.

**Item 4.B. Business Overview**
**The Company**

We are the largest fully integrated steel producer in Korea, and one of the largest steel producers in the world, based on annual crude steel production. We produced approximately 37.7 million tons of crude steel in 2014 and approximately 38.3 million tons in 2013, a substantial portion of which was produced at Pohang Works and Gwangyang Works. As of December 31, 2014, Pohang Works had 17.4 million tons of annual crude steel and stainless steel production capacity, and Gwangyang Works had an annual crude steel production capacity of 20.8 million tons. We believe Pohang Works and Gwangyang Works are two of the most technologically advanced integrated steel facilities in the world. We manufacture and sell a diversified line of steel products, including cold rolled and hot rolled products, stainless steel products, plates, wire rods and silicon steel sheets, and we are able to meet a broad range of customer needs from manufacturing industries that consume steel, including automotive, shipbuilding, home appliance, engineering and machinery industries.

We sell primarily to the Korean market. Domestic sales accounted for 44.6% of our total revenue from steel products produced and sold by us in 2014 and 48.8% in 2013. On a non-consolidated basis, we believe that we had an overall market share of approximately 41% of the total sales volume of steel products sold in Korea in 2014 and approximately 43% in 2013. Our export sales and overseas sales to customers abroad accounted for 55.4% of our total revenue from steel products produced and sold by us in 2014 and 51.2% in 2013. Our major export market is Asia, with Asia other than China and Japan accounting for 28.3%, China accounting for 26.6%, and Japan accounting for 11.7% of our total steel export revenue from steel products produced and exported by us in 2014 and China accounting for 30.2%, Asia other than China and Japan accounting for 27.7%, and Japan accounting for 12.5% of our total steel export revenue from steel products produced and exported by us in 2013.

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We also engage in businesses that complement our steel manufacturing operations as well as carefully seek out promising investment opportunities to diversify our businesses both vertically and horizontally, in part to prepare for the eventual maturation of the Korean steel market. POSCO E&C, our consolidated subsidiary in which we hold an 89.5% interest, is one of the leading engineering and construction companies in Korea that primarily engages in the planning, design and construction of industrial plants and architectural works and civil engineering. Daewoo International, our consolidated subsidiary in which we hold a 60.3% interest, is a global trading company that primarily engages in trading of steel and raw materials as well as investing in energy and mineral development projects throughout the world. POSCO Energy Corporation, our wholly-owned consolidated subsidiary in which we hold an 89.0% interest, is the largest private power generation company in Korea.

We generated revenue of Won 64,759 billion and profit of Won 564 billion in 2014, compared to revenue of Won 61,766 billion and profit of Won 1,349 billion in 2013. We had total assets of Won 85,844 billion and total equity of Won 45,257 billion as of December 31, 2014, compared to total assets of Won 84,841 billion and total equity of Won 45,781 billion as of December 31, 2013.

### **Business Strategy**

Leveraging on our success during the past four decades, our goal is to strengthen our position as one of the leading steel producers in the world through focusing on core technologies, further solidifying our market leading position in Korea, and pursuing operational efficiencies to increase our margins in markets abroad. In order to compete effectively in the dynamic global market environment driven by emerging economies and increasing demand for more environmentally friendly products, we are committed to leveraging our competitive advantages and further enhancing our leadership positions. We believe that our proprietary technologies and expertise in developing environmentally-friendly steel production facilities, ability to independently construct such facilities, and know-how in their efficient operation and management enables us to develop differentiated steel products at a highly competitive cost structure. We also plan to selectively explore opportunities in growth industries that are integral to our overall business model, and we have identified steel, comprehensive materials, energy and new businesses as our key areas of focus.

We seek to strengthen our competitiveness and pursue growth through the following core business strategies:

#### ***Seek Opportunities to Further Strengthen Our Position in Global Markets as well as Selectively Expand Our Production Infrastructure Abroad***

We plan to pursue higher margin businesses in various key markets abroad as well as further strengthen our competitiveness in new markets that we have entered in recent years. In China, which is showing signs of slowdown in economic growth and oversupply of steel products, we plan to focus on higher-margin products and pursue strategic entry or exit of various segments and regions. In Southeast Asia, we plan to pursue stabilization of our production operations in Indonesia as well as focus on increasing our market share of key products in Thailand, particularly for the automotive industry. We also plan to pursue differentiated strategies in each of our other key regions.

Drawing on our expertise in steel production, we also plan to carefully seek out promising business opportunities abroad to expand our production infrastructure. We seek out promising investment opportunities abroad, primarily in India and Southeast Asia. We believe that India and Southeast Asia continue to offer substantial growth opportunities, and we plan to selectively seek investment opportunities to construct steel production facilities.

#### ***Maintain Technology Leadership in Steel Manufacturing***

As part of our strategy, we have identified core products that we plan to further develop, such as premium automotive steel sheets, silicon steel and API-grade steel, and we will continue to invest in developing innovative products that offer the greatest potential returns and enhance the overall quality

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of our products. In order to increase our competitiveness and the proportion of our sales of higher margin, higher value-added products, we plan to make additional investments in the development of new manufacturing technologies and upgrade our facilities through continued modernization and rationalization.

We will continue to refine FINEX, a low cost, environmentally friendly steel manufacturing process that optimizes our production capacity by utilizing non-agglomerated iron ore fines and using non-coking coal as an energy source and a reducing agent. We believe that FINEX offers considerable environmental and economic advantages through elimination of major sources of pollution such as sintering and coking plants, as well as reducing operating and raw material costs. In recent years, we have developed proprietary manufacturing technology using a compact endless cast rolling mill that combines the FINEX process with an advanced basic oxygen steelmaking process that uses more scrap in place of pig iron, which enables us to manufacture products at a highly competitive cost structure with lower carbon dioxide emission. Our compact endless cast rolling mill directly casts coils from liquid steel and uses a rolling process that rolls hot rolled coils up to 40 slabs at a time.

### ***Diversify into Production of Comprehensive Materials***

We plan to leverage our expertise in production of various steel-applied materials and venture into the fast-growing and high value-added business of producing environmentally friendly comprehensive materials. We have identified lithium and nickel as our main investment areas. Demand for lithium, which is used as an anode material in lithium ion batteries, has been increasing in recent years, and we have developed proprietary technology to extract lithium from its brine in approximately one month compared to twelve months through conventional production processes. We believe we are also able to leverage our expertise in production of crude steel to cost-effective production of carbon and magnesium, which have wide application of industrial use.

### ***Further Develop Our Capabilities to become an Integrated Provider of Energy Solutions***

We plan to pursue strategic synergies with our member companies of the POSCO Group to further strengthen our capabilities in the energy industry. POSCO Energy Corporation is the largest private power generation company in Korea. POSCO E&C is one of the leading engineering and construction companies in Korea with expertise in the design and construction of power plants. Daewoo International engages in various natural resources procurement and energy development projects around the world. In order to secure adequate procurement of principal raw materials, we have also invested in and will continue to explore additional investment opportunities in various raw material development projects abroad, as well as enter into long-term contracts with leading suppliers of iron ore, coal and nickel, principally in Australia and Brazil. We believe that the energy industry is a sustainable business area that offers us attractive opportunities. We will continue to seek opportunities in natural resources development and further expand our power generation and alternative energy solutions businesses, as well as pursue participation in additional power plant projects abroad.

### ***Pursue Cost-Cutting through Operational and Process Innovations***

We seek to achieve cost reductions in this era of increasing raw material costs through our company wide process for innovation and enhancing efficiency of operations. We believe that strategic cost cutting measures through utilization of efficient production methods and management discipline will strengthen our corporate competitiveness. We will also strive to invest more in human resources development to nurture employees who are capable of working in the global environment.

### ***Selectively Seek Opportunities in Growth Industries***

We will continue to selectively seek opportunities in growth industries to diversify our business both vertically and horizontally. Through POSCO ICT Co., Ltd., a 65.4%-owned subsidiary, we engage in information and technology consulting services as well as automation and system integration engineering services. POSCO E&C is one of the leading engineering and construction companies in



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Korea that primarily engages in the planning, design and construction of industrial plants and architectural works and civil engineering. On September 20, 2010, we acquired a controlling interest in Daewoo International Corporation for Won 3.37 trillion. Daewoo International is a global trading company that primarily engages in trading of steel and raw materials as well as investing in energy development projects. We will continue to selectively seek opportunities to identify new growth engines and diversify our operations.

**Major Products**

We manufacture and sell a broad line of steel products, including the following:

cold rolled products;

hot rolled products;

stainless steel products;

plates;

wire rods; and

silicon steel sheets.

The table below sets out our revenue of steel products produced by us and directly sold to external customers, which are recognized as external revenue of the Steel Segment, by major steel product categories for the periods indicated. Such amounts do not include steel products produced by us and sold to our consolidated subsidiaries.

Steel Products	2012		2013		2014	
	Billions of Won	%	Billions of Won	%	Billions of Won	%
Cold rolled products	11,421	32.4%	9,879	31.1%	9,336	29.3%
Hot rolled products	6,291	17.8	5,134	16.1	5,346	16.8
Stainless steel products	7,305	20.7	7,425	23.4	6,830	21.5
Plates	3,620	10.3	3,266	10.3	3,519	11.1
Wire rods	1,906	5.4	1,867	5.9	2,160	6.8
Silicon steel sheets	1,556	4.4	1,476	4.6	1,267	4.0
Sub-total	32,099	91.0	29,047	91.4	28,458	89.4
Others	3,160	9.0	2,748	8.6	3,384	10.6
Total	35,259	100.0%	31,795	100.0%	31,842	100.0%

The table below sets out our sales volume of the principal categories of steel products produced by us and directly sold to external customers, which are recognized as external sales volume of the Steel Segment, by major steel product categories for the periods indicated. Such amounts do not include steel products produced by us and sold to our consolidated subsidiaries.

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For the Year Ended December 31,  
2013

Steel Products	2012		2013		2014	
	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%
Cold rolled products	11,863	39.6%	11,915	40.9%	11,881	39.1%
Hot rolled products	8,540	28.5	7,589	26.1	7,783	25.6
Stainless steel products	2,760	9.2	2,883	9.9	2,650	8.7
Plates	4,145	13.8	3,849	13.2	4,638	15.3
Wire rods	1,531	5.1	1,735	6.0	2,400	7.9
Silicon steel sheets	1,143	3.8	1,134	3.9	1,038	3.4
Total <sup>(1)</sup>	29,983	100.0%	29,104	100.0%	30,390	100.0%

(1) Not including sales volume of steel products categorized under others.

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In addition to steel products produced by us and directly sold to external customers, we engage our consolidated sales subsidiaries (including Daewoo International) to sell our steel products produced by us. Our revenue from steel products produced by us and sold to our consolidated sales subsidiaries that in turn sold them to their external customers amounted to Won 10,344 billion in 2012, Won 8,391 billion in 2013 and Won 9,176 billion in 2014. Sales of such steel products by our consolidated sales subsidiaries to external customers are recognized as external revenue of the Trading Segment.

### ***Cold Rolled Products***

Cold rolled coils and further refined galvanized cold rolled products are used mainly in the automotive industry to produce car body panels. Other users include the household goods, electrical appliances, engineering and metal goods industries.

Our deliveries of cold rolled products produced by us and directly sold to external customers amounted to 11.9 million tons in 2014, representing 39.1% of our total sales volume of principal steel products produced by us and directly sold to external customers.

Cold rolled products constitute our largest product category in terms of sales volume and revenue from steel products produced by us and directly sold to external customers. In 2014, our sales volume of cold rolled products produced by us and directly sold to external customers remained relatively unchanged compared to our sales volume in 2013.

Including sales of cold rolled products produced by us and sold through our consolidated sales subsidiaries in addition to cold rolled products produced by us and directly sold to external customers, we had a domestic market share for cold rolled products of approximately 42% on a non-consolidated basis.

### ***Hot Rolled Products***

Hot rolled coils and sheets have many different industrial applications. They are used to manufacture structural steel used in the construction of buildings, industrial pipes and tanks, and automobile chassis. Hot rolled coil is also manufactured in a wide range of widths and thickness as the feedstock for higher value-added products such as cold rolled products and silicon steel sheets.

Our deliveries of hot rolled products produced by us and directly sold to external customers amounted to 7.8 million tons in 2014, representing 25.6% of our total sales volume of principal steel products produced by us and directly sold to external customers. The largest customers of our hot rolled products are downstream steelmakers in Korea which use the products to manufacture pipes and cold rolled products.

Hot rolled products constitute our second largest product category in terms of sales volume and third largest product category in terms of revenue from steel products produced by us and directly sold to external customers. In 2014, our sales volume of hot rolled products produced by us and directly sold to external customers increased by 2.6% compared to 2013 primarily due to the commencement of production by our no. 4 hot rolling mill at Gwangyang Works in July 2014.

Including sales of hot rolled products produced by us and sold through our consolidated sales subsidiaries in addition to hot rolled products produced by us and directly sold to external customers, we had a domestic market share for hot rolled products of approximately 38% on a non-consolidated basis.

### ***Stainless Steel Products***

Stainless steel products are used to manufacture household goods and are also used by the chemical industry, paper mills, the aviation industry, the automotive industry, the construction industry and the food processing industry.

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Our deliveries of stainless steel products produced by us and directly sold to external customers amounted to 2.7 million tons in 2014, representing 8.7% of our total sales volume of principal steel products produced by us and directly sold to external customers.

Stainless steel products constitute our second largest product category in terms of revenue from steel products produced by us and directly sold to external customers. Although sales of stainless steel products accounted for only 8.7% of total sales volume of the principal steel products produced by us and directly sold to external customers in 2014, they represented 21.5% of our total revenue from such steel products in 2014. Our sales volume of stainless steel products produced by us and directly sold to external customers decreased by 8.1% in 2014 compared to 2013 due to the rationalization of a stainless cold-rolling mill at Pohang Works in 2014.

Including sales of stainless steel products produced by us and sold through our consolidated sales subsidiaries in addition to stainless steel products produced by us and directly sold to external customers, we had a domestic market share for stainless steel products of approximately 38% on a non-consolidated basis.

### ***Plates***

Plates are used in shipbuilding, structural steelwork, offshore oil and gas production, power generation, mining, and the manufacture of earth-moving and mechanical handling equipment, boiler and pressure vessels and other industrial machinery.

Our deliveries of plates produced by us and directly sold to external customers amounted to 4.6 million tons in 2014, representing 15.3% of our total sales volume of principal steel products produced by us and directly sold to external customers. The Korean shipbuilding industry, which uses plates to manufacture chemical tankers, rigs, bulk carriers and containers, and the construction industry are our largest customers of plates.

In 2014, our sales volume of plates produced by us and directly sold to external customers increased by 20.5% compared to 2013 due to an increase in sales to domestic shipbuilding companies and an increase in demand from the energy industry.

Including sales of plates produced by us and sold through our consolidated sales subsidiaries in addition to plates produced by us and directly sold to external customers, we had a domestic market share for plates of approximately 37% on a non-consolidated basis.

### ***Wire Rods***

Wire rods are used mainly by manufacturers of wire, fasteners, nails, bolts, nuts and welding rods. Wire rods are also used in the manufacture of coil springs, tension bars and tire cords in the automotive industry.

Our deliveries of wire rods produced by us and directly sold to external customers amounted to 2.4 million tons in 2014, representing 7.9% of our total sales volume of principal steel products produced by us and directly sold to external customers. The largest customers for our wire rods are manufacturers of wire ropes and fasteners.

In 2014, our sales volume of wire rods produced by us and directly sold to external customers increased by 38.3% compared to 2013, primarily reflecting increase in production of wire rods from full-scale operation of the no. 4 wire rod mill in 2014, which expansion was completed in May 2013.

Including sales of wire rods produced by us and sold through our consolidated sales subsidiaries in addition to wire rods produced by us and directly sold to external customers, we had a domestic market share for wire rods of approximately 52% on a non-consolidated basis.

**Table of Contents*****Silicon Steel Sheets***

Silicon steel sheets are used mainly in the manufacture of power transformers and generators and rotating machines.

Our deliveries of silicon steel sheets produced by us and directly sold to external customers amounted to 1.0 million tons in 2014, representing 3.4% of our total sales volume of principal steel products produced by us and directly sold to external customers.

In 2014, our sales volume of silicon steel sheets produced by us and directly sold to external customers decreased by 8.5% compared to 2013 due to our decision to focus more on production and sale of higher margin silicon steel sheet products.

Including sales of silicon steel sheets produced by us and sold through our consolidated sales subsidiaries in addition to silicon steel sheets produced by us and directly sold to external customers, we had a domestic market share for silicon steel sheets of approximately 81% on a non-consolidated basis.

***Others***

Other products include lower value-added semi-finished products such as pig iron, billets, blooms and slab.

**Markets**

Korea is our most important market. Domestic sales represented 44.6% of our total revenue from steel products produced and sold by us in 2014. Our export sales and overseas sales to customers abroad represented 55.4% of our total revenue from steel products in 2014. Our sales strategy has been to devote our production primarily to satisfy domestic demand, while seeking export sales to utilize capacity to the fullest extent and to expand our international market presence.

***Domestic Market***

We primarily sell in Korea higher value-added and other finished products to end-users and semi-finished products to other steel manufacturers for further processing. Local distribution companies and sales affiliates sell finished steel products to low-volume customers. We provide service technicians for large customers and distributors in each important product area.

The table below sets out our estimate of the market share of steel products sold in Korea for the periods indicated based on sales volume.

Source	For the Year Ended December 31,		
	2012	2013	2014
POSCO's sales <sup>(1)</sup>	41.9%	43.4%	40.6%
Other domestic steel companies' sales	23.4	23.6	27.6
Imports	34.8	33.0	31.8
Total	100.0%	100.0%	100.0%

(1) POSCO's sales volume includes steel products produced by us (but not by our subsidiaries) and sold through our consolidated sales subsidiaries in addition to steel products produced by us (but not by our subsidiaries) and directly sold to external customers.

***Exports***

Our export sales and overseas sales to customers abroad represented 55.4% of our total revenue from steel products produced and sold by us in 2014, 66.7% of which was generated from



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exports sales and overseas sales to customers in Asian countries. Our export sales and overseas sales to customers abroad in terms of revenue from such products increased by 10.4% from Won 20,587 billion in 2013 to Won 22,731 billion in 2014.

The tables below set out our export sales and overseas sales to customers abroad in terms of revenue from steel products produced and sold by us, by geographical market and by product for the periods indicated.

Region	For the Year Ended December 31,					
	2012		2013		2014	
	Billions of Won	%	Billions of Won	%	Billions of Won	%
Asia (other than China and Japan)	5,834	26.7%	5,707	27.7%	6,434	28.3%
China	6,328	28.9	6,220	30.2	6,057	26.6
Japan	3,084	14.1	2,583	12.5	2,668	11.7
Europe	942	4.3	999	4.9	1,428	6.3
Middle East	528	2.4	381	1.8	323	1.4
North America	1,288	5.9	1,145	5.6	2,131	9.4
Others	3,884	17.7	3,552	17.3	3,689	16.2
Total	21,888	100.0%	20,587	100.0%	22,731	100.0%

Steel Products	For the Year Ended December 31,					
	2012		2013		2014	
	Billions of Won	%	Billions of Won	%	Billions of Won	%
Cold rolled products	7,245	33.1%	6,653	32.3%	6,907	30.4%
Hot rolled products	3,783	17.3	3,300	16.0	3,646	16.0
Stainless steel products	5,302	24.2	5,125	24.9	5,615	24.7
Plates	1,573	7.2	1,238	6.0	1,596	7.0
Wire rods	598	2.7	569	2.8	783	3.4
Silicon steel sheets	840	3.8	837	4.1	771	3.4
Others	2,546	11.6	2,863	13.9	3,412	15.0
Total	21,888	100.0%	20,587	100.0%	22,731	100.0%

The table below sets out the world's apparent steel use for the periods indicated.

	For the Year Ended December 31,		
	2012	2013	2014
Apparent steel use (million metric tons)	1,439	1,528	1,537
Percentage of annual increase	2.0%	6.2%	0.6%

Source: World Steel Association.

Recent difficulties affecting the European Union and global financial sectors, adverse conditions and volatility in the European Union and worldwide credit and financial markets, fluctuations in oil and commodity prices, the general weakness of the global economy and the slowdown in growth of the Chinese economy have increased the uncertainty of global economic prospects in general and have adversely affected the global and Korean economies. The World Steel Association forecasts that global apparent steel use is expected to increase by 3.3% to 1,576 million metric tons in 2015.

In recent years, driven in part by strong growth in steel consumption in emerging economies, the global steel industry has experienced renewed interest in expansion of steel production capacity. The Organisation for Economic Co-operation and Development estimated the global crude

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steel production capacity to be 2,241 million tons in 2014. The increased production capacity, combined with weakening demand due primarily to the recent slowdown of the global economy, has resulted in production over-capacity in the global steel industry. Production over-capacity in the global steel industry may intensify if the slowdown of the global economy continues or demand from developing countries that have experienced significant growth in recent years does not meet the growth in production capacity.



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We distribute our export products mostly through Korean trading companies, including Daewoo International, and our overseas sales subsidiaries. Our largest export market in 2014 was Asia (other than China and Japan), which accounted for 28.3% of our export revenue from steel products produced and sold by us. The principal products exported to Asia (other than China and Japan) were hot rolled products and cold rolled products. Our exports to Asia (other than China and Japan) amounted to Won 5,707 billion in 2013 and Won 6,434 billion in 2014. Our exports to Asia (other than China and Japan) increased by 12.7% in 2014 primarily due to an increase in sales of plates and slabs produced by PT Krakatau POSCO Co., Ltd., which completed a new production plant in December 2013.

Our second largest export market in 2014 was China, which accounted for 26.6% of our export revenue from steel products produced and sold by us. The principal products exported to China were cold rolled products. Our exports to China decreased by 2.6% from Won 6,220 billion in 2013 to Won 6,057 billion in 2014 primarily due to a decrease in our export prices to China as a result of a slowdown in growth of the Chinese economy. On the other hand, we recorded an increase in our exports to North America by 86.1% from Won 1,145 billion in 2013 to Won 2,131 billion in 2014 primarily due to an increase in demand from automotive parts manufacturers in North America, as well as an increase in our exports to Europe by 42.9% from Won 999 billion in 2013 to Won 1,428 billion in 2014 primarily due to an increase in demand from the energy industry.

### ***Anti-Dumping, Safeguard and Countervailing Duty Proceedings***

From time to time, our exporting activities have become subject to anti-dumping, safeguard and countervailing proceedings. In recent years, we have become subject to a number of anti-dumping duties in the United States, Canada, India, Indonesia, Australia, Thailand, Brazil, Taiwan and Malaysia and safeguard duties in Thailand. We are also subject to a number of on-going anti-dumping and safeguard investigations in Malaysia, the European Union, Indonesia, India and Thailand. In addition, the Mexican government initiated an anti-dumping investigation in October 2012 relating to our exports of cold rolled steel products, and the investigation was suspended until 2018 on condition that we comply with supply undertakings. Our products that are subject to anti-dumping, safeguard or countervailing duty proceedings in the aggregate currently do not account for a material portion of our total sales, and such proceedings have not had a material adverse impact on our business and operations in recent years.

### **Pricing Policy**

We determine the sales price of our products based on market conditions. In setting prices, we take into account our costs, including those of raw materials, supply and demand in the Korean market, exchange rates, and conditions in the international steel market. Our prices can fluctuate considerably over time, depending on market conditions and other factors. The prices of our higher value-added steel products in the largest markets are determined considering the prices of similar products charged by our competitors.

Both our export prices and domestic sales prices decreased from 2012 to 2014, reflecting production over-capacity in the global steel industry. We may decide to adjust our sales prices in the future subject to market demand for our products, prices of raw materials, the production outlook of the global steel industry and global economic conditions in general.

### **Raw Materials**

#### ***Steel Production***

The principal raw materials used in producing steel through the basic oxygen steelmaking method are iron ore and coal. We require approximately 1.7 tons of iron ore and 0.8 tons of coal to produce one ton of steel. We import all of the coal and virtually all of the iron ore that we use. In 2014, POSCO imported approximately 53.8 million dry metric tons of iron ore and 28.4 million wet metric tons

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of coal. Iron ore is imported primarily from Australia, Brazil and Canada. Coal is imported primarily from Australia, Canada, Russia and the United States. In 2014, we purchased a substantial portion of our iron ore and coal imports pursuant to long-term contracts. The supply contracts have terms of one to ten years and the long-term contracts generally provide for periodic price adjustments to the then-market prices. The long-term contracts to purchase iron ore and coal generally provide for quarterly adjustments to the purchase prices to be determined through negotiation between the supplier and us. Such price negotiations are driven by various factors, including the global economic outlook, global market prices of raw materials and steel products, supply and demand outlook of raw materials and production costs of raw materials. Typically, globally influenced buyers and sellers of raw materials determine benchmark prices of raw materials, based on which other buyers and sellers negotiate their prices after taking into consideration the quality of raw materials and other factors. We or the suppliers may cancel the long-term contracts only if performance under the contracts is prevented by causes beyond our or their control and these causes continue for a specified period.

We also make investments in exploration and production projects abroad to enhance our ability to meet the requirements for high-quality raw materials, either as part of a consortium or through an acquisition of a minority interest. We secured approximately 41% of our iron ore and coal imports in 2014 from foreign mines in which we have made investments. Our major investments to procure supplies of coal, iron ore and nickel are located in Australia, Brazil, New Caledonia and Canada, and our significant investments are as follows:

We made an investment of US\$500 million in December 2008 to acquire a 6.48% interest in Nacional Minérios S.A., an iron ore mining company in Brazil, in a consortium with Japanese steel manufacturers and trading companies. We secured approximately 3.7 million tons of iron ore in 2014, and we have the right to secure up to such amount of iron ore per year.

We made an initial investment of A\$249 million in 2010 to acquire a 3.75% interest in Roy Hill Holdings Pty., Ltd., an iron ore mining company in Australia. We subsequently entered into a contract in March 2012 to invest an additional A\$1,495 million to increase our interest to 15% but sold a 2.5% interest in April 2012 to China Steel Corporation for A\$305 million. In November 2013, we invested an additional A\$47 million in order to maintain our interest of 12.5% in Roy Hill Holdings Pty. Ltd. Through our ownership interest, we expect to secure up to approximately 15.1 million tons of iron ore per year starting in 2015.

In July 2010, we acquired a 24.5% interest in the Australian Premium Iron (API) iron ore joint venture in Pilbara, Australia for A\$184 million, which expects to supply approximately 9.8 million tons of iron ore per year starting in 2020.

As part of a consortium including China Steel Corporation and domestic financial investors, we made an investment of US\$277 million in March 2013 to acquire a minority interest of 3.78% in an iron ore mining asset of ArcelorMittal Mines Canada Inc. in Quebec. We secured approximately 2.7 million tons of iron ore in 2014, and we have the right to secure up such amount of iron ore per year.

We will continue to selectively seek opportunities to enter into additional strategic relationships that would enhance our ability to meet the requirements for principal raw materials.

The average market price of coal per wet metric ton (benchmark free on board price of Australian premium hard coking coal) was US\$209 in 2012, US\$159 in 2013 and US\$125 in 2014. The average market price of iron ore per dry metric ton (free on board price of Platts Iron Ore index with iron (Fe) 62% content) was US\$122 in 2012, US\$126 in 2013 and US\$88 in 2014. We currently do not depend on any single country or supplier for our coal or iron ore.

***Stainless Steel Production***

The principal raw materials for the production of stainless steel are ferronickel, ferrochrome and stainless steel scrap. We purchase a majority of our ferronickel primarily from suppliers in Korea that



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procure nickel ore from New Caledonia, and the remainder primarily from leading suppliers in Japan, Indonesia and Ukraine. Our primary suppliers of ferrochrome are located in South Africa, India and Kazakhstan. Our stainless steel scraps are primarily supplied by domestic and overseas suppliers in Japan and the European Union. Revert scraps from the Pohang Steelworks are also used for our stainless steel production. The average market price of nickel per ton was US\$17,536 in 2012, US\$15,022 in 2013 and US\$16,871 in 2014.

### ***Transportation***

In order to meet our transportation needs for iron ore and coal, we have entered into long-term contracts with shipping companies in Korea to retain a fleet of dedicated vessels. These dedicated vessels transported approximately 80% of the total requirements in 2014, and the remaining approximately 20% was transported by vessels retained through short to medium term contracts, depending on market conditions. Australia and Brazil are the main countries where the vessels are loaded, and they accounted for 65% and 15%, respectively, of our total requirements in 2014. We plan to continue to optimize the fleet of dedicated vessels that we use by 2020 in order to cope with changes in the global shipping environment, as well as upgrade some of the existing vessels with others that utilize more energy-efficient technologies.

### **The Steelmaking Process**

Our major production facilities, Pohang Works and Gwangyang Works, produce steel by the basic oxygen steelmaking method. The stainless steel plant at Pohang Works produces stainless steel by the electric arc furnace method. Continuous casting improves product quality by imparting a homogenous structure to the steel. Pohang Works and Gwangyang Works produce all of their products through the continuous casting.

#### ***Steel Basic Oxygen Steelmaking Method***

First, molten pig iron is produced in a blast furnace from iron ore, which is the basic raw material used in steelmaking. Molten pig iron is then refined into molten steel in converters by blowing pure oxygen at high pressure to remove impurities. Different desired steel properties may also be obtained by regulating the chemical contents.

At this point, molten steel is made into semi-finished products such as slabs, blooms or billets at the continuous casting machine. Slabs, blooms and billets are produced at different standardized sizes and shapes. Slabs, blooms and billets are semi-finished lower margin products that we either use to produce our further processed products or sell to other steelmakers that produce further processed steel products.

Slabs are processed to produce hot rolled coil products at hot strip mills or to produce plates at plate mills. Hot rolled coils are an intermediate stage product that may either be sold to our customers as various finished products or be further processed by us or our customers into higher value-added products, such as cold rolled sheets and silicon steel sheets. Blooms and billets are processed into wire rods at wire rod mills.

#### ***Stainless Steel Electric Arc Furnace Method***

Stainless steel is produced from stainless steel scrap, chrome, nickel and steel scrap using an electric arc furnace. Stainless steel is then processed into higher value-added products by methods similar to those used for steel production. Stainless steel slabs are produced at a continuous casting mill. The slabs are processed at hot rolling mills into stainless steel hot coil, which can be further processed at cold strip mills to produce stainless cold rolled steel products.

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### **Competition**

#### ***Domestic Market***

We are the largest fully integrated steel producer in Korea. In hot rolled products, where we had a market share of approximately 38% on a non-consolidated basis in 2014, we face competition from a Korean steel producer that operates mini-mills and produces hot rolled coil products from slabs and from various foreign producers, primarily from China and Japan. In cold rolled products and stainless steel products, where we had a market share of approximately 42% and 38%, respectively, on a non-consolidated basis in 2014, we compete with smaller specialized domestic manufacturers and various foreign producers, primarily from China and Japan. For a discussion of domestic market shares, see Markets Domestic Market.

We may face increased competition in the future from new specialized or integrated domestic manufacturers of steel products in the Korean market. Our biggest competitors in Korea are Hyundai Steel Co., Ltd. with an annual crude steel production of approximately 21 million tons and Dongbu Steel Co., Ltd. with an annual crude steel production of approximately 3 million tons. In February 2015, Hyundai Steel Co., Ltd. received conditional approval from the Fair Trade Commission to take over Dongbu Special Steel Co., Ltd., an affiliate of Dongbu Steel Co., Ltd. Dongbu Specialty Steel Co., Ltd. has an annual production capacity of 400 thousand tons of specialty steel.

The Korean Government does not impose quotas on or provide subsidies to local steel producers. As a World Trade Organization signatory, Korea has also removed all steel tariffs.

#### ***Export Markets***

The competitors in our export markets include all the leading steel manufacturers of the world. In the past decade, there has been a trend toward industry consolidation among our competitors, and smaller competitors in the global steel market today may become larger competitors in the future. For example, Mittal Steel's takeover of Arcelor in 2006 created a company with approximately 10% of global steel production capacity. Competition from global steel manufacturers with expanded production capacity such as ArcelorMittal S.A., and new market entrants, especially from China and India, could result in a significant increase in competition. Major competitive factors include range of products offered, quality, price, delivery performance and customer service. Our larger competitors may use their resources, which may be greater than ours, against us in a variety of ways, including by making additional acquisitions, investing more aggressively in product development and capacity and displacing demand for our export products.

Various export markets currently impose tariffs on different types of steel products. However, we do not believe that tariffs significantly affect our ability to compete in these markets.

### **Subsidiaries and Global Joint Ventures**

#### ***Steel Production***

In order to effectively implement our strategic initiatives and to solidify our leadership position in the global steel industry, we have established various subsidiaries and joint ventures around the world that engage in steel production activities.

**Korea.** In order to expand our sale of value-added products, we established POSCO Coated and Color Sheet Co., Ltd. by merging a coated steel manufacturer and a color sheet manufacturer in March 1999. POSCO Coated and Color Sheet has an aggregate annual production capacity of 600 thousand tons of galvanized and aluminized steel sheets widely used in the construction, automotive parts and home appliances industries. POSCO Coated and Color Sheet also has an aggregate annual production capacity of 350 thousand tons of color sheets that are mainly used for

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interior and exterior materials and home appliances. In 2014, POSCO Coated and Color Sheet produced 594 thousand tons of galvanized and aluminized steel sheets and 312 thousand tons of color sheets.

POSCO Specialty Steel produces high-quality steel products for the automotive, machinery, nuclear power plant, shipbuilding, aeronautics and electronics industries. In March 2015, SeAH Besteel Corp., Shinyoung Securities Co., Ltd. and Shinhan Investment Corp. acquired an aggregate of 52.3% of our interest in POSCO Specialty Steel for approximately Won 419 billion. As a result, we hold a 19.9% interest in the company. Production facilities operated by POSCO Specialty Steel have an aggregate annual production capacity of 1,000 thousand tons of wire rods, round bars, steel pipes and semi-finished products. POSCO Specialty Steel produced 606 thousand tons of such products in 2014.

**China.** We entered into an agreement with Sagang Group Co. to establish Zhangjiagang Pohang Stainless Steel Co., Ltd., a joint venture company in China for the manufacture and sale of stainless cold rolled steel products. We have an 82.5% interest in the joint venture (including 23.9% interest held by POSCO China Holding Corporation). The plant commenced production of stainless cold rolled steel products in December 1998. The joint venture also completed the construction of new mills in July 2006 with additional annual production capacity of approximately 800 thousand tons of stainless hot rolled products. Zhangjiagang Pohang Stainless Steel produced 1,100 thousand tons of stainless steel products in 2014.

We established Qingdao Pohang Stainless Steel Co., Ltd., a wholly owned subsidiary set up to manufacture and sell stainless cold rolled steel products in China. The plant became operational in December 2004, with an annual production capacity of 180 thousand tons of stainless cold rolled steel products. Qingdao Pohang Steel produced 180 thousand tons of such products in 2014.

In August 2003, we entered into a joint venture agreement with Benxi Iron and Steel Group in China to establish Benxi Steel POSCO Cold Rolled Sheet Co., Ltd. The cold rolling mill with an annual production capacity of 1.9 million tons became operational in March 2006 and the company produced 1.9 million tons of such products in 2014. We currently hold a 25.0% interest in this joint venture.

**Vietnam.** We entered into an agreement with Nippon Steel & Sumitomo Metal Corporation to establish POSCO Vietnam Co., Ltd., a joint venture company in Vietnam for the manufacture and sale of cold rolled steel products. We have an 85.0% interest in the joint venture. We completed the construction of a plant in September 2009 with an annual production capacity of 1.2 million tons of cold rolled products and commenced commercial production. POSCO Vietnam produced 930 thousand tons of such products in 2014.

**Thailand.** In order to secure an alternative sales source for stainless cold rolled steel products and an export base for expanding into the Southeast Asia stainless steel markets, we acquired a controlling interest in Thainox Stainless Public Company Limited, a major stainless steel manufacturer in Thailand, in September 2011. We renamed the company as POSCO Thainox Public Company Limited in October 2011 and currently hold an 84.9% interest in the company. The company produced 165 thousand tons of stainless cold rolled products in 2014.

**Indonesia.** We entered into an agreement with PT. Krakatau Steel (Persero) Tbk. to establish PT. Krakatau POSCO Co., Ltd., a joint venture company in Indonesia for the manufacture and sale of plates and slabs. We hold a 70.0% interest in the joint venture. We completed the construction of a steel manufacturing plant in December 2013 with an annual production capacity of 3.0 million tons of plates and slabs. PT. Krakatau POSCO produced 2.1 million tons of plates and slabs in 2014.

**United States.** We entered into 50-50 joint venture between U.S. Steel Corporation and us called USS-POSCO Industries Corporation. We sell hot rolled products to USS-POSCO Industries, which uses such products to manufacture cold rolled and galvanized steel products and tin-plate products for sale in the United States. USS-POSCO Industries produced 862 thousand tons of such products in 2014.

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We entered into a joint venture in March 2007 with US Steel and SeAH to establish United Spiral Pipe LLC to produce American Petroleum Institute-compliant pipes ( API Pipes ) and non-API pipes. We hold a 35% interest in United Spiral Pipe LLC and it is in the process of selling its facilities and equipment.

**Mexico.** In Mexico, POSCO Mexico S.A. de C.V. completed the construction of a plant in August 2009 with an annual production capacity of 0.4 million tons of cold rolled products and commenced commercial production to supply automotive manufacturers in Mexico, Southeastern United States and South America. POSCO Mexico expanded its annual production capacity to 0.9 million tons of galvanized steel products in December 2013, and produced 474 thousand tons of cold rolled products in 2014.

**Others.** In addition to the above investments, we are carefully seeking out additional promising investment opportunities abroad. In June 2005, we entered into a memorandum of understanding with Odisha State Government of India for the construction of an integrated steel mill and the development of iron ore mines in Odisha State. We estimate the aggregate costs of the initial phase of construction and mine development to be approximately \$3.7 billion and an additional cost of approximately \$8.3 billion in order to increase the annual production capacity to 12 million tons of plates and hot rolled products. The Government of India reissued clearance for the construction of the steel mill in January 2014 and is currently in the process of preparing the land on which the integrated steel mill will be constructed. With respect to development of iron ore mines in Odisha State, we obtained a final ruling from the Indian Supreme Court in May 2013 with respect to authority of the central government to issue permission, and we are waiting for approval from the Government of India to start our exploration and development activities.

We have also established supply chain management centers around the world to provide processing and logistics services such as cutting flat steel products to smaller sizes to meet customers' needs. In 2014, our 34 supply chain management centers recorded aggregate sales of 5.4 million tons of steel products.

### ***Trading***

Our trading activities consist primarily of trading activities of Daewoo International. We acquired a controlling interest in Daewoo International for Won 3.37 trillion on September 20, 2010, and we currently hold a 60.3% interest in Daewoo International. Our consolidated subsidiaries that also engage in trading activities include POSCO Processing & Service Co., Ltd. that primarily focuses in the domestic market, and POSCO Asia Company Limited located in Hong Kong, POSCO Japan Co., Ltd. located in Tokyo, Japan, POSCO America Corporation located in New Jersey, U.S.A. and POSCO South Asia Co., Ltd. located in Bangkok, Thailand.

Daewoo International is a global trading company that primarily engages in trading of steel and raw materials as well as investing in energy and mineral development projects. It also manufactures and sells textiles and operates a department store in Korea. Daewoo International was established in December 2000 when the international trading and construction businesses of Daewoo Corporation were spun off into three separate companies as part of a debt workout program of Daewoo Corporation.

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The following table sets forth a breakdown of Daewoo International's total sales by export sales, domestic sales and third-party trades as well as product category for the periods indicated:

Product Category	For the Year Ended December 31,					
	2012	2013		2014		
	(In billions of Won, except percentages)					
<b>Export Sales</b>						
Trading sales:						
Steel and metal	6,203	35.8%	5,397	31.5%	5,051	24.8%
Chemical and commodities	1,686	9.7	1,535	9.0	1,836	9.0
Automobile and machinery parts	1,469	8.5	1,625	9.5	1,965	9.6
Electronics and miscellaneous items	120	0.7	72	0.4	44	0.2
Natural resources development	2	0.0				
Sub-total	9,480	54.7	8,630	50.4	8,895	43.6
Manufactured product sales	13	0.1	13	0.1	22	0.1
Miscellaneous	25	0.1	14	0.1	60	0.3
<b>Total export sales</b>	<b>9,517</b>	<b>54.9</b>	<b>8,657</b>	<b>50.6</b>	<b>8,977</b>	<b>44.0</b>
<b>Domestic Sales</b>						
Trading sales:						
Steel and metal	609	3.5%	686	3.9%	737	3.6%
Chemical and commodities	69	0.4	71	0.4	81	0.4
Automobile and machinery parts	3	0.0	34	0.2	56	0.3
Electronics and miscellaneous items	7	0.1	4	0.0	11	0.1
Other goods	58	0.3	54	0.3	49	0.2
Sub-total	746	4.3	849	5.0	935	4.6
Miscellaneous	8	0.0	12	0.1	11	0.1
<b>Total domestic sales</b>	<b>754</b>	<b>4.3</b>	<b>861</b>	<b>5.1</b>	<b>946</b>	<b>4.7</b>
<b>Third-Country Trades</b>						
Trading	10,220	59.0%	10,598	61.9	14,284	70.0
Natural resources development	78	0.5	132	0.8	550	2.7
Manufactured product trading	312	1.8	261	1.5	266	1.3
<b>Total third-country trades</b>	<b>10,610</b>	<b>61.3</b>	<b>10,991</b>	<b>64.2</b>	<b>15,100</b>	<b>74.0</b>
Consolidation adjustments	(3,561)	(20.5)	(3,399)	(19.9)	(4,615)	(22.7)
<b>Total sales</b>	<b>17,320</b>	<b>100.0%</b>	<b>17,109</b>	<b>100.0%</b>	<b>20,408</b>	<b>100.0%</b>

**Trading Activities.** Daewoo International's trading activities consist of exporting and importing a wide variety of products and commodities, including iron and steel, raw materials for steel production, non-ferrous metals, chemicals, automotive parts, machinery and plant equipment, electronics products, agricultural commodities and textiles. Daewoo International is also engaged in third-country trade that does not involve exports from or imports to Korea. The products are obtained from and supplied to numerous suppliers and purchasers in Korea and overseas, which are procured through a global trading network comprised of overseas trading subsidiaries, branches and representative offices. Such subsidiaries and offices support Daewoo International's trading activities by locating suitable local suppliers and purchasers on behalf of customers, identifying business opportunities and providing information regarding local market conditions.

In most cases, Daewoo International enters into trading transactions after the underlying sale and purchase contracts have been matched, which mitigates inventory and price risks to Daewoo International. Daewoo International has not experienced material losses related to such risks.



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Daewoo International typically enters into trading transactions as a principal, and in limited cases as an import or export agent. When acting as a principal or an agent, Daewoo International derives its gross trading profit from the margin between the selling price of the products and the purchase price it pays for such products. In the case of principal transactions, the selling price is recorded as sales and the purchase price is recorded as cost of sales, while only the margin is recorded as sales in the case of agency transactions in which Daewoo International does not assume the risks and rewards of ownership of the

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goods. In the case of principal transactions, it takes an average of approximately 52 days between Daewoo International's payment of goods and its receipt of payment from its customers. In the instances in which it acts as an arranger for a third country transaction, Daewoo International derives its gross trading profit from, and records as sales, the commission paid to it by the customer. The sizes of margins and commissions for Daewoo International's trading activities vary depending on a number of factors, including prevailing supply and demand conditions for the product involved, the cost of financing, insurance, storage and transport and the creditworthiness of the customer, and tends to decline as the product or market matures.

In connection with its export and import transactions, Daewoo International has accounts receivable and payable in a number of currencies, but principally in Dollars. Daewoo International's exposure to fluctuations in exchange rates, including the Won/Dollar exchange rate, is limited because trading transactions typically involve matched purchase and sale contracts, which result in limited settlement exposure, and because Daewoo International's contracts with domestic suppliers of products for export and with domestic purchasers of imported products are generally denominated in Dollars. Although the impact of exchange rate fluctuations is substantially mitigated by such strategies, Daewoo International also periodically enters into derivative contracts, primarily currency forward contracts, to further hedge its foreign exchange risks.

In connection with its trading activities, Daewoo International arranges insurance and product transport at the request of customers, the costs of which generally become reflected in the sales price of the relevant products, and also provides financing services to its purchasers and suppliers as necessary. In the case of trading transactions involving large-scale industrial or construction projects, Daewoo International also provides necessary project planning and organizing services to its customers.

***Natural Resources Development Activities.*** Daewoo International also invests in energy and mineral development projects throughout the world. In particular, Daewoo International joined a consortium with Korea Gas Corporation, ONGC Videsh Ltd. and the Gas Authority of India Ltd. in November 2002, which made a successful bid in the gas exploration, development and production project in the Myanmar A-1 gas field. In October 2005, the consortium made a successful bid in the gas exploration, development and production project in the Myanmar A-3 gas field, located adjacent to the Myanmar A-1 gas field. In December 2008, the consortium entered into a sales agreement with China National United Oil Corporation to sell the gas produced from the A-1 and A-3 gas fields for a period of 30 years after the commencement of production. In August 2010, Myanmar Oil & Gas Enterprise, the national oil and gas company of Myanmar, acquired a 15% interest in each of the projects. As of December 31, 2014, Daewoo International had invested approximately US\$1,281 million in the A-1 and A-3 gas field projects, approximately US\$230 million in a related off-shore pipeline project and approximately US\$137 million in a related on-shore pipeline project. Daewoo International plans to make further investments in these gas fields in the future. Daewoo International holds a 51.0% interest in each of the A-1, A-3 and off-shore pipeline projects and a 25.0% interest in the on-shore pipeline project. Production of gas from these gas fields commenced in July 2013 and Daewoo International recognized revenue from the Myanmar gas field project starting in November 2013. Daewoo International recognized revenues of approximately Won 467 billion from the Myanmar gas field project in 2014.

Such natural resources development projects, while entailing higher risks than the traditional trading business, offer higher potential returns. Daewoo International intends to continue to expand its operations by carefully seeking out promising energy development projects abroad. Daewoo International mitigates the risks associated with such investments through subsidies from the Special Account for Energy Related Funds that is administered, among others, by Korea National Oil Corporation and Korea Resources Corporation, government agencies that promote natural resources development activities of the fund. The fund subsidizes a portion of the investment amount in the event the investor fails to develop viable deposits. If the natural resources development activities are

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successful, the investor must reimburse the Fund for the subsidy amount, together with accrued interest. In most instances, Daewoo International is required to obtain consent from the Ministry of Trade, Industry & Energy prior to investing in natural resources development projects.

**Competition.** Daewoo International competes principally with six other Korean general trading companies, each of which is affiliated with a major domestic business group, as well as global trading companies based in other countries. In the domestic market, competition for export transactions on behalf of domestic suppliers and import transactions on behalf of domestic purchasers was limited, as most affiliated general trading companies of large Korean business groups generally relied on affiliate transactions for the bulk of their trading business. However, in recent years, many of these Korean general trading companies have reduced their reliance on their affiliated business group and transactions carried out on behalf of their member companies and instead have generally evolved to focus on segments of the import and export markets in which they have a competitive advantage. As a result, competition among Korean general trading companies in the area of traditional trade has become more intense. Daewoo International's principal competitors in the overseas trading markets include Korean trading companies that operate in various international markets, as well as foreign trading companies, particularly those based in Japan. As Daewoo International diversifies into businesses other than traditional trading such as natural resources development, it also increasingly competes with other Korean and international companies involved in these businesses.

**Construction**

POSCO E&C, our consolidated subsidiary in which we hold an 89.5% interest, is one of the leading engineering and construction companies in Korea, primarily engaged in the planning, design and construction of industrial plants and architectural works and civil engineering projects. In particular, POSCO E&C has established itself as one of the premier engineering and construction companies in Korea through:

its strong and stable customer base; and

its cutting-edge technological expertise obtained from construction of advanced integrated steel plants, as well as participation in numerous modernization and rationalization projects at our Pohang Works and Gwangyang Works.

Leveraging its technical know-how and track record of building some of the leading industrial complexes in Korea, POSCO E&C has also focused on diversifying its operations into construction of high-end apartment complexes and participating in a wider range of architectural works and civil engineering projects, as well as engaging in urban planning and development projects and expanding its operations abroad. One of its landmark urban planning and development projects includes the development of a 5.7 million-square meter area of Songdo International City in Incheon, which POSCO E&C is co-developing with Gale International, a respected real estate developer based in the United States. POSCO E&C also has substantial experience in the energy field obtained from the construction of various power plants for member companies of the POSCO Group, specializing primarily in engineering and construction of liquefied natural gas ( LNG ) and coal-fired thermal power plants. In recent years, POSCO E&C has obtained various orders for such power plants, including LNG-fired power plants in Incheon, Korea and coal-fired thermal power plants in Ventanas and Angamos, Chile. In response to increasing demand from the energy industry, POSCO E&C plans to continue to target opportunities in power plant construction, which it believes offers significant growth potential, and thereby enhance its know-how and profitability.

**Competition.** Competition in the construction industry is based primarily on price, reputation for quality, reliability, punctuality and financial strength of contractors. In Korea, POSCO E&C's main competition in the construction of residential and non-residential buildings, EPC projects, urban planning and development projects and civil works projects consists of approximately ten major domestic construction companies, all of which are member companies of other large business groups

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in Korea and are capable of undertaking larger-scale, higher-value-added projects that offer greater potential returns. A series of measures introduced by the Government over the past few years to regulate housing prices in Korea, as well as an increasing popularity of low-bid contracts in civil works project mandates, have contributed to increased competition in the Korean construction industry in recent years. In the overseas markets, POSCO E&C faces competition from local construction companies, as well as international construction companies from other countries, including other major Korean construction companies with overseas operations. Construction companies from developed countries may be more experienced, have greater financial resources and possess more sophisticated technology than POSCO E&C, while construction companies from developing countries often have the advantage of lower wage costs.

***Others***

As part of our diversification efforts, we strive to identify business opportunities that supplement our steel, trading and construction segments, including power generation, LNG logistics and network and system integration.

***POSCO Energy Corporation.*** In 2006, we acquired the largest domestic private power utility company that operates LNG combined cycle power generation facilities with total power generation capacity of 1,800 megawatts and renamed it POSCO Energy Corporation. Since our acquisition, POSCO Energy Corporation has expanded its power generation capacity by constructing additional power plants in Korea. As part of its efforts to geographically diversify its power generation facilities, POSCO Energy Corporation is constructing two 1,200 megawatts class coal power plants in Vietnam with Applied Energy Services Corporation. In Indonesia, POSCO Energy Corporation partnered with PT. Krakatau Daya Listrik and completed construction of a 200 megawatts by-product gas power plant, which is used to power our integrated mill. POSCO Energy Corporation's total power generation capacity was approximately 3,950 megawatts as of December 31, 2014.

POSCO Energy Corporation is also selectively seeking opportunities to expand into solar, wind and other renewable energy businesses in order to become an integrated provider of energy solutions. In order to meet the increasing demand and regulatory requirements for clean energy, POSCO Energy Corporation signed a strategic partnership agreement in February 2007 with FuelCell Energy, a global leader in the field of molten carbonate fuel cell technology, pursuant to which POSCO Energy Corporation is exploring opportunities to expand its business into the stationary fuel cell market. In consultation with FuelCell Energy, POSCO Energy Corporation completed construction of a fuel cell stack manufacturing plant with an annual production capacity of 34 megawatts in 2011 with the objective of enhancing POSCO Energy Corporation's capability to meet the growing domestic demand for fuel cell energy.

***LNG Logistics.*** In an effort to reduce our dependency on oil, we became the first private company in Korea to import LNG in 2005, and we have steadily increased the use of natural gas for energy generation at our steel production facilities. We operate an LNG receiving terminal that is equipped with two 100,000 kiloliters storage tanks, two 165,000 kiloliters storage tanks and additional facilities with an aggregate capacity to process up to 2.4 million tons of LNG annually in Gwangyang. In order to achieve maximum operational efficiency of our LNG terminal, we participate in the LNG trading and LNG ship gas trial businesses. We are also building a synthetic natural gas production plant with an annual capacity of 500,000 tons in Gwangyang that is scheduled for completion by mid-2015. We believe that the synthetic natural gas production plant will provide us with a stable supply of LNG substitutes that we can utilize to meet our growing needs for energy generation.

***Others.*** We acquired or established several subsidiaries that address specific services to support the operations of Pohang Works and Gwangyang Works. POSCO ICT Co., Ltd., founded in 1989, provides information and technology consulting and system network integration and outsourcing services. POSCO Processing & Service Co., Ltd., founded in 1994, provides material processing and

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fabrication services. POSCO Plantec, created from the merger of POSCO Machinery & Engineering Co., Ltd. and POSCO Machinery Co., Ltd. in January 2010, provides engineering services related to plant construction and operations. Sungjin Geotec, a manufacturer of specialized equipment used in the power and energy industries, merged with POSCO Plantec in July 2013. POSCO Chemtech Company Ltd., formerly POSCO Refractories and Environment Company, Ltd., specializes in the manufacturing of refractories and lime used in steel manufacturing processes as well as a wide range of chemical products.

### **Insurance**

We maintain property insurance for our property, plant and equipment that we believe to be consistent with market practice in Korea.

### **Item 4.C. Organizational Structure**

The following table sets out the jurisdiction of incorporation and our ownership interests of our significant subsidiaries:

<b>Name</b>	<b>Jurisdiction of Incorporation</b>	<b>Percentage of Ownership</b>
Daewoo International Corporation	Korea	60.3%
POSCO Engineering & Construction Co., Ltd	Korea	89.5%
POSCO Energy Corporation	Korea	89.0%
Zhangjiagang Pohang Stainless Steel Co., Ltd.	China	82.5%
POSCO Processing & Service Co., Ltd.	Korea	96.0%
POSCO ICT Co., Ltd.	Korea	65.4%

### **Item 4.D. Property, Plants and Equipment**

Our principal properties are Pohang Works, which is located at Youngil Bay on the southeastern coast of Korea, and Gwangyang Works, which is located in Gwangyang City in the southwestern region of Korea. We expect to increase our production capacity in the future when we increase our capacity as part of our facilities expansion or as a result of continued modernization and rationalization of our existing facilities. For a discussion of major items of our capital expenditures currently in progress, see Item 5. Operating and Financial Review and Prospects Item 5.B. Liquidity and Capital Resources Liquidity Capital Expenditures and Capital Expansion.

### **Pohang Works**

Construction of Pohang Works began in 1970 and ended in 1983. Pohang Works currently has an annual crude steel and stainless steel production capacity of 17.4 million tons. Pohang Works produces a wide variety of steel products. Products produced at Pohang Works include hot rolled sheets, plates, wire rods and cold rolled sheets, as well as specialty steel products such as stainless steel sheets and silicon steel sheets. These products can also be customized to meet the specifications of our customers.

Situated on a site of 8.9 million square meters at Youngil Bay on the southeastern coast of Korea, Pohang Works consists of 43 plants, including iron-making, crude steelmaking and continuous casting and other rolling facilities. Pohang Works also has docking facilities capable of accommodating ships as large as 200,000 tons for unloading raw materials, storage areas for up to 34 days supply of raw materials and separate docking facilities for ships carrying products for export. Pohang Works consumed approximately 340 thousand tons of LNG and approximately 11,662 gigawatt hours of electricity in 2014. Pohang Works is equipped with a highly advanced computerized production-management system allowing constant monitoring and control of the production process.

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The following table sets out Pohang Works capacity utilization rates for the periods indicated.

	As of or for the Year Ended December 31,		
	2012	2013	2014
Crude steel and stainless steel production capacity as of end of the year (million tons per year)	16.65	17.30	17.40
Actual crude steel and stainless steel output (million tons)	16.54	16.18	16.18
Capacity utilization rate (%) <sup>(1)</sup>	99.3	93.5	93.0

(1) Calculated by dividing actual crude steel and stainless steel output by the actual crude steel and stainless steel production capacity for the relevant period as determined by us.

**Gwangyang Works**

Construction of Gwangyang Works began in 1985 on a site of 13.7 million square meters reclaimed from the sea in Gwangyang City in the southwestern region of Korea. Gwangyang Works currently has an annual crude steel production capacity of 20.8 million tons. Gwangyang Works specializes in high volume production of a limited number of steel products. Products manufactured at Gwangyang Works include both hot and cold rolled types.

Gwangyang Works is comprised of 47 plants, including iron-making plants, steelmaking plants, continuous casting plants, hot strip mills and thin-slab hot rolling plants. The site also features docking and unloading facilities for raw materials capable of accommodating ships of as large as 300,000 tons for unloading raw materials, storage areas for 38 days supply of raw materials and separate docking facilities for ships carrying products for export. Gwangyang Works consumed approximately 225 thousand tons of LNG and approximately 13,880 gigawatt hours of electricity in 2014.

We believe Gwangyang Works is one of the most technologically advanced integrated steel facilities in the world. Gwangyang Works has a completely automated, linear production system that enables the whole production process, from iron-making to finished products, to take place without interruption. This advanced system reduces the production time for hot rolled products to only four hours. Like Pohang Works, Gwangyang Works is equipped with a highly advanced computerized production-management system allowing constant monitoring and control of the production process.

Capacity utilization has kept pace with increases in capacity. The following table sets out Gwangyang Works capacity utilization rates for the periods indicated.

	As of or for the Year Ended December 31,		
	2012	2013	2014
Crude steel production capacity as of end of the year (million tons per year)	20.80	20.80	20.80
Actual crude steel output (million tons)	21.45	20.23	21.47
Capacity utilization rate (%) <sup>(1)</sup>	103.1	97.3	103.2

(1) Calculated by dividing actual crude steel output by the actual crude steel production capacity for the relevant period as determined by us.

**The Environment**

We are vigorous in our efforts to engage in environmentally responsible management of, and to protect the environment from damage resulting from, our operations. Our levels of pollution control are higher than those mandated by Government standards. We established an on-line environmental monitoring system with real-time feedback on pollutant levels and a forecast system of pollutant concentration in surrounding

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areas. We also undergo periodic environmental inspection by both internal and external inspectors in accordance with ISO 14001 standards to monitor execution and maintenance of our environmental management plan. As we continue to diversify our production

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operations abroad and the importance of comprehensive environmental management continues to grow, we announced an integrated environmental management system in December 2010, pursuant to which all of our subsidiaries located in Korea as well as abroad acquired the ISO 14001 certification. We also operate a certification program targeting our suppliers and outsourcing partners, pursuant to which they are encouraged to establish environmental management systems of their own.

We have taken additional measures to ensure that we are appropriately addressing environmental issues. We recycle most of the by-products from the steelmaking process. A vital part of our production process requires consumption of water, and many of our operations are located on coastal sites or adjacent to major lakes and rivers. Recognizing the importance of water resources, we established mid-to-long-term water management strategies to more effectively utilize water resources, including increasing water recycling, reducing usage volume, developing substitute sources and reducing manufacturing discharge harmful to the environment. As part of our efforts to preserve biological diversity, we supply steel slag that is used in the construction of underwater facilities designed to restore marine ecosystems damaged by rising seawater temperatures. In addition, we have been developing environmentally friendly products such as chrome-free steel sheets in an effort to compete with products from the European Union, the United States and Japan and to meet strengthened environmental regulations. Anticipating the trend toward increasing regulation of chrome in various steel products, we introduced chrome-free steel products meeting international environmental standards in 2006 that are used to manufacture automotive oil tanks.

We plan to continue to invest in developing more environmentally friendly steel manufacturing processes. We commenced research and development for a new steel manufacturing technology called FINEX in 1992 jointly with the Research Institute of Industrial Science and Technology and VOEST Alpine, an Austrian company, and we completed the construction of our first FINEX plant in May 2003 with an annual steel production capacity of 0.6 million tons, a second FINEX plant in May 2007 with an annual steel production capacity of 1.5 million tons, and a third FINEX plant in January 2014 with an annual steel production capacity of 2.0 million tons. The first FINEX plant ceased production in July 2014, and the total annual steel production capacity of our FINEX plants is 3.5 million tons. We will continue to refine FINEX, a low cost, environmentally friendly steel manufacturing process that we believe optimizes our production capacity by utilizing non-agglomerated iron ore fines and using non-coking coal as an energy source and a reducing agent. We believe that FINEX offers considerable environmental and economic advantages by eliminating major sources of pollution such as sinter and coke plants, as well as decreasing operating and raw material costs.

Our climate change response program seeks to minimize the risks from changes in climate as well as to maximize the opportunities available in such environment by enhancing the energy efficiency of our production process. We have disclosed our carbon dioxide emission levels and efforts to deal with climate changes through various channels, including participating in the Carbon Disclosure Project. The Carbon Disclosure Project is an organization based in the United Kingdom that works with major corporations around the world to disclose their greenhouse gas emission levels. We are also in compliance with the Korea Emissions Trading Scheme, which was launched by the Government in January 2015 to reduce greenhouse gas emissions by limiting the total amount of allowable greenhouse gas emission by a manufacturer.

While we believe we are in compliance with applicable environmental laws and regulations in all material respects, we may be responsible for the investigation and remediation of environmental conditions at currently and formerly operated manufacturing or construction sites. For example, we recognized a provision of Won 89 billion in 2014 related to restoration costs of contaminated land near our magnesium plant in Gangneung, Korea. We spent Won 634 billion in 2012, Won 295 billion in 2013 and Won 299 billion in 2014 on anti-pollution facilities.



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### **Item 4A. *Unresolved Staff Comments***

We do not have any unresolved comments from the Securities and Exchange Commission staff regarding our periodic reports under the Exchange Act of 1934.

### **Item 5. *Operating and Financial Review and Prospects***

#### **Item 5.A. *Operating Results***

The following discussion and analysis is based on our consolidated financial statements, which have been prepared in accordance with IFRS, as issued by the IASB. Unless otherwise noted, the amounts included in Item 5.A. are presented on a consolidated basis.

#### **Overview**

We are the largest fully integrated steel producer in Korea. We have four reportable operating segments—a steel segment, a trading segment, an engineering and construction segment and a segment that contains operations of all other entities which fall below the reporting thresholds. The steel segment includes production of steel products and sale of such products. The trading segment consists of global trading activities of Daewoo International, exporting and importing a wide range of steel products that are both obtained from and supplied to POSCO, as well as between other suppliers and purchasers in Korea and overseas. The construction segment includes planning, designing and construction of industrial plants, civil engineering projects and commercial and residential buildings, both in Korea and overseas. The others segment includes power generation, LNG logistics, and network and system integration. See Note 42 of Notes to Consolidated Financial Statements.

One of the major factors contributing to our historical performance has been the growth of the Korean economy, and our future performance will depend at least in part on Korea's general economic growth and prospects. For a description of recent developments that have had and may continue to have an adverse effect on our results of operations and financial condition, see Item 3. Key Information Item 3.D. Risk Factors. Korea is our most important market, and our current business and future growth could be materially and adversely affected if economic conditions in Korea deteriorate. A number of other factors have had or are expected to have a material impact on our results of operations, financial condition and capital expenditures. These factors include:

our sales volume, unit prices and product mix;

costs and production efficiency; and

exchange rate fluctuations

As a result of these factors, our financial results in the past may not be indicative of future results or trends in those results.

#### ***Sales Volume, Prices and Product Mix***

In recent years, our net sales have been affected by the following factors:

the demand for our products in the Korean market and our capacity to meet that demand;

our ability to compete for sales in the export market;

price levels; and

our ability to improve our product mix.

Domestic demand for our products is affected by the condition of major steel consuming industries, such as construction, shipbuilding, automotive, electrical appliances and downstream steel processors, and the Korean economy in general.

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In 2013, unit sales prices in Won for all of our principal product lines of steel products produced by us and directly sold to external customers decreased. The weighted average unit price for such products decreased by 6.8% from 2012 to 2013, in part due to an appreciation in the average value of the Won against the Dollar in 2013 that decreased our export prices in Won terms. The average exchange rate of the Won against the Dollar appreciated from Won 1,126.9 to US\$1.00 in 2012 to Won 1,095.0 to US\$1.00 in 2013.

The unit sales price of cold rolled products, which accounted for 40.9% of total sales volume of the principal steel products produced by us and directly sold to external customers, decreased by 13.9% in 2013. The unit sales price of wire rods, which accounted for 6.0% of total sales volume of such products, decreased by 13.5% in 2013. The unit sales price of hot rolled products, which accounted for 26.1% of total sales volume of such products, decreased by 8.2% in 2013. The unit sales price of silicon steel sheets, which accounted for 3.9% of total sales volume of such products, decreased by 4.4% in 2013. The unit sales price of plates, which accounted for 13.2% of total sales volume of such products, decreased by 2.8% in 2013. The unit sales price of stainless steel products, which accounted for 9.9% of total sales volume of such products, decreased by 2.7% in 2013.

In 2014, unit sales prices in Won for our principal product lines of steel products produced by us and directly sold to external customers, other than hot rolled products and stainless steel products, decreased. The weighted average unit price for such products decreased by 6.2% from 2013 to 2014, in part due to an appreciation in the average value of the Won against the Dollar in 2014 that decreased our export prices in Won terms. The average exchange rate of the Won against the Dollar appreciated from Won 1,095.0 to US\$1.00 in 2013 to Won 1,053.2 to US\$1.00 in 2014.

The unit sales price of wire rods, which accounted for 7.9% of total sales volume of the principal steel products produced by us and directly sold to external customers, decreased by 16.4% in 2014. The unit sales price of plates, which accounted for 15.3% of total sales volume of such products, decreased by 10.6% in 2014. The unit sales price of silicon steel sheets, which accounted for 3.4% of total sales volume of such products, decreased by 6.2% in 2014. The unit sales price of cold rolled products, which accounted for 39.1% of total sales volume of such products, decreased by 5.2% in 2014. On the other hand, the unit sales price of hot rolled products, which accounted for 25.6% of total sales volume of such products, increased by 1.5% in 2014. The unit sales price of stainless steel products, which accounted for 8.7% of total sales volume of such products, increased by 0.1% in 2014.

We gradually decreased our export prices from 2012 to 2014. We may decide to adjust our export sales prices in the future subject to market demand for our products, the production outlook of the global steel industry and global economic conditions in general. See Item 4. Information on the Company Item 4.B. Business Overview Markets Exports.

The table below sets out the average unit sales prices for our semi-finished and finished steel products for the periods indicated.

Products	For the Year Ended December 31,		
	2012	2013	2014
	(In thousands of Won per ton)		
Cold rolled products	963	829	786
Hot rolled products	737	677	687
Stainless steel products	2,646	2,576	2,577
Plates	873	849	759
Wire rods	1,245	1,076	900
Silicon steel sheets	1,362	1,302	1,221
Average <sup>(1)</sup>	1,071	998	936

(1) Average prices are based on the weighted average, by sales volume, of our sales for the listed principal products produced by us and directly sold to external customers. See Item 4. Information on the Company Item 4.B. Business Overview Major Products. The average unit sales price calculation does not include sales results of steel products categorized as others.

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Our major costs and operating expenses are raw material purchases, depreciation, labor and other purchases. The table below sets out our cost of sales and selling and administrative expenses as a percentage of our revenue as well as gross profit margin and operating profit margin for the periods indicated.

	For the Year Ended December 31,		
	2012	2013	2014
	(Percentage of net sales)		
Cost of sales	88.3%	88.9%	88.7%
Selling and administrative expenses	6.0	6.3	6.3
Gross margin	11.7	11.1	11.3
Operating profit margin	5.1	4.2	3.9

Our operating profit margin decreased from 5.1% in 2012 to 4.2% in 2013 and further decreased to 3.9% in 2014, reflecting the current challenging business environment as discussed below.

We are closely monitoring changes in market conditions and we implemented the following measures in recent years to address challenges posed by the global economic downturn:

pursuing cost reduction through enhancing product designs, improving productivity and reducing transportation costs;

focusing on marketing activities to increase our domestic market share and export sales; and

establishing a special sales committee to more effectively respond to changes in market trends and preparing responses to various scenarios of future sales.

Production capacity represents our maximum production capacity that can be achieved with an optimal level of operations of our facilities. The table below sets out certain information regarding our production capacity and efficiency in the production of steel products for the periods indicated.

	For the Year Ended December 31,		
	2012	2013	2014
Crude steel and stainless steel production capacity (million tons per year) <sup>(1)</sup>			
POSCO	39.6	40.4	43.5
POSCO Specialty Steel Co., Ltd. <sup>(1)</sup>	37.5	38.1	38.2
Zhangjiagang Pohang Stainless Steel Co., Ltd.	1.1	1.2	1.2
PT. Krakatau POSCO Co., Ltd.	1.0	1.1	1.1
PT. Krakatau POSCO Co., Ltd.			3.0
Actual crude steel and stainless steel output (million tons) <sup>(2)</sup>			
POSCO	39.7	38.3	41.4
POSCO	38.0	36.4	37.7
POSCO Specialty Steel Co., Ltd. <sup>(1)</sup>	0.7	0.7	0.7
Zhangjiagang Pohang Stainless Steel Co., Ltd.	1.0	1.1	1.2
PT. Krakatau POSCO Co., Ltd.			1.9
Capacity utilization rate (%) <sup>(1)</sup>			
POSCO	100.3%	94.6%	95.2%
POSCO	101.4%	95.5%	98.6%
POSCO Specialty Steel Co., Ltd. <sup>(1)</sup>	63.3%	61.8%	60.1%
Zhangjiagang Pohang Stainless Steel Co., Ltd.	103.3%	100.3%	104.9%
PT. Krakatau POSCO Co., Ltd.			63.4%

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- (1) In March 2015, we sold an aggregate of 52.3% of our interest in POSCO Specialty Steel to SeAH Besteel Corp., Shinyoung Securities Co., Ltd. and Shinhan Investment Corp. for approximately Won 419 billion. As a result, we hold a 19.9% interest in POSCO Specialty Steel.
  
- (2) Reflects production capacity of POSCO, POSCO Specialty Steel Co., Ltd., Zhangjiagang Pohang Stainless Steel Co., Ltd and PT. Krakatau POSCO Co., Ltd.

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### ***Exchange Rate Fluctuations***

Our consolidated financial statements are prepared from our local currency denominated financial results, assets and liabilities and our subsidiaries around the world, which are then translated into Won. A substantial proportion of our consolidated financial results is accounted for in currencies other than the Won. Accordingly, our consolidated financial results and assets and liabilities may be materially affected by changes in the exchange rates of foreign currencies. In 2014, 55.4% of our total revenue from steel products produced and sold by us was in overseas markets outside of Korea. To the extent that we incur costs in one currency and make sales in another, our profit margins may be affected by changes in the exchange rates between the two currencies. Since the currency in which sales are recorded may not be the same as the currency in which expenses are incurred, foreign exchange rate fluctuations may materially affect our results of operations. Depreciation of the Won may materially affect the results of our operations because, among other things, it causes:

an increase in the amount of Won required for us to make interest and principal payments on our foreign currency-denominated debt;

an increase in Won terms in the costs of raw materials and equipment that we purchase from overseas sources and a substantial portion of our freight costs, which are denominated primarily in Dollars; and

foreign exchange translation losses on liabilities, which lower our earnings for accounting purposes.

Appreciation of the Won against major currencies, on the other hand, causes:

our export products to be less competitive by raising our prices in Dollar terms; and

a reduction in net sales and accounts receivables in Won from export sales, which are primarily denominated in Dollars.

We strive to naturally offset our foreign exchange risk by matching foreign currency receivables with our foreign currency payables and our overseas subsidiaries have sought to further mitigate the adverse impact of exchange rate fluctuations by conducting business transactions in the local currency of the respective market in which the transactions occur. In particular, Daewoo International's exposure to fluctuations in exchange rates, including the Won/Dollar exchange rate, is limited because trading transactions typically involve matched purchase and sale contracts, which result in limited settlement exposure, and because Daewoo International's contracts with domestic suppliers of products for export and with domestic purchasers of imported products are generally denominated in Dollars. Although the impact of exchange rate fluctuations is partially mitigated by such strategies, we and our subsidiaries, particularly Daewoo International and POSCO E&C, also periodically enter into derivative contracts, primarily foreign currency swaps and forward exchange contracts, to further hedge our foreign exchange risks. However, our results of operations have historically been affected by exchange rate fluctuations and there can be no assurance that such strategies will be sufficient to reduce or eliminate the adverse impact of such fluctuations in the future. Because of the larger positive effects of the appreciation of the Won (i.e., the reverse of the negative effects caused by the depreciation of the Won, as discussed above), depreciation of the Won generally has a negative impact on our results of operations.

### ***Inflation***

Inflation in Korea, which was 2.2% in 2012, 1.3% in 2013 and 1.3% in 2014, has not had a material impact on our results of operations in recent years.

### ***Critical Accounting Estimates***

We have prepared our consolidated financial statements in accordance with IFRS as issued by the IASB. These accounting principles require us to make certain estimates and judgments that affect



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the reported amounts in our consolidated financial statements. Our estimates and judgments are based on historical experience, forecasted future events and various other assumptions that we believe to be reasonable under the circumstances. Estimates and judgments may differ under different assumptions or conditions. We evaluate our estimates and judgments on an ongoing basis. We believe the critical accounting policies discussed below are the most important to the portrayal of our financial condition and results of operations. Each of them is dependent on projections of future market conditions, and they require us to make the most difficult, subjective or complex judgments.

***Allowance for Doubtful Accounts***

We maintain an allowance for doubtful accounts for exposures in our receivable balances that represent our estimate of probable losses in our short-term and long-term receivable balances from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate and negatively impact their ability to make payments, additional allowances may be required. Determining the allowance for doubtful accounts requires significant management judgment and estimates including, among others, the credit worthiness of our customers, experience of historical collection patterns, potential events and circumstances affecting future collections and the ongoing risk assessment of our customer's ability to pay.

Trade account receivables are analyzed on a regular basis and, upon our becoming aware of a customer's inability to meet its financial commitments to us, the value of the receivable is reduced through a charge to the allowance for doubtful accounts. In addition, we record a charge to the allowance for doubtful accounts upon receipt of customer claims in connection with sales that management estimates are unlikely to be collected in full. As of December 31, 2014, the percentage of allowance for doubtful accounts to gross account receivables was 6.04%. Our allowance for doubtful accounts increased by 44.2%, or Won 292 billion, from Won 662 billion as of December 31, 2013 to Won 954 billion as of December 31, 2014 primarily due to recognition of bad debt expenses related to project financing incurred by POSCO E&C. See Note 23 of Notes to Consolidated Financial Statements. Assumptions and judgments related to the allowance for doubtful accounts did not change in 2014.

Specifically, allowances for doubtful accounts are recorded when any of the following loss events occur: (i) there is objective evidence as to the uncollectibility of the account observed through bankruptcy, default or involuntary dissolution of the customer; (ii) we lose a lawsuit against the customer or our right of claim gets extinguished; (iii) our costs to collect the account exceed the payments to be received; or (iv) a dispute with the customer over the collection of the account persists for more than three years.

The actual average annual uncollected percentage rate of accounts receivables resulting in write-offs for the three years in the period ended December 31, 2014 was 0.11%. These historical results, as well as current known conditions impacting the collectability of our accounts receivable balances, are significant factors for us when we estimate the amount of the necessary allowance for doubtful accounts. Historically, losses from uncollectible accounts receivables have been within expectations and in line with the allowances established. However, unforeseen circumstances such as adverse market conditions that deviate significantly from our estimates may require us to change the timing of, and make additional allowances to, our receivable balances. In this case, our results of operations, financial condition and net worth could be materially and adversely affected.

***Valuation of Financial Instruments including Debt and Equity Securities and Derivatives***

We invest in various financial instruments including debt and equity securities and derivatives. Depending on the accounting treatment specific to each type of financial instrument, an estimate of fair value is required to determine the instrument's effect on our consolidated financial statements.

If available, quoted market prices provide the best indication of fair value. We determine the fair value of our financial instruments using quoted market prices when available, including quotes from



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dealers trading those securities. If quoted market prices are not available, we determine the fair value based on pricing or valuation models, quoted prices of instruments with similar characteristics, or discounted cash flows. Determining the fair value of unlisted financial instruments involves a significant degree of management resources and judgment as no quoted prices exist and such securities are generally very thinly traded. Derivatives for which quoted market prices are not available are valued using valuation models such as the discounted cash flow method. The key inputs used in the valuation of such derivatives depend upon the type of derivative and the nature of the underlying instrument and include interest rate yield curves, foreign exchange rates, the spot price of the underlying instrument, volatility and correlation. The fair values based on pricing and valuation models and discounted cash flow analysis are subject to various assumptions used that, if changed, could significantly affect the fair value of the investments.

We assess at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the asset is impaired. As part of this impairment review, the investee's operating results, net asset value and future performance forecasts as well as general market conditions are taken into consideration in order to assess whether there is any objective evidence such as significant financial difficulty of the issuer.

We have estimated fair values of material non-marketable securities. We estimated these fair values based on pricing or valuation models, quoted prices of instruments with similar characteristics, or discounted cash flow models. The discounted cash flow model valuation technique is based on the estimated cash flow projections of the underlying investee. Key assumptions and estimates include market conditions, revenue growth rates, operating margin rates, income tax rates, depreciation and amortization rates, the level of capital expenditures, working capital amounts and the discount rates. These estimates are based on historical results of the investee and other market data. In these cash flows projections, the two most significant estimates are the discount rates and revenue growth rates. If the discount rates used in these valuations were increased by 1%, then the estimated fair values would have decreased by 28% in total. In addition, if the revenue growth rate assumptions were decreased by 1% in the cash flow models, then the estimated fair values would have decreased by 23% in total.

We recognized impairment losses on available-for-sale investments of Won 280 billion in 2013 and Won 370 billion in 2014. Losses on impairment of investments increased in 2014 primarily due to an impairment loss of Won 174 billion resulting from a significant and prolonged decline in the fair value of shares of Hyundai Heavy Industries Co., Ltd. below cost.

Historically, our estimates and assumptions used to evaluate impairment of investments have been within expectations. However, unforeseen circumstances such as adverse market conditions that deviate significantly from our estimates may require us to recognize additional losses on impairment of investments. We base our fair value estimates on assumptions we believe to be reasonable, but which are unpredictable and inherently uncertain. The use of alternative estimates and assumptions could increase or decrease the estimated fair values of our investments and potentially result in different impacts on our results of operations.

***Long-lived Assets***

At each reporting date, we review the carrying amounts of our tangible and intangible assets (excluding goodwill) to determine whether there is any indication that the carrying amount of those assets may not be recoverable through continuing use. If any such indication exists, the recoverable amount of the asset (or cash generating unit) is reviewed in order to determine the amount of the impairment, if any. The recoverable amount is the higher of the asset's net selling price (fair value reduced by selling costs) and its value in use. When the book value of long-lived asset exceeds the recoverable value of the asset due to obsolescence, physical damage or a decline in market value and

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such amount is material, the impairment of the asset is recognized and the asset's carrying value is reduced to its recoverable value and the resulting impairment loss is charged to current operations. Such recoverable value is based on our estimates of the future use of assets and is subject to changes in market conditions. Based on an impairment test as of December 31, 2014, we recognized impairment loss of property, plant and equipment amounting to Won 65 billion in 2014.

The depreciable lives and salvage values of our long-lived assets are estimated and reviewed each year based on industry practices and prior experience to reflect economic lives of long-lived assets. Effective January 1, 2011, we changed our estimated useful lives for certain machinery and equipment in our steel operating segment from the previous eight years to fifteen years based on an asset life study. Our depreciation expense decreased by Won 1,227 billion in 2011 as a result of such changes in our estimated useful lives.

Our estimates of the useful lives and recoverable values of long-lived assets are based on historical trends adjusted to reflect our best estimate of future market and operating conditions. Also, our estimates include the expected future period in which the future cash flows are expected to be generated from continuing use of the assets that we review for impairment and cash outflows to prepare the assets for use that can be directly attributed or allocated on a reasonable and consistent basis. If applicable, estimates also include net cash flows to be received or paid for the disposal of the assets at the end of their useful lives. As a result of the impairment review, when the sum of the discounted future cash flows expected to be generated by the assets is less than the book value of the assets, we recognize impairment losses based on the recoverable value of those assets. We make a number of significant assumptions and estimates in the application of the discounted cash flow model to forecast cash flows, including business prospects, market conditions, selling prices and sales volume of products, costs of production and funding sources. The estimated cash flow forecast amounts are derived from the most recent financial budgets for the next five years. For periods beyond the five year forecast period, we use a terminal value approach to estimate the cash flows for the remaining years based on an expected estimated growth rate. This estimated growth rate is based on actual historical results. As of December 31, 2014, we estimated an average discount rate of 6.10% and an average rate of revenue growth of 1.17%. However, given the current economic environment, it is likely that the estimates and assumptions will be more volatile than they have been in the past. Further impairment charges may be required if triggering events occur, such as adverse market conditions, that suggest deterioration in an asset's recoverability or fair value. Assessment of the timing of when such declines become other than temporary and the amount of such impairment is a matter of significant judgment. Results in actual transactions could differ from those estimates used to evaluate the impairment of such long-lived assets. If our future cash flow projections are not realized, either because of an extended recessionary period or other unforeseen events, impairment charges may be required in future periods.

If the estimated average discount rates used in these valuations were increased by 1%, then the estimated fair values would have decreased by 17% in total. If the estimated average rate of revenue growth rate were decreased by 1%, then the estimated fair values would have decreased by 15% in total. These sensitivity analyses do not affect the impairment loss due to the absence of an impairment loss indicator for our long-lived assets.

***Goodwill***

Goodwill is tested for impairment annually at the level of the groups of cash generating units or whenever changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts of the groups of cash-generating units are determined from the higher of their fair value less cost to sell or their value-in-use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period.

Our management estimates discount rates using post-tax rates that reflect current market rates for investments of similar risk. Growth rates are based on industry growth forecasts, and changes in

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selling prices and direct costs are based on historical experience and expectations of future changes in the market. Cash flow forecasts are derived from the most recent financial budgets for the next five years. Beyond the specifically forecasted period, we extrapolate cash flows for the remaining years based on an estimated growth rate. This rate does not exceed the average long-term growth rate for the relevant markets. Once recognized, impairment losses recognized for goodwill are not reversed.

In validating the value in use determined for the cash generating units, the sensitivity of key assumptions used in the discounted cash-flow model such as discount rates and the terminal growth rate was evaluated. If the estimated average discount rates used in these valuations were increased by 0.25%, the estimated value-in-use would have decreased by 2.71% in total. If the estimated terminal growth rates were decreased by 0.25%, the estimated value-in-use would have decreased by 1.64% in total. If the discount rate assumptions were increased by 0.25% or the terminal growth rate assumptions were decreased by 0.25%, there would be no impact on goodwill impairment. Based on an impairment test as of December 31, 2014, we recognized impairment loss of goodwill of Won 11 billion in 2014. We believe that determining the existence and impairment of goodwill is a critical accounting estimate because significant management judgment is involved in the evaluation of the value of goodwill, and any reasonably possible changes in the key assumptions on which the recoverable amount is based would cause a change in impairment loss of goodwill. See Note 15 of Notes to Consolidated Financial Statements.

***Inventories***

Inventories are stated at the lower of cost or net realizable value. Costs of inventories are determined using the moving-weighted average or weighted average method. Materials-in-transit are determined using the specific identification method. Amounts of inventory are written down to net realizable value due to losses occurring in the normal course of business and the allowance is reported as a contra inventory account, while the related charge is recognized in cost of goods sold.

The net realizable value is determined based on the latest selling price available at the end of each quarter taking into account the directly attributable selling costs. The latest selling price is the base price which is the negotiated selling price based upon the recent transactions entered into with major customers. Considering that our inventory turnover is approximately two months and inventories at the balance sheet date would be sold during the following two months, we perform valuation of inventories using the base price as of the balance sheet date and adjust for significant changes in selling price occurring subsequent to the reporting date. The selling price range used for determining the net realizable value of our inventories ranged from the inventory cost amount less 12.1% of gross profit margin to the inventory cost amount plus 24.8% of gross profit margin. For inventories in which expected selling prices are less than the cost amount, the necessary adjustment to write-down the inventories to net realizable value is made. There was no recovery in 2012, 2013 and 2014. The valuation losses of inventories recognized within cost of goods sold were Won 76 billion in 2012, Won 49 billion in 2013 and Won 42 billion in 2014.

***Employee Benefits***

Our accounting of employee benefits for defined benefit plans involves judgments about uncertain events including, but not limited to, discount rates, life expectancy, future pay inflation and expected rate of return on plan assets. The discount rates are determined by reference to the yield at the reporting date on high quality corporate bonds that have maturity dates approximating the terms of our benefits obligations and that are denominated in the same currency in which the benefits are expected to be paid. We determine the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments, net interest

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expense, and other expenses related to defined benefit plans that are recognized in profit or loss. Due to changing market and economic conditions, the underlying key assumptions may differ from actual developments and may lead to significant changes in our defined benefit plan. We immediately recognize all actuarial gains and losses arising from defined benefit plans in retained earnings. If the estimated average discount rates by actuarial assumptions used in these valuations were increased by 1%, then the estimated provision for severance benefits would have decreased by Won 127 billion, or 7.4% in total. If the estimated future pay inflation rates were decreased by 1%, then the estimated provision for severance benefits would have decreased by Won 107 billion, or 6.2% in total.

**Explanatory Note Regarding Presentation of Certain Financial Information under K-IFRS**

In addition to preparing financial statements in accordance with IFRS as issued by the IASB included in this annual report, we also prepare financial statements in accordance with K-IFRS as adopted by the KASB, which we are required to file with the Financial Services Commission and the Korea Exchange under the Financial Investment Services and Capital Markets Act of Korea.

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During the three years ended December 31, 2014, we are required to adopt certain amendments and interpretations to K-IFRS, relating to presentation of operating profit. Additionally, under K-IFRS, revenue from the development and sale of real estate is recognized using the percentage of completion method. However, under IFRS as issued by the IASB, revenue from the development and sale of certain real estate is recognized when an individual unit of residential real estate is delivered to the buyer. As a result, our consolidated statements of comprehensive income and our consolidated statements of financial position prepared in accordance with IFRS as issued by the IASB included in this annual report differ from our consolidated statements of comprehensive income and consolidated statements of financial position prepared in accordance with K-IFRS. The table below sets forth a reconciliation of our operating profit and net income or loss as presented in our consolidated statements of comprehensive income prepared in accordance with IFRS as issued by the IASB for each of the years ended December 31, 2012, 2013 and 2014 to our operating profit and net income or loss in our consolidated statements of comprehensive income prepared in accordance with K-IFRS, for each of the corresponding years, taking into account such differences:

	<b>For the Year Ended December 31,</b>		
	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>(In millions of Won)</b>		
Operating profit under IFRS as issued by the IASB	3,255,139	2,566,269	2,512,998
Additions:			
Other bad debt expenses	44,115	111,065	96,373
Loss on disposals of assets held for sale	9,510	26,498	14
Impairment loss on assets held for sale	258,451	1,814	17,205
Loss on disposals of property, plant and equipment	65,486	121,133	50,006
Impairment loss of property, plant and equipment	12,977	9,742	64,833
Impairment losses on intangible assets	21,776	125,316	55,220
Idle tangible assets expenses	31,297	17,624	12,214
Impairment loss on other non-current assets	36,453	9,000	38,137
Other provision expenses		65,896	126,601
Donations	73,963	60,940	69,544
Loss on disposal of investments in associates	15,119	19,404	2,556
Loss on disposal of wastes	45,480	15,231	16,386
Penalty and default losses	149,437	19,340	352,173
Others	45,401	47,803	78,412
	809,465	650,806	979,674
Deductions:			
Gain on disposal of assets held for sale	(193,333)	(101,611)	(48,231)
Gain on disposals of investment in associates	(39,441)	(7,668)	(41,258)
Gain on disposals of property, plant and equipment	(42,290)	(14,177)	(15,039)
Reversal of impairment loss on intangible assets	(530)	(122)	(2,794)
Reversal of provision expenses	(16,037)	(2,924)	(19,769)
Rental revenues	(1,898)	(1,588)	(1,743)
Outsourcing income	(29,136)	(25,428)	(14,200)
Gain on disposal of wastes	(38,597)	(16,541)	(11,357)
Gain from claim compensation	(31,613)	(14,525)	(29,171)
Penalty income from early termination of contracts	(15,054)	(16,477)	(34,606)
Grant income	(3,198)	(2,287)	(1,441)
Others	(36,993)	(25,725)	(49,796)
	(448,120)	(229,073)	(269,406)
Revenue recognition related to development and sale of real estate	258,893	98,907	339,820
Cost of sales recognition related to development and sale of real estate	(222,269)	(90,775)	(349,556)
Operating profit under K-IFRS	3,653,108	2,996,134	3,123,530

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	For the Year Ended December 31,		
	2012	2013	2014
	(In millions of Won)		
Net income (loss) under IFRS as issued by the IASB	2,357,846	1,349,016	564,039
Adjustments related to development and sale of real estate:			
Revenue	258,893	98,907	339,820
Cost of sales	(222,269)	(90,775)	(349,556)
Income tax	(8,863)	(1,968)	2,356
Net income under K-IFRS	2,385,607	1,355,180	556,659

**Operating Results 2013 Compared to 2014**

The following table presents our income statement information and changes therein for 2013 and 2014.

	For the Year Ended December 31,		Changes	
	2013	2014	2013 versus 2014	
	(In billions of Won)		Amount	%
Revenue	61,766	64,759	2,993	4.8%
Cost of sales	54,914	57,465	2,552	4.6
Gross profit	6,852	7,293	441	6.4
Administrative expenses	2,232	2,310	78	3.5
Selling expenses	1,632	1,760	128	7.8
Other operating income	229	269	40	17.6
Other operating expenses	651	980	329	50.5
Operating profit	2,566	2,513	(53)	(2.1)
Share of loss of equity-accounted investees	180	300	120	66.8
Finance income	2,381	2,397	16	0.7
Finance costs	2,829	3,222	393	13.9
Profit before income tax	1,938	1,388	(550)	(28.4)
Income tax expense	589	824	235	39.9
Profit	1,349	564	(785)	(58.2)
Profit for the period attributable to owners of the controlling company	1,371	633	(738)	(53.8)
Loss for the period attributable to non-controlling interests	(22)	(69)	(47)	214.1

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The following table presents our revenue by segment and changes therein for 2013 and 2014.

	For the Year Ended December 31,		Changes	
	2013	2014	2013 versus 2014	
	(In billions of Won)		Amount	%
<b>Steel Segment:</b>				
External revenue	31,795	31,842	47	0.1%
Internal revenue	16,229	17,755	1,526	9.4
Total revenue from Steel Segment	48,024	49,597	1,573	3.3
<b>Trading Segment:</b>				
External revenue	18,308	21,166	2,858	15.6
Internal revenue	7,611	10,095	2,484	32.6
Total revenue from Trading Segment	25,919	31,261	5,342	20.6
<b>Construction Segment:</b>				
External revenue	6,897	8,119	1,222	17.7
Internal revenue	3,885	2,185	(1,701)	(43.8)
Total revenue from Construction Segment	10,782	10,304	(478)	(4.4)
<b>Others Segment:</b>				
External revenue	4,865	3,972	(894)	(18.4)
Internal revenue	3,019	3,095	75	2.5
Total revenue from Others Segment	7,885	7,066	(818)	(10.4)
Total revenue prior to consolidation adjustments and basis difference	92,610	98,228	5,618	6.1
Consolidation adjustments	(30,745)	(33,129)	(2,384)	7.8
Basis difference <sup>(1)</sup>	(99)	(340)	(241)	243.4
Revenue	61,766	64,759	2,993	4.8

- (1) Basis difference is related to the difference in recognizing revenue and expenses of the Construction Segment in connection with development and sale of certain residential real estate between the report reviewed by the chief executive officer and the consolidated financial statements. See Notes 3 and 42 of Notes to Consolidated Financial Statements.

Our revenue increased by 4.8%, or Won 2,993 billion, from Won 61,766 billion in 2013 to Won 64,759 billion in 2014 due to increases in external revenues from the Trading Segment and the Construction Segment, which were offset in part by a decrease in external revenue from the Others Segment. External revenues from the Steel Segment remained relatively unchanged. Specifically:

**Steel Segment.** External revenue from the Steel Segment, which does not include internal revenue from inter-company transactions that are eliminated during consolidation, increased slightly by 0.1%, or Won 47 billion, from Won 31,795 billion in 2013 to Won 31,842 billion in 2014 primarily due to an increase in our sales volume of the steel products produced by us and directly sold to external customers (including miscellaneous steel products not included in any of our major product categories), which was largely offset by a decrease in the average unit sales price per ton of the principal steel products produced by us and directly sold to external customers. The overall sales volume of the steel

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products produced by us and directly sold to external customers (including miscellaneous steel products) increased by 4.4% from 29.1 million tons in 2013 to 30.4 million tons in 2014, while the weighted average unit sales price per ton of the principal steel products produced by us and directly sold to external customers decreased by 6.2% from Won 998,012 per ton in 2013 to Won 936,405 per ton in 2014. Such factors were principally attributable to the following:

The sales volume of wire rods, plates and hot rolled produced by us and directly sold to external customers increased by 38.3%, 20.5% and 2.6%, respectively, from 2013 to 2014. On the other hand, our sales volume of silicon steel sheets, stainless steel products and cold rolled produced by us and directly sold to external customers decreased by 8.5%, 8.1% and



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0.3%, respectively, from 2013 to 2014. For a discussion of changes in sales volume of each of our principal product lines, see Item 4.B. Business Overview – Major Products.

The unit sales prices in Won of wire rods, plates, silicon steel sheets and cold rolled products produced by us and directly sold to external customers decreased by 16.4%, 10.6%, 6.2% and 5.2%, respectively, from 2013 to 2014. On the other hand, the unit sales prices in Won of hot rolled products and stainless steel products produced by us and directly sold to external customers increased by 1.5% and 0.1%, respectively, from 2013 to 2014. For a discussion of changes in the unit sales prices of each of our principal product lines, see Overview – Sales Volume, Prices and Product Mix above.

Total revenue from the Steel Segment, which includes internal revenue from inter-company transactions, increased by 3.3%, or Won 1,573 billion, from Won 48,024 billion in 2013 to Won 49,597 billion in 2014, as internal revenue from inter-company transactions increased from 2013 to 2014 due to an increase in reliance on sales subsidiaries for the sale of our steel products.

**Trading Segment.** External revenue from the Trading Segment, which does not include internal revenue from inter-company transactions that are eliminated during consolidation, increased by 15.6%, or Won 2,858 billion, from Won 18,308 billion in 2013 to Won 21,166 billion in 2014 primarily due to an increase in third-country trades by Daewoo International and our other trading subsidiaries.

Total revenue from the Trading Segment, which includes internal revenue from inter-company transactions, increased by 20.6%, or Won 5,342 billion, from Won 25,919 billion in 2013 to Won 31,261 billion in 2014 primarily due to the reasons stated above, which was enhanced by an increase in reliance on sales subsidiaries by us on our steel trading activities.

**Construction Segment.** External revenue from the Construction Segment, which does not include internal revenue from inter-company transactions that are eliminated during consolidation, increased by 17.7%, or Won 1,222 billion, from Won 6,897 billion in 2013 to Won 8,119 billion in 2014 primarily due to an increase in POSCO E&C's construction activities in architectural works.

Total revenue from the Construction Segment, which includes internal revenue from inter-company transactions, decreased by 4.4%, or Won 478 billion, from Won 10,782 billion in 2013 to Won 10,304 billion in 2014 primarily due to a decrease in internal revenue from inter-company transactions by 43.8%, or Won 1,701 billion, from Won 3,885 billion in 2013 to Won 2,185 billion in 2014 resulting from a decrease in the amount of construction activities for POSCO. The impact from such decrease was offset in part by an increase in external revenue as discussed above.

**Others Segment.** The Others Segment includes power generation, LNG production, network and system integration, logistics and magnesium coil and sheet production. External revenue from the Others Segment, which does not include internal revenue from inter-company transactions that are eliminated during consolidation, decreased by 18.4%, or Won 894 billion, from Won 4,865 billion in 2013 to Won 3,972 billion in 2014 primarily due to a decrease in revenue of POSCO Energy Corporation reflecting a decrease in demand for fuel cell energy as well as a decrease in revenue of POSCO ICT Co., Ltd. following the completion of some of its major service contracts in 2014.

Total revenue from the Others Segment, which includes internal revenue from inter-company transactions, decreased by 10.4%, or Won 818 billion, from Won 7,885 billion in 2013 to Won 7,066 billion in 2014, primarily due to the reasons stated above.

**Cost of Sales**

Our cost of sales increased by 4.6%, or Won 2,552 billion, from Won 54,914 billion in 2013 to Won 57,465 billion in 2014. The increase in cost of sales was primarily due to increases in our sales volume of steel products and trading activities as discussed above, which were partially offset by decreases in the average price in Won terms of key raw materials that were used to manufacture our steel products sold.

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The following table presents a breakdown of our cost of sales by segment, prior to adjusting for inter-company transactions that are eliminated during consolidation, and changes therein for 2013 and 2014.

	For the Year Ended December 31,		Changes	
	2013	2014	2013 versus 2014	%
	(In billions of Won)		Amount	
Steel Segment	43,274	44,587	1,313	3.0%
Trading Segment	24,816	29,884	5,068	20.4
Construction Segment	9,848	9,554	(294)	(3.0)
Others Segment	7,123	6,366	(757)	(10.6)
Consolidation adjustments	(30,056)	(32,576)	(2,520)	8.4
Basis difference <sup>(1)</sup>	(91)	(350)	(259)	284.6
<b>Cost of sales</b>	<b>54,914</b>	<b>57,465</b>	<b>2,552</b>	<b>4.6</b>

(1) Basis difference is related to the difference in recognizing revenue and expenses of the Construction Segment in connection with development and sale of certain residential real estate between the report reviewed by the chief executive officer and the consolidated financial statements. See Notes 3 and 42 of Notes to Consolidated Financial Statements.

**Steel Segment.** The cost of sales of our Steel Segment, prior to consolidation adjustments, increased by 3.0%, or Won 1,313 billion, from Won 43,274 billion in 2013 to Won 44,587 billion in 2014 primarily due to increase in our sales volume of the principal steel products produced by us and directly sold to external customers, the impact of which was partially offset by decreases in the average price in Won terms of key raw materials that were used to manufacture our finished goods sold.

**Trading Segment.** The cost of sales of our Trading Segment, prior to consolidation adjustments, increased by 20.4%, or Won 5,068 billion, from Won 24,816 billion in 2013 to Won 29,884 billion in 2014 primarily due to an increase in our trading volumes as well as an increase in the production costs related to gas produced at the Myanmar gas field and sold to customers. The Myanmar gas field began its commercial production in July 2013.

**Construction Segment.** The cost of sales of our Construction Segment, prior to consolidation adjustments, decreased by 3.0%, or Won 294 billion, from Won 9,848 billion in 2013 to Won 9,554 billion in 2014 primarily due to a decrease in the construction activities of POSCO E&C.

**Others Segment.** The cost of sales of our Others Segment, prior to consolidation adjustments, decreased by 10.6%, or Won 757 billion, from Won 7,123 billion in 2013 to Won 6,366 billion in 2014 primarily due to decreases in the average price in Won terms of key raw materials that were used by POSCO Energy Corporation in its power generation activities, as well as a decrease in costs from completion of POSCO ICT Co., Ltd.'s major service contracts in 2014.

**Gross Profit**

Our gross profit increased by 6.4%, or Won 441 billion, from Won 6,852 billion in 2013 to Won 7,293 billion in 2014 primarily due to increases in gross profit of our Trading Segment and Steel Segment, which were partially offset by a decrease in gross profit of our Construction Segment. Our gross margin increased from 11.1% in 2013 to 11.3% in 2014.

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The following table presents our gross profit by segment, prior to adjusting for inter-company transactions that are eliminated during consolidation, and changes therein for 2013 and 2014.

	For the Year Ended December 31,		Changes	
	2013	2014	2013 versus 2014	
	(In billions of Won)		Amount	%
Steel Segment	4,749	5,010	260	5.5%
Trading Segment	1,103	1,376	274	24.8
Construction Segment	934	750	(184)	(19.7)
Others Segment	761	700	(61)	(8.0)
Consolidation adjustments	(687)	(553)	134	(19.5)
Basis difference <sup>(1)</sup>	(8)	10	18	N.A. <sup>(2)</sup>
<b>Gross profit</b>	<b>6,852</b>	<b>7,293</b>	<b>441</b>	<b>6.4</b>

(1) Basis difference is related to the difference in recognizing revenue and expenses of the Construction Segment in connection with development and sale of certain residential real estate between the report reviewed by the chief executive officer and the consolidated financial statements. See Notes 3 and 42 of Notes to Consolidated Financial Statements.

(2) N.A. means not applicable.

**Steel Segment.** The gross profit of our Steel Segment, prior to consolidation adjustments, increased by 5.5%, or Won 260 billion, from Won 4,749 billion in 2013 to Won 5,010 billion in 2014 primarily due to an increase in the overall sales volume of our steel products, as discussed above, which was partially offset by a decrease in the average unit sales price per ton of our principal steel products as well as a decrease in the average price in Won terms of coal and other key raw materials that were used to manufacture our finished steel products sold. The gross margin of our Steel Segment, which is gross profit as a percentage of total revenue prior to consolidation adjustments, increased slightly from 9.9% in 2013 to 10.1% in 2014.

**Trading Segment.** The gross profit of our Trading Segment, prior to consolidation adjustments, increased by 24.8%, or Won 274 billion, from Won 1,103 billion in 2013 to Won 1,376 billion in 2014, reflecting an increase in overall trading volumes as well as an increase in the gross profit from our sale of gas produced at the Myanmar gas field. The gross margin of our Trading Segment, prior to consolidation adjustments, increased slightly from 4.3% in 2013 and 4.4% in 2014.

**Construction Segment.** The gross profit of our Construction Segment, prior to consolidation adjustments, decreased by 19.7%, or Won 184 billion, from Won 934 billion in 2013 to Won 750 billion in 2014, and the gross margin decreased from 8.7% in 2013 to 7.3% in 2014 primarily due to a decrease in POSCO E&C's construction activities for POSCO as well as a decrease in its participation of construction projects with higher margins in 2014.

**Others Segment.** The gross profit of our Others Segment, prior to consolidation adjustments, decreased by 8.0%, or Won 61 billion, from Won 761 billion in 2013 to Won 700 billion in 2014 while its gross margin increased from 9.7% in 2013 to 9.9% in 2014, primarily due to the results of POSCO Energy Corporation described above.

**Table of Contents*****Selling and Administrative Expenses***

The following table presents a breakdown of our selling and administrative expenses and changes therein for 2013 and 2014.

	For the Year Ended December 31,		Changes	
	2013	2014	2013 versus 2014	
	(In billions of Won)		Amount	%
Freight and custody expenses	1,433	1,552	119	8.3%
Sales commissions	74	66	(8)	(10.2)
Sales promotion	27	26	(1)	(5.0)
Sales insurance premium	27	40	13	46.3
Contract cost	37	50	13	33.7
Others	34	27	(7)	(20.5)
<b>Total selling expenses</b>	<b>1,632</b>	<b>1,760</b>	<b>128</b>	<b>7.8</b>
Wages and salaries	755	781	27	3.5%
Expenses related to post-employment benefits	67	67	(1)	(1.1)
Other employee benefits	166	174	8	5.1
Depreciation and amortization	228	273	45	19.6
Rental	110	137	27	24.7
Repairs	6	14	8	143.9
Advertising	106	104	(1)	(1.1)
Research and development	193	175	(18)	(9.1)
Service fees	240	216	(24)	(10.0)
Bad debt allowance	90	109	19	20.9
Others	271	258	(12)	(4.6)
<b>Total administrative expenses</b>	<b>2,232</b>	<b>2,310</b>	<b>78</b>	<b>3.5</b>
<b>Total selling and administrative expenses</b>	<b>3,864</b>	<b>4,070</b>	<b>206</b>	<b>5.3</b>

Our selling and administrative expenses increased by 5.3%, or Won 206 billion, from Won 3,864 billion in 2013 to Won 4,070 billion in 2014 primarily due to increases in freight and custody expenses and depreciation and amortization expenses, which were partially offset by a decrease in service fees and research and development expenses. Such factors were principally attributable to the following:

Our freight and custody expense increased by 8.3%, or Won 119 billion, from Won 1,433 billion in 2013 to Won 1,552 billion in 2014 primarily due to increases in freight rates as well as an increase in our export volume.

Our depreciation and amortization expenses increased by 19.6%, or Won 45 billion, from Won 228 billion in 2013 to Won 273 billion in 2014 primarily due to an increase in amortization of intangible assets related to upgrading of our new information technology infrastructure in 2014.

Our service fees decreased by 10.0%, or Won 24 billion, from Won 240 billion in 2013 to Won 216 billion in 2014 primarily due to a decrease in professional advisory services provided to us resulting from our reduction in investment activities.

Our research and development expenses decreased by 9.1%, or Won 18 billion, from Won 193 billion in 2013 to Won 175 billion in 2014 primarily reflecting a decrease in our development activities for new products.



**Table of Contents****Other Operating Income and Expenses**

The following table presents a breakdown of our other operating income and expenses and changes therein for 2013 and 2014.

	For the Year Ended December 31,		Changes 2013 versus 2014	
	2013	2014	Amount	%
	(In billions of Won)			
Gains on disposals of assets held for sale	102	48	(53)	(52.5)%
Gains on disposals of investment in associates	8	41	34	438.1
Gains on disposals of property, plant and equipment	14	15	1	6.1
Reversal of other provision expenses	3	20	17	576.1
Outsourcing income	25	14	(11)	(44.2)
Gain on disposals of waste	17	11	(5)	(31.3)
Gain from claim compensation	15	29	15	100.8
Penalty income from early termination of contracts	16	35	18	110.0
Others	30	56	26	87.7
Total other operating income	229	269	40	17.6

Our other operating income increased by 17.6%, or Won 40 billion, from Won 229 billion in 2013 to Won 269 billion in 2014 primarily due to increases in gains on disposals of investment in associates, penalty income from early termination of contracts and reversal of other provision expenses, which were offset in part by a decrease in gains on disposal of assets for sale. Our gains on disposals of investment in associates increased more than four-fold, or Won 34 billion, from Won 8 billion in 2013 to Won 41 billion in 2014 primarily due to gains related to POSCO Plantec that became our consolidated subsidiary in 2014. Our penalty income from early termination of contracts increased by 110.0%, or Won 18 billion, from Won 16 billion in 2013 to Won 35 billion in 2014 primarily due to an increase in delayed payments to subcontractors as a result of the prolonged downturn in the construction industry. Our reversal of other provision expenses increased more than five-fold, or Won 17 billion, from Won 3 billion in 2013 to Won 20 billion in 2014 primarily due to reversal of provisions of Daewoo International of Won 8 billion in connection with guarantees provided for the acquisition of Shandong Cement and reversal of provisions of POSCO Engineering Co., Ltd. of Won 9 billion relating to settled litigation regarding deferred compensation. On the other hand, our gains on disposals of assets held for sale decreased by 52.5%, or Won 53 billion, from Won 102 billion in 2013 to Won 48 billion in 2014. In 2013, we recognized a gain of Won 102 billion on disposal of assets held for sale primarily from our disposition of SK Telecom shares and SeAH Steel shares. In 2014, we recognized a gain of Won 48 billion on disposal of assets held for sale primarily from our disposition of International Business Center Corporation shares.

	For the Year Ended December 31,		Changes 2013 versus 2014	
	2013	2014	Amount	%
	(In billions of Won)			
Other bad debt expenses	111	96	(15)	(13.2)%
Losses on disposals of assets held for sale	26	0	(26)	(99.9)
Impairment losses on assets held for sale	2	17	15	848.5
Losses on disposals of property, plant and equipment	121	50	(71)	(58.7)
Impairment losses on property, plant and equipment	10	65	55	565.5
Impairment losses on intangible assets	125	55	(70)	(55.9)
Idle tangible assets expenses	18	12	(5)	(30.7)
Impairment losses on other non-current assets	9	38	29	323.7
Other provision expenses	66	127	61	92.1
Donations	61	70	9	14.1
Loss on disposal of investment in associates	19	3	(17)	(86.8)
Loss on disposal of wastes	15	16	1	7.6
Penalty and additional tax payments	19	352	333	1,721.0
Others	48	78	31	64.0
Total other operating expenses	651	980	329	50.5



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Our other operating expenses increased by 50.5%, or Won 329 billion, from Won 651 billion in 2013 to Won 980 billion in 2014, primarily due to an increase in penalty and additional tax payments and other provisions expenses, which were partially offset by decreases in our losses on disposals of property, plant and equipment and impairment losses on intangible assets. Such factors were principally attributable to the following:

Our penalty and additional tax payments increased more than seventeen-fold, or Won 333 billion, from Won 19 billion in 2013 to Won 352 billion in 2014 primarily due to additional tax payments of Won 272 billion resulting from Korea National tax Service's periodic audit completed in 2014, which mostly related to value added taxes.

Our other provision expenses increased by 92.1%, or Won 61 billion, from Won 66 billion in 2013 to Won 127 billion in 2014 primarily due to a provision of Won 89 billion in 2014 related to restoration costs of contaminated land near our magnesium plant in Gangneung, Korea.

Our losses on disposals of property, plant and equipment decreased by 58.7%, or Won 71 billion, from Won 121 billion in 2013 to Won 50 billion in 2014 primarily due to removal and dismantlement costs related to the restoration work of furnace no. 1 and no. 2 in Gwangyang in 2013 compared to no such loss in 2014.

Our impairment losses on intangible assets decreased by 55.9%, or Won 70 billion, from Won 125 billion in 2013 to Won 55 billion in 2014 primarily due to impairment loss of Won 97 billion related to the decrease in value of POSCO Thainox Public Company Limited in 2013 compared to no such impairment loss in 2014.

***Operating Profit***

Due to the factors described above, our operating profit decreased by 2.1%, or Won 53 billion, from Won 2,566 billion in 2013 to Won 2,513 billion in 2014. Our operating margin decreased from 4.2% in 2013 to 3.9% in 2014.

***Share of Loss of Equity-Accounted Investees***

Our share of loss of equity-accounted investees increased by 66.8%, or by Won 120 billion, from Won 180 billion in 2013 to Won 300 billion in 2014. In 2013, we recognized a net loss for our proportionate share of equity-accounted investees of Won 180 billion primarily due to our share of loss of POSCO Plantec (Won 49 billion), Roy Hill Holdings Pty Ltd. (Won 8 billion) and CSP-Compania Siderurgica do Pecem (Won 34 billion), which was partially offset by our share of profit of KOBRASCO (Won 22 billion), Korea LNG Ltd. (Won 22 billion) and CAML Resources Pty Ltd. (Won 18 billion). In 2014, we recognized a net loss for our proportionate share of equity-accounted investees of Won 300 billion primarily due to our share of loss of POSCO Plantec (Won 211 billion) and CSP-Compania Siderurgica do Pecem (Won 57 billion), which was partially offset by our share of profit of KOBRASCO (Won 30 billion) and South-East Asia Gas Pipeline Company Ltd. (Won 26 billion). For a discussion of our share of profits or losses of equity-accounted investees, see Note 11 of Notes to Consolidated Financial Statements.



**Table of Contents****Finance Income and Finance Costs**

The following table presents a breakdown of our finance income and costs and changes therein for 2013 and 2014.

	For the Year Ended December 31,		Changes 2013 versus 2014	
	2013	2014	Amount	%
	(In billions of Won)			
Interest income	260	228	(32)	(12.3)%
Dividend income	59	48	(11)	(19.2)
Gain on foreign currency transactions	998	1,022	25	2.5
Gain on foreign currency translations	511	453	(58)	(11.3)
Gain on derivatives transactions of	370	328	(43)	(11.5)
Gain on valuations of derivatives	72	73	1	1.4
Gain on disposals of available-for-sale financial assets	106	236	131	124.0
Others	4	7	3	72.6
<b>Total finance income</b>	<b>2,381</b>	<b>2,397</b>	<b>16</b>	<b>0.7</b>
Interest expenses				
	658	796	138	21.0%
Loss on foreign currency transactions	927	1,034	106	11.5
Loss on foreign currency translations	345	429	84	24.4
Loss on derivatives transactions	287	353	67	23.3
Loss on valuations of derivatives	291	101	(190)	(65.2)
Impairment loss on available-for-sale financial assets	280	370	89	31.9
Loss on disposals of available-for-sale financial assets	4	55	51	1370.3
Loss on financial guarantee	6	10	4	71.4
Others	31	75	43	137.7
<b>Total finance costs</b>	<b>2,829</b>	<b>3,222</b>	<b>393</b>	<b>13.9</b>

Our net gain on foreign currency translations decreased by 85.2%, or Won 141 billion, from Won 166 billion in 2013 to Won 25 billion in 2014, and we recognized a net gain on foreign currency transactions of Won 70 billion in 2013 compared to a net loss on foreign currency transactions of Won 11 billion in 2014, as the Won appreciated against the Dollar in 2013 while it depreciated against the Dollar in 2014 and the Won depreciated at a greater level against the Yen in 2013 compared to 2014. In terms of the market average exchange rates announced by Seoul Money Brokerage Services, Ltd., the Won appreciated from Won 1,071.1 to US\$1.00 as of December 31, 2012 to Won 1,055.3 to US\$1.00 as of December 31, 2013 but depreciated to Won 1,099.2 to US\$1.00 as of December 31, 2014. The Won appreciated against the Yen from Won 1,247.5 per Yen 100 as of December 31, 2012 to Won 1,004.7 per Yen 100 as of December 31, 2013 and appreciated further to Won 920.1 per Yen 100 as of December 31, 2014. Against such fluctuations, we recognized a decrease of 87.2% in net loss on valuations of derivatives, or Won 191 billion, from Won 219 billion in 2013 to Won 28 billion in 2014, as well as a net gain on derivatives transactions of Won 84 billion in 2013 compared to a net loss on derivatives transactions of Won 28 billion in 2014.

Our interest expenses increased by 21.0%, or Won 138 billion, from Won 658 billion in 2013 to Won 796 billion in 2014 primarily due to an increase in the average balance of our interest-bearing payables and financial liabilities, which was partially offset by a general decrease in interest rates in Korea.

Our impairment loss on available-for-sale financial assets increased by 31.9%, or Won 89 billion, from Won 280 billion in 2013 to Won 370 billion in 2014 primarily due to a prolonged decline in the fair value of shares of Hyundai Heavy Industries Co., Ltd. and unmarketable securities of Dongbu Metal Co., Ltd.

Our gain on disposal of available-for-sale financial assets increased by 124.0%, or Won 131 billion, from Won 106 billion in 2013 to Won 236 billion in 2014, as we recognized a Won 199 billion gain in 2014 from our disposal of interest in SK Telecom Co., Ltd.



**Table of Contents****Income Tax Expense**

Our income tax expense increased by 39.9%, or Won 235 billion, from Won 589 billion in 2013 to Won 824 billion in 2014. Our effective tax rate increased from 30.4% in 2013 to 59.4% in 2014 primarily due to an increase in tax related to investments in subsidiaries, associates and joint ventures from Won 251 billion in 2013 to Won 372 billion in 2014 (that resulted in an increase in effective tax rate of 13.8%), a decrease in tax credits from Won 169 billion in 2013 to Won 50 billion in 2014 due to a decrease in job creation tax credit (that resulted in an increase in effective tax rate of 5.2%), an increase in tax effects due to permanent differences from Won 8 billion in 2013 to Won 70 billion in 2014 (that resulted in an increase in effective tax rate of 4.6%), as well as adjustments on prior year tax of Won 56 billion resulting from the tax audit completed in 2014 (that resulted in an increase in effective tax rate of 4.1%). See Note 35 of Notes to Consolidated Financial Statements.

**Profit**

Due to the factors described above, our profit decreased by 58.2%, or Won 785 billion, from Won 1,349 billion in 2013 to Won 564 billion in 2014. Our net profit margin decreased from 2.2% in 2013 to 0.9% in 2014.

The following table presents our profit by segment, prior to adjusting for inter-company transactions that are eliminated during consolidation, and changes therein for 2013 and 2014.

	For the Year Ended December 31,		Changes	
	2013	2014	2013 versus 2014	%
	(In billions of Won)		Amount	
Steel Segment	1,449	857	(592)	(40.9)%
Trading Segment	10	181	172	1,804.6
Construction Segment	147	13	(134)	(91.2)
Others Segment	197	9	(189)	(95.7)
Consolidation adjustments	(448)	(503)	(55)	12.3
Basis difference <sup>(1)</sup>	(6)	7	13	N.A. <sup>(2)</sup>
Profit for the period	1,349	564	(785)	(58.2)

(1) Basis difference is related to the difference in recognizing revenue and expenses of the Construction Segment in connection with development and sale of certain residential real estate between the report reviewed by the chief executive officer and the consolidated financial statements. See Notes 3 and 42 of Notes to Consolidated Financial Statements.

(2) N.A. means not applicable.

**Table of Contents****Operating Results 2012 Compared to 2013**

The following table presents our income statement information and changes therein for 2012 and 2013.

	For the Year Ended December 31,		Changes 2012 versus 2013	
	2012	2013	Amount	%
	(In billions of Won)			
Revenue	63,345	61,766	(1,580)	(2.5)%
Cost of sales	55,921	54,914	(1,007)	(1.8)
Gross profit	7,424	6,852	(573)	(7.7)
Administrative expenses	2,129	2,232	102	4.8
Selling expenses	1,679	1,632	(47)	(2.8)
Other operating income	448	229	(219)	(48.9)
Other operating expenses	809	651	(159)	(19.6)
Operating profit	3,255	2,566	(689)	(21.2)
Share of loss of equity-accounted investees	23	180	157	692.0
Finance income	2,897	2,381	(516)	(17.8)
Finance costs	2,798	2,829	32	1.1
Profit before income tax	3,332	1,938	(1,394)	(41.8)
Income tax expense	974	589	(385)	(39.5)
Profit	2,358	1,349	(1,009)	(42.8)
Profit for the period attributable to owners of the controlling company	2,437	1,371	(1,066)	(43.8)
Loss for the period attributable to non-controlling interests	(79)	(22)	58	(72.5)

**Revenue**

The following table presents our revenue by segment and changes therein for 2012 and 2013.

	For the Year Ended December 31,		Changes 2012 versus 2013	
	2012	2013	Amount	%
	(In billions of Won)			
<b>Steel Segment:</b>				
External revenue	35,259	31,795	(3,464)	(9.8)%
Internal revenue	17,610	16,229	(1,381)	(7.8)
Total revenue from Steel Segment	52,869	48,024	(4,845)	(9.2)
<b>Trading Segment:</b>				
External revenue	18,946	18,308	(638)	(3.4)
Internal revenue	7,468	7,611	144	1.9
Total revenue from Trading Segment	26,414	25,919	(494)	(1.9)
<b>Construction Segment:</b>				
External revenue	4,676	6,897	2,221	47.5
Internal revenue	5,050	3,885	(1,165)	(23.1)
Total revenue from Construction Segment	9,726	10,782	1,056	10.9

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Others Segment:				
External revenue	4,724	4,865	141	3.0
Internal revenue	2,857	3,019	162	5.7
Total revenue from Others Segment	7,581	7,885	304	4.0
Total revenue prior to consolidation adjustments and basis difference	96,589	92,610	(3,979)	(4.1)
Consolidation adjustments	(32,985)	(30,745)	2,240	(6.8)
Basis difference <sup>(1)</sup>	(259)	(99)	160	(61.8)
Revenue	63,345	61,766	(1,580)	(2.5)

- (1) Basis difference is related to the difference in recognizing revenue and expenses of the Construction Segment in connection with development and sale of certain residential real estate between the report reviewed by the chief executive officer and the consolidated financial statements. See Notes 3 and 42 of Notes to Consolidated Financial Statements.

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Our revenue decreased by 2.5%, or Won 1,580 billion, from Won 63,345 billion in 2012 to Won 61,766 billion in 2013 due to decreases in external revenues from the Steel Segment and the Trading Segment, which were offset in part by increases in external revenues from the Construction Segment and the Others Segment. Specifically:

**Steel Segment.** External revenue from the Steel Segment, which does not include internal revenue from inter-company transactions that are eliminated during consolidation, decreased by 9.8%, or Won 3,464 billion, from Won 35,259 billion in 2012 to Won 31,795 billion in 2013 primarily due to a decrease in the average unit sales price per ton of the principal steel products produced by us and directly sold to external customers, as well as a decrease in our sales volume of the steel products produced by us and directly sold to external customers (including miscellaneous steel products not included in any of our major product categories). The weighted average unit sales price per ton of the principal steel products produced by us and directly sold to external customers decreased by 6.8% from Won 1,070,565 per ton in 2012 to Won 998,012 per ton in 2013, while the overall sales volume of the steel products produced by us and directly sold to external customers (including miscellaneous steel products) decreased by 2.9% from 30.0 million tons in 2012 to 29.1 million tons in 2013. Such factors were principally attributable to the following:

The unit sales prices in Won for all of our principal product lines of steel products produced by us and directly sold to external customers decreased from 2012 to 2013, ranging from a decrease of 2.7% for stainless steel products to a decrease of 13.9% for cold rolled products. For a discussion of changes in the unit sales prices of each of our principal product lines, see [Overview](#) [Sales Volume, Prices and Product Mix](#) above.

The sales volume of hot rolled products, plates and silicon steel sheets produced by us and directly sold to external customers decreased by 11.1%, 7.1% and 0.8%, respectively, from 2012 to 2013. On the other hand, our sales volume of wire rods, stainless steel and cold rolled products produced by us and directly sold to external customers increased by 13.3%, 4.4% and 0.4%, respectively, from 2012 to 2013. For a discussion of changes in sales volume of each of our principal product lines, see [Item 4.B. Business Overview](#) [Major Products](#).

Total revenue from the Steel Segment, which includes internal revenue from inter-company transactions, decreased by 9.2%, or Won 4,845 billion, from Won 52,869 billion in 2012 to Won 48,024 billion in 2013, as internal revenue from inter-company transactions decreased from 2012 to 2013 due to a decrease in reliance on sales subsidiaries for the sale of our steel products.

**Trading Segment.** External revenue from the Trading Segment, which does not include internal revenue from inter-company transactions that are eliminated during consolidation, decreased by 3.4%, or Won 638 billion, from Won 18,946 billion in 2012 to Won 18,308 billion in 2013 primarily due to a decrease in external revenues of Daewoo International and our other trading subsidiaries from 2012 to 2013, reflecting market conditions related to the prolonged slowdown of the global economy that has been characterized by weaker demand and falling prices for export and import products and reduced trading volume.

Total revenue from the Trading Segment, which includes internal revenue from inter-company transactions, decreased by 1.9%, or Won 494 billion, from Won 26,414 billion in 2012 to Won 25,919 billion in 2013, primarily due to the reasons stated above, which was partially offset by an increase in reliance on sales subsidiaries by us on our steel trading activities.

**Construction Segment.** External revenue from the Construction Segment, which does not include internal revenue from inter-company transactions that are eliminated during consolidation, increased by 47.5%, or Won 2,221 billion, from Won 4,676 billion in 2012 to Won 6,897 billion in 2013 primarily due to increases in POSCO E&C's construction activities of architectural works.

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Total revenue from the Construction Segment, which includes internal revenue from inter-company transactions, increased by 10.9%, or Won 1,056 billion, from Won 9,726 billion in 2012 to Won 10,782 billion in 2013 primarily due to an increase in revenue of POSCO E&C. POSCO E&C's revenue increased primarily due to the reasons stated above, which was partially offset by a decrease in internal revenue from inter-company transactions by 23.1%, or Won 1,165 billion, from Won 5,050 billion in 2012 to Won 3,885 billion in 2013 primarily due to a decrease in the amount of construction activities for POSCO.

**Others Segment.** The Others Segment includes power generation, LNG production, network and system integration, logistics and magnesium coil and sheet production. External revenue from the Others Segment, which does not include internal revenue from inter-company transactions that are eliminated during consolidation, increased by 3.0%, or Won 141 billion, from Won 4,724 billion in 2012 to Won 4,865 billion in 2013 primarily due to an increase in revenue of POSCO Energy Corporation as it increased its power generation capacity in the second half of 2012.

Total revenue from the Others Segment, which includes internal revenue from inter-company transactions, increased by 4.0%, or Won 304 billion, from Won 7,581 billion in 2012 to Won 7,885 billion in 2013 primarily due to an increase in revenue of POSCO Energy Corporation by 3.4%, or Won 92 billion, from Won 2,809 billion in 2012 to Won 2,901 billion in 2013.

**Cost of Sales**

Our cost of sales decreased by 1.8%, or Won 1,007 billion, from Won 55,921 billion in 2012 to Won 54,914 billion in 2013. The decrease in cost of sales was primarily due to decreases in our sales volume of steel products and trading activities as discussed above, as well as decreases in the average price in Won terms of key raw materials that were used to manufacture our finished steel products sold, which were partially offset by increases in our construction activities and sales volume of non-steel products.

The following table presents a breakdown of our cost of sales by segment, prior to adjusting for inter-company transactions that are eliminated during consolidation, and changes therein for 2012 and 2013.

	For the Year Ended December 31,		Changes	
	2012	2013	2012 versus 2013	%
	(In billions of Won)			
Steel Segment	47,616	43,274	(4,342)	(9.1)%
Trading Segment	25,287	24,816	(471)	(1.9)
Construction Segment	8,937	9,848	911	10.2
Others Segment	6,771	7,123	353	5.2
Consolidation adjustments	(32,468)	(30,056)	2,412	(7.4)
Basis difference <sup>(1)</sup>	(222)	(91)	131	(59.0)
Cost of sales	55,921	54,914	(1,007)	(1.8)

(1) Basis difference is related to the difference in recognizing revenue and expenses of the Construction Segment in connection with development and sale of certain residential real estate between the report reviewed by the chief executive officer and the consolidated financial statements. See Notes 3 and 42 of Notes to Consolidated Financial Statements.

**Steel Segment.** The cost of sales of our Steel Segment, prior to consolidation adjustments, decreased by 9.1%, or Won 4,342 billion, from Won 47,616 billion in 2012 to Won 43,274 billion in 2013, primarily due to decreases in the average price in Won terms of coal and other key raw materials (other than iron ore) that were used to manufacture our finished goods sold as well as in our sales volume of the principal steel products produced by us and directly sold to external customers. For a discussion of fluctuations in prices of our key raw materials, see Item 4.B. Business Overview – Raw Materials.

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**Trading Segment.** The cost of sales of our Trading Segment, prior to consolidation adjustments, decreased by 1.9%, or Won 471 billion, from Won 25,287 billion in 2012 to Won 24,816 billion in 2013, primarily due to a decrease in our trading volumes.

**Construction Segment.** The cost of sales of our Construction Segment, prior to consolidation adjustments, increased by 10.2%, or Won 911 billion, from Won 8,937 billion in 2012 to Won 9,848 billion in 2013, primarily due to an increase in the construction activities of POSCO E&C.

**Others Segment.** The cost of sales of our Others Segment, prior to consolidation adjustments, increased by 5.2%, or Won 353 billion, from Won 6,771 billion in 2012 to Won 7,123 billion in 2013, primarily due to costs related to an increase in POSCO Energy Corporation's power generation activities in 2013 resulting from an increase in its power generation capacity in the second half of 2012.

**Gross Profit**

Our gross profit decreased by 7.7%, or Won 573 billion, from Won 7,425 billion in 2012 to Won 6,852 billion in 2013 primarily due to a decrease in gross profit of our Steel Segment. Our gross margin decreased from 11.7% in 2012 to 11.1% in 2013.

The following table presents our gross profit by segment, prior to adjusting for inter-company transactions that are eliminated during consolidation, and changes therein for 2012 and 2013.

	For the Year Ended December 31,		Changes	
	2012	2013	2012 versus 2013	
	(In billions of Won)		Amount	%
Steel Segment	5,253	4,749	(504)	(9.6)%
Trading Segment	1,127	1,103	(24)	(2.1)
Construction Segment	788	934	146	18.5
Others Segment	810	761	(49)	(6.1)
Consolidation adjustments	(517)	(687)	(170)	32.9
Basis difference <sup>(1)</sup>	(36)	(8)	28	(77.8)
<b>Gross profit</b>	<b>7,425</b>	<b>6,852</b>	<b>(573)</b>	<b>(7.7)</b>

(1) Basis difference is related to the difference in recognizing revenue and expenses of the Construction Segment in connection with development and sale of certain residential real estate between the report reviewed by the chief executive officer and the consolidated financial statements. See Notes 3 and 42 of Notes to Consolidated Financial Statements.

**Steel Segment.** The gross profit of our Steel Segment, prior to consolidation adjustments, decreased by 9.6%, or Won 504 billion, from Won 5,253 billion in 2012 to Won 4,749 billion in 2013 primarily due to a decrease in the average unit sales price per ton of our principal steel products as well as a decrease in the overall sales volume of our principal steel products, as discussed above, which were partially offset by a decrease in the average price in Won terms of coal and other key raw materials (other than iron ore) that were used to manufacture our finished steel product sold. The gross margin of our Steel Segment, which is gross profit as a percentage of total revenue prior to consolidation adjustments, remained constant at 9.9% in 2012 and 2013.

**Trading Segment.** The gross profit of our Trading Segment, prior to consolidation adjustments, decreased by 2.1%, or Won 24 billion, from Won 1,127 billion in 2012 to Won 1,103 billion in 2013, reflecting market conditions related to the prolonged slowdown of the global economy as discussed above. The gross margin of our Trading Segment, prior to consolidation adjustments, remained constant at 4.3% in 2012 and 2013.

**Construction Segment.** The gross profit of our Construction Segment, prior to consolidation adjustments, increased by 18.5%, or Won 146 billion, from Won 788 billion in 2012 to Won 934 billion in 2013, and the gross margin increased from 7.9% in 2012 to 8.7% in 2013 primarily due to POSCO E&C's participation in construction projects with higher margins in 2013.





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**Others Segment.** The gross profit of our Others Segment, prior to consolidation adjustments, decreased by 6.1%, or Won 49 billion, from Won 810 billion in 2012 to Won 761 billion in 2013, and the gross margin decreased from 10.7% in 2012 to 9.7% in 2013 as POSCO Energy Corporation's gross margin was negatively impacted in 2013 from an increase in its power generation capacity in the second half of 2012 and the ramp-up of the capacity utilization rate.

**Selling and Administrative Expenses**

The following table presents a breakdown of our selling and administrative expenses and changes therein for 2012 and 2013.

	For the Year Ended December 31,		Changes	
	2012	2013	Amount	%
	(In billions of Won)			
Freight and custody expenses	1,473	1,433	(40)	(2.7)%
Sales commissions	74	74	(0)	(0.5)
Sales promotion	18	27	10	54.8
Sales insurance premium	32	27	(5)	(15.7)
Contract cost	52	37	(15)	(28.5)
Others	30	34	4	13.4
<b>Total selling expenses</b>	<b>1,679</b>	<b>1,632</b>	<b>(47)</b>	<b>(2.8)</b>
Wages and salaries	695	755	60	8.7%
Expenses related to defined benefit plan	61	67	6	10.2
Other employee benefits	171	166	(5)	(2.9)
Depreciation	219	228	10	4.5
Rental	93	110	17	18.1
Repairs	12	6	(6)	(51.5)
Advertising	56	106	50	89.4
Research and development	192	193	0	0.3
Service fees	264	240	(24)	(9.2)
Vehicle maintenance	22	12	(10)	(46.0)
Training	18	12	(6)	(32.2)
Warranty expense	13	19	6	45.1
Bad debt allowance	79	90	11	13.7
Others	234	227	(6)	(2.7)
<b>Total administrative expenses</b>	<b>2,129</b>	<b>2,232</b>	<b>102</b>	<b>4.8</b>
<b>Total selling and administrative expenses</b>	<b>3,808</b>	<b>3,864</b>	<b>56</b>	<b>1.5</b>

Our selling and administrative expenses increased by 1.5%, or Won 56 billion, from Won 3,808 billion in 2012 to Won 3,864 billion in 2013 primarily due to increases in labor-related expenses and advertising expense, which was partially offset by a decrease in freight and custody expense and service fees. Such factors were principally attributable to the following:

Our labor-related expenses included in selling and administrative expenses, which consist of wages and salaries, expenses related to defined benefit plans and other employee benefits, increased by 6.6%, or Won 61 billion, from Won 927 billion in 2012 to Won 988 billion in 2013 primarily due to an increase in the number of employees and a rise in their wages.

Our advertising expense increased by 89.4%, or Won 50 billion, from Won 56 billion in 2012 to Won 106 billion in 2013 primarily due to diversification of our advertising channels.

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Our freight and custody expense decreased by 2.7%, or Won 40 billion, from Won 1,473 billion in 2012 to Won 1,433 billion in 2013 primarily due to decreases in freight rates as well as a decrease in our export volume.

Our service fees decreased by 9.2%, or Won 24 billion, from Won 264 billion in 2012 to Won 240 billion in 2013 primarily due to a decrease in professional advisory services provided to us resulting from our reduction in investment activities.

**Table of Contents****Other Operating Income and Expenses**

The following table presents a breakdown of our other operating income and expenses and changes therein for 2012 and 2013.

	For the Year Ended December 31,		Changes 2012 versus 2013	
	2012	2013	Amount	%
	(In billions of Won)			
Gain on disposals of assets held for sale	193	102	(92)	(47.4)%
Gain on disposals of investments in associates	39	8	(32)	(80.6)
Gain on disposals of property, plant and equipment	42	14	(28)	(66.5)
Reversal of other provisions	16	3	(13)	(81.8)
Outsourcing income	29	25	(4)	(12.7)
Gain on disposal of wastes	39	17	(22)	(57.1)
Gain from claim compensation	32	15	(17)	(54.1)
Penalty income from early termination of contracts	15	16	1	9.5
Others	43	30	(13)	(30.3)
<b>Total other operating income</b>	<b>448</b>	<b>229</b>	<b>(219)</b>	<b>(48.9)</b>

Our other operating income decreased by 48.9%, or Won 219 billion, from Won 448 billion in 2012 to Won 229 billion in 2013 primarily due to a decrease in our gain on disposal of assets held for sale. Our gain on disposal of assets held for sale decreased by 47.4%, or Won 92 billion, from Won 193 billion in 2012 to Won 102 billion in 2013. In 2012, we recognized a gain of Won 146 billion from Daewoo International's disposal of Daewoo Cement (Shandong) Co., Ltd. to China United Cement Group Co., Ltd. in June 2012. In addition, we recognized a gain of Won 46 billion from Daewoo International's disposal of its interest in Kyobo Life Insurance Co., Ltd. (Kyobo Life Insurance), subsequent to our impairment of Won 258 billion of such asset as described below. In 2013, we recognized a gain of Won 102 billion on disposal of assets held for sale primarily from our disposition of SK Telecom shares and SeAH Steel shares.

	For the Year Ended December 31,		Changes 2012 versus 2013	
	2012	2013	Amount	%
	(In billions of Won)			
Other bad debt expenses	44	111	67	151.8%
Loss on disposals of asset held for sale	10	26	17	178.6
Impairment loss on assets held for sale	258	2	(257)	(99.3)
Loss on disposals of property, plant and equipment	65	121	56	85.0
Impairment loss on property, plant and equipment	13	10	(3)	(24.9)
Impairment losses on intangible assets	22	125	104	475.5
Idle tangible assets expenses	31	18	(14)	(43.7)
Impairment loss on other non-current assets	36	9	(27)	(75.3)
Other provision expenses		66	66	N.A. (1)
Donations	74	61	(13)	(17.6)
Loss on disposal of investment in associates	15	19	4	28.3
Loss on disposal of wastes	45	15	(30)	(66.5)
Penalty and additional tax payments	149	19	(130)	(87.1)
Others	45	48	2	5.3
<b>Total other operating expenses</b>	<b>809</b>	<b>651</b>	<b>(159)</b>	<b>(19.6)</b>

(1) N.A. means not applicable

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Our other operating expenses decreased by 19.6%, or Won 159 billion, from Won 809 billion in 2012 to Won 651 billion in 2013, primarily due to significant decreases in our impairment loss on assets held for sale and penalty and additional tax payments, which were partially offset by increases in our impairment losses on intangible assets, other bad debt expenses, other provision expenses and

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loss on disposals of property, plant and equipment. Such factors were principally attributable to the following:

Our impairment loss on assets held for sale decreased significantly, by Won 257 billion, from Won 258 billion in 2012 to Won 2 billion in 2013. We recognized an impairment loss on assets held for sale of Won 258 billion in 2012 related to a decrease in the market value of Daewoo International's interest in Kyobo Life Insurance, compared to no such loss in 2013.

Our penalty and additional tax payments decreased significantly, or Won 130 billion, from Won 149 billion in 2012 to Won 19 billion in 2013 primarily due to our payment of a fine imposed by the Korea Fair Trade Commission on us and POSCO Coated & Color Steel Co., Ltd. in 2012 for alleged antitrust violations.

Our impairment losses on intangible assets increased by more than five-fold, or Won 104 billion, from Won 22 billion in 2012 to Won 125 billion in 2013 due to impairment loss of Won 97 billion in POSCO Thainox Public Company Limited in 2013.

Our other bad debt expenses more than doubled, by Won 67 billion, from Won 44 billion in 2012 to Won 111 billion in 2013 due to increase in bad debt expenses of POSCO E&C related to some of its construction projects.

We recorded other provision expenses of Won 66 billion in 2013 compared to no such expense in 2012, as POSCO E&C recorded reserves for subrogation payments related to some of its construction projects.

Our loss on disposals of property, plant and equipment increased by 85.0%, or Won 56 billion, from Won 65 billion in 2012 to Won 121 billion in 2013 primarily due to loss resulting from the merger of Sungjin Geotec with POSCO Plantec in July 2013 as well as sale of certain assets of POSCO Energy Corporation in 2013.

***Operating Profit***

Due to the factors described above, our operating profit decreased by 21.2%, or Won 689 billion, from Won 3,255 billion in 2012 to Won 2,566 billion in 2013. Our operating margin decreased from 5.1% in 2012 to 4.2% in 2013.

***Share of Loss of Equity-Accounted Investees***

Our share of loss of equity-accounted investees increased nearly eight-fold, or by Won 157 billion, from Won 23 billion in 2012 to Won 180 billion in 2013. In 2012, we recognized a net loss for our proportionate share of equity-accounted investees of Won 23 billion primarily due to our share of loss of AMCI (WA) Pty Ltd. (Won 39 billion) and Busan-Gimhae Light Rail Transit Co., Ltd. (Won 27 billion), which was partially offset by our share of profit of Kyobo Life Insurance (Won 37 billion) and KOBRASCO (Won 29 billion). In 2013, we recognized a net loss for our proportionate share of equity-accounted investees of Won 180 billion primarily due to our share of loss of POSCO Plantec (Won 49 billion), Roy Hill Holdings Pty Ltd. (Won 8 billion) and CSP-Compania Siderurgica do Pecem (Won 34 billion), which was partially offset by our share of profit of KOBRASCO (Won 22 billion), Korea LNG Ltd. (Won 22 billion) and CAML Resources Pty Ltd. (Won 18 billion). For a discussion of our share of profits or losses of equity-accounted investees, see Note 11 of Notes to Consolidated Financial Statements.

**Table of Contents****Finance Income and Finance Costs**

The following table presents a breakdown of our finance income and costs and changes therein for 2012 and 2013.

	For the Year Ended December 31,		Changes 2012 versus 2013	
	2012	2013	Amount	%
	(In billions of Won)			
Interest income	279	260	(18)	(6.6)%
Dividend income	124	59	(65)	(52.5)
Gain on foreign currency transactions	935	998	62	6.6
Gain on foreign currency translations	937	511	(426)	(45.4)
Gain on transactions of derivatives of	408	370	(37)	(9.2)
Gain on valuations of derivatives	94	72	(22)	(23.5)
Gain on disposals of available-for-sale investments	112	106	(7)	(5.8)
Others	7	4	(3)	(40.0)
<b>Total finance income</b>	<b>2,897</b>	<b>2,381</b>	<b>(516)</b>	<b>(17.8)</b>
Interest expenses	871	658	(214)	(24.5)%
Loss on foreign currency transactions	839	927	88	10.5
Loss on foreign currency translations	243	345	102	41.9
Loss on transactions of derivatives	309	287	(22)	(7.3)
Loss on valuations of derivatives	160	291	132	82.6
Impairment loss on available-for-sale investments	224	280	56	25.0
Loss on disposals of available-for-sale investments	36	4	(33)	(89.7)
Loss on Financial guarantee	38	6	(33)	(84.7)
Others	76	31	(45)	(58.9)
<b>Total finance costs</b>	<b>2,798</b>	<b>2,829</b>	<b>32</b>	<b>1.1</b>

Our net gain on foreign currency translations decreased by 76.0%, or Won 527 billion, from Won 693 billion in 2012 to Won 166 billion in 2013, and our net gain on foreign currency transactions decreased by 27.1%, or Won 26 billion, from Won 96 billion in 2012 to Won 70 billion in 2013 as the Won appreciated against the Dollar and Yen in 2012 and 2013. In terms of the market average exchange rates announced by Seoul Money Brokerage Services, Ltd., the Won appreciated from Won 1,153.3 to US\$1.00 as of December 31, 2011 to Won 1,071.1 to US\$1.00 as of December 31, 2012 and appreciated further to Won 1,055.3 to US\$1.00 as of December 31, 2013. The Won appreciated against the Yen from Won 1,485.2 per Yen 100 as of December 31, 2011 to Won 1,247.5 per Yen 100 as of December 31, 2012 and appreciated further to Won 1,004.7 as of December 31, 2013. Against such appreciation, we recognized a more than three-fold increase in net loss on valuation of derivatives, or by Won 154 billion, from Won 65 billion in 2012 to Won 219 billion in 2013, as well as a decrease of 15.1% in net gain on transactions of derivatives, or Won 15 billion, from Won 99 billion in 2012 to Won 84 billion in 2013.

Our impairment loss on available-for-sale investments increased by 25.0%, or Won 56 billion, from Won 224 billion in 2012 to Won 280 billion in 2013 primarily due to a significant decline in the fair value of shares of KB Financial Group and others for a prolonged period, which was considered as objective evidence of impairment.

Our interest expenses decreased by 24.5%, or Won 214 billion, from Won 871 billion in 2012 to Won 658 billion in 2013 primarily due to a decrease in the average balance of our payables and financial liabilities as well as a general decrease in interest rates in Korea.

**Income Tax Expense**

Our income tax expense decreased by 39.5%, or Won 385 billion, from Won 974 billion in 2012 to Won 589 billion in 2013. Our effective tax rate increased from 29.2% in 2012 to 30.4% in 2013 primarily due to an increase in the amount of unrecognized deferred tax assets caused by net loss from our subsidiaries. See Note 35 of Notes to Consolidated Financial Statements.





**Table of Contents****Profit**

Due to the factors described above, our profit decreased by 42.8%, or Won 1,009 billion, from Won 2,358 billion in 2012 to Won 1,349 billion in 2013. Our net profit margin decreased from 3.7% in 2012 to 2.2% in 2013.

The following table presents our profit by segment, prior to adjusting for inter-company transactions that are eliminated during consolidation, and changes therein for 2012 and 2013.

	For the Year Ended December 31,		Changes	
	2012	2013	2012 versus 2013	
	(In billions of Won)		Amount	%
Steel Segment	2,246	1,449	(797)	(35.5)%
Trading Segment	325	10	(315)	(96.9)
Construction Segment	345	147	(198)	(57.4)
Others Segment	302	197	(105)	(34.8)
Consolidation adjustments	(833)	(448)	385	(46.2)
Basis difference <sup>(1)</sup>	(27)	(6)	21	(77.8)
<b>Profit for the period</b>	<b>2,358</b>	<b>1,349</b>	<b>(1,009)</b>	<b>(42.8)</b>

(1) Basis difference is related to the difference in recognizing revenue and expenses of the Construction Segment in connection with development and sale of certain residential real estate between the report reviewed by the chief operating decision maker and the consolidated financial statements. See Notes 3 and 42 of Notes to Consolidated Financial Statements.

**Item 5.B. Liquidity and Capital Resources**

The following table sets forth the summary of our cash flows for the periods indicated.

	For the Year Ended December 31,		
	2012	2013	2014
	(In billions of Won)		
Net cash provided by operating activities	7,319	4,858	3,412
Net cash used in investing activities	(6,169)	(8,752)	(3,745)
Net cash provided by (used in) financing activities	(908)	3,532	135
Effect of exchange rate fluctuations on cash held	(161)	(111)	12
Cash and cash equivalents at beginning of period	4,599	4,681	4,209
Cash and cash equivalents at end of period	4,681	4,209	4,022
Net increase (decrease) in cash and cash equivalents	82	(472)	(186)

**Capital Requirements**

Historically, uses of cash consisted principally of purchases of property, plant and equipment and other assets and repayments of outstanding debt and payments of dividends.

Net cash used in investing activities was Won 6,169 billion in 2012, Won 8,752 billion in 2013 and Won 3,745 billion in 2014. These amounts included acquisition of property, plant and equipment of Won 7,055 billion in 2012, Won 6,570 billion in 2013 and Won 3,506 billion in 2014. We plan to spend between Won 4 trillion to Won 5 trillion in capital expenditures in 2015, which we may adjust on an on-going basis subject to market demand for our products, the production outlook of the global steel industry and global economic conditions in general. We may delay or not implement some of our current capital expenditure plans based on our assessment of such market conditions. We had net disposals of short-term financial instruments of Won 232 billion in 2012, net acquisitions of short-term financial instruments of Won 548 billion in 2013 and

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net disposals of short-term financial instruments of Won 1,539 billion in 2014. We also had net disposals of available-for-sale investments of Won 393 billion in 2012, net acquisitions of available-for-sale investments of Won 40 billion in 2013 and net disposals of available-for-sale investments of Won 176 billion in 2014.

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In our financing activities, we used cash of Won 1,884 billion in 2012, Won 2,846 billion in 2013 and Won 2,802 billion in 2014 for repayments of borrowings. We paid dividends on common stock in the amount of Won 752 billion in 2012, Won 649 billion in 2013 and Won 677 billion in 2014.

In recent years, we have also selectively considered various opportunities to acquire or invest in companies that may complement our businesses, as well as invest in overseas resources development projects. For example, we acquired a controlling interest in Daewoo International in September 2010 for Won 3.37 trillion, and we spent Won 390 billion in 2011 to acquire a controlling interest in Thainox Stainless Public Company Limited, a major stainless steel manufacturer in Thailand. We may require additional capital for such acquisitions or entering into other strategic relationships. Other than capital required for such activities, we anticipate that capital expenditures, repayments of outstanding debt and payments of cash dividends will represent the most significant uses of funds for the next several years.

Payments of contractual obligations and commitments will also require considerable resources. In our ordinary course of business, we routinely enter into commercial commitments for various aspects of our operations, as well as issue guarantees for our related companies' indebtedness. The following table sets forth the amount of long-term debt, capital lease and operating lease obligations as of December 31, 2014.

Contractual Obligations	Total	Payments Due by Period			
		Less Than 1 Year	1 to 3 Years (In billions of Won)	4 to 5 Years	After 5 Years
Long-term debt obligations <sup>(a)</sup>	18,154	2,419	3,490	2,978	9,267
Interest payments on long-term debt <sup>(b)</sup>	2,504	520	903	507	574
Capital lease obligations <sup>(c)</sup>	25	6	9	9	1
Operating lease obligations <sup>(d)</sup>	14	6	8		
Purchase obligations <sup>(e)</sup>	21,744	6,842	7,366	2,624	4,912
Accrued severance benefits <sup>(f)</sup>	1,583	89	208	278	1,008
<b>Total</b>	<b>44,024</b>	<b>9,882</b>	<b>11,984</b>	<b>6,396</b>	<b>15,762</b>

(a) Includes the current portion and premium on bond redemption but excludes amortization of discount on debentures and issuance costs.

(b) As of December 31, 2014, a portion of our long-term debt carried variable interest rates. We used the interest rate in effect as of December 31, 2014 in calculating the interest payments on long-term debt for the periods indicated.

(c) We entered into a capital lease contract with Ilshin Shipping Co., Ltd. for a vessel for transporting plates and other products.

(d) We acquired certain tools and equipment under operating lease agreements with Orix Rentec Korea Co., Ltd. and others.

(e) Our purchase obligations include supply contracts to purchase iron ore, coal, LNG and other raw materials. These contracts generally have terms of one to ten years and the long-term contracts provide for periodic price adjustments according to the market prices. As of December 31, 2014, 137 million tons of iron ore and 32 million tons of coal remained to be purchased under long-term contracts. In addition, we entered into an agreement with Tangguh LNG Consortium in Indonesia to purchase 550 thousand tons of LNG for 20 years commencing in August 2005. The purchase price under the agreement with Tangguh LNG Consortium is variable based on the monthly standard oil price (as represented by the Japan Customs cleared Crude Price), subject to a ceiling. We used the market price and exchange rate in effect as of December 31, 2014 in calculating the iron ore, coal and LNG purchase obligations described above for the periods indicated.

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- (f) Represents, as of December 31, 2014, the expected amount of severance benefits that we will be required to pay under applicable Korean law to all of our employees when they reach their normal retirement age. The amounts were determined based on the employees' current salary rates and the number of service years that will be accumulated upon their retirement. These amounts do not include amounts that may be paid to employees who cease to work at the company before their normal retirement age.

### **Capital Resources**

We have traditionally met our working capital and other capital requirements principally from cash provided by operations, while raising the remainder of our requirements primarily through

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long-term debt and short-term borrowings. We expect that these sources will continue to be our principal sources of cash in the future. From time to time, we may also generate cash through issuance of hybrid bonds and sale of treasury shares and our holdings in available-for-sale securities.

Our net cash provided by operating activities decreased by 33.6%, or Won 2,461 billion, from Won 7,319 billion in 2012 to Won 4,858 billion in 2013. Our gross cash flow from our sales activities decreased as discussed above. In addition, we continued to manage our inventory levels in 2013 in response to a decrease in demand resulting from continuing uncertainties in the global economy. The inventory turnover was faster in 2013 compared to 2012 as we maintained a relatively lower inventory level in 2013 compared to 2012. Our outstanding trade accounts and notes receivables also increased in 2013, as we extended payment terms for some of our key customers, which in turn negatively impacted our net cash provided by operating activities.

Our net cash provided by operating activities decreased by 29.8%, or Won 1,446 billion, from Won 4,858 billion in 2013 to Won 3,412 billion in 2014. Our gross cash flow from our sales activities increased as discussed above. However, our cash outflows increased due to the buildup of semi-finished and finished goods resulting from continuing uncertainties in the global economy affecting China and other major emerging market economies.

Net proceeds from borrowings, after deducting for repayment of borrowings, were Won 1,123 billion in 2012 and Won 2,253 billion in 2013. We had net repayment of borrowings of Won 280 billion in 2014. We had net repayments of short-term borrowings, after deducting for repayment of short-term borrowings, of Won 1,412 billion in 2012. Net proceeds from short-term borrowings, after deducting for repayment of short-term borrowings, were Won 87 billion in 2013 and Won 1,038 billion in 2014. We also raised Won 1,495 billion from our issuances of hybrid bonds in 2013, which are accounted for as part of our equity. Long-term borrowings, excluding current portion, were Won 14,412 billion as of December 31, 2012, Won 15,533 billion as of December 31, 2013 and Won 15,233 billion as of December 31, 2014. Total short-term borrowings and current portion of long-term borrowings were Won 10,509 billion as of December 31, 2012, Won 10,714 billion as of December 31, 2013 and Won 12,195 billion as of December 31, 2014. Outstanding hybrid bonds were Won 997 billion as of December 31, 2013 and 2014. Our net borrowings-to-equity ratio, which is calculated by deducting cash and cash equivalents from total borrowings and dividing the net amount with our total equity, was 47.74% as of December 31, 2012, 48.14% as of December 31, 2013 and 52.18% as of December 31, 2014.

We periodically increase our short-term borrowings and adjust our long-term debt financing levels depending on changes in our capital requirements. We also generated cash of Won 14 billion in 2013 and Won 43 billion in 2014 from the sale of our treasury shares. We believe that we have sufficient working capital for our current requirements and that we have a variety of alternatives available to us to satisfy our liquidity requirements to the extent that they are not met by funds generated by operations, including the issuance of debt and equity securities and bank borrowings denominated in Won and various foreign currencies. However, our ability to rely on some of these alternatives could be affected by factors such as the liquidity of the Korean and the global financial markets, prevailing interest rates, our credit rating and the Government's policies regarding Won currency and foreign currency borrowings.

**Liquidity**

We had working capital (current assets minus current liabilities) of Won 11,993 billion as of December 31, 2012, Won 11,681 billion as of December 31, 2013 and Won 10,833 billion as of December 31, 2014. Our holding of cash and cash equivalents were Won 4,681 billion as of December 31, 2012, Won 4,209 billion as of December 31, 2013 and Won 3,811 billion as of December 31, 2014 (which does not include Won 211 billion of cash and cash equivalents categorized under assets held for sale). See Note 10 of Notes to Consolidated Financial Statements. Our holding

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of other receivables and other short-term financial assets were Won 3,846 billion as of December 31, 2012, Won 4,861 billion as of December 31, 2013 and Won 3,419 billion as of December 31, 2014. As of December 31, 2014, approximately 34% of our cash and cash equivalents, other receivables and other short-term financial assets were held outside of Korea, which we expect to use in our operations abroad, including capital expenditure activities. In the event that such assets are needed for our operations in Korea, such amounts are typically not restricted under local laws from being used in Korea. In addition, we believe that there are no material tax implications in the event our foreign subsidiaries elect to grant cash dividends to us. POSCO had total available credit lines of Won 2,209 billion as of December 31, 2014, none of which was used as of such date. We have not had, and do not believe that we will have, difficulty gaining access to short-term financing sufficient to meet our current requirements.

Our liquidity is affected by exchange rate fluctuations. See [Overview](#) [Exchange Rate Fluctuations](#).

**Capital Expenditures and Capacity Expansion**

Cash used for acquisitions of property, plant and equipment was Won 7,055 billion in 2012, Won 6,570 billion in 2013 and Won 3,506 billion in 2014. We plan to spend between Won 4 trillion to Won 5 trillion in capital expenditures in 2015, which we may adjust on an on-going basis subject to market demand for our products, the production outlook of the global steel industry and global economic conditions in general. We may delay or not implement some of our current capital expenditure plans based on our assessment of such market conditions.

Our current plan for capital investment in production facilities emphasizes capacity rationalization, increased production of higher value-added products and improvements in the efficiency of older facilities in order to reduce operating costs. The following table sets out the major items of our capital expenditures as of December 31, 2014:

Project	Expected Completion Date	Total Cost of Project (In billions of Won)	Estimated Remaining Cost of Completion as of December 31, 2014
<b>Steel Segment:</b>			
Miscellaneous capital expenditures, including rationalization and upgrading of raw materials treatment and transportation facilities	December 2016	2,767	1,014
Construction of cold rolling mill by POSCO Maharashtra Steel Private Limited	January 2015	738	
Rationalization of furnace no. 5 at Gwangyang Works	June 2016	521	488
Rationalization of furnace no. 2 at Pohang Works	June 2015	439	330
Construction of no. 7 CGL at Gwangyang Works	June 2017	255	255
<b>Others Segment:</b>			
Construction of backup power plant no. 7, no. 8 and no. 9 in Incheon by POSCO Energy	January 2015	1,063	190
Construction of synthetic natural gas plant by POSCO Green Gas Technology	November 2015	1,050	233

**Item 5.C. Research and Development, Patents and Licenses, Etc.**

We maintain a research and development program to carry out basic research and applied technology development activities. As of December 31, 2014, POSCO Technical Research Laboratories employed 1,091 personnel, including 517 researchers. Our technology development department also works closely with the Pohang University of Science & Technology, Korea's first research-oriented college founded by us in 1986, and the Research Institute of Industrial Science and Technology, Korea's first private comprehensive research institute founded by us in 1987. We also established POSCO Research Institute (POSRI) in 1994, which engages in research activities and consulting services.

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We recorded research and development expenses of Won 385 billion as cost of sales in 2012, Won 370 billion in 2013 and Won 353 billion in 2014, as well as research and development expenses of Won 192 billion as selling and administrative expenses in 2012, Won 193 billion in 2013 and Won 175 billion in 2014.

Our research and development program has filed over 37,000 industrial rights applications relating to steel-making technology, approximately one-third of which were registered as of December 31, 2014, and has successfully applied many of these to the improvement of our manufacturing process.

### **Item 5.D. *Trend Information***

These matters are discussed under Item 5.A. and Item 5.B. above where relevant.

### **Item 5.E. *Off-balance Sheet Arrangements***

As of December 31, 2013 and 2014, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

### **Item 5.F. *Tabular Disclosure of Contractual Obligations***

These matters are discussed under Item 5.B. above where relevant.

### **Item 5.G. *Safe Harbor***

See Item 3. Key Information Item 3.D. Risk Factors This annual report contains forward-looking statements that are subject to various risks and uncertainties.

## **Item 6. *Directors, Senior Management and Employees***

### **Item 6.A. *Directors and Senior Management***

#### **Board of Directors**

Our board of directors has the ultimate responsibility for the management of our business affairs. Our board consists of five directors who are our executive officers ( Inside Directors ) and seven directors who are outside directors ( Outside Directors ). Our shareholders elect both the Inside Directors and Outside Directors at a general meeting of shareholders. Candidates for Inside Directors are recommended to shareholders by the board of directors after the board reviews such candidates' qualifications, and candidates for Outside Directors are recommended to the shareholders by a separate board committee consisting of three Outside Directors and one Inside Director ( Director Candidate Recommendation Committee ) after the committee reviews such candidates' qualifications. Any shareholder holding our outstanding shares with voting rights may suggest candidates for Outside Directors to the Director Candidate Recommendation Committee.

Our board of directors maintains the following six sub-committees:

the Director Candidate Recommendation Committee;

the Evaluation and Compensation Committee;

the Finance and Operation Committee;

the Executive Management Committee;

the Audit Committee; and

the Related Party Transactions Committee.



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Our board committees are described in greater detail below under Item 6.C. Board Practices.

Under the Commercial Code and our articles of incorporation, one Chairman should be elected among the Outside Directors and several Representative Directors may be elected among the Inside Directors by our board of directors resolution.

**Inside Directors**

Our current Inside Directors are:

Name	Position	Responsibilities and Division	Years as Director	Years with POSCO	Age	Expiration of Term of Office
Kwon, Oh-Joon	Chief Executive Officer and Representative Director		1	26	64	March 2017
Kim, Jin-Il	President and Representative Director	Head of Steel Production Division	3	38	62	March 2017
Yoon, Dong-Jun	Senior Executive Vice President and Representative Director	Head of Corporate Infrastructure Division	1	28	56	March 2016
Lee, Young-Hoon	Senior Executive Vice President	Head of Finance and Investment Division	1	28	55	March 2017
Oh, In-Hwan	Senior Executive Vice President	Head of Steel Business Division	0	32	56	March 2017

All Inside Directors are engaged in our business on a full-time basis.

**Outside Directors**

Our current Outside Directors are set out in the table below. Each of our Outside Directors meets the applicable independence standards set forth under the rules of the Financial Investment Services and Capital Markets of Korea (the FSCMA ).

Name	Position	Principal Occupation	Years as Director	Age	Expiration of Term of Office
Shin, Chae-Chol	Chairman	Former Chairman and CEO, IBM Korea Inc.	2	67	March 2018
Lee, Myoung-Woo	Director	President, Dongwon Industries	2	61	March 2016
Kim, Il-Sup	Director	President, Seoul School of Integrated Sciences & Technologies	1	68	March 2017
Sunwoo, Young	Director	Representative Lawyer, Rhi & Partners	1	59	March 2017
Ahn, Dong-Hyun	Director	Professor, Seoul National University	1	51	March 2017
Bahk, Byong-Won	Director	Chairman, Korea Employers Federation	0	62	March 2018
Kim, Joo-Hyun	Director	Advisory, Hyundai Research Institute	0	62	March 2018

The term of office of the Directors elected in March 2015 is up to three (3) years. Each Director's term expires at the close of the ordinary general meeting of shareholders convened in respect of the fiscal year that is the last one to end during such Director's tenure.



**Table of Contents****Senior Management**

In addition to the Inside Directors who are also our executive officers, we have the following executive officers:

<b>Name</b>	<b>Position</b>	<b>Responsibility and Division</b>	<b>Years with POSCO</b>	<b>Age</b>
Song, Se-Bin	Senior Executive Vice President	Department Manager of Legal Affairs Dept.	4	52
Park, Sung-Ho	Senior Executive Vice President	Head of Technical Research Laboratories	32	58
An, Tong-Il	Senior Executive Vice President	General Superintendent, Gwangyang Works	28	55
Kim, Hag-Dong	Senior Executive Vice President	General Superintendent, Pohang Works	28	55
Cho, Chung-Myong	Senior Executive Vice President	Department Manager of Value Management Dept.	25	54
Lee, Woo-Kyu	Executive Vice President	Department Manager of Corporate Audit Dept.	25	57
Yim, Chang-Hee	Executive Vice President	General Manager of Europe Office	29	58
Ko, Suk-Bum	Executive Vice President	Department Manager of Labor and Outside Services Dept.	30	57
Kim, Jhi-Yong	Executive Vice President	Project Manager of Regional Head Office Establishment Team in Indonesia	22	53
Yu, Seong	Executive Vice President	Department Manager of New Business Development Dept.	29	58
Chang, In-Hwa	Executive Vice President	Department Manager of Steel Solution Marketing Dept.	4	59
Jung, Dong-chang	Executive Vice President	Department Manager of External Relation Dept.	0	56
Nam, Sik	Executive Vice President	Project Manager of Regional Head Office Establishment Team in Vietnam	31	58
Min, Kyung-Zoon	Executive Vice President	President, PT Krakatau POSCO Co., Ltd.	31	56
Jeong, Tak	Executive Vice President	Department Manager of Energy and Shipbuilding Materials Marketing Dept.	3	55
Lee, Tae-Ju	Executive Vice President	Department Manager of Safety and Production Strategy Dept.	32	56
Kim, Hong-Soo	Executive Vice President	Department Manager of Steel Planning Dept.	32	57
Son, Chang Hwan	Executive Vice President	Department Manager of Steel Business Strategy Dept.	30	54
Choi, Jong-Jin	Senior Vice President	Deputy General Superintendent (Administration, Pohang Works)	27	51
Han, Sung-Hee	Senior Vice President	Department Manager of Public Relations Dept.	18	54
Kim, Hak-Yong	Senior Vice President	Department Manager of Plant, Equipment and Materials Procurement Dept.	26	53
Yi, Kyung-Jo	Senior Vice President	Deputy General Superintendent (Hot and Cold Rolling, Gwangyang Works)	29	54
Cho, Il-Hyun	Senior Vice President	Deputy General Superintendent (Safety and Maintenance, Pohang Works)	28	53
Choi, Seung-Deug	Senior Vice President	Department Manager of New Business Planning Dept.	7	53
Kim, Jun-Hyung	Senior Vice President	Deputy General Superintendent (Hot and Cold Rolling, Pohang Works)	29	52

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<b>Name</b>	<b>Position</b>	<b>Responsibility and Division</b>	<b>Years with POSCO</b>	<b>Age</b>
Park, Joo-Cheul	Senior Vice President	Deputy General Superintendent (Safety and Maintenance, Gwangyang Works)	28	54
Park, Young-Kwan	Senior Vice President	Deputy General Superintendent (Iron and Steel Making, Pohang Works)	29	56
Noh, Min-Yong	Senior Vice President	Department Manager of Finance Dept.	25	51
Lee, Won-Hwi	Senior Vice President	Department Manager of Automotive Materials Marketing Dept.	25	51
Lee, Duk-Lak	Senior Vice President	Department Manager of Corporate Project Management Dept.	29	54
Kim, Dong-Ho	Senior Vice President	President, CSP	30	55
Yun, Han-Kuen	Senior Vice President	General Manager of Pohang Research Lab	32	56
Lee, Young-Woo	Senior Vice President	Department Manager of Wire Rod Marketing Dept.	26	54
Choi, Joo	Senior Vice President	Deputy General Superintendent (Iron and Steel Making, Gwangyang Works)	31	56
Kang, Seog-Beom	Senior Vice President	Department Manager of Global Marketing Coordination Dept.	29	54
Kwon, Woo-Taeck	Senior Vice President	Department Manager of Investment Planning & Engineering Dept.	29	55
Yoo, Byeong-Og	Senior Vice President	Department Manager of Stainless Steel Raw Materials Dept.	26	52
Shin, Hak Kyun	Senior Vice President	Department Manager of Carbon Steel Raw Materials Dept.	3	52
Bang, Gil-Ho	Senior Vice President	Department Manager of Hot Rolled and Construction Steel Materials Marketing Dept.	26	53
Yang, Weon-Jun	Senior Vice President	Department Manager of Human Resources Dept.	26	49
Lee, Eun-Seok	Senior Vice President	Deputy General Superintendent (Stainless Steel Production, Pohang Works)	29	54
Kim, Soon-Ki	Senior Vice President	Deputy General Superintendent (Administration, Gwangyang Works)	24	50
Park, Mi-Hwa	Senior Vice President	Department Manager of Information Planning Dept.	0	48
Kim, Kwang-Soo	Senior Vice President	Department Manager of Stainless Steel Marketing Dept.	30	55
Min, Jung-Ki	Senior Vice President	Head of Production Division, PT Krakatau POSCO Co., Ltd.	28	55
Ha, Dae-Ryong	Senior Vice President	Department Manager of Electrical and Electronic Materials Marketing Dept.	26	51
Park, Hyeon	Senior Vice President	Department Manager of Environment, Energy and Social Responsibility Dept.	14	48
Choo, Se-Don	Senior Vice President	General Manager of Gwangyang Research Lab.	21	53
Lee, Sang-Hyeon	Senior Vice President	Center Manager of Engineering Solution Center	11	54
Lee, Hoo-Geun	Executive Vice President	Finance and Investment Division	32	57
Jeong, Chul-Gyu	Executive Vice President	Steel Production Division	32	59
Kim, Jeong-Sik	Executive Vice President	Steel Production Division	32	58
Yoon, Tae-Yang	Executive Vice President	Steel Business Division	0	58
Lee, Yun-Yong	Senior Vice President	Finance and Investment Division	27	57
Chon, Jung-Son	Senior Vice President	Value Management Dept.	28	52
Chin, Kwang-Geun	Senior Vice President	Technical Research Laboratories	30	57
Cho, Yong-Doo	Senior Vice President	Value Management Dept.	5	54

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Name	Position	Responsibility and Division	Years with POSCO	Age
Shin, Geon	Senior Vice President	Technical Research Laboratories	33	57
Jeong, Ki-Seop	Senior Vice President	Value Management Dept.	0	53
Moon, Hee-Kyung	Senior Vice President	Steel Production Division	32	57
Lee, Jong-Sub	Senior Vice President	Steel Business Division	31	58
Park, Yong-Kyu	Senior Vice President	Steel Production Division	30	55
Kwak Jeong-Shik	Senior Vice President	Value Management Dept.	27	57
Lee, Chang-Sun	Senior Vice President	Technical Research Laboratories	27	57
Kim, Gyo-Sung	Senior Vice President	Steel Business Division	30	53
Yi, Sang-Ho	Senior Vice President	Steel Production Division	30	54
Oh, Sung-Chel	Senior Vice President	Value Management Dept.	28	55
Hong, Moon-Hi	Senior Vice President	Steel Production Division	28	49
Yang, Seong-Sik	Senior Vice President	Steel Business Division	29	53
Han Chan-Hee	Senior Vice President	Technical Research Laboratories	29	56
Won, Hyung-Il	Senior Vice President	Legal Affairs Dept.	3	46
Kim, Sun-Koo	Senior Vice President	Technical Research Laboratories	24	55
Kim, Gwang-Soo	Senior Vice President	Steel Business Division	28	53
Lim, Seung-Kyu	Senior Vice President	Finance and Investment Division	26	51
Chon, Uong	Senior Vice President	Finance and Investment Division	0	51

**Item 6.B. Compensation****Compensation of Directors and Officers**

Salaries and bonuses for Inside Directors and salaries for Outside Directors are paid in accordance with standards decided by the board of directors within the limitation of directors remuneration approved by the annual general meeting of shareholders. In addition, executive officers compensation is paid in accordance with standards decided by the board of directors. The aggregate compensation paid and accrued to all Directors and executive officers was approximately Won 33.4 billion in 2014 and the aggregate amount set aside or accrued by us to provide pension and retirement benefits to such persons was Won 6.4 billion in 2014.

The compensation of our directors and executive officers who received total annual compensation exceeding Won 500 million in 2014 were as follows:

Name	Position	Total Compensation in 2014	Long-term Incentive Compensation for Payment Subsequent to 2014 (In millions of Won)
Kwon, Oh-Joon	Chief Executive Officer and Representative Director	1,094	
Kim, Jin-Il	President and Representative Director	700	
Chang, In-Hwan	Senior Executive Vice President and Representative Director	692	
Yoon, Dong-Jun	Senior Executive Vice President and Representative Director	595	
Lee, Young-Hoon	Senior Executive Vice President	598	

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Chung, Joon-Yang<sup>(1)</sup>

Former Chief Executive  
Officer and Representative  
Director

3,996

455 in 2015 and 112 in 2016

79

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Name	Position	Total Compensation	Long-term Incentive Compensation for
		in 2014	Payment Subsequent to 2014 (In millions of Won)
Park, Ki-Hong <sup>(1)</sup>	Former President and Representative Director	1,679	147 in 2015 and 147 in 2016
Kim, Joon-Sik <sup>(1)</sup>	Former President and Representative Director	1,671	144 in 2014 and 144 in 2015
Kim, Yeung Gyu <sup>(1)</sup>	Former Senior Executive Vice President	920	68 in 2015 and 68 in 2016

(1) Includes severance payment for members of board of directors who resigned on March 2014.

We have also granted stock options to some of our Directors and executive officers. See Item 6.E. Share Ownership for a list of stock options granted to our Directors and executive officers. At the annual shareholders meeting held in February 2006 our shareholders elected to terminate the stock option program. Stock options granted prior to this meeting remain valid and outstanding pursuant to the articles of incorporation in effect at the time of the issuance of the stock option.

**Item 6.C. Board Practices****Director Candidate Recommendation Committee**

The Director Candidate Recommendation Committee is composed of three Outside Directors, Ahn, Dong-Hyun (committee chair), Kim, Il-Sup, Kim, Joo-Hyun and one Inside Director, Kim, Jin-Il. The Director Candidate Recommendation Committee reviews the qualifications of potential candidates and proposes nominees to serve on our board of directors as an Outside Director. Any shareholder holding our outstanding shares with voting rights may suggest candidates for Outside Directors to the Director Candidate Recommendation Committee.

**Evaluation and Compensation Committee**

The Evaluation and Compensation Committee is composed of four Outside Directors, Sunwoo, Young (committee chair), Shin, Chae-Chol, Lee, Myoung-Woo and Bahk, Byong-Won. The Evaluation and Compensation Committee's primary responsibilities include establishing evaluation procedures and compensation plans for executive officers and taking necessary measures to execute such plans.

**Finance and Operation Committee**

The Finance and Operation Committee is composed of three Outside Directors, Lee, Myoung-Woo (committee chair), Ahn, Dong-Hyun, Bahk, Byong-Won and two Inside Directors, Yoon, Dong-Jun and Lee, Young-Hoon. This committee is an operational committee that oversees decisions with respect to finance and operational matters, including making assessments with respect to potential capital investments and evaluating prospective capital-raising activities.

**Executive Management Committee**

The Executive Management Committee is composed of five Inside Directors, Kwon, Oh-Joon (committee chair), Kim, Jin-Il, Yoon, Dong-Jun, Lee, Young-Hoon and Oh, In-Hwan. This committee oversees decisions with respect to our operational and management matters, including review of management's proposals of new strategic initiatives, as well as deliberation over critical internal matters related to organization structure and development of personnel.

**Audit Committee**

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Under Korean law and our articles of incorporation, we are required to have an Audit Committee. The Audit Committee may be composed of three or more directors; all members of the



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Audit Committee must be Outside Directors. Audit Committee members must also meet the applicable independence criteria set forth under the rules and regulations of the Sarbanes-Oxley Act of 2002. Members of the Audit Committee are elected by the shareholders at the ordinary general meeting of shareholders. We currently have an Audit Committee composed of three Outside Directors. Members of our Audit Committee are Kim, Il-Sup (committee chair), Kim, Joo-Hyun and Sunwoo, Young.

The duties of the Audit Committee include:

engaging independent auditors;

approving independent audit fees;

approving audit and non-audit services;

reviewing annual financial statements;

reviewing audit results and reports, including management comments and recommendations;

reviewing our system of controls and policies, including those covering conflicts of interest and business ethics; and

examining improprieties or suspected improprieties.

In addition, in connection with general meetings of stockholders, the committee examines the agenda for, and financial statements and other reports to be submitted by, the board of directors at each general meeting of stockholders. Our internal and external auditors report directly to the Audit Committee. The committee holds regular meetings at least once each quarter, and more frequently as needed.

### **Related Party Transactions Committee**

The Related Party Transaction Committee is composed of three Outside Directors, Kim, Il-Sup (committee chair), Kim, Joo-Hyun and Sunwoo, Young. This committee reviews related party and other internal transactions and ensures compliance with the Monopoly Regulation and Fair Trade Act.

### **Item 6.D. Employees**

As of December 31, 2014, we had 37,225 employees, including 19,538 persons employed by our subsidiaries, almost all of whom were employed within Korea. Of the total number of employees, approximately 80% are technicians and skilled laborers and 20% are administrative staff. We use subcontractors for maintenance, cleaning and transport activities. We had 34,713 employees, including 16,881 persons employed by our subsidiaries, as of December 31, 2013, and 35,094 employees, including 17,471 persons employed by our subsidiaries, as of December 31, 2012. To improve operational efficiency and increase labor productivity, we plan to reduce the number of our employees in future years through natural attrition. However, we expect the number of persons employed by our subsidiaries in growth industries to increase in the future.

We consider our relations with our work force to be excellent. We have never experienced a work stoppage or strike. Wages of our employees are among the highest of manufacturing companies in Korea. In addition to a base monthly wage, employees receive periodic bonuses and allowances. Base wages are determined annually following consultation between the management and employee representatives, who are currently elected outside the framework of the POSCO labor union. A labor union was formed by our employees in June 1988. Union membership peaked at 19,026 employees at the beginning of 1991, but has steadily declined since then. As of December 31, 2014, only 12 of our employees were members of the POSCO labor union.



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In accordance with the National Pension Act of Korea, we contribute an amount equal to 4.5% of an employee's standard monthly wages, and each employee contributes 4.5% of his or her standard monthly wages, into his or her personal pension account. Our employees, including executive officers as well as non-executive employees, are subject to a pension insurance system, under which we make monthly contributions to the pension accounts of the employees, and upon retirement, such employees are paid from their pension accounts. Prior to 2011, our executive and non-executive employees were subject to a lump-sum severance payment system, under which they were entitled to receive a lump-sum severance payment upon termination of their employment, based on their length of service and salary level at the time of termination. Starting in 2011, in accordance with the Korean Employee Retirement Income Security Act, we replaced such lump-sum severance payment system with our current pension insurance system in the form of either a defined benefit plan or a defined contribution plan, with a total unfunded portion of Won 125 billion as of December 31, 2014. Our employees have the option of choosing either the defined benefit plan or the defined contribution plan. Lump-sum severance amounts previously accrued prior to our adoption of the current pension insurance system continue to remain payable. We also provide a wide range of fringe benefits to our employees, including housing, housing loans, company-provided hospitals and schools, a company-sponsored pension program, an employee welfare fund, industrial disaster insurance, and cultural and athletic facilities.

As of December 31, 2014, our employees owned, through our employee stock ownership association, approximately 0.001% of our common stock in their association accounts and 1.84% of our common stock in their employee accounts.

**Item 6.E. Share Ownership****Common Stock**

The persons who are currently our Directors or executive officers held, as a group, 20,586 common shares as of April 22, 2015, the most recent practicable date for which this information is available. The table below shows the ownership of our common shares by our Directors and executive officers.

Kwon, Oh-Joon	1,620
Park, Joo-Chul	680
Lee, Hoo-Geun	672
Park, Yong-Gyu	630
Yoon, Dong-Jun	581
Yim, Chang-Hee	509
Song, Sebin	500
Lee, Yun-Yong	494
Min, Kyung-Zoon	470
Kim, Jeong-Sik	464
Jeong, Chul-Gyu	450
Park, Sung-Ho	446
Kim, Hak-Yong	438
Kwon, Woo-Taeck	433
Nam, Sik	401
Lee, Tae-Ju	377
Kim, Hag-Dong	375
Kim, Hong-Soo	371
Kim, Sun-Koo	358
Ko, Suk-Bum	350
Shin, Chae-Chol	350
Kim, Kwang Soo	344
Yang, Seong-Sik	343
Lee, Chang-Sun	340
Lee, Woo Kyu	336
Kim, Dong-Ho	330

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Yi, Sang-Ho	330
Lee, Eun-Seok	320
Han, Chan-Hee	320
Kim, Jin-Il	300
Kim, Soon-Ki	300
Yu, Seong	298
Yang, Weon-Jun	293
Cho, Il-Hyun	281
Kim, Jhi-Yong	273
Yoo, Byeong-Og	265
Choi, Joo	264
Kang, Seog-Beom	264
Lee, Jong-Seob	261
An, Tong-Il	260
Park, Young-Kwan	255
Lee, Young-Woo	252
Kwak, Jeong-Shik	219
Kim, Gyo-Sung	198
Chon, Jung-Son	194
Park, Hyeon	193
Lee, Young-Hoon	178
Yi, Kyung-Jo	160
Oh, In-Hwan	150
Son, Chang-Hwan	144
Shin, Geon	144
Moon, Hee-Kyung	143
Choi, Jong-Jin	141
Lim, Seung-Kyu	138
Chang, In-Hwa	130
Kim, Jun-Hyung	129
Chin, Kwang-Geun	122
Choo, Se-Don	116
Cho, Chung-Myong	100
Kim, Il-Sup	100
Hong, Moon-Hi	89
Jeong, Tak	80
Cho, Yong-Doo	80
Lee, Won-Hwi	78
Min, Jung Ki	77
Oh, Sung-Chel	59
Choi, Seung-Duk	50
Noh, Min-Yong	50
Yun, Han-Kuen	36
Kim, Gwang-Soo	27
Lee, Sang-Hyeon	25
Ha, Dae-Ryong	14
Lee, Duk-Lak	12
Bang, Gil-Ho	12
Jung, Dongchang	
Han, Sung-Hee	
Shin, Hak Kyun	
Park, Mi Hwa	
Yoon, Tae-Yang	
Jeong, Ki Seop	
Won, Hyung Il	
Chon, Uong	
Lee, Myoung-Woo	
Sunwoo, Young	
Ahn, Dong-Hyun	
Bahk, Byong-Won	
Kim, Joo-Hyun	

Total	20,586
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**Table of Contents****Stock Options**

With respect to the options granted, we may elect either to issue shares of common stock, distribute treasury stock or to pay in cash the difference between the exercise and the market price at the date of exercise. The options may be exercised by a person who has continued employment with POSCO for two or more years from the date on which the options are granted. Expiration date of options is seven years from the date on which the options are granted. All of the stock options below relate to our common stock.

At the annual shareholders meeting held in February 2006, our shareholders elected to terminate the stock option program. Stock options granted prior to this meeting remain valid and outstanding pursuant to the articles of incorporation in effect at the time of the issuance of the stock option. Currently, there are no outstanding exercisable stock options. The following table sets forth information regarding the stock options we have granted to our current Directors and executive officers as of April 30, 2015.

Director	Grant Date	Exercise Period		Exercise Price	Granted Options	Exercised Options	Exercisable Options
		From	To				
Kwon, Oh-Joon	April 26, 2003	4/27/2005	4/26/2010	102,900	9,604	9,604	0
Kim, Jin-II	April 25, 2003	4/27/2005	4/26/2010	102,900	9,604	9,604	0

**Item 7. Major Shareholders and Related Party Transactions****Item 7.A. Major Shareholders**

The following table sets forth certain information relating to the shareholders of our common stock issued as of December 31, 2014.

Shareholders	Number of Shares	
	Owned	Percentage
National Pension Service	7,203,493	8.26%
Nippon Steel & Sumitomo Metal Corporation <sup>(1)</sup>	4,394,712	5.04
Kingdom of Saudi Arabia	2,109,593	2.42
Hyundai Heavy Industries Co., Ltd. and subsidiaries	1,319,560	1.51
Pohang University of Science and Technology	1,905,000	2.18
KB Financial Group Inc. and subsidiaries	1,847,438	2.12
Directors and executive officers as a group	22,755	0.03
Public <sup>(2)</sup>	61,190,477	70.18
POSCO (held in the form of treasury stock)	7,193,807	8.25
Total issued shares of common stock	87,186,835	100.00%

(1) Held in the form of ADRs.

(2) Includes ADRs.

As of December 31, 2014, there were 12,905,615 shares of common stock outstanding in the form of ADRs, representing 14.80% of the total issued shares of common stock.

**Item 7.B. Related Party Transactions**

We have issued guarantees of Won 9,140 billion as of December 31, 2012, Won 9,704 billion as of December 31, 2013 and Won 10,260 billion as of December 31, 2014, in favor of affiliated and related companies. We have also engaged in various transactions with our subsidiaries and

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affiliated companies. See Notes 37 and 38 of Notes to Consolidated Financial Statements.

As of December 31, 2012, 2013 and 2014, we had no loans outstanding to our executive officers and Directors.

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**Item 7.C. *Interests of Experts and Counsel***

Not applicable

**Item 8. *Financial Information***

**Item 8.A. *Consolidated Statements and Other Financial Information***

See Item 18. Financial Statements and pages F-1 through F-113.

**Legal Proceedings**

In recent years, we have become subject to a number of anti-dumping duties in the United States, Canada, India, Indonesia, Australia, Thailand, Brazil, Taiwan and Malaysia and safeguard duties in Thailand. We are also subject to a number of on-going anti-dumping and safeguard investigations in Malaysia, the European Union, Indonesia, India and Thailand. In addition, the Mexican government initiated an anti-dumping investigation in October 2012 relating to our exports of cold rolled steel products, and the investigation was suspended until 2018 on condition that we comply with supply undertakings. Our products that are subject to anti-dumping, safeguard or countervailing duty proceedings in the aggregate currently do not account for a material portion of our total sales, and such proceedings have not had a material adverse impact on our business and operations in recent years. However, there can be no assurance that increases in, or new impositions of, anti-dumping duties, safeguard duties, countervailing duties, quotas or tariffs on our exports of products abroad may not have a material adverse impact on our exports in the future. See Item 4. Information on the Company Item 4.B. Business Overview Markets Exports.

During the course of its internal audit in July 2014, POSCO E&C, one of our subsidiaries, discovered certain officers use, for unauthorized and unidentified purposes, of approximately Won 10 billion belonging to POSCO E&C's project management office and its subsidiary in Vietnam between 2009 to 2012, which related to certain construction projects in Vietnam. POSCO E&C, after such discovery through its internal audit, undertook an internal investigation over other projects for further assessment, strengthened its internal control procedures, such as segregating duties and enhancing monitoring procedures, to ensure similar cases do not arise and reprimanded the responsible employees, including dismissal of the responsible officers. In March 2015, the prosecutors' office of Korea commenced an investigation into such use of funds after POSCO E&C's internal audit result was publicized by the press. We are unable to predict the outcome of such investigation, which is currently on-going.

In 2012, the Korea Fair Trade Commission imposed a fine of Won 118 billion on us and POSCO Coated & Color Steel Co., Ltd., our consolidated subsidiary, for alleged antitrust violations, including price fixing of galvanization surcharge rates. We intend to vigorously defend against such administrative action and filed for judicial review of such administrative action in the Seoul High Court on February 28, 2013, which ruling is currently pending.

In April 2012, Nippon Steel & Sumitomo Metal Corporation filed civil lawsuits in Japan relating to claims of alleged improper acquisition and infringement of intellectual property rights related to production of grain oriented electrical steel sheets. Nippon Steel & Sumitomo Metal Corporation is seeking an injunction to prohibit us from manufacturing and selling the allegedly infringing products as well as seeking compensation of Yen 99 billion. We are vigorously defending against such claims. Since we do not believe that we have any present obligations, we have not recorded any provision for this lawsuit.

In May 2002, Industrial Development Bank of India Limited filed lawsuits against Daewoo International, Daewoo Motors India Ltd., Daewoo Co., Ltd. and Daewoo Engineering & Construction Co., Ltd. in the India Delhi Mumbai Court, seeking judgment relating to its loans to Daewoo Motors



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India Ltd. guaranteed by Daewoo Co., Ltd. (predecessor of Daewoo International). The total claim amount of such lawsuits is Won 77 billion, and Daewoo International recorded provision of Won 23 billion relating to its portion of the guarantee. The outcome of such lawsuits remains uncertain and Daewoo International's provision is classified as a non-current liability as of December 31, 2014.

Except as described above, we are not involved in any pending or threatened legal or arbitration proceedings that may have, or have had during the last 12 months, a material adverse effect on our results of operations or financial position.

**Dividends**

The amount of dividends paid on our common stock is subject to approval at the annual general meeting of shareholders, which is typically held in February or March of the following year. In addition to our annual dividends, our board of directors is authorized to declare and distribute interim dividends once a year under our articles of incorporation. If we decide to pay interim dividends, our articles of incorporation authorize us to pay them in cash, shares or other form of property to the shareholders of record as of June 30 of the relevant fiscal year. We may pay cash dividends out of retained earnings that have not been appropriated to statutory reserves.

The table below sets out the annual dividends declared on the outstanding common stock to shareholders of record on December 31 of the years indicated and the interim dividends declared on the outstanding common stock to shareholders of record on June 30 of the years indicated. A total of 87,186,835 shares of common stock were issued as of December 31, 2014. Of these shares and as of such date, 79,993,028 shares were outstanding and 7,193,807 shares were held by us in treasury. The annual dividends set out for each of the years below were paid in the immediately following year.

Year	Annual Dividend per Common Stock to Public	Interim Dividend per Common Stock (In Won)	Average Total Dividend per Common Stock
2010	7,500	2,500	10,000
2011	7,500	2,500	10,000
2012	6,000	2,000	8,000
2013	6,000	2,000	8,000
2014	6,000	2,000	8,000

Owners of the ADSs are entitled to receive any dividends payable in respect of the underlying shares of common stock.

Historically, we have paid to holders of record of our common stock an annual dividend. However, we can give no assurance that we will continue to declare and pay any dividends in the future.

**Item 8.B. Significant Changes**

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our Consolidated Financial Statements included in this annual report.

**Item 9. The Offer and Listing****Item 9.A. Offer and Listing Details****Market Price Information****Notes**

Not applicable

**Table of Contents****Common Stock**

The principal trading market for our common stock is the KRX KOSPI Market. Our common stock, which is in registered form and has a par value of Won 5,000 per share, has been listed on the first section of the KRX KOSPI Market since June 1988 under the identifying code 005490. The table below shows the high and low trading prices and the average daily volume of trading activity on the KRX KOSPI Market for our common stock.

	Price		Average Daily Trading Volume (Number of Shares)
	High (In Won)	Low	
<b>2010</b>			
First Quarter	625,000	516,000	255,173
Second Quarter	560,000	434,500	343,367
Third Quarter	524,000	460,500	257,784
Fourth Quarter	538,000	448,500	299,776
<b>2011</b>			
First Quarter	517,000	450,500	345,785
Second Quarter	565,000	421,000	282,070
Third Quarter	480,000	358,500	277,876
Fourth Quarter	351,000	308,000	235,063
<b>2012</b>			
First Quarter	424,000	376,000	198,239
Second Quarter	385,000	351,500	169,135
Third Quarter	391,000	353,500	159,508
Fourth Quarter	367,000	308,000	202,895
<b>2013</b>			
First Quarter	371,000	321,500	169,232
Second Quarter	326,000	292,500	182,277
Third Quarter	340,000	292,500	225,474
Fourth Quarter	338,000	307,500	183,055
<b>2014</b>			
First Quarter	322,000	272,500	222,494
Second Quarter	317,000	285,500	170,778
Third Quarter	361,000	291,500	201,548
Fourth Quarter	321,500	275,500	191,916
October	321,500	300,000	190,755
November	318,500	290,500	243,414
December	307,000	275,500	144,031
<b>2015</b>			
First Quarter	290,500	242,500	211,737
January	290,500	252,500	201,172
February	277,000	254,000	175,370
March	278,000	242,500	249,924
Second Quarter (through April 17)	256,000	236,000	248,874
April (through April 17)	256,000	236,000	248,874

**ADSs**

Our common stock is also listed on the New York Stock Exchange, the London Stock Exchange and the Tokyo Stock Exchange in the form of ADSs. The ADSs have been issued by Citibank, N.A. as ADR depository and are listed on the New York Stock Exchange under the symbol PKX. One ADS represents one-fourth of one share of common stock. As of December 31, 2014, 51,622,460 ADSs representing 12,905,615 common shares were outstanding, representing 14.80% shares of common stock.

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The table below shows the high and low trading prices and the average daily volume of trading activity on the New York Stock Exchange for our ADSs.

	Price		Average Daily Trading Volume (Number of ADSs)
	High (In US\$)	Low	
<b>2010</b>			
First Quarter	140.10	108.23	429,700
Second Quarter	124.83	88.78	559,765
Third Quarter	113.98	94.67	344,102
Fourth Quarter	120.47	95.34	376,905
<b>2011</b>			
First Quarter	117.57	100.50	403,646
Second Quarter	116.83	95.86	348,986
Third Quarter	112.41	76.01	344,454
Fourth Quarter	89.16	72.51	366,073
<b>2012</b>			
First Quarter	94.06	80.28	268,347
Second Quarter	85.09	74.82	262,176
Third Quarter	85.55	77.21	190,260
Fourth Quarter	82.97	71.85	187,932
<b>2013</b>			
First Quarter	86.69	72.41	258,130
Second Quarter	74.82	63.23	252,261
Third Quarter	78.75	64.29	186,347
Fourth Quarter	80.40	72.19	177,415
<b>2014</b>			
First Quarter	75.88	64.03	298,320
Second Quarter	76.56	69.60	223,292
Third Quarter	86.37	71.97	232,861
Fourth Quarter	75.11	63.61	361,829
October	75.11	69.81	349,342
November	70.86	66.92	349,029
December	69.07	63.51	385,939
<b>2015</b>			
First Quarter	66.00	54.66	305,147
January	66.00	58.23	294,290
February	63.41	58.36	345,571
March	63.43	54.66	280,105
Second Quarter (through April 20)	58.67	53.65	304,605
April (through April 20)	58.67	53.65	304,605

**Item 9.B. Plan of Distribution**

Not applicable

**Item 9.C. Markets****The Korean Securities Market**

On January 27, 2005, the Korea Exchange was established pursuant to the Korea Securities and Futures Exchange Act by consolidating the Korea Stock Exchange, the Korea Futures Exchange, the KOSDAQ Stock Market, Inc., or the KOSDAQ, and the KOSDAQ Committee of the Korea Securities Dealers Association, which had formerly managed the KOSDAQ. There are three different markets operated by the Korea Exchange: the KRX KOSPI Market, the KRX KOSDAQ Market, and the KRX Derivatives Market. The Korea Exchange has two trading floors located in Seoul, one for the KRX KOSPI Market and one for the KRX KOSDAQ Market, and one trading floor in Busan for the KRX Derivatives Market. The Korea Exchange is a limited liability company, the shares of which are held by (i) investment brokers and investment dealers that were formerly members of the Korea Futures Exchange or the Korea Stock Exchange and (ii) the stockholders of the KOSDAQ.

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Currently, the Korea Exchange is the only stock exchange in Korea and is operated by membership, having as its members most of the Korean investment brokers and investment dealers and some Korean branches of foreign investment brokers and investment dealers.

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According to data published by the Korea Exchange, as of December 31, 2014, the aggregate market value of equity securities listed on the KRX KOSPI Market and the KRX KOSDAQ Market was approximately Won 1,335 trillion, and the average daily trading volume of equity securities for 2014 was approximately 632 million shares with an average transaction value of Won 5,953 billion. The Korea Exchange has the power in some circumstances to suspend trading in the shares of a given company or to de-list a security pursuant to the Regulation on Listing on the Korea Exchange. The Korea Exchange also restricts share price movements. All listed companies are required to file accounting reports annually, semi-annually and quarterly and to release immediately all information that may affect trading in a security.

The Government has in the past exerted, and continues to exert, substantial influence over many aspects of the private sector business community that can have the intention or effect of depressing or boosting the market. In the past, the Government has informally both encouraged and restricted the declaration and payment of dividends, induced mergers to reduce what it considers excess capacity in a particular industry and induced private companies to offer publicly their securities.

The Korea Exchange publishes the Korea Composite Stock Price Index, or KOSPI, every ten seconds, which is an index of all equity securities listed on the Korea Exchange. On January 1, 1983, the method of computing KOSPI was changed from the Dow Jones method to the aggregate value method. In the new method, the market capitalizations of all listed companies are aggregated, subject to certain adjustments, and this aggregate is expressed as a percentage of the aggregate market capitalization of all listed companies as of the base date, January 4, 1980.

Movements in KOSPI are set out in the following table together with the associated dividend yields and price earnings ratios.

Year	Opening	High	Low	Closing	Period Average	
					Dividend Yield <sup>(1)(2)</sup> (Percent)	Price Earnings Ratio <sup>(2)(3)</sup>
1986	161.40	279.67	153.85	272.61	4.3	7.6
1987	264.82	525.11	264.82	525.11	2.6	10.9
1988	532.04	922.56	527.89	907.20	2.4	11.2
1989	919.61	1,007.77	844.75	909.72	2.0	13.9
1990	908.59	928.82	566.27	696.11	2.2	12.8
1991	679.75	763.10	586.51	610.92	2.6	11.2
1992	624.23	691.48	459.07	678.44	2.2	10.9
1993	697.41	874.10	605.93	866.18	1.6	12.7
1994	879.32	1,138.75	855.37	1,027.37	1.2	16.2
1995	1,027.45	1,016.77	847.09	882.94	1.2	16.4
1996	882.29	986.84	651.22	651.22	1.3	17.8
1997	647.67	792.29	350.68	376.31	1.5	17.0
1998	374.41	579.86	280.00	562.46	1.9	10.8
1999	565.10	1,028.07	498.42	1,028.07	1.1	13.5
2000	1,028.33	1,059.04	500.60	504.62	1.6	18.6
2001	503.31	704.50	468.76	693.70	2.0	14.2
2002	698.00	937.61	584.04	627.55	1.4	17.8
2003	633.03	822.16	515.24	810.71	2.2	10.9
2004	821.26	936.06	719.59	895.92	2.1	15.8
2005	896.00	1,379.37	870.84	1,379.37	1.7	11.0
2006	1,383.32	1,464.70	1,203.86	1,434.46	1.7	11.4
2007	1,438.89	2,015.48	1,345.08	1,897.13	1.4	16.8
2008	1,891.45	1,888.88	938.75	1,124.47	2.6	8.9
2009	1,132.87	1,718.88	1,018.81	1,682.77	1.2	23.7
2010	1,681.71	2,052.97	1,552.79	2,051.00	1.1	19.0
2011	2,063.69	2,231.47	1,644.11	1,825.12	1.3	13.1
2012	1,831.69	2,057.28	1,758.99	1,997.05	1.3	12.9
2013	2,031.10	2,059.58	1,780.63	2,011.34	1.1	15.0
2014	2,013.11	2,093.08	1,881.73	1,915.19	1.1	15.3
2015 (through April 17)	1,914.24	2,144.76	1,876.27	2,143.50	1.0	17.9

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Source: The KRX KOSPI Market

- (1) Dividend yields are based on daily figures. Before 1983, dividend yields were calculated at the end of each month. Dividend yields after January 3, 1984 include cash dividends only.
- (2) Starting in April 2000, dividend yield and price earnings ratio are calculated based on KOSPI 200, an index of 200 equity securities listed on the KRX KOSPI Market. Starting in April 2000, KOSPI 200 excludes classified companies, companies which did not submit annual reports to the KRX KOSPI Market, and companies which received qualified opinion from external auditors.
- (3) The price earnings ratio is based on figures for companies that record a profit in the preceding year. Shares are quoted ex-dividend on the first trading day of the relevant company's accounting period. Since the calendar year is the accounting period for the majority of listed companies, this may account for the drop in KOSPI between its closing level at the end of one calendar year and its opening level at the beginning of the following calendar year.

With certain exceptions, principally to take account of a share being quoted ex-dividend and ex-rights, permitted upward and downward movements in share prices of any category of shares on any day are limited under the rules of the Korea Exchange to 15% of the previous day's closing price of the shares, rounded down as set out below:

Previous Day's Closing Price (Won)	Rounded Down to (Won)
Less than 5,000	5
5,000 to less than 10,000	10
10,000 to less than 50,000	50
50,000 to less than 100,000	100
100,000 to less than 500,000	500
500,000 or more	1,000

As a consequence, if a particular closing price is the same as the price set by the fluctuation limit, the closing price may not reflect the price at which persons would have been prepared, or would be prepared to continue, if so permitted, to buy and sell shares. Orders are executed on an auction system with priority rules to deal with competing bids and offers.

Due to deregulation of restrictions on brokerage commission rates, the brokerage commission rate on equity securities transactions may be determined by the parties, subject to commission schedules being filed with the Korea Exchange by the financial investment companies with a brokerage license. In addition, a securities transaction tax of 0.15% of the sales price will generally be imposed on the transfer of shares or certain securities representing rights to subscribe for shares if traded on the KRX KOSPI Market. An agricultural and fishery special surtax of 0.15% of the sales prices will also be imposed on transfer of these shares and securities on the Korea Exchange. See Item 10. Additional Information Item 10.E. Taxation Korean Taxation.

The number of companies listed on the KRX KOSPI Market, the corresponding total market capitalization at the end of the periods indicated and the average daily trading volume for those periods are set forth in the following table:

Year	Market Capitalization on the Last Day of Each Period		Average Daily Trading Volume, Value		
	Number of Listed	(Billions of Won)	(Millions of US\$) <sup>(1)</sup>	Thousands of Shares	(Millions of Won)

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	Companies					
1986	355	11,994	US\$ 13,924	31,755	32,870	US\$ 38,159
1987	389	26,172	33,033	20,353	70,185	88,583
1988	502	64,544	94,348	10,367	198,364	289,963
1989	626	95,477	140,490	11,757	280,967	414,430
1990	669	79,020	110,301	10,866	183,692	256,411

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Year	Market Capitalization on the Last Day of Each Period			Average Daily Trading Volume, Value		
	Number of Listed Companies	(Billions of Won)	(Millions of US\$) <sup>(1)</sup>	Thousands of Shares	(Millions of Won)	(Thousands of US\$) <sup>(1)</sup>
1991	686	73,118	96,107	14,022	214,263	281,629
1992	688	84,712	107,448	24,028	308,246	390,977
1993	693	112,665	139,420	35,130	574,048	710,367
1994	699	151,217	191,730	36,862	776,257	984,223
1995	721	141,151	182,201	26,130	487,762	629,613
1996	760	117,370	139,031	26,571	486,834	576,680
1997	776	70,989	50,162	41,525	555,759	392,707
1998	748	137,799	114,091	97,716	660,429	546,803
1999	725	349,504	305,137	278,551	3,481,620	3,039,655
2000	704	188,042	149,275	306,163	2,602,211	2,065,739
2001	689	255,850	192,934	473,241	1,997,420	1,506,237
2002	683	258,681	215,496	857,245	3,041,598	2,533,815
2003	684	355,363	296,679	542,010	2,216,636	1,850,589
2004	683	412,588	395,275	372,895	2,232,109	2,138,445
2005	702	655,075	646,158	467,629	3,157,662	3,114,679
2006	731	704,588	757,948	279,096	3,435,180	3,695,331
2007	745	951,900	1,016,770	363,741	5,539,653	5,917,168
2008	763	576,888	458,758	352,599	3,211,039	2,553,510
2009	770	887,935	762,503	485,657	5,595,552	4,976,859
2010	777	1,141,885	1,006,243	380,859	5,619,768	4,952,210
2011	791	1,041,999	904,670	353,760	6,836,146	5,935,185
2012	930	1,154,294	1,078,578	486,479	4,823,642	4,507,234
2013	777	1,185,974	1,123,720	328,425	3,993,422	3,783,800
2014	773	1,192,253	1,084,655	278,081	3,983,580	3,624,072
2015 (through April 17)	764	1,266,908	1,163,368	410,425	5,156,786	4,735,341

Source: The Korea Exchange

(1) Converted at the Concentration Base Rate of The Bank of Korea or the Market Average Exchange Rate, as the case may be, at the end of the periods indicated.

The Korean securities markets are principally regulated by the Financial Services Commission and under the regulations set forth in the FSCMA. In July 2007, the National Assembly of Korea enacted the FSCMA. The FSCMA, which came into effect on February 4, 2009, comprehensively regulates the Korean capital markets, the financial investment business (including collective investment businesses and trust businesses) and financial investment products (such as securities and derivatives). The FSCMA imposes restrictions on insider trading and price manipulation, requires specified information to be made available by listed companies to investors and establishes rules regarding margin trading, proxy solicitation, takeover bids, acquisition of treasury shares and reporting requirements for shareholders holding substantial interests. The FSCMA regulates the operation and monitoring of the securities and derivatives markets.

#### Protection of Customer's Interest in Case of Insolvency of Investment Brokers or Investment Dealers

Under Korean law, the relationship between a customer and an investment broker or an investment dealer in connection with a securities sell or buy order is deemed to be a consignment and the securities acquired by a consignment agent (i.e., the investment broker or the investment dealer) through such sell or buy order are regarded as belonging to the customer in so far as the customer and the consignment agent's creditors are concerned. Therefore, in the event of a bankruptcy or reorganization procedure involving an investment broker or an investment dealer, the customer of the investment broker or the investment dealer is entitled to the proceeds of the securities sold by the investment broker or the investment dealer.



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When a customer places a sell order with an investment broker or an investment dealer that is not a member of the KRX KOSPI Market or the KRX KOSDAQ Market and this investment broker or investment dealer places a sell order with another investment broker or investment dealer that is a member of the KRX KOSPI Market or the KRX KOSDAQ Market, the customer is still entitled to the proceeds of the securities sold and received by the non-member company from the member company regardless of the bankruptcy or reorganization of the non-member company.

Under the FSCMA, the Korea Exchange is obliged to indemnify any loss or damage incurred by a counterparty as a result of a breach by members of the KRX KOSPI Market or the KRX KOSDAQ Market. If an investment broker or an investment dealer that is a member of the KRX KOSPI Market or the KRX KOSDAQ Market breaches its obligation in connection with a buy order, the Korea Exchange is obliged to pay the purchase price on behalf of the breaching member. Therefore, the customer can acquire the securities that have been ordered to be purchased by the breaching member.

When a customer places a buy order with a non-member company and the non-member company places a buy order with a member company, the customer has the legal right to the securities received by the non-member company from the member company because the purchased securities are regarded as belonging to the customer in so far as the customer and the non-member company's creditors are concerned.

As the cash deposited with an investment broker or an investment dealer is regarded as belonging to the investment broker or investment dealer, which is liable to return the same at the request of its customer, the customer cannot take back deposited cash from the investment broker or the investment dealer if a bankruptcy or rehabilitation procedure is instituted against the investment broker or the investment dealer and, therefore, can suffer from loss or damage as a result. However, in case of the investment broker or the investment dealer's bankruptcy, liquidation, cancellation of investment broker or investment dealer license or other insolvency events, the Depositor Protection Act provides that the Korea Deposit Insurance Corporation will, upon the request of the investors, pay each investor up to a total of Won 50 million, which shall represent both actual cash deposited and any interest accrued thereon. Pursuant to the FSCMA, as amended, investment brokers or investment dealers are required to deposit the cash received from its customers at the securities finance company established pursuant to the FSCMA. Set-off or attachment of cash deposits by investment brokers or investment dealers is prohibited. The premiums related to this insurance are paid by investment brokers or investment dealers.

**Clearance and Settlement**

The settlement of trades on the Korea Exchange is required to be handled by a settlement agency of the Korea Exchange. The Korea Securities Depository is the institution commissioned by the Korea Exchange to handle all such settlement of trades. The settlement of trades on the Korea Exchange takes place through a clearance and settlement procedure. The Korea Exchange has adopted the multilateral netting system and carries out the clearance of the trades by netting the sales and purchases of each Korea Securities Depository participant. The Korea Exchange is required to provide the daily net settlement results of the trades to the Korea Securities Depository one business day after the day of the sale and purchase contract. The Korea Securities Depository then handles settlement of the securities and the funds based on the information received from the Korea Exchange. The securities are settled through book-entry changes in the accounts of Korea Securities Depository participants and the funds are settled by transfer to an account at a bank designated by the Korea Securities Depository. Settlement of trades is generally required to take place on the third day following the day of the sale and purchase contract.

**Item 9.D. Selling Shareholders**

Not applicable

**Table of Contents****Item 9.E. Dilution**

Not applicable

**Item 9.F. Expenses of the Issuer**

Not applicable

**Item 10. Additional Information****Item 10.A. Share Capital**

Currently, our authorized share capital is 200,000,000 shares, which consists of shares of common stock, par value Won 5,000 per share ( Common Shares ) and shares of non-voting stock, par value Won 5,000 per share ( Non-Voting Preferred Shares ). Our Non-Voting Preferred Shares have a preferential right to dividend payments. Common Shares and Non-Voting Preferred Shares together are referred to as Shares. Under our articles of incorporation, we are authorized to issue Non-Voting Preferred Shares up to the limit prescribed by applicable law, the aggregate of which currently is one-quarter of our total issued and outstanding capital stock. As of December 31, 2014, 87,186,835 Common Shares were issued, of which 7,193,807 shares were held by us in treasury. We have never issued any Non-Voting Preferred Shares. All of the issued and outstanding Common Shares are fully-paid and non-assessable and are in registered form. We issue share certificates in denominations of 1, 3, 4, 5, 10, 50, 100, 500, 1,000 and 10,000 shares.

**Item 10.B. Memorandum and Articles of Association**

This section provides information relating to our capital stock, including brief summaries of material provisions of our articles of incorporation, the FSCMA, the Commercial Code and related laws, all as currently in effect. The following summaries are subject to, and are qualified in their entirety by reference to, our articles of incorporation and the applicable provisions of the FSCMA and the Commercial Code. We have filed copies of our articles of incorporation and these laws (except for the newly enacted the FSCMA) as exhibits to registration statements under the Securities Act or the Securities Exchange Act previously filed by us.

**Dividends**

We distribute dividends to our shareholders in proportion to the number of shares owned by each shareholder. The Common Shares represented by the ADSs have the same dividend rights as other outstanding Common Shares.

Holders of Non-Voting Preferred Shares are entitled to receive dividends in priority to the holders of Common Shares in an amount not less than 9% of the par value of the Non-Voting Preferred Shares as determined by the board of directors at the time of their issuance. If the amount available for dividends is less than the aggregate amount of such minimum dividend, we do not have to declare dividends on the Non-Voting Preferred Shares.

We may declare dividends annually at the annual general meeting of shareholders which is held within three months after the end of the fiscal year. We pay the annual dividend shortly after the annual general meeting to the shareholders of record as of the end of the preceding fiscal year. We may distribute the annual dividend in cash, Shares or other form of property. However, a dividend of Shares must be distributed at par value. Dividends in Shares may not exceed one-half of the annual dividend. In addition, we may declare, and distribute in cash, shares or other forms of property, interim dividends pursuant to a board resolution once a fiscal year to the eligible shareholders recorded as of June 30 of the relevant fiscal year. We have no obligation to pay any annual dividend unclaimed for five years from the payment date.

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Under the Commercial Code, we may pay an annual dividend only to the extent the net asset amount in our balance sheets exceeds the sum of the following: (i) our stated capital, (ii) the total amount of our capital surplus reserve and legal reserve accumulated up to the end of the relevant dividend period, (iii) the legal reserve to be set aside for annual dividend, and (iv) unrealized profits determined in the Presidential Decree to the Commercial Code. We may not pay an annual dividend unless we have set aside as earned surplus reserve an amount equal to at least 10% of the cash portion of the annual dividend or unless we have accumulated earned surplus reserve of not less than one-half of our stated capital. We may not use legal reserve to pay cash dividends but may transfer amounts from legal reserve to capital stock or use legal reserve to reduce an accumulated deficit.

### **Distribution of Free Shares**

In addition to paying dividends in Shares out of our retained or current earnings, we may also distribute to our shareholders an amount transferred from our capital surplus or legal reserve to our stated capital in the form of free shares. We must distribute such free shares to all our shareholders in proportion to their existing shareholdings.

### **Preemptive Rights and Issuance of Additional Shares**

We may issue authorized but unissued shares at the times and, unless otherwise provided in the Commercial Code, on the terms our board of directors may determine. All our shareholders are generally entitled to subscribe for any newly issued Shares in proportion to their existing shareholdings. We must offer new Shares on uniform terms to all shareholders who have preemptive rights and are listed on our shareholders register as of the relevant record date. Under the Commercial Code, we may vary, without shareholders' approval, the terms of these preemptive rights for different classes of shares. We must give public notice of the preemptive rights regarding new Shares and their transferability at least two weeks before the relevant record date. Our board of directors may determine how to distribute Shares for which preemptive rights have not been exercised or where fractions of Shares occur.

Under our articles of incorporation, we may issue new Shares pursuant to a board resolution to persons other than existing shareholders, who in these circumstances will not have preemptive rights, if the new Shares are:

offered publicly or to underwriters for underwriting pursuant to the FSCMA;

issued to members of our employee stock ownership association pursuant to the FSCMA;

represented by depositary receipts pursuant to the FSCMA;

issued in a general public offering pursuant to a board resolution in accordance with the FSCMA, the amount of which is no more than 10% of the outstanding Shares;

issued to our creditors pursuant to a debt-equity swap;

issued to domestic or foreign corporations pursuant to a joint venture agreement, strategic coalition or technology inducement agreement when deemed necessary for management purposes; or

issued to domestic or foreign financial institutions when necessary for raising funds in emergency cases.

In addition, we may issue convertible bonds or bonds with warrants, each up to an aggregate principal amount of Won 2 trillion, to persons other than existing shareholders.

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Members of our employee stock ownership association, whether or not they are our shareholders, generally have a preemptive right to subscribe for up to 20% of the Shares publicly offered pursuant to the FSCMA. This right is exercisable only to the extent that the total number of

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Shares so acquired and held by members of our employee stock ownership association does not exceed 20% of the total number of Shares then issued. As of December 31, 2014, our employees owned, through our employee stock ownership association, approximately 0.001% of our common stock in their association accounts and 1.84% of our common stock in their employee accounts.

### **General Meeting of Shareholders**

We hold the annual general meeting of shareholders within three months after the end of each fiscal year. The record date of the register of shareholders is December 31 of each year, and such shareholders listed on the register of shareholder as of the record date are entitled to exercise their right at the general meeting of shareholders. Subject to a board resolution or court approval, we may hold an extraordinary general meeting of shareholders:

as necessary;

at the request of holders of an aggregate of 3% or more of our outstanding Shares;

at the request of shareholders holding an aggregate of 1.5% or more of our outstanding Shares for at least six months; or

at the request of our audit committee.

Holders of Non-Voting Preferred Shares may request a general meeting of shareholders only after the Non-Voting Preferred Shares become entitled to vote or enfranchised, as described under **Voting Rights** below.

We must give shareholders written notice setting out the date, place and agenda of the meeting at least two weeks before the date of the general meeting of shareholders. However, for holders of 1% or less of the total number of issued and outstanding voting Shares, we may give notice by placing at least two public notices in at least two daily newspapers or by notices to be posted on the electronic disclosure database system maintained by the Financial Supervisory Service or the Korea Exchange at least two weeks in advance of the meeting. Currently, we use *The Seoul Shinmun* published in Seoul, *The Maeil Shinmun* published in Taegu and *The Kwangju Ilbo* published in Kwangju for this purpose. Shareholders not on the shareholders' register as of the record date are not entitled to receive notice of the general meeting of shareholders or attend or vote at the meeting. Holders of Non-Voting Preferred Shares, unless enfranchised, are not entitled to receive notice of general meetings of shareholders, but may attend such meetings. Our general meetings of shareholders are held either in Pohang or Seoul.

### **Voting Rights**

Holders of our Common Shares are entitled to one vote for each Common Share, except that voting rights of Common Shares held by us, or by a corporate shareholder that is more than 10% owned by us either directly or indirectly, may not be exercised. The Commercial Code permitted cumulative voting, under which voting method each shareholder would have multiple voting rights corresponding to the number of directors to be appointed in the voting and may exercise all voting rights cumulatively to elect one director.

Our shareholders may adopt resolutions at a general meeting by an affirmative majority vote of the voting Shares present or represented at the meeting, where the affirmative votes also represent at least one-fourth of our total voting Shares then issued and outstanding. However, under the Commercial Code and our articles of incorporation, the following matters, among others, require approval by the holders of at least two-thirds of the voting Shares present or represented at a meeting, where the affirmative votes also represent at least one-third of our total voting Shares then issued and outstanding:

amending our articles of incorporation;

removing a director;



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effecting any dissolution, merger or consolidation of us;

transferring the whole or any significant part of our business;

acquisition of all or a part of the business of any other company that may have a material impact on our business;

issuing any new Shares at a price lower than their par value; or

approving matters required to be approved at a general meeting of shareholders, which have material effects on our assets, as determined by the Board of Directors.

In general, holders of Non-Voting Preferred Shares are not entitled to vote on any resolution or receive notice of any general meeting of shareholders. However, in the case of amendments to our articles of incorporation, or any merger or consolidation of us, or in some other cases that affect the rights or interests of the Non-Voting Preferred Shares, approval of the holders of Non-Voting Preferred Shares is required. We may obtain the approval by a resolution of holders of at least two-thirds of the Non-Voting Preferred Shares present or represented at a class meeting of the holders of Non-Voting Preferred Shares, where the affirmative votes also represent at least one-third of our total issued and outstanding Non-Voting Preferred Shares.

Shareholders may exercise their voting rights by proxy. When a shareholder is a corporate entity, such shareholder may give proxies to its officers or directors.

Holders of ADRs exercise their voting rights through the ADR depository, an agent of which is the record holder of the underlying Common Shares. Subject to the provisions of the deposit agreement, ADR holders are entitled to instruct the ADR depository how to vote the Common Shares underlying their ADSs.

**Rights of Dissenting Shareholders**

In some limited circumstances, including the transfer of the whole or any significant part of our business and our merger or consolidation with another company, dissenting shareholders have the right to require us to purchase their Shares. Only the shareholders who have executed a share purchase agreement evidencing their acquisition of the relevant Shares on or prior to the day immediately following the public disclosure of the board resolutions approving any of the aforementioned transactions have the rights to require us to purchase their Shares. To exercise this right, shareholders, including holders of Non-Voting Preferred Shares, must submit to us a written notice of their intention to dissent before the general meeting of shareholders. Within 20 days after the relevant resolution is passed at a meeting, the dissenting shareholders must request us in writing to purchase their Shares. We are obligated to purchase the Shares of dissenting shareholders within one month after the expiration of the 20-day period. The purchase price for the Shares is required to be determined through negotiation between the dissenting shareholders and us. If we cannot agree on a price through negotiation, the purchase price will be the average of (1) the weighted average of the daily Share prices on the Korea Exchange for the two-month period before the date of the adoption of the relevant board resolution, (2) the weighted average of the daily Share price on the Korea Exchange for the one month period before the date of the adoption of the relevant resolution and (3) the weighted average of the daily Share price on the Korea Exchange for the one week period before such date of the adoption of the relevant resolution. However, the court may determine this price if we or dissenting shareholders do not accept the purchase price. Holders of ADSs will not be able to exercise dissenters' rights unless they have withdrawn the underlying common stock and become our direct shareholders.

**Register of Shareholders and Record Dates**

Our transfer agent, Kookmin Bank, maintains the register of our shareholders at its office in Seoul, Korea. It registers transfers of Shares on the register of shareholders on presentation of the Share certificates.

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The record date for annual dividends is December 31. For the purpose of determining the shareholders entitled to annual dividends, the register of shareholders may be closed for the period from January 1 to January 15 of each year. Further, for the purpose of determining the shareholders entitled to some other rights pertaining to the Shares, we may, on at least two weeks' public notice, set a record date and/or close the register of shareholders for not more than three months. The trading of Shares and the delivery of share certificates may continue while the register of shareholders is closed.

### **Annual Report**

At least one week before the annual general meeting of shareholders, we must make our annual report and audited financial statements available for inspection at our principal office and at all of our branch offices. In addition, copies of annual reports, the audited financial statements and any resolutions adopted at the general meeting of shareholders will be available to our shareholders.

Under the FSCMA, we must file with the Financial Services Commission and the Korea Exchange (1) an annual business report within 90 days after the end of our fiscal year, (2) a half-year report within 45 days after the end of the first six months of our fiscal year, and (3) quarterly reports within 45 days after the end of the third month and the ninth month of our fiscal year. Copies of these reports are or will be available for public inspection at the Financial Services Commission and the Korea Exchange.

### **Transfer of Shares**

Under the Commercial Code, the transfer of Shares is effected by delivery of share certificates. However, to assert shareholders' rights against us, the transferee must have his name and address registered on our register of shareholders. For this purpose, a shareholder is required to file his name, address and seal with our transfer agent. A non-Korean shareholder may file a specimen signature in place of a seal, unless he is a citizen of a country with a sealing system similar to that of Korea. In addition, a non-resident shareholder must appoint an agent authorized to receive notices on his behalf in Korea and file a mailing address in Korea. The above requirements do not apply to the holders of ADSs.

Under current Korean regulations, the Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks), financial investment companies with a brokerage, dealing or collective investment license and internationally recognized custodians may act as agents and provide related services for foreign shareholders. Certain foreign exchange controls and securities regulations apply to the transfer of Shares by non-residents or non-Koreans. See Item 10. Additional Information - Item 10.D. Exchange Controls.

Our transfer agent is Kookmin Bank, located at 26, Gukjegeumyung-ro, Yeongdeungpo-gu, Seoul, Korea.

### **Acquisition of Shares by Us**

We may acquire our own Shares, subject to the approval by the general meeting of shareholders. In addition, we may acquire Shares through purchases on the Korea Exchange or through a tender offer or by acquiring the interests in a trust account holding our own Shares through agreements with trust companies and asset management companies. The aggregate purchase price for the Shares may not exceed the total amount available for distribution of dividends available at the end of the preceding fiscal year less the amount of dividends and mandatory reserves required to be set aside for that fiscal year, subject to certain procedural requirements.

In accordance with the Commercial Code, we may resell or transfer any Shares acquired by us to a third party, subject to the approval by the Board of Directors. In general, corporate entities in which we own more than 50% equity interest may not acquire our Shares. Under the FSCMA, we are subject to certain selling restrictions for the Shares acquired by us.



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### **Liquidation Rights**

In the event of our liquidation, after payment of all debts, liquidation expenses and taxes, our remaining assets will be distributed among shareholders in proportion to their shareholdings. Holders of Non-Voting Preferred Shares have no preference in liquidation.

### **Item 10.C. *Material Contracts***

None.

### **Item 10.D. *Exchange Controls***

#### **Shares and ADSs**

The Foreign Exchange Transaction Act and the Presidential Decree and regulations under that Act and Decree (collectively, Foreign Exchange Transaction Laws ) and the Foreign Investment Promotion Law regulate investment in Korean securities by non-residents and issuance of securities outside Korea by Korean companies. Under the Foreign Exchange Transaction Laws, non-residents may invest in Korean securities subject to procedural requirements in accordance with these laws. The Financial Services Commission has also adopted, pursuant to its authority under the FSCMA, regulations that restrict investment by foreigners in Korean securities.

Subject to certain limitations, the Ministry of Strategy and Finance has the authority to take the following actions under the Foreign Exchange Transaction Laws:

if the Government deems it necessary on account of war, armed conflict, natural disaster or grave and sudden and significant changes in domestic or foreign economic circumstances or similar events or circumstances, the Ministry of Strategy and Finance may temporarily suspend performance under any or all foreign exchange transactions, in whole or in part, to which the Foreign Exchange Transaction Laws apply (including suspension of payment and receipt of foreign exchange) or impose an obligation to deposit, safe-keep or sell any means of payment to The Bank of Korea, a foreign exchange stabilization fund, certain other governmental agencies or financial companies; and

if the Government concludes that the international balance of payments and international financial markets are experiencing or are likely to experience significant disruption or that the movement of capital between Korea and other countries is likely to adversely affect the Won, exchange rates or other macroeconomic policies, the Ministry of Strategy and Finance may take action to require any person who intends to effect a capital transaction to obtain permission or to require any person who effects a capital transaction to deposit a portion of the means of payment acquired in such transactions with The Bank of Korea, a foreign exchange stabilization fund, certain other governmental agencies or financial companies.

#### **Government Review of Issuance of ADSs**

In order for us to issue shares represented by ADSs, we are required to file a prior report of the issuance with our designated foreign exchange bank or the Ministry of Strategy and Finance, depending on the issuance amount. No further Korean governmental approval is necessary for the initial offering and issuance of the ADSs.

Under current Korean laws and regulations, the depository bank is required to obtain our prior consent for the number of shares to be deposited in any given proposed deposit which exceeds the difference between (1) the aggregate number of shares deposited by us for the issuance of ADSs (including deposits in connection with the initial and all subsequent offerings of ADSs and stock dividends or other distributions related to these ADSs) and (2) the number of shares on deposit with the depository bank at the time of such proposed deposit. We can give no assurance that we would grant our consent, if our consent is required.

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### **Reporting Requirements for Holders of Substantial Interests**

Under the FSCMA, any person whose direct or beneficial ownership of shares with voting rights, whether in the form of shares or ADSs, certificates representing the rights to subscribe for Shares and equity-related debt securities including convertible bonds and bonds with warrants (collectively, Equity Securities ) together with the Equity Securities beneficially owned by certain related persons or by any person acting in concert with the person accounts for 5% or more of the total outstanding Equity Securities is required to report the status and the purpose (whether or not to exert an influence on management control over the issuer) of the holdings to the Financial Services Commission and the Korea Exchange within five business days after reaching the 5% ownership interest. In addition, any change in the purpose of holding such ownership interest or a change in the ownership interest subsequent to the report which equals or exceeds 1% of the total outstanding Equity Securities is required to be reported to the Financial Services Commission and the Korea Exchange within five business days from the date of the change. However, the reporting deadline of such reporting requirement is extended to the tenth day of the month immediately following the month of such change in their shareholding for (1) certain professional investors, as specified under the FSCMA, or (2) persons who hold shares for purposes other than management control. Those who report the purpose of shareholding as management control of the issuer are prohibited from exercising their voting rights and acquiring additional shares for five days subsequent to their report under the FSCMA.

Violation of these reporting requirements may subject a person to criminal sanctions such as fines or imprisonment and may result in a loss of voting rights with respect to the ownership of Equity Securities exceeding 5%. Furthermore, the Financial Services Commission may issue an order to dispose of non-reported Equity Securities.

In addition to the reporting requirements described above, any person whose direct or beneficial ownership of a company's shares accounts for 10% or more of the total issued and outstanding shares with voting rights (a major stockholder ) must report the status of his or her shareholding to the Securities and Futures Commission and the Korea Exchange within five business days after he or she becomes a major stockholder. In addition, any change in the ownership interest subsequent to the report must be reported to the Securities and Futures Commission and the Korea Exchange by the fifth business day of any changes in his or her shareholding. Violation of these reporting requirements may subject a person to criminal sanctions such as fines or imprisonment.

Under the KRX regulations, if a company listed on the KRX KOSPI Market has submitted public disclosure of material matters to a foreign financial investment supervisory authority pursuant to the laws of the foreign jurisdiction, then it must submit a copy of the public disclosure and a Korean translation thereof to the Korea Exchange. In addition, if a company listed on the KRX KOSPI Market is approved for listing on a foreign stock exchange or determined to be de-listed from the foreign stock exchange or actually lists on, or de-lists from, a foreign stock exchange, then it must submit to the Korea Exchange a copy, together with a Korean translation thereof, of all documents submitted to, or received from, the relevant foreign government, supervisory authority or stock exchange.

### **Restrictions Applicable to ADSs**

No Korean governmental approval is necessary for the sale and purchase of ADSs in the secondary market outside Korea or for the withdrawal of shares underlying ADSs and the delivery inside Korea of shares in connection with the withdrawal, provided that a foreigner who intends to acquire the shares must obtain an investment registration card from the Financial Supervisory Service as described below. The acquisition of the shares by a foreigner must be immediately reported by the foreigner or his standing proxy in Korea to the Governor of the Financial Supervisory Service ( Governor ).

Persons who have acquired shares as a result of the withdrawal of shares underlying the ADSs may exercise their preemptive rights for new shares, participate in free distributions and receive dividends on shares without any further governmental approval.

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In addition, under the Financial Services Commission regulations, effective as of November 30, 2006, we are required to file a securities registration statement with the Financial Services Commission and such securities registration statement has to become effective pursuant to the FSCMA in order for us to issue shares represented by ADSs, except in certain limited circumstances.

### **Restrictions Applicable to Shares**

Under the Foreign Exchange Transaction Laws and the Financial Services Commission regulations (together, the Investment Rules ), foreigners may invest, with limited exceptions and subject to procedural requirements, in all shares of Korean companies, whether listed on the KRX KOSPI Market or the KRX KOSDAQ Market, unless prohibited by specific laws. Foreign investors may trade shares listed on the KRX KOSPI Market or the KRX KOSDAQ Market only through the KRX KOSPI Market or the KRX KOSDAQ Market, except in limited circumstances, including, among others:

odd-lot trading of shares;

acquisition of shares ( Converted Shares ) by exercise of warrant, conversion right under convertible bonds or withdrawal right under depositary receipts issued outside of Korea by a Korean company;

acquisition of shares as a result of inheritance, donation, bequest or exercise of shareholders' rights, including preemptive rights or rights to participate in free distributions and receive dividends;

over-the-counter transactions between foreigners of a class of shares for which the ceiling on aggregate acquisition by foreigners, as explained below, has been reached or exceeded with certain exceptions;

shares acquired by direct investment as defined in the Foreign Investment Promotion Law;

disposal of shares pursuant to the exercise of appraisal rights of dissenting shareholders;

disposal of shares in connection with a tender offer;

acquisition of shares by a foreign depository in connection with the issuance of depository receipts;

acquisition and disposal of shares through overseas stock exchange market if such shares are simultaneously listed on the KRX KOSPI Market or the KRX KOSDAQ Market and such overseas stock exchange; and

arm's length transactions between foreigners, if all of such foreigners belong to an investment group managed by the same person. The Investment Rules require a foreign investor who wishes to invest in shares for the first time on the Korea Exchange (including Converted Shares) to register its identity with the Financial Supervisory Service prior to making any such investment; however, the registration requirement does not apply to foreign investors who acquire Converted Shares with the intention of selling such Converted Shares within three months from the date of acquisition of the Converted Shares or who acquire the shares in an over-the-counter transaction or dispose of shares where such acquisition or disposal is deemed to be a foreign direct investment pursuant to the Foreign Investment Promotion Law. Upon registration, the Financial Supervisory Service will issue to the foreign investor an investment registration card which must be presented each time the foreign investor opens a brokerage account with a financial investment company with a brokerage license or dealing license in Korea. Foreigners

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eligible to obtain an investment registration card include foreign nationals who are individuals residing abroad for more than six months, foreign governments, foreign municipal authorities, foreign public institutions, international financial institutions or similar international

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organizations, corporations incorporated under foreign laws and any person in any additional category designated by the Enforcement Decree to the FSCMA. All Korean offices of a foreign corporation as a group are treated as a separate foreigner from the offices of the corporation outside Korea. However, a foreign corporation or depository issuing depository receipts may obtain one or more investment registration cards in its name in certain circumstances as described in the relevant regulations.

Upon a foreign investor's purchase of shares through the Korea Exchange, no separate report by the investor is required because the investment registration card system is designed to control and oversee foreign investment through a computer system. However, a foreign investor's acquisition or sale of shares outside the Korea Exchange (as discussed above) must be reported by the foreign investor or his standing proxy to the Governor at the time of each such acquisition or sale; *provided, however*, that a foreign investor must ensure that any acquisition or sale by it of shares outside the Korea Exchange in the case of trades in connection with a tender offer, odd-lot trading of shares or trades of a class of shares for which the aggregate foreign ownership limit has been reached or exceeded, is reported to the Governor by the Korea Securities Depository, financial investment companies with a dealing or brokerage license or securities finance companies engaged to facilitate such transaction. A foreign investor must appoint one or more standing proxies from among the Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks) financial investment companies with a dealing, brokerage or collective investment license and internationally recognized custodians which will act as a standing proxy to exercise shareholders' rights or perform any matters related to the foregoing activities if the foreign investor does not perform these activities himself. However, a foreign investor may be exempted from complying with these standing proxy rules with the approval of the Governor in cases deemed inevitable by reason of conflict between laws of Korea and those of the home country of the foreign investor.

Certificates evidencing shares of Korean companies must be kept in custody with an eligible custodian in Korea. Only foreign exchange banks (including domestic branches of foreign banks), financial investment companies with a dealing, brokerage or collective investment license, the Korea Securities Depository and internationally recognized custodians are eligible to act as a custodian of shares for a non-resident or foreign investor. A foreign investor must ensure that his custodian deposits its shares with the Korea Securities Depository. However, a foreign investor may be exempted from complying with this deposit requirement with the approval of the Governor in circumstances where compliance with that requirement is made impracticable, including cases where compliance would contravene the laws of the home country of such foreign investor.

Under the Investment Rules, with certain exceptions, foreign investors may acquire shares of a Korean company without being subject to any foreign investment ceiling. As one such exception, designated public corporations are subject to a 40% ceiling on the acquisition of shares by foreigners in the aggregate. Designated public corporations may set a ceiling on the acquisition of shares by a single person according to its articles of incorporation. We set this ceiling at 3% until the discontinuation of our designation as a public corporation on September 28, 2000. As a result, we currently do not have any ceiling on the acquisition of shares by a single person or by foreigners in the aggregate. Furthermore, an investment by a foreign investor of not less than 10% of the outstanding shares with voting rights of a Korean company is defined as a direct foreign investment under the Foreign Investment Promotion Law, which is, in general, subject to the report to, and acceptance by, the Ministry of Trade, Industry & Energy. The acquisition of shares of a Korean company by a foreign investor may also be subject to certain foreign shareholding restrictions in the event that the restrictions are prescribed in each specific law which regulates the business of the Korean company.

Under the Foreign Exchange Transaction Laws, a foreign investor who intends to acquire shares must designate a foreign exchange bank at which he must open a foreign currency account and a Won account exclusively for stock investments. No approval is required for remittance into Korea and deposit of foreign currency funds in the foreign currency account. Foreign currency funds may be transferred from the foreign currency account at the time required to place a deposit for, or settle the

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purchase price of, a stock purchase transaction to a Won account opened in the name of a financial investment company with a dealing, brokerage or collective investment license. Funds in the foreign currency account may be remitted abroad without any governmental approval.

Dividends on Shares are paid in Won. No governmental approval is required for foreign investors to receive dividends on, or the Won proceeds of the sale of, any shares to be paid, received and retained in Korea. Dividends paid on, and the Won proceeds of the sale of, any shares held by a non-resident of Korea must be deposited either in a Won account with the investor's financial investment company with a dealing, brokerage or collective investment license or his Won Account. Funds in the investor's Won Account may be transferred to his foreign currency account or withdrawn for local living expenses up to certain limitations. Funds in the Won Account may also be used for future investment in shares or for payment of the subscription price of new shares obtained through the exercise of preemptive rights.

Financial investment companies with a dealing, brokerage or collective investment license are allowed to open foreign currency accounts with foreign exchange banks exclusively for accommodating foreign investors' stock investments in Korea. Through these accounts, these financial investment companies and asset management companies may enter into foreign exchange transactions on a limited basis, such as conversion of foreign currency funds and Won funds, as counterparty to foreign investors, without the investors having to open their own accounts with foreign exchange banks.

**Item 10.E. *Taxation***

The following summary is based upon tax laws of the United States and Korea as in effect on the date of this annual report on Form 20-F, and is subject to any change in United States or Korean law that may come into effect after such date. Investors in the shares of common stock or ADSs are advised to consult their own tax advisers as to the United States, Korean or other tax consequences of the purchase, ownership and disposition of such securities, including the effect of any foreign, state or local tax laws.

**Korean Taxation**

The following is a summary of the principal Korean tax consequences to owners of the common shares or ADSs, as the case may be, who are non-resident individuals or non-Korean corporations without a permanent establishment in Korea to which the relevant income is attributable or with which the relevant income is effectively connected ( *Non-resident Holders* ). The statements regarding Korean tax laws set forth below are based on the laws in force and as interpreted by the Korean taxation authorities as of the date hereof. This summary is not exhaustive of all possible tax considerations which may apply to a particular investor and potential investors are advised to satisfy themselves as to the overall tax consequences of the acquisition, ownership and disposition of the common shares or ADSs, including specifically the tax consequences under Korean law, the laws of the jurisdiction of which they are resident, and any tax treaty between Korea and their country of residence, by consulting their own tax advisers.

***Tax on Dividends***

Dividends on the common shares or ADSs paid (whether in cash or in shares) to a Non-resident Holder will be subject to Korean withholding taxes at the rate of 22% (including local income tax) or such lower rate as is applicable under a treaty between Korea and such Non-resident Holder's country of tax residence. Free distributions of shares representing a capitalization of certain capital surplus reserves may be subject to Korean withholding taxes.

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The tax is withheld by the payer of the dividend. Since the payer is required to withhold the tax, Korean law does not entitle the person who was subject to the withholding of Korean tax to recover from the Government any part of the Korean tax withheld, even if it subsequently produces evidence that it was entitled to have tax withheld at a lower rate, except in certain limited circumstances.

### ***Tax on Capital Gains***

As a general rule, capital gains earned by Non-resident Holders upon transfer of the common shares or ADSs are subject to Korean withholding tax at the lower of (i) 11% (including local income tax) of the gross proceeds realized or (ii) 22% (including local income tax) of the net realized gains (subject to the production of satisfactory evidence of the acquisition costs and certain direct transaction costs), unless exempt from Korean income taxation under the effective Korean tax treaty with the Non-resident Holder's country of tax residence.

However, a Non-resident Holder will not be subject to Korean income taxation on capital gains realized upon the sale of the common shares through the KRX KOSPI Market if the Non-resident Holder (i) has no permanent establishment in Korea and (ii) did not or has not owned (together with any shares owned by any entity with a specified special relationship with such Non-resident Holder) 25% or more of the total issued and outstanding shares of us at any time during the calendar year in which the sale occurs and during the five calendar years prior to the calendar year in which the sale occurs.

It should be noted that capital gains earned by you (regardless of whether you have a permanent establishment in Korea) from a transfer of ADSs outside Korea will generally be exempt from Korean income taxation, provided that the ADSs are deemed to have been issued overseas. If and when an owner of the underlying common shares transfers the ADSs following the conversion of the underlying shares for ADSs, such person will not be exempt from Korean income taxation.

### ***Inheritance Tax and Gift Tax***

Korean inheritance tax is imposed upon (1) all assets (wherever located) of the deceased if at the time of his death he was domiciled in Korea and (2) all property located in Korea which passes on death (irrespective of the domicile of the deceased). Gift tax is imposed in similar circumstances to the above. The taxes are imposed if the value of the relevant property is above a certain limit and vary according to the identity of the parties involved.

Under Korean inheritance and gift tax laws, securities issued by a Korean corporation are deemed to be located in Korea irrespective of where they are physically located or by whom they are owned.

### ***Securities Transaction Tax***

Securities transaction tax is imposed on the transfer of shares issued by a Korean corporation or the right to subscribe for such shares generally at the rate of 0.5% of the sales price. In the case of the transfer of shares listed on the KRX KOSPI Market (such as the common shares), the securities transaction tax is imposed generally at the rate of (i) 0.3% of the sales price of such shares (including agricultural and fishery special surtax thereon) if traded on the KRX KOSPI Market or (ii) subject to certain exceptions, 0.5% of the sales price of such shares if traded outside the KRX KOSPI Market.

Securities transaction tax or the agricultural and fishery special surtax is not applicable if (i) the shares or rights to subscribe for shares are listed on a designated foreign stock exchange and (ii) the sale of the shares takes place on such exchange.

Securities transaction tax, if applicable, must be paid by the transferor of the shares or rights, in principle. When the transfer is effected through a securities settlement company, such settlement

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company is generally required to withhold and pay (to the tax authority) the tax, and when such transfer is made through a financial investment company with a brokerage license only, such company is required to withhold and pay the tax. Where the transfer is effected by a Non-resident Holder without a permanent establishment in Korea, other than through a securities settlement company or a financial investment company with a brokerage license, the transferee is required to withhold the securities transaction tax. Failure to do so will result in the imposition of penalties equal to the sum of (i) between 10% to 40% of the tax amount due, depending on the nature of the improper reporting, and (ii) 10.95% per annum on the tax amount due for the default period.

***Tax Treaties***

Currently, Korea has income tax treaties with a number of countries, including, inter alia, Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, Luxembourg, Ireland, the Netherlands, New Zealand, Norway, Singapore, Sweden, Switzerland, the United Kingdom and the United States of America, under which the rate of withholding tax on dividend and interest is reduced, generally to between 5% and 16.5% (including local income tax), and the tax on capital gains derived by a non-resident from the transfer of securities issued by a Korean company is often eliminated.

Each Non-resident Holder of common shares should inquire for itself whether it is entitled to the benefits of a tax treaty with Korea. It is the responsibility of the party claiming the benefits of a tax treaty in respect of interest, dividend, capital gains or other income to submit to us (or our agent), the purchaser or the financial investment company with a brokerage license, as the case may be, prior to or at the time of payment, such evidence of tax residence of the party claiming the treaty benefit as the Korean tax authorities may require in support of its claim for treaty protection. In the absence of sufficient proof, we (or our agent), the purchaser or the financial investment company with a brokerage license, as the case may be, must withhold tax at the normal rates.

Furthermore, in order for a non-resident of Korea to obtain the benefits of tax exemption on certain Korean source income (e.g., capital gains and interest) under an applicable tax treaty, Korean tax law requires such non-resident (or its agent) to submit to the payer of such Korean source income an application for a tax exemption along with a certificate of tax residency of such non-resident issued by a competent authority of the non-resident's country of tax residence, subject to certain exceptions. The payer of such Korean source income, in turn, is required to submit such application to the relevant district tax office by the ninth day of the month following the date of the first payment of such income.

For a non-resident of Korea to obtain the benefits of treaty-reduced tax rates on certain Korean source income (e.g., capital gains and interest) under an applicable tax treaty, Korean tax law requires such non-resident (or its agents) to submit to the payer of such Korean source income an application for treaty-reduced tax rates prior to receipt of such Korean source income; provided, however, that an owner of ADSs who is a non-resident of Korea is not required to submit such application, if the Korean source income on the ADSs is paid through an account opened at the Korea Securities Depository by a foreign depository.

At present, Korea has not entered into any tax treaty relating to inheritance or gift tax.

**United States Taxation**

This summary describes the material U.S. federal income tax consequences for a U.S. holder (as defined below) of owning our shares of common stock or ADSs. This summary applies to you only if you hold shares of common stock or ADSs as capital assets for tax purposes. This summary does not apply to you if you are a member of a class of holders subject to special rules, such as:

a dealer in securities or currencies;

a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings;



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a bank;

a life insurance company;

a tax-exempt organization;

a person that holds shares of common stock or ADSs that are a hedge or that are hedged against interest rate or currency risks;

a person that holds shares of common stock or ADSs as part of a straddle or conversion transaction for tax purposes;

a person whose functional currency for tax purposes is not the Dollar;

a person that owns or is deemed to own 10% or more of any class of our stock; or

a partnership that holds shares of common stock or ADSs, or a partner therein.

This summary is based on laws, treaties and regulatory interpretations in effect on the date hereof, all of which are subject to change, possibly on a retroactive basis.

Please consult your own tax advisers concerning the U.S. federal, state, local and other foreign tax consequences of purchasing, owning and disposing of shares of common stock or ADSs in your particular circumstances.

For purposes of this summary, you are a U.S. holder if you are a beneficial owner of a share of common stock or ADS that is:

a citizen or resident of the United States;

a U.S. domestic corporation; or

subject to U.S. federal income tax on a net income basis with respect to income from the share of common stock or ADS.

***Shares of Common Stock and ADSs***

In general, if you are the beneficial owner of ADSs, you will be treated as the beneficial owner of the shares of common stock represented by those ADSs for U.S. federal income tax purposes, and no gain or loss will be recognized if you exchange an ADS for the shares of common stock represented by that ADS.

***Dividends***

The gross amount of cash dividends that you receive (prior to deduction of Korean taxes) generally will be subject to U.S. federal income taxation as foreign source dividend income. Dividends paid in Won will be included in your income in a Dollar amount calculated by reference to the exchange rate in effect on the date of your (or, in the case of ADSs, the depositary's) receipt of the dividend, regardless of whether the payment is in fact converted into Dollars. If such a dividend is converted into Dollars on the date of receipt, you generally should not be required to recognize foreign currency gain or loss in respect of the dividend income. U.S. holders should consult their own tax advisers regarding the treatment of any foreign currency gain or loss on any Won received by U.S. holders that are converted into Dollars on a date subsequent to

receipt.

Subject to certain exceptions for short-term and hedged positions, the Dollar amount of dividends received by an individual with respect to the ADSs and common stock will be subject to taxation at a preferential rate applicable to long-term capital gains if the dividends are qualified dividends. Dividends paid on the ADSs and common stock will be treated as qualified dividends if

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(i) we are eligible for the benefits of a comprehensive income tax treaty with the United States that the Internal Revenue Service has approved for the purposes of the qualified dividend rules and (ii) we were not, in the year prior to the year in which the dividend is paid, and are not, in the year in which the dividend is paid, a passive foreign investment company ( PFIC ). The income tax treaty between Korea and the United States ( Treaty ) has been approved for the purposes of the qualified dividend rules, and we believe we are eligible for benefits under the Treaty. Based on our audited financial statements and relevant market and shareholder data, we believe that we were not treated as a PFIC for U.S. federal income tax purposes with respect to our 2013 or 2014 taxable year. In addition, based on our audited financial statements and our current expectations regarding the value and nature of our assets, the sources and nature of our income, and relevant market and shareholder data, we do not anticipate becoming a PFIC for our 2015 taxable year. You should consult your own tax advisers regarding the availability of the reduced dividend tax rate in the light of your own particular circumstances.

Distributions of additional shares in respect of shares of common stock or ADSs that are made as part of a pro-rata distribution to all of our shareholders generally will not be subject to U.S. federal income tax.

*Sales and Other Dispositions*

For U.S. federal income tax purposes, you will recognize taxable gain or loss on any sale, exchange or other taxable disposition of common stock or ADSs equal to the difference, if any, between the amount realized (Dollars) on the sale or exchange and your adjusted tax basis in the common stock or ADSs. Any gain realized by a U.S. holder on the sale or other disposition of common stock or ADSs generally will be treated as U.S. source income for U.S. foreign tax credit purposes. This gain or loss will be capital gain or loss, and will be long-term capital gain or loss if the shares of common stock or ADSs were held for more than one year. Your ability to offset capital losses against ordinary income is limited. Long-term capital gain recognized by an individual U.S. holder generally is subject to taxation at a reduced rate.

*Foreign Tax Credit Considerations*

You should consult your own tax advisers to determine whether you are subject to any special rules that limit your ability to make effective use of foreign tax credits, including the possible adverse impact of failing to take advantage of benefits under the income tax treaty between the United States and Korea. If no such rules apply, you generally may claim a credit, up to any applicable reduced rates provided under the Treaty, against your U.S. federal income tax liability for Korean taxes withheld from dividends on shares of common stock or ADSs, so long as you have owned the shares of common stock or ADSs (and not entered into specified kinds of hedging transactions) for at least a 16-day period that includes the ex-dividend date. Instead of claiming a credit, you may, at your election, deduct such Korean taxes in computing your taxable income, provided that you do not elect to claim a foreign tax credit for any foreign income taxes paid or accrued for the relevant tax year and subject to generally applicable limitations under U.S. tax law. Foreign tax credits will not be allowed for withholding taxes imposed in respect of certain hedged positions in securities and may not be allowed in respect of arrangements in which your expected economic profit is insubstantial. You may not be able to use the foreign tax credit associated with any Korean withholding tax imposed on a distribution of additional shares that is not subject to U.S. federal income tax unless you can use the credit against U.S. federal income tax due on other foreign-source income.

Any Korean securities transaction tax or agriculture and fishery special tax that you pay will not be creditable for foreign tax credit purposes.

The calculation of foreign tax credits and, in the case of a U.S. holder that elects to deduct foreign taxes, the availability of deductions involves the application of complex rules that depend on a U.S. holder's particular circumstances. You should consult your own tax advisers regarding the creditability or deductibility of such taxes.

**Table of Contents*****U.S. Information Reporting and Backup Withholding Rules***

Payments in respect of shares of common stock or ADSs that are made within the United States or through certain U.S.-related financial intermediaries are subject to information reporting and may be subject to backup withholding unless the holder (1) is a corporation or other exempt recipient or (2) provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. Holders that are not U.S. persons generally are not subject to information reporting or backup withholding. However, such a holder may be required to provide a certification of its non-U.S. status in connection with payments received within the United States or through a U.S.-related financial intermediary.

***Item 10.F. Dividends and Paying Agents***

See Item 8.A. Consolidated Statements and Other Financial Information – Dividends above for information concerning our dividend policies and our payment of dividends. See Item 10.B. Memorandum and Articles of Association – Dividends for a discussion of the process by which dividends are paid on shares of our common stock. The paying agent for payment of our dividends on ADSs in the United States is the Citibank, N.A.

***Item 10.G. Statements by Experts***

Not applicable

***Item 10.H. Documents on Display***

We file reports, including annual reports on Form 20-F, and other information with the SEC pursuant to the rules and regulations of the SEC that apply to foreign private issuers. You may read and copy any materials filed with the SEC at the Public Reference Rooms in Washington, D.C., New York, New York and Chicago, Illinois. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Any filings we make electronically will be available to the public over the Internet at the SEC's web site at <http://www.sec.gov>.

***Item 10.I. Subsidiary Information***

Not applicable

***Item 11. Quantitative and Qualitative Disclosures about Market Risk***

We are exposed to foreign exchange rate and interest rate risk primarily associated with underlying liabilities, and to changes in the commodity prices of principal raw materials. Following evaluation of these positions, we selectively enter into derivative financial instruments to manage the related risk exposures, primarily with respect to foreign exchange rate and interest rate risks, which are entered into with major financial institutions in order to minimize the risk of credit loss. Our market risk management policy determines the market risk tolerance level, measuring period, controlling responsibilities, management procedures, hedging period and hedging ratio very specifically. We also prohibit all speculative hedging transactions and evaluate and manage foreign exchange exposures to receivables and payables.

None of our loss exposures related to derivative contracts are unlimited, and we do not believe that our net derivative positions could result in a material loss to our profit before income tax or total equity due to significant fluctuations of major currencies against the Korean Won. Due to the nature of our derivative contracts primarily as hedging instruments that manage foreign exchange risks, net gain or net loss on derivatives transactions and valuation of derivatives are typically offset by net loss or net gain on foreign currency transaction and translation. We recorded net gain on derivatives transactions

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of Won 84 billion and net loss on valuation of derivatives of Won 219 billion in 2013, and we recorded net loss on derivatives transactions of Won 26 billion and net loss on valuation of derivatives of Won 28 billion in 2014.

**Exchange Rate Risk**

Korea is our most important market and, therefore, a substantial portion of our cash flow is denominated in Won. Most of our exports are denominated in Dollars. Japan is also an important market for us, and we derive significant cash flow denominated in Yen. We are exposed to foreign exchange risk related to foreign currency denominated liabilities and anticipated foreign exchange payments. Anticipated foreign exchange payments, which represent a substantial sum and are mostly denominated in Dollars, relate primarily to imported raw material costs and freight costs. Foreign currency denominated liabilities relate primarily to foreign currency denominated debt.

We strive to naturally offset our foreign exchange risk by matching foreign currency receivables with our foreign currency payables and our overseas subsidiaries have sought to further mitigate the adverse impact of exchange rate fluctuations by conducting business transactions in the local currency of the respective market in which the transactions occur. In particular, Daewoo International's exposure to fluctuations in exchange rates, including the Won/Dollar exchange rate, is limited because trading transactions typically involve matched purchase and sale contracts, which result in limited settlement exposure, and because Daewoo International's contracts with domestic suppliers of products for export and with domestic purchasers of imported products are generally denominated in Dollars. Although the impact of exchange rate fluctuations is partially mitigated by such strategies, we and our subsidiaries, particularly Daewoo International and POSCO E&C, also periodically enter into derivative contracts, primarily foreign currency swaps and forward exchange contracts, to further hedge our foreign exchange risks.

Our foreign currency exposure and changes in gain or loss resulting from a 10% foreign exchange rate change against the Korean Won are as follows:

	For the Years Ended December 31,					
	2012		2013		2014	
	Increase	Decrease	Increase	Decrease	Increase	Decrease
	(In billions of Won)					
US Dollars	(519)	519	(502)	502	(356)	356
Japanese Yen	(178)	178	(125)	125	(96)	96
Euro	(1)	1	(4)	4	(30)	30

**Interest Rate Risk**

We are also subject to market risk exposure arising from changing interest rates. In particular, we are exposed to interest rate risk on our existing floating rate borrowings and on additional debt financings that we may periodically undertake for various reasons, including capital expenditures and refinancing of our existing borrowings. A rise in interest rates will increase the cost of our existing variable rate borrowings. If interest rates on borrowings with floating rates had been 1% higher or lower with all other variables held constant, the impact on the gain or loss of the applicable period would be as follows:

	For the Years Ended December 31,		
	2012	2013	2014
	(In billions of Won)		
Increase or decrease in annual profit and net equity	96	106	102

A reduction of interest rates also increases the fair value of our debt portfolio, which is primarily of a fixed interest nature. From time to time, we use, to a limited extent, interest rate swaps to reduce interest rate volatility on some of our debt and manage our interest expense by achieving a balanced mixture of floating and fixed rate debt.

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The following table summarizes the carrying amounts, fair values, principal cash flows by maturity date and weighted average interest rates of our short-term and long-term liabilities as of December 31, 2014 which are sensitive to exchange rates and/or interest rates. The information is presented in Won, which is our reporting currency.

	Maturities						December 31, 2014	December 31, 2013		
	2015	2016	2017	2018	2019	Thereafter	Total	Fair Value	Total	Fair Value
(In billions of Won except rates)										
<b>Local currency:</b>										
Fixed rate	2,291	821	967	610	764	2,798	8,251	8,349	9,439	9,523
Average weighted rate <sup>(1)</sup>	4.20%	3.89%	3.98%	3.69%	3.45%	4.15%	4.02%		4.35%	
Variable rate	738	175	10	69	103	129	1,224	1,223	1,327	1,345
Average weighted rate <sup>(1)</sup>	2.88%	3.71%	3.80%	3.43%	2.72%	2.91%	3.03%		3.47%	
Sub-total	3,029	996	977	679	867	2,927	9,475	9,572	10,766	10,868
<b>Foreign currency, principally Dollars and Yen:</b>										
Fixed rate	4,014	282	274	738	0	3,099	8,407	8,669	6,913	6,988
Average weighted rate <sup>(1)</sup>	1.62%	1.39%	3.84%	3.00%	0%	4.43%	2.84%		3.72%	
Variable rate	4,623	753	215	435	263	3,257	9,546	9,515	8,568	8,634
Average weighted rate <sup>(1)</sup>	1.56%	1.69%	1.96%	2.93%	2.91%	3.30%	2.27%		1.81%	
Sub-total	8,637	1,035	489	1,173	263	6,356	17,953	18,184	15,481	15,623
Total	11,666	2,031	1,466	1,852	1,130	9,283	27,428	27,756	26,247	26,490

(1) Weighted average rates of the portfolio at the period end.

**Item 12. Description of Securities Other than Equity Securities**

Not applicable

**Item 12.A. Debt Securities**

Not applicable

**Item 12.B. Warrants and Rights**

Not applicable

**Item 12.C. Other Securities**

Not applicable

**Table of Contents****Item 12.D. American Depositary Shares****Fees and Charges**

We switched our depository from The Bank of New York Mellon to Citibank, N.A. in July 2013. Holders of our ADSs are required to pay the following service fees to the depository:

Services	Fees
Issuance of ADSs upon deposit of shares	Up to \$5.00 per 100 ADSs issued
Delivery of deposited shares against surrender of ADSs	Up to \$5.00 per 100 ADSs surrendered
Distributions of cash dividends or other cash distributions	None
Distribution of ADSs pursuant to (i) stock dividends or other free stock distributions, or (ii) exercise of rights to purchase additional ADSs	None
Distribution of securities other than ADSs or rights to purchase additional ADSs	None
General depository services	None

Holders of our ADSs are also responsible for paying certain fees and expenses incurred by the depository and certain taxes and governmental charges such as:

fees for the transfer and registration of shares charged by the registrar and transfer agent for the shares in Korea (*i.e.*, upon deposit and withdrawal of shares);

expenses incurred for converting foreign currency into Dollars;

expenses for cable, telex and fax transmissions and for delivery of securities;

taxes and duties upon the transfer of securities (*i.e.*, when shares are deposited or withdrawn from deposit);

fees and expenses incurred in connection with compliance with exchange control regulations and other regulatory requirements; and

fees and expenses incurred in connection with the delivery or servicing of shares on deposit.

Depository fees payable upon the issuance and surrender of ADSs are typically paid to the depository by the brokers (on behalf of their clients) receiving the newly issued ADSs from the depository and by the brokers (on behalf of their clients) delivering the ADSs to the depository for surrender. The brokers in turn charge these fees to their clients. Depository fees payable in connection with distributions of cash or securities to ADS holders and the depository services fee are charged by the depository to the holders of record of ADSs as of the applicable ADS record date.

The depository fees payable for cash distributions are generally deducted from the cash being distributed. In the case of distributions other than cash (*i.e.*, stock dividend, rights), the depository charges the applicable fee to the ADS record date holders concurrent with the distribution. In the case of ADSs registered in the name of the investor (whether certificated or uncertificated in direct registration), the depository sends invoices to the applicable record date ADS holders. In the case of ADSs held in brokerage and custodian accounts (via the Korea Securities Depository, or KSD), the depository generally collects its fees through the systems provided by KSD (whose nominee is the registered holder of the ADSs held in KSD) from the brokers and custodians holding ADSs in their KSD accounts. The brokers and custodians who hold their clients ADSs in KSD accounts in turn charge their clients' accounts the amount of the fees paid to the depository.

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In the event of refusal to pay the depositary fees, the depositary may, under the terms of the deposit agreement, refuse the requested service until payment is received or may set off the amount of the depositary fees from any distribution to be made to such holder of ADSs.



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The fees and charges that holders of our ADSs may be required to pay may vary over time and may be changed by us and by the depository. Holders of our ADSs will receive prior notice of such changes.

**Fees and Payments from the Depository to Us**

In 2014, we received the following payments from the depository, net of tax:

Reimbursement of expenses for preparation of SEC filing and submission:	\$ 89,057
Reimbursement of listing fees:	\$ 128,950
Reimbursement of legal fees:	\$ 160,423
Reimbursement of proxy process expenses (printing, postage and distribution):	\$ 77,034
Contributions toward our investor relations efforts:	\$ 209,931
Miscellaneous:	\$ 139,605
<b>Total:</b>	<b>\$ 805,000</b>

In addition, as part of its service to us, the depository waives its fees for the standard costs associated with the administration of the ADS facility, associated operating expenses, investor relations advice and access to an internet-based tool used in our investor relations activities.

**PART II****Item 13. Defaults, Dividend Arrearages and Delinquencies**

Not applicable

**Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds**

Not applicable

**Item 15. Controls and Procedures****a. Disclosure Controls and Procedures**

Our management has evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of December 31, 2014. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report. Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms, and that it is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

**b. Management's Annual Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed by, and under the supervision of, our principal executive, principal operating and principal financial officers, and effected



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by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Our internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management has completed an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2014 based on criteria in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that our internal control over financial reporting was effective as of December 31, 2014.

**c. Report of the Independent Registered Public Accounting Firm**

KPMG Samjong Accounting Corp. ( KPMG Samjong ), an independent registered public accounting firm, which audited our consolidated financial statements as of, and for the year ended, December 31, 2014, has issued an audit report on the effectiveness of our internal control over financial reporting, which report is included in Item 18 of this Form 20-F.

**d. Changes in Internal Control Over Financial Reporting**

There has been no change in our internal control over financial reporting that occurred during the year covered by this annual report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Our adoption of Internal Control Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission did not have, and is not reasonably likely to have, any material effect on our internal control over financial reporting.

**Item 16. [Reserved]**

**Item 16A. Audit Committee Financial Expert**

The board of directors has approved the members of our audit committee. Kim, Il-Sup is an audit committee financial expert and is independent within the meaning of applicable SEC rules.

**Item 16B. Code of Ethics**

We have adopted a code of business conduct and ethics, as defined in Item 16B. of Form 20-F under the Securities Exchange Act of 1934, as amended. Our code of business conduct and ethics, called Code of Conduct, applies to our chief executive officer and chief financial officer, as well as to our directors, other officers and employees. Our Code of Conduct is available on our web site at [www.posco.com](http://www.posco.com). If we amend the provisions of our Code of Conduct that apply to our chief executive officer or chief financial officer and persons performing similar functions, or if we grant any waiver of such provisions, we will disclose such amendment or waiver on our web site at the same address.

**Table of Contents****Item 16C. Principal Accountant Fees and Services****Audit and Non-Audit Fees**

The following table sets forth the fees billed to us by our independent auditor, KPMG, in 2012, 2013 and 2014:

	For the Year Ended December 31,		
	2012	2013	2014
	(In millions of Won)		
Audit fees	6,501	5,356	5,481
Audit-related fees	170	90	
Tax fees	1,730	1,110	1,082
Other fees	48	25	16
<b>Total fees</b>	<b>8,449</b>	<b>6,581</b>	<b>6,579</b>

Audit fees in 2014 as set forth in the above table are the aggregate fees billed by KPMG in connection with the audit of our annual financial statements and the annual financial statements of other related companies and review of interim financial statements.

Audit-related fees in 2014 as set forth in the above table are the aggregate fees billed by KPMG for comfort letter services related to our securities offering. There are no audit-related fees incurred in 2014.

Tax fees in 2014 as set forth in the above table are fees billed by KPMG for our tax compliance and tax planning, as well as tax planning and preparation of other related companies.

Other fees in 2014 as set forth in the above table are fees billed by KPMG primarily in relation to certifications in connection with forward contracts.

**Audit Committee Pre-Approval Policies and Procedures**

Our audit committee has not established pre-approval policies and procedures for the engagement of our independent auditors for services. Our audit committee expressly approves on a case-by-case basis any engagement of our independent auditors for audit and non-audit services provided to our subsidiaries or us.

**Item 16D. Exemptions from the Listing Standards for Audit Committees**

Not applicable

**Table of Contents****Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

The following table sets forth the repurchases of common shares by us or any affiliated purchasers during the fiscal year ended December 31, 2014:

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid Per Share (In Won)</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans</b>	<b>Maximum Number of Shares that May Yet Be Purchased Under the Plans</b>
January 1 to January 31				
February 1 to February 29				
March 1 to March 31				
April 1 to April 30				
May 1 to May 31				
June 1 to June 30				
July 1 to July 31				
August 1 to August 31				
September 1 to September 30				
October 1 to October 31				
November 1 to November 30				
December 1 to December 31				
<b>Total</b>				

**Item 16F. Change in Registrant's Certifying Accountant**

Not applicable

**Item 16G. Corporate Governance**

Pursuant to the rules of the New York Stock Exchange applicable to foreign private issuers like us that are listed on the New York Stock Exchange, we are required to disclose significant differences between the New York Stock Exchange's corporate governance standards and those that we follow under Korean law and in accordance with our own internal procedures. The following is a summary of such significant differences.

**NYSE Corporate Governance Standards  
Director Independence**

Listed companies must have a majority of independent directors

**POSCO's Corporate Governance Practice**

Our articles of incorporation provide that our board of directors must comprise no less than a majority of Outside Directors. Our Outside Directors must meet the criteria for outside directorship set forth under the Korean Securities and Exchange Act.

The majority of our board of directors is independent (as defined in accordance with the New York Stock Exchange's standards), and 7 out of 12 directors are Outside Directors. Under our articles of incorporation, we may have up to five Inside Directors and seven Outside Directors.

**Nomination/Corporate Governance Committee**

A nomination/corporate governance committee of independent directors is required. The committee must have a charter that addresses the purpose, responsibilities (including development of corporate governance guidelines) and annual performance evaluation of the committee

We have not established a separate nomination corporate governance committee. However, we maintain a Director Candidate Recommendation Committee composed of three Outside Directors and one Inside Director.

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**NYSE Corporate Governance Standards**

**Compensation Committee**

A compensation committee of independent directors is required. The committee must have a charter that addresses the purpose, responsibilities and annual performance evaluation of the committee. The charter must be made available on the company's website. In addition, in accordance with the U.S. Securities and Exchange Commission rules adopted pursuant to Section 952 of the Dodd-Frank Act, the New York Stock Exchange listing standards were amended to expand the factors relevant in determining whether a committee member has a relationship with the company that will materially affect that member's duties to the compensation committee.

Additionally, the committee may obtain or retain the advice of a compensation adviser only after taking into consideration all factors relevant to determining that adviser's independence from management

**Executive Session**

Non-management directors must meet in regularly scheduled executive sessions without management. Independent directors should meet alone in an executive session at least once a year

**Audit Committee**

Listed companies must have an audit committee that satisfies the independence and other requirements of Rule 10A-3 under the Exchange Act. All members must be independent. The committee must have a charter addressing the committee's purpose, an annual performance evaluation of the committee, and the duties and responsibilities of the committee. The charter must be made available on the company's website

**Audit Committee Additional Requirements**

Listed companies must have an audit committee that is composed of at least three directors.

**Shareholder Approval of Equity Compensation Plan**

Listed companies must allow their shareholders to exercise their voting rights with respect to any material revision to the company's equity compensation plan

**Corporate Governance Guidelines**

Listed companies must adopt and disclose corporate governance guidelines

**POSCO's Corporate Governance Practice**

We maintain an Evaluation and Compensation Committee composed of four Outside Directors.

Our Outside Directors hold meetings solely attended by Outside Directors in accordance with operation guidelines of our board of directors.

We maintain an Audit Committee comprised of three Outside Directors who meet the applicable independence criteria set forth under Rule 10A-3 under the Exchange Act.

Our Audit Committee has three members, as described above.

We currently have an Employee Stock Ownership Program.

We previously provided a stock options program for officers and directors, as another equity compensation plan. However, during our annual shareholders' meeting in February 2006, our shareholders resolved to terminate the stock option program and amended our articles of incorporation to delete the provision allowing grant of stock options to officers and directors. Consequently, since February 24, 2006, we have not granted stock options to officers and directors. Matters related to the Employee Stock Ownership Program are not subject to shareholders approval under Korean law.

We have adopted a Corporate Governance Charter setting forth our practices with respect to relevant corporate governance matters. Our Corporate Governance Charter is in compliance with Korean law but does not meet all requirements established by the New York Stock Exchange for U.S. companies listed on the exchange. A copy of our Corporate Governance Charter is available on our website at [www.posco.com](http://www.posco.com).

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**NYSE Corporate Governance Standards**

**Code of Business Conduct and Ethics**

Listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers

**Item 16H. Mine Safety Disclosure**

Not applicable

**POSCO's Corporate Governance Practice**

We have adopted a Code of Conduct for all directors, officers and employees. A copy of our Code of Conduct is available on our website at [www.posco.com](http://www.posco.com).

**PART III**

**Item 17. Financial Statements**

Not applicable

**Item 18. Financial Statements**

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**Item 19. Exhibits**

- 1.1 Articles of Incorporation of POSCO (English translation) (incorporated by reference to Exhibit 1.1 to the Registrant's filing on Form 20-F (File No. 001-13368), filed on May 12, 2014)\*
- 2.1 Form of Common Stock Certificate (including English translation) (incorporated by reference to Exhibit 4.3 to the Registrant's Registration Statement No. 333-189473)\*
- 2.2 Form of Deposit Agreement (including Form of American Depositary Receipts) (incorporated by reference to the Registrant's Registration Statement (File No. 33-84318) on Form F-6)\*
- 8.1 List of consolidated subsidiaries
- 12.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 12.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 13.1 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

\* Filed previously



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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders

POSCO:

We have audited the accompanying consolidated statements of financial position of POSCO and subsidiaries as of December 31, 2013 and 2014 and the related consolidated statements of comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2014. These consolidated financial statements are the responsibility of POSCO's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of POSCO and subsidiaries as of December 31, 2013 and 2014 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of POSCO's internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated April 27, 2015 expressed an unqualified opinion on the effectiveness of POSCO's internal control over financial reporting.

/s/ KPMG Samjong Accounting Corp.

Seoul, Korea

April 27, 2015

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**Report of Independent Registered Public Accounting Firm  
on Internal Control over Financial Reporting**

The Board of Directors and Stockholders

POSCO:

We have audited POSCO's internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. POSCO's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on POSCO's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, POSCO maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial position of POSCO and subsidiaries as of December 31, 2013 and 2014, and the related consolidated statements of comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2014, and our report dated April 27, 2015 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG Samjong Accounting Corp.

Seoul, Korea

April 27, 2015

**Table of Contents****POSCO and Subsidiaries****Consolidated Statements of Financial Position****As of December 31, 2013 and 2014**

	Notes	December 31, 2013 (note 2) (in millions of Won)	December 31, 2014
<b>Assets</b>			
Cash and cash equivalents	4,5,23	4,208,562	3,811,202
Trade accounts and notes receivable, net	6,23,29,37	11,512,644	11,664,587
Other receivables, net	7,23	1,890,423	1,956,216
Other short-term financial assets	8,23,37	2,970,665	1,462,920
Inventories	9	10,150,838	11,173,343
Current income tax assets	35	32,417	36,147
Assets held for sale	10	2,494	2,127,087
Other current assets	16	1,270,668	976,425
<b>Total current assets</b>		<b>32,038,711</b>	<b>33,207,927</b>
Long-term trade accounts and notes receivable, net	6,23	97,000	79,336
Other receivables, net	7,23	797,455	1,144,160
Other long-term financial assets	8,23	4,465,730	2,455,900
Investments in associates and joint ventures	11	3,808,693	4,060,507
Investment property, net	13	425,229	1,055,592
Property, plant and equipment, net	14	35,760,119	35,241,195
Intangible assets, net	15,41	5,929,840	6,884,989
Deferred tax assets	35	1,153,133	1,206,408
Other long-term assets	16	365,198	507,549
<b>Total non-current assets</b>		<b>52,802,397</b>	<b>52,635,636</b>
<b>Total assets</b>		<b>84,841,108</b>	<b>85,843,563</b>

*See accompanying notes to the consolidated financial statements.*

**Table of Contents****POSCO and Subsidiaries****Consolidated Statements of Financial Position, Continued****As of December 31, 2013 and 2014**

	Notes	December 31, 2013 (note 2) (in millions of Won)	December 31, 2014
<b>Liabilities</b>			
Trade accounts and notes payable	23,37	4,231,322	3,950,786
Short-term borrowings and current installments of long-term borrowings	4,17,23	10,713,646	12,195,484
Other payables	18,23	2,128,854	2,194,713
Other short-term financial liabilities	19,23,37	135,904	111,637
Current income tax liabilities	35	358,930	453,613
Liabilities of disposal group held for sale	10		590,982
Provisions	20	107,329	150,030
Other current liabilities	22,29	2,681,559	2,727,793
<b>Total current liabilities</b>		20,357,544	22,375,038
Long-term trade accounts and notes payable	23,37	559	88,469
Long-term borrowings, excluding current installments	4,17,23	15,532,959	15,232,773
Other payables	18,23	206,634	169,986
Other long-term financial liabilities	19,23	260,021	91,095
Defined benefit liabilities, net	21	273,160	290,325
Deferred tax liabilities	35	1,711,762	1,832,260
Long-term provisions	20	146,272	223,239
Other long-term liabilities	22	571,515	282,982
<b>Total non-current liabilities</b>		18,702,882	18,211,129
<b>Total liabilities</b>		39,060,426	40,586,167
<b>Equity</b>			
Share capital	24	482,403	482,403
Capital surplus	24	1,078,266	1,083,718
Hybrid bonds	25	996,919	996,919
Reserves	26	(23,076)	(408,773)
Treasury shares	27	(1,579,124)	(1,534,457)
Retained earnings		41,053,632	40,937,148
<b>Equity attributable to owners of the controlling company</b>		42,009,020	41,556,958
<b>Non-controlling interests</b>	25	3,771,662	3,700,438
<b>Total equity</b>		45,780,682	45,257,396
<b>Total liabilities and equity</b>		84,841,108	85,843,563

See accompanying notes to the consolidated financial statements.



**Table of Contents****POSCO and Subsidiaries****Consolidated Statements of Comprehensive Income****For the years ended December 31, 2012, 2013 and 2014**

	Notes	2012 (note 2) (in millions of Won, except per share information)	2013 (note 2)	2014
<b>Revenue</b>	28,29,37	63,345,258	61,765,743	64,758,625
<b>Cost of sales</b>	29,31,34,37	(55,920,623)	(54,913,816)	(57,465,485)
<b>Gross profit</b>		7,424,635	6,851,927	7,293,140
Selling and administrative expenses	30,34			
Administrative expenses	31	(2,129,463)	(2,231,805)	(2,309,756)
Selling expenses		(1,678,688)	(1,632,120)	(1,760,118)
Other operating income and expenses	32,37			
Other operating income		448,120	229,073	269,406
Other operating expenses	34	(809,465)	(650,806)	(979,674)
<b>Operating profit</b>		3,255,139	2,566,269	2,512,998
Share of loss of equity-accounted investees, net	11	(22,702)	(179,809)	(299,893)
Finance income and costs	23,33			
Finance income		2,897,063	2,380,838	2,396,762
Finance costs		(2,797,638)	(2,829,253)	(3,221,987)
<b>Profit before income taxes</b>		3,331,862	1,938,045	1,387,880
Income tax expense	35	(974,016)	(589,029)	(823,841)
<b>Profit</b>		2,357,846	1,349,016	564,039
<b>Other comprehensive income (loss)</b>				
Items that will never be reclassified subsequently to profit or loss :				
Remeasurements of defined benefit pension plans	21	(62,527)	6,224	(75,101)
Items that are or may be reclassified subsequently to profit or loss :				
Capital adjustment arising from investments in equity-method investees		(130,836)	(183,836)	(45,754)
Net changes in the unrealized fair value of available-for-sale investments	23	(81,471)	412,346	(333,891)
Foreign currency translation differences		(363,088)	(220,464)	(836)
<b>Other comprehensive income (loss), net of tax</b>		(637,922)	14,270	(455,582)
<b>Total comprehensive income</b>		1,719,924	1,363,286	108,457
<b>Profit (loss) attributable to :</b>				
Owners of the controlling company		2,437,227	1,370,878	632,706
Non-controlling interests		(79,381)	(21,862)	(68,667)
<b>Profit</b>		2,357,846	1,349,016	564,039
<b>Total comprehensive income (loss) attributable to :</b>				
Owners of the controlling company		1,886,652	1,438,744	181,525
Non-controlling interests		(166,728)	(75,458)	(73,068)

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<b>Total comprehensive income</b>		1,719,924	1,363,286	108,457
<b>Basic and diluted earnings per share (in Won)</b>	36	31,552	17,338	7,514

*See accompanying notes to the consolidated financial statements.*

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**Table of Contents****POSCO and Subsidiaries****Consolidated Statements of Changes in Equity****For the years ended December 31, 2012, 2013 and 2014**

	Share capital	Attributable to owners of the controlling company				Sub total	Non-controlling interests	Total	
		Capital surplus	Hybrid bonds	Reserves	Treasury shares				Retained earnings (in millions of Won)
<b>Balance as of January 1, 2012 (note 2)</b>	482,403	1,150,452		405,426	(2,391,406)	38,702,830	38,349,705	2,372,792	40,722,497
<b>Comprehensive income:</b>									
Profit						2,437,227	2,437,227	(79,381)	2,357,846
Other comprehensive income									
Net changes in accumulated comprehensive income of investments in associates, net of tax				(112,974)			(112,974)	(17,862)	(130,836)
Net changes in the unrealized fair value of available-for-sale investments, net of tax				(86,661)			(86,661)	5,190	(81,471)
Foreign currency translation differences, net of tax				(292,015)			(292,015)	(71,073)	(363,088)
Remeasurements of defined benefit pension plans, net of tax						(58,925)	(58,925)	(3,602)	(62,527)
<b>Total comprehensive income</b>				(491,650)		2,378,302	1,886,652	(166,728)	1,719,924
<b>Transactions with owners of the controlling company, recognized directly in equity:</b>									
Year-end dividends						(579,333)	(579,333)	(19,751)	(599,084)
Interim dividends						(154,489)	(154,489)		(154,489)
Changes in subsidiaries								35,870	35,870
Changes in ownership interests in subsidiaries		(41,924)					(41,924)	715,148	673,224
Issue of hybrid bonds									
Interest of hybrid bonds									
Disposal of treasury shares									
Others		(3,714)		(1,926)		(32,328)	(37,968)	34,260	(3,708)
<b>Total transactions with owners of the controlling company</b>		(45,638)		(1,926)		(766,150)	(813,714)	765,527	(48,187)
<b>Balance as of December 31, 2012</b>	482,403	1,104,814		(88,150)	(2,391,406)	40,314,982	39,422,643	2,971,591	42,394,234

See accompanying notes to the consolidated financial statements.

Table of Contents**POSCO and Subsidiaries****Consolidated Statements of Changes in Equity, Continued****For the years ended December 31, 2012, 2013 and 2014**

	Share capital	Attributable to owners of the controlling company					Sub total	Non-controlling interests	Total
		Capital surplus	Hybrid bonds	Reserves	Treasury shares (in millions of Won)	Retained earnings			
<b>Balance as of January 1, 2013</b>	482,403	1,104,814		(88,150)	(2,391,406)	40,314,982	39,422,643	2,971,591	42,394,234
<b>Comprehensive income:</b>									
Profit						1,370,878	1,370,878	(21,862)	1,349,016
Other comprehensive income									
Net changes in accumulated comprehensive income of investments in associates, net of tax				(166,787)			(166,787)	(17,049)	(183,836)
Net changes in the unrealized fair value of available-for-sale investments, net of tax				412,453			412,453	(107)	412,346
Foreign currency translation differences, net of tax				(180,839)			(180,839)	(39,625)	(220,464)
Remeasurements of defined benefit pension plans, net of tax						3,039	3,039	3,185	6,224
<b>Total comprehensive income</b>				64,827		1,373,917	1,438,744	(75,458)	1,363,286
<b>Transactions with owners of the controlling company, Recognized directly in equity:</b>									
Year-end dividends						(463,467)	(463,467)	(30,544)	(494,011)
Interim dividends						(154,490)	(154,490)		(154,490)
Changes in subsidiaries								40,506	40,506
Changes in ownership interests in subsidiaries		(31,417)					(31,417)	373,963	342,546
Issue of hybrid bonds			996,919				996,919	498,468	1,495,387
Interest of hybrid bonds						(24,161)	(24,161)	(6,228)	(30,389)
Disposal of treasury shares		5,348			812,282		817,630		817,630
Others		(479)		247		6,851	6,619	(636)	5,983
<b>Total transactions with owners of the controlling company</b>		(26,548)	996,919	247	812,282	(635,267)	1,147,633	875,529	2,023,162
<b>Balance as of December 31, 2013</b>	482,403	1,078,266	996,919	(23,076)	(1,579,124)	41,053,632	42,009,020	3,771,662	45,780,682

See accompanying notes to the consolidated financial statements.



**Table of Contents****POSCO and Subsidiaries****Consolidated Statements of Changes in Equity, Continued****For the years ended December 31, 2012, 2013 and 2014**

	Share capital	Attributable to owners of the controlling company					Sub total	Non-controlling interests	Total
		Capital surplus	Hybrid bond	Reserves	Treasury shares (in millions of Won)	Retained earnings			
<b>Balance as of January 1, 2014</b>	482,403	1,078,266	996,919	(23,076)	(1,579,124)	41,053,632	42,009,020	3,771,662	45,780,682
<b>Comprehensive income:</b>									
Profit						632,706	632,706	(68,667)	564,039
Other comprehensive income									
Net changes in accumulated comprehensive income of investments in associates, net of tax				(50,920)			(50,920)	5,166	(45,754)
Net changes in the unrealized fair value of available-for-sale investments, net of tax				(335,626)			(335,626)	1,735	(333,891)
Foreign currency translation differences, net of tax				517			517	(1,353)	(836)
Remeasurements of defined benefit pension plans, net of tax						(65,152)	(65,152)	(9,949)	(75,101)
<b>Total comprehensive income</b>				(386,029)		567,554	181,525	(73,068)	108,457
<b>Transactions with owners of the controlling company, Recognized directly in equity:</b>									
Year-end dividends						(478,702)	(478,702)	(32,887)	(511,589)
Interim dividends						(159,568)	(159,568)	(76,854)	(236,422)
Changes in subsidiaries								91,551	91,551
Changes in ownership interests in subsidiaries		(9,401)					(9,401)	44,265	34,864
Interest of hybrid bonds						(43,600)	(43,600)	(26,175)	(69,775)
Disposal of treasury shares		14,576			44,667		59,243		59,243
Others		277		332		(2,168)	(1,559)	1,944	385
<b>Total transactions with owners of the controlling company</b>		5,452		332	44,667	(684,038)	(633,587)	1,844	(631,743)
<b>Balance as of December 31, 2014</b>	482,403	1,083,718	996,919	(408,773)	(1,534,457)	40,937,148	41,556,958	3,700,438	45,257,396

See accompanying notes to the consolidated financial statements.



**Table of Contents****POSCO and Subsidiaries****Consolidated Statements of Cash Flows****For the years ended December 31, 2012, 2013 and 2014**

	Notes	2012	2013 (in millions of Won)	2014
<b>Cash flows from operating activities</b>				
Profit		2,357,846	1,349,016	564,039
Adjustments for:				
Depreciation		2,405,769	2,505,536	2,894,609
Amortization		157,991	180,014	343,940
Finance income		(1,553,200)	(1,012,281)	(1,046,718)
Finance costs		1,605,414	1,585,778	1,801,015
Income tax expense		974,016	589,029	823,841
Gain on disposal of property, plant and equipment		(42,290)	(14,177)	(15,039)
Loss on disposal of property, plant and equipment		65,486	121,133	50,006
Impairment loss on property, plant and equipment		12,977	9,742	64,833
Share of loss of equity-accounted investees		22,702	179,809	299,893
Costs for defined benefit plans		226,132	247,748	237,886
Provision expense		25,127	111,364	245,470
Bad debt expenses		123,373	201,185	205,306
Loss on valuation of inventories		76,484	49,172	41,713
Impairment loss on goodwill and intangible assets		21,776	125,316	55,220
Gain on disposals of assets held for sale		(193,333)	(101,611)	(48,232)
Impairment loss on assets held for sale		258,451	1,814	17,205
Others, net		(26,636)	31,079	56,890
		4,160,239	4,810,650	6,027,838
Changes in operating assets and liabilities	39	1,969,982	(108,300)	(1,853,782)
Interest received		238,231	227,989	238,817
Interest paid		(874,711)	(797,316)	(882,183)
Dividends received		178,317	193,008	114,694
Income taxes paid		(710,448)	(816,912)	(797,324)
Net cash provided by operating activities		7,319,456	4,858,135	3,412,099
<b>Cash flows from investing activities</b>				
	40			
Acquisitions of short-term financial instruments		(3,616,118)	(4,449,312)	(3,096,602)
Proceeds from disposal of short-term financial instruments		3,847,682	3,901,527	4,635,120
Acquisition of long-term financial instruments		(178,163)	(123,703)	(24,683)
Increase in loans		(434,156)	(575,343)	(361,671)
Collection of loans		318,745	417,971	76,717
Acquisitions of available-for-sale investments		(307,712)	(309,469)	(75,582)
Proceeds from disposal of available-for-sale investments		700,686	269,363	252,056
Acquisitions of investments of equity-accounted investees		(492,681)	(1,076,763)	(702,989)
Proceeds from disposal of investments of equity-accounted investees		18,428	89,533	21,359
Acquisitions of property, plant and equipment		(7,054,543)	(6,569,613)	(3,505,549)
Proceeds from disposal of property, plant and equipment		272,948	82,153	62,829
Acquisitions of investment property		(29,689)	(20,945)	(406,603)
Proceeds from disposal of investment property		42,616	8,464	43,167

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Acquisitions of intangible assets	(448,214)	(543,666)	(343,804)
Proceeds from disposal of intangible assets	10,945	5,429	9,043
Proceeds from disposal of assets held for sale	1,268,545	126,809	8,301
Cash received from (paid in) acquisition of business, net of cash acquired	(98,880)	5,729	(388,578)
Cash received from disposal of business, net of cash transferred	13,041	5,962	48,949
Other, net	(2,483)	4,204	3,338
Net cash used in investing activities	(6,169,003)	(8,751,670)	(3,745,182)

*See accompanying notes to the consolidated financial statements.*

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**Table of Contents****POSCO and Subsidiaries****Consolidated Statements of Cash Flows, Continued****For the years ended December 31, 2012, 2013 and 2014**

	Notes	2012	2013 (in millions of Won)	2014
<b>Cash flows from financing activities</b>	40			
Proceeds from borrowings		3,007,017	5,098,702	2,522,495
Repayment of borrowings		(1,884,140)	(2,845,957)	(2,802,150)
Proceeds from (repayment of) short-term borrowings, net		(1,412,138)	86,475	1,037,912
Payment of cash dividends		(751,908)	(648,580)	(677,000)
Proceeds from issuance of hybrid bonds			1,495,387	
Payment of interest of hybrid bonds			(26,088)	(69,713)
Capital contribution from non-controlling interests and proceeds from disposal of subsidiary while maintaining control		375,850	385,122	54,066
Capital deduction from non-controlling interests and additional acquisition of interests in subsidiaries		(167,663)	(22,078)	
Proceeds from disposal of treasury shares			14,019	43,188
Other, net		(74,645)	(4,666)	26,314
Net cash provided by (used in) financing activities		(907,627)	3,532,336	135,112
Effect of exchange rate fluctuation on cash held		(160,982)	(110,765)	11,545
<b>Net increase (decrease) in cash and cash equivalents</b>		81,844	(471,964)	(186,426)
<b>Cash and cash equivalents at beginning of the period</b>		4,598,682	4,680,526	4,208,562
<b>Cash and cash equivalents at end of the period</b>	10	4,680,526	4,208,562	4,022,136

*See accompanying notes to the consolidated financial statements.*



**Table of Contents****POSCO and Subsidiaries****Notes to the Consolidated Financial Statements****As of December 31, 2012, 2013 and 2014****1. General Information**

General information about POSCO, its 47 domestic subsidiaries including POSCO Engineering & Construction Co., Ltd., 181 foreign subsidiaries including POSCO America Corporation (collectively the Company) and its 97 associates and joint ventures are as follows:

## (a) The controlling company

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

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

As of December 31, 2013 and 2014, POSCO's shareholders are as follows:

Shareholder's name	2013		2014	
	Number of shares	Ownership (%)	Number of shares	Ownership (%)
National Pension Service	6,577,907	7.54	7,203,493	8.26
Nippon Steel & Sumitomo Metal Corporation <sup>(*1)</sup>	4,394,712	5.04	4,394,712	5.04
Saudi Arabia, Kingdom of Saudi Arabia	948,477	1.09	2,109,593	2.42
Hyundai Heavy Industries Co.,Ltd. and subsidiaries <sup>(*2)</sup>	2,197,707	2.52	1,319,560	1.51
Pohang University of Science and Technology	1,905,000	2.18	1,905,000	2.18
KB Financial Group Inc. and subsidiaries <sup>(*2)</sup>	1,846,994	2.12	1,847,438	2.12
Others	69,316,038	79.51	68,407,039	78.47
	87,186,835	100.00	87,186,835	100.00

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

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

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



**Table of Contents****POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2012, 2013 and 2014**

(b) Consolidated subsidiaries

Details of consolidated subsidiaries as of December 31, 2013 and 2014 are as follows:

Principal operations	Ownership (%)						Region	
	December 31, 2013			December 31, 2014				
	POSCO	Subsidiaries	Total	POSCO	Subsidiaries	Total		
<b>[Domestic]</b>								
POSCO ENGINEERING & CONSTRUCTION., LTD.	Engineering and construction	89.53		89.53	89.53	89.53	Pohang	
POSCO Processing & Service	Steel sales and service	95.31		95.31	96.01	96.01	Seoul	
POSCO COATED & COLOR STEEL Co., Ltd.	Coated steel manufacturing	56.87		56.87	56.87	56.87	Pohang	
POSCO ICT	Computer hardware and software distribution	65.38		65.38	65.38	65.38	Seongnam	
POSCO Research Institute	Economic research and consulting	100.00		100.00	100.00	100.00	Seoul	
POSMATE	Business facility maintenance	54.46	11.77	66.23	57.25	11.05	68.30	Suncheon
POSCO A&C	Architecture and consulting	100.00		100.00	100.00	100.00	Seoul	
POSCO Specialty Steel Co., Ltd.	Steel manufacturing and sales	72.09		72.09	72.09	72.09	Changwon	
POSCO Venture Capital Co., Ltd.	Investment in venture companies	95.00		95.00	95.00	95.00	Pohang	
eNtoB Corporation	Electronic commerce	32.19	30.19	62.38		62.38	62.38	Seoul
POSCO CHEMTECH	Manufacturing and sellings of refractories	60.00		60.00	60.00	60.00	60.00	Pohang
POSCO-Terminal Co., Ltd.	Transporting and warehousing	51.00		51.00	51.00	51.00	51.00	Gwangyang
POSCO M-TECH <sup>(*1)</sup>	Packing materials manufacturing	48.85		48.85	48.85	48.85	48.85	Pohang
POSCO ENERGY CO., LTD.	Generation of electricity	89.02		89.02	89.02	89.02	89.02	Seoul
POSCO TMC Co., Ltd.	Component manufacturing	34.20	40.36	74.56		74.56	74.56	Cheonan
POSCO NIPPON STEEL RHF JOINT VENTURE.CO.,Ltd.	Steel manufacturing and sales	70.00		70.00	70.00	70.00	70.00	Pohang
MegaAsset Co.,Ltd.	Real estate rental and sales		100.00	100.00		100.00	100.00	Cheonan
POSCO Engineering CO.,Ltd	Construction and engineering service		95.56	95.56		95.56	95.56	Seongnam
POSCO AST	Steel manufacturing and sales	100.00		100.00		100.00	100.00	Ansan
POSHIMETAL Co., Ltd.	Steel manufacturing and sales	65.00		65.00	65.00	65.00	65.00	Gwangyang
Poscoene	Handling & disposal of waste matter		100.00	100.00		100.00	100.00	Seoul
POSFINE Co., Ltd.		69.23		69.23	69.23	69.23	69.23	Gwangyang

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	Non metallic minerals manufacturing							
POSCO Humans	Construction	90.30	90.30	90.30		90.30		Pohang
Mapo Hibroad Parking co., Ltd.	Construction		71.00	71.00		71.00	71.00	Seoul
Steel Processing and Fabricating Center Co.,LTD	Steel manufacturing		70.52	70.52		84.89	84.89	Gwangyang
Plant Engineering service Technology Co., Ltd.	Engineering service		100.00	100.00		100.00	100.00	Pohang
POSCO PLANTEC Co., Ltd.	Steel work maintenance and machinery installation				60.84	13.10	73.94	Pohang
Busan E&E Co., Ltd.	Handling & disposal of waste matter	70.00	70.00	70.00			70.00	Busan

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**Table of Contents****POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2012, 2013 and 2014**

	Principal operations	Ownership (%)						Region
		December 31, 2013			December 31, 2014			
		POSCO	Subsidiaries	Total	POSCO	Subsidiaries	Total	
POSCO Family Strategy Fund	Financial investment	60.79	39.21	100.00	60.79	39.21	100.00	Pohang
POREKA Co., Ltd.	Advertising agency	100.00		100.00	100.00		100.00	Seoul
Daewoo International Corporation	Trading and Energy & Resource development	60.31		60.31	60.31		60.31	Seoul
POSCO LED Co., Ltd.	LED lightening	16.70	63.30	80.00	16.70	63.30	80.00	Seongnam
Pohang Scrap Recycling Distribution Center Co., Ltd.	Steel processing and sales		51.00	51.00		51.00	51.00	Pohang
PSC Energy Global Co., Ltd.	Investment in energy industry		100.00	100.00		100.00	100.00	Pohang
Suncheon Eco Trans Co., Ltd	Train manufacturing & management	100.00		100.00	100.00		100.00	Suncheon
New Altec Co., Ltd	Aluminum products manufacturing and sales		60.10	60.10		60.10	60.10	Incheon
PONUtech Co.,Ltd.	Nuclear power plant design and repair service		100.00	100.00		100.00	100.00	Ulsan
Tamra Offshore Wind Power Co., Ltd	Cogeneration plant operation		64.00	64.00		64.00	64.00	Jeju
POS-HIAL	Aluminum products manufacturing and sales		51.00	51.00		51.00	51.00	Youngam
IT Engineering (*2)	Automotive engineering service		17.00	17.00		17.00	17.00	Seoul
Future Creation Fund Postech Early Stage account (*2)	Investment in venture companies					40.00	40.00	Seoul
Keystone Private Equity	Investment in New Regeneration Energy					55.12	55.12	Seoul
POSCO Green Gas Technology	Gas manufacturing and Plumber				100.00		100.00	Gwangyang
POSCO WOMAN S FUND(*2)	Investment in venture companies					40.00	40.00	Seoul
Chun Sa wind	Other development					100.00	100.00	Seoul
POSPower CO., Ltd.	Other development					100.00	100.00	Samchuck
Songdo Posco family Housing	House manufacturing and management					100.00	100.00	Incheon
<b>[Foreign]</b>								
POSCO America Corporation	Steel trading	99.45	0.55	100.00	99.45	0.55	100.00	USA
POSCO AUSTRALIA PTY LTD	Iron ore sales & mine development	100.00		100.00	100.00		100.00	Australia
POSCO Canada Ltd.	Coal sales		100.00	100.00		100.00	100.00	Canada
POSCAN Elkveiw Coal Ltd.	Coal sales		100.00	100.00		100.00	100.00	Canada
POSCO Asia Co., Ltd.	Steel and raw material trading	100.00		100.00	100.00		100.00	Hongkong
POSCO-CTPC Co., Ltd.	Steel manufacturing	56.60	43.40	100.00	56.60	43.40	100.00	China
POSCO-JKPC Co., Ltd.	Steel manufacturing		95.00	95.00		89.18	89.18	Japan
INTERNATIONAL BUSINESS CENTER CORPORATION	Leasing service		60.00	60.00				Vietnam
POSCO E&C Vietnam Co., Ltd.	Steel manufacturing		100.00	100.00		100.00	100.00	Vietnam
	Stainless steel manufacturing	58.60	23.88	82.48	58.60	23.88	82.48	China

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Zhangjiagang Pohang Stainless Steel Co.,  
Ltd.

POSCO (Guangdong) Steel Co., Ltd.	Plating steel sheet manufacturing	87.04	10.04	97.08	87.04	10.04	97.08	China
POSCO (Thailand) Company Limited	Steel manufacturing	85.62	14.38	100.00	85.62	14.38	100.00	Thailand

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**Table of Contents****POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2012, 2013 and 2014**

	Principal operations	Ownership (%)						Region
		December 31, 2013			December 31, 2014			
		POSCO	Subsidiaries	Total	POSCO	Subsidiaries	Total	
Myanmar POSCO Steel Co., Ltd	Zinc relief manufacturing	70.00		70.00	70.00		70.00	Myanmar
POSCO-JOPC Co., Ltd.	Steel manufacturing		56.84	56.84				Japan
POSCO Investment Co., Ltd.	Financial Service	100.00		100.00	100.00		100.00	Hongkong
POSCO-MKPC SDN BHD	Steel manufacturing	44.69	25.31	70.00	44.69	25.31	70.00	Malaysia
Qingdao Pohang Stainless Steel Co., Ltd.	Stainless steel manufacturing	70.00	30.00	100.00	70.00	30.00	100.00	China
POSCO (Suzhou) Automotive Processing Center Co., Ltd.	Steel manufacturing	90.00	10.00	100.00	90.00	10.00	100.00	China
POSCO BIOVENTURES I, L.P.	Bio tech Industry		100.00	100.00		100.00	100.00	USA
PT. POSNESIA Stainless Steel Industry	Steel manufacturing	70.00		70.00	70.00		70.00	Indonesia
POSEC Hawaii, Inc.	Real estate Industry		100.00	100.00		100.00	100.00	USA
POSCO-China Qingdao Processing Center Co., Ltd.	Steel manufacturing		100.00	100.00		100.00	100.00	China
POS-ORE PTY LTD	Iron ore sales & mine development		100.00	100.00		100.00	100.00	Australia
POSCO-China Holding Corp.	Holding company	100.00		100.00	100.00		100.00	China
POSCO JAPAN Co., Ltd.	Steel trading	100.00		100.00	100.00		100.00	Japan
POS-CD PTY LTD	Coal sales		100.00	100.00		100.00	100.00	Australia
POS-GC PTY LTD	Coal sales		100.00	100.00		100.00	100.00	Australia
POSCO-India Private Limited	Steel manufacturing	100.00		100.00	100.00		100.00	India
POSCO-India Pune Processing Center. Pvt. Ltd.	Steel manufacturing	65.00		65.00	65.00		65.00	India
POSCO-JEPC Co., Ltd.	Steel manufacturing		88.02	88.02		88.02	88.02	Japan
POSCO-CFPC Co., Ltd.	Steel manufacturing	39.60	60.40	100.00	39.60	60.40	100.00	China
POSCO E&C CHINA Co., Ltd.	Construction and civil engineering		100.00	100.00		100.00	100.00	China
POSCO MPPC S.A. de C.V.	Steel manufacturing		95.00	95.00		95.00	95.00	Mexico
Zhangjigang Pohang Port Co., Ltd.	Loading and unloading service		100.00	100.00		100.00	100.00	China
Qingdao Pos-metal Co., Ltd.	Steel manufacturing		100.00	100.00		100.00	100.00	China
POSCO-VIETNAM Co., Ltd.	Steel manufacturing	85.00		85.00	85.00		85.00	Vietnam
POSCO MEXICO S.A. DE C.V.	Automotive steel sheet manufacturing	84.84	15.16	100.00	84.84	15.16	100.00	Mexico
POSCO India Delhi Steel Processing Centre Private Limited	Steel manufacturing	66.40	10.00	76.40	66.40	10.00	76.40	India
POSCO-Poland Wroclaw Processing Center Sp. z o. o.	Steel manufacturing	60.00		60.00	60.00		60.00	Poland
POS-NP PTY LTD	Coal sales		100.00	100.00		100.00	100.00	Australia
POSCO-Vietnam Processing Center Co., Ltd.	Steel manufacturing	91.63		91.63	87.10	5.00	92.10	Vietnam
POSCO(Chongqing) Automotive Processing Center Co., Ltd.	Steel manufacturing	90.00	10.00	100.00	90.00	10.00	100.00	China
SUZHOU POSCO-CORE TECHNOLOGY CO., LTD.	Component manufacturing		100.00	100.00		100.00	100.00	China
POSCO-Malaysia SDN. BHD.	Steel manufacturing	80.07	13.34	93.41	81.79	13.63	95.42	Malaysia
POS-Minerals Corporation	Mine development & sales		100.00	100.00		100.00	100.00	USA





**Table of Contents****POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2012, 2013 and 2014**

Principal operations	Ownership (%)							Region
	December 31, 2013			December 31, 2014				
	POSCO	Subsidiaries	Total	POSCO	Subsidiaries	Total		
POSCO(Wuhu) Automotive Processing Center Co., Ltd.	Steel manufacturing	68.57	31.43	100.00	68.57	31.43	100.00	China
POSCO Engineering and Construction India Private Limited	Construction and engineering		100.00	100.00		100.00	100.00	India
POSCO E&C SMART S DE RL DE CV	Construction and engineering		100.00	100.00		100.00	100.00	Mexico
POSCO Philippine Manila Processing Center, Inc.	Steel manufacturing		100.00	100.00		100.00	100.00	Philippines
POSCO Gulf SFC LLC	Steel manufacturing		81.93	81.93		81.93	81.93	UAE
Dalian POSCO ICT-DONGFANG Engineering Co., Ltd.	Electric control equipment manufacturing		100.00	100.00		100.00	100.00	China
SANPU TRADING Co., Ltd.	Raw material trading		70.00	70.00		70.00	70.00	China
Zhangjiagang BLZ Pohang International Trading	Steel transit trading		100.00	100.00		100.00	100.00	China
POSCO MEXICO HUMAN TECH S.A. de C.V.	Service	80.00	20.00	100.00	80.00	20.00	100.00	Mexico
POSCO MESDC S.A. DE C.V.	Steel product sales		56.80	56.80		56.80	56.80	Mexico
POSCO ICT-China	IT service and DVR business		100.00	100.00		100.00	100.00	China
DWEMEX, S.A.DE.C.V.	Construction		99.00	99.00		99.00	99.00	Mexico
POSCO MPC Servicios S.A. de C.V.	Steel manufacturing		61.00	61.00		61.00	61.00	Mexico
POSCO-Uruguay S.A	Lumber manufacturing & sales	98.00		98.00	98.10		98.10	Uruguay
Pos-Sea Pte Ltd	Steel transit trading		67.54	67.54		67.54	67.54	Singapore
POSCO Europe Steel Distribution Center	Steel product sales	50.00	20.00	70.00	50.00	20.00	70.00	Slovenia
VECTUS LIMITED	PRT test track construction		99.57	99.57		99.69	99.69	England
Zeus(Cayman)	Service	100.00		100.00	100.00		100.00	Cayman Islands
POSCO VST CO., LTD.	Stainless steel manufacturing	95.65		95.65	95.65		95.65	Vietnam
POSCO Maharashtra Steel Private Limited	Steel manufacturing	100.00		100.00	100.00		100.00	India
POSCO India Chennai Steel Processing Centre Pvt. Ltd.	Steel manufacturing	100.00		100.00	100.00		100.00	India
POSCO TNPC Otomotiv Celik San. Ve Tic. A.S	Steel manufacturing	100.00		100.00	100.00		100.00	Turkey
POSCO Vietnam Ha Noi Processing Center Co., Ltd.	Steel manufacturing	70.00		70.00	70.00		70.00	Vietnam
POSCO(Liaoning) Automotive Processing Center Co., Ltd.	Steel manufacturing	90.00	10.00	100.00	90.00	10.00	100.00	China
POSCO-Indonesia Jakarta Processing Center	Steel manufacturing	65.00	20.00	85.00	65.00	20.00	85.00	Indonesia
POSCO E&C VENEZUELA C.A.	Construction and engineering		100.00	100.00		100.00	100.00	Venezuela
Motta Resources Indonesia	Mine development	65.00		65.00	65.00		65.00	Indonesia
POSCO TMC INDIA PRIVATE LIMITED	Steel manufacturing		100.00	100.00		100.00	100.00	India
POSCO America Alabama Processing Center Co., Ltd.	Steel manufacturing		100.00	100.00		100.00	100.00	USA



**Table of Contents****POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2012, 2013 and 2014**

	Principal operations	Ownership (%)						Region
		December 31, 2013			December 31, 2014			
		POSCO	Subsidiaries	Total	POSCO	Subsidiaries	Total	
PT PEN INDONESIA	Construction		95.00	95.00		67.00	67.00	Indonesia
POSCO(Yantai) Automotive Processing Center Co., Ltd.	Steel manufacturing	90.00	10.00	100.00	90.00	10.00	100.00	China
POSCO India Steel Distribution Center Private Ltd.	Steel logistics		100.00	100.00		100.00	100.00	India
POSCO China Dalian Plate Processing Center Co., Ltd.	Steel manufacturing	80.00	10.00	90.00	80.00	10.00	90.00	China
POSCO-South Asia Company Limited	Steel product sales	100.00		100.00	100.00		100.00	Thailand
POSCO SS-VINA	Steel manufacturing		100.00	100.00		100.00	100.00	Vietnam
POSCO-NCR Coal Ltd.	Coal sales		100.00	100.00		100.00	100.00	Canada
POSCO WA PTY LTD	Iron ore sales & mine development	100.00		100.00	100.00		100.00	Australia
POSCO Engineering and Construction UZ	Construction		100.00	100.00		100.00	100.00	Uzbekistan
POSCO AUSTRALIA GP PTY LIMITED	Resource development		100.00	100.00		100.00	100.00	Australia
Daewoo International (America) Corp.	Trading business		100.00	100.00		100.00	100.00	USA
Daewoo International (Deutschland) GmbH.	Trading business		100.00	100.00		100.00	100.00	Germany
Daewoo International Japan Corp.	Trading business		100.00	100.00		100.00	100.00	Japan
DAEWOO INTERNATIONAL SINGAPORE PTE. LTD.	Trading business		100.00	100.00		100.00	100.00	Singapore
Daewoo Italia S.r.l.	Trading business		100.00	100.00		100.00	100.00	Italy
Daewoo (China) Co., Ltd.	Trading business		100.00	100.00		100.00	100.00	China
DAEWOO TEXTILE FERGANA LLC	Textile manufacturing		100.00	100.00		100.00	100.00	Uzbekistan
DAEWOO TEXTILE BUKHARA LLC	Textile manufacturing		100.00	100.00		100.00	100.00	Uzbekistan
DAEWOO INTERNATIONAL AUSTRALIA HOLDINGS PTY LTD	Resource development		100.00	100.00		100.00	100.00	Australia
Daewoo Paper Manufacturing Co., Ltd.	Paper manufacturing		66.70	66.70		66.70	66.70	China
Tianjin Daewoo Paper Manufacturing Co., Ltd.	Paper manufacturing		68.30	68.30		68.30	68.30	China
POSCO MAURITIUS LIMITED	Coal development and sales		100.00	100.00		100.00	100.00	Mauritius
PT. KRAKATAU POSCO	Steel manufacturing	70.00		70.00	70.00		70.00	Indonesia
Myanmar Daewoo Limited	Trading business		100.00	100.00		100.00	100.00	Myanmar
DAEWOO INTERNATIONAL MEXICO S.A. DE C.V.	Trading business		100.00	100.00		100.00	100.00	Mexico
Daewoo International Guangzhou Corp.	Trading business		100.00	100.00		100.00	100.00	China
Daewoo (M) SDN. BHD.	Trading business		100.00	100.00		100.00	100.00	Malaysia
Daewoo EL SALVADOR S.A. DE C.V.	Trading business		88.00	88.00		88.00	88.00	El Salvador
POSCO (Zhangjiagang) STS Processing Center Co., Ltd	Steel manufacturing		100.00	100.00		100.00	100.00	China
Daewoo International (M) SDN BHD	Trading business		100.00	100.00		100.00	100.00	Malaysia
Daewoo International SHANGHAI CO., LTD.	Trading business		100.00	100.00		100.00	100.00	China

**Table of Contents****POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2012, 2013 and 2014**

Principal operations	Ownership (%)						Region	
	December 31, 2013			December 31, 2014				
	POSCO	Subsidiaries	Total	POSCO	Subsidiaries	Total		
DAEWOO POWER AND INFRA (PTY) LTD.	Electricity		100.00	100.00		100.00	100.00	Republic of South Africa
PGSF, L.P.	Investment in Bio tech Industry		100.00	100.00		100.00	100.00	USA
Xenesys Inc.	Power generation equipment manufacturing	29.58	21.35	50.93	29.58	21.35	50.93	Japan
Daewoo International INDIA Private Ltd.	Trading business		100.00	100.00		100.00	100.00	India
TECHREN Solar, LLC	Electrical Industry		99.92	99.92		99.92	99.92	USA
PT. POSCO E&C INDONESIA	Construction		100.00	100.00		100.00	100.00	Indonesia
HUME COAL PTY LTD	Raw material manufacturing		100.00	100.00		100.00	100.00	Australia
POSCO FOUNDATION	Non-profit charitable organization		100.00	100.00		100.00	100.00	India
EPC EQUITIES LLP	Construction		70.00	70.00		80.00	80.00	England
SANTOS CMI CONSTRUCTION TRADING LLP	Construction		99.90	99.90		99.90	99.90	England
SANTOS CMI INC. USA	Construction		100.00	100.00		100.00	100.00	USA
SANTOS CMI ENGENHARIA E CONSTRUCOES LTDA	Construction		99.98	99.98		99.98	99.98	Brazil
SANTOS CMI PERU S.A.	Construction		99.99	99.99		99.99	99.99	Peru
SANTOS CMI CONSTRUCCIONES S.A.	Construction		100.00	100.00		100.00	100.00	Uruguay
GENTECH INTERNATIONAL INC.	Construction		90.00	90.00		90.00	90.00	Panama
EPC INVESTMENTS C.V.	Construction		99.99	99.99		99.99	99.99	Netherlands
SANTOS CMI S.A.	Construction		70.00	70.00		80.00	80.00	Ecuador
SANTOS CMI CONSTRUCCIONES DE CHILE S.A.	Construction		99.00	99.00		99.00	99.00	Chile
S&K -SANTOS CMI S.A. DE C.V.	Construction		99.00	99.00				Mexico
COMPANIA DE AUTOMATIZACION & CONTROL, GENESYS S.A.	Construction		90.00	90.00		90.00	90.00	Ecuador
VAUTIDAMERICAS S.A.	Construction		51.00	51.00		51.00	51.00	Ecuador
POSCO ENGINEERING & CONSTRUCTION DO BRAZIL LTDA.	Construction		100.00	100.00		100.00	100.00	Brazil
POSCO Electrical Steel India Private Limited	Electrical Steel manufacturing	100.00		100.00	100.00		100.00	India
Daewoo International Cameroon S.A.	Resource Development		100.00	100.00				Cameroon
POSCO ASSAN TST STEEL INDUSTRY HONG KONG POSCO E&C (CHINA) INVESTMENT Co., Ltd.	Steel manufacturing	60.00	10.00	70.00	60.00	10.00	70.00	Turkey
POSCO Klappan Coal Ltd.	Investment		100.00	100.00		100.00	100.00	Hongkong
DAESAN (CAMBODIA) Co., Ltd.	Coal sales		100.00	100.00		100.00	100.00	Canada
Brazil Sao Paulo Steel Processing Center	Investment		100.00	100.00		100.00	100.00	Cambodia
POSCO(Dalian) IT Center Development Co., Ltd.	Steel manufacturing		76.00	76.00		76.00	76.00	Brazil
PT. POSCO RESOURCES INDONESIA	Investment		100.00	100.00		100.00	100.00	China
	Mine development	100.00		100.00	100.00		100.00	Indonesia

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	Principal operations	Ownership (%)						Region
		December 31, 2013			December 31, 2014			
		POSCO	Subsidiaries	Total	POSCO	Subsidiaries	Total	
PT.POSCO ICT INDONESIA	IT service and Electric Control Engineering		66.99	66.99		66.99	66.99	Indonesia
PT. POSCO MTECH INDONESIA	Steel manufacturing		60.00	60.00		71.43	71.43	Indonesia
PT. KRAKATAU POSCO ENERGY	Manufacturing & management		90.00	90.00		90.00	90.00	Indonesia
POSCO RUS LLC	Trading business	90.00	10.00	100.00	90.00	10.00	100.00	Russia
POSCO Thainox Public Company Limited	Steel manufacturing	84.93		84.93	84.93		84.93	Thailand
DAEWOO INTERNATIONAL SHANGHAI WAIGAOQIAO CO., LTD.	Merchandising trade		100.00	100.00		100.00	100.00	China
PT. Bio Inti Agrindo	Forest resources development		85.00	85.00		85.00	85.00	Indonesia
POSCO ENGINEERING AND CONSTRUCTION AUSTRALIA PTY LTD	Iron ore sales		100.00	100.00		100.00	100.00	Australia
POSCO-TISCO (JILIN) PROCESSING CENTER Co., Ltd.	Steel manufacturing	50.00	10.00	60.00	50.00	10.00	60.00	China
Hunchun Posco Hyundai International Logistics Complex Development Co., Ltd	Logistics		72.93	72.93		80.00	80.00	China
USA-SRDC	Scrap sales		100.00	100.00		100.00	100.00	USA
Daewoo International Vietnam Co., Ltd.	Trading business		100.00	100.00		100.00	100.00	Vietnam
PT.Krakatau Posco Chemtech Calcination	Manufacturing and selling of quicklime		80.00	80.00		80.00	80.00	Indonesia
POSCO AFRICA (PROPRIETARY) LIMITED	Trading business	100.00		100.00	100.00		100.00	Republic of South Africa
EPC INGENIERIA & SERVICIOS DE COSTA RICA SA	Construction and engineering service		100.00	100.00		100.00	100.00	Costa Rica
POSCO ICT BRASIL	IT service and engineering		100.00	100.00		100.00	100.00	Brazil
LA-SRDC	Scrap manufacturing		68.41	68.41		68.41	68.41	USA
DONG FANG JIN HONG	Real estate development, rental and management		99.00	99.00		99.00	99.00	China
PRODUCTOS OFERTAS SISTEMAS Y COMERCIALIZADORA ORIENTAL S DE RL DE CV	Steel sales		100.00	100.00		100.00	100.00	Mexico
POSCO(Guangdong) Automotive Steel Co., Ltd.	Steel manufacturing and sales	83.64	10.00	93.64	83.64	10.00	93.64	China
POSCO MAPC SA DE CV	Steel manufacturing and sales	80.00	20.00	100.00	80.00	20.00	100.00	Mexico
POSCO AMERICA COMERCIALIZADORA S DE RL DE CV	Human-resource service		100.00	100.00		100.00	100.00	Mexico
POSCO ENGINEERING (THAILAND) CO., LTD. (*2)	Chemical plant		48.90	48.90		48.90	48.90	Thailand
POSCO YongXin Rare Earth Metal Co., Ltd.	Magnet material manufacturing and sales		51.67	51.67		51.67	51.67	China
POSCO-Mory-Maruyasu PIPE	Common steel welded pipe manufacturing and selling		50.00	50.00		50.00	50.00	Japan



**Table of Contents****POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2012, 2013 and 2014**

	Principal operations	Ownership (%)						Region
		December 31, 2013			December 31, 2014			
		POSCO	Subsidiaries	Total	POSCO	Subsidiaries	Total	
PT KRAKATAU BLUE WATER	Wastewater treatment facilities operation and maintenance		67.00	67.00		67.00	67.00	Indonesia
KRAKATAU POS-CHEM DONG-SUH CHEMICAL (*2)	Chemical by-product manufacturing and sales		45.00	45.00		45.00	45.00	Indonesia
Myanmar Daewoo International Corporation	Trading business		100.00	100.00		100.00	100.00	Myanmar
POSCO-Italy Processing Center	Stainless steel sheet manufacturing and sales	80.00	10.00	90.00	80.00	10.00	90.00	Italy
DAEWOO E&P CANADA CORPORATION	Crude oil and natural gas mining		100.00	100.00		100.00	100.00	Canada
Yingkou Puxiang Trade Co.,Ltd.	Refractory quality test and import and export trade		100.00	100.00		100.00	100.00	China
Myanmar POSCO C&C Company, Limited.	Steel manufacturing and sales		70.00	70.00		70.00	70.00	Myanmar
POSCO ICT VIETNAM	IT service and electric control engineering		100.00	100.00		100.00	100.00	Vietnam
Daewoo Global Development. Pte., Ltd	Real estate development		51.00	51.00		51.00	51.00	Myanmar
Myanmar POSCO Engineering& Construction Company, Limited.	Construction and engineering service		100.00	100.00		100.00	100.00	Myanmar
POSCO COATED STEEL (THAILAND) CO., LTD.	Automotive steel sheet manufacturing and sales	100.00		100.00	100.00		100.00	Thailand
POSCO China Suzhou Processing Center Co.,Ltd (formerly, POSCO-SAMSUNG Suzhou Processing Center Co.,Ltd.)	Steel manufacturing				30.00	70.00	100.00	China
Hanjung Power Pty., Ltd	Electricity production					100.00	100.00	Papua New Guinea
Daewoo Amara Company Limited	Real estate development					98.54	98.54	Myanmar
POSMATE-CHINA CO., LTD	Business facility maintenance					100.00	100.00	China
Daewoo Precious Resources Co., Ltd.	Resources development					60.00	60.00	Myanmar
POSCO-Mexico Villagran Wire-rod Processing Center	Steel manufacturing				56.75	10.00	66.75	Mexico
SANTOS CMI Guatemala S.A.	Construction					99.00	99.00	Guatemala
POSCO-China Dalian Steel Fabricating Center	Steel manufacturing				42.16	25.39	67.55	China
POSCO E&C HOLDINGS CO.,Ltd.	Holding company					100.00	100.00	Thailand
POSCO E&C (THAILAND) CO.,Ltd.	Construction					100.00	100.00	Thailand
SUNGJIN CANADA LTD.	Machinery installation					70.00	70.00	Canada
POSCO PLANTEC Thiland CO. LTD (*2)	Steel work maintenance and machinery installation					48.78	48.78	Thailand
DAEWOO POWER PNG Ltd.	Electricity production					100.00	100.00	Papua New Guinea

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

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

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**Table of Contents****POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2012, 2013 and 2014**

The amounts recognized in equity as a result of changes in the Company's ownership interests in subsidiaries that did not result in a loss of control (2012: POSCO Specialty Steel Co., Ltd., POSCO ENERGY Co., Ltd., POSCO-Thainox Public Company Limited, etc., 2013: POSCO Specialty Steel Co., Ltd., POSCO ICT Co., Ltd., POSCO TMC Co., Ltd. etc., 2014: POSCO P&S Co., Ltd., SPFC Co., Ltd. etc.) were 41,924 million, 31,417 million and 9,401 million for the years ended December 31, 2012, 2013 and 2014, respectively.

Cash dividends paid to POSCO by subsidiaries for the years ended December 31, 2012, 2013 and 2014 amounted to 22,581 million, 71,970 million and 58,488 million, respectively.

As of December 31, 2014, there are no restrictions on the ability of subsidiaries to transfer funds to the Controlling Company, such as in the form of cash dividends, repayment of loans or payment of advances.

(c) Details of non-controlling interest as of and for the years ended December 31, 2013 and 2014 are as follows:

## 1) December 31, 2013

	Daewoo International Corporation	PT. KRAKATAU POSCO	POSCO Specialty Steel Co., Ltd.	POSCO ENGINEERING & CONSTRUCTION CO., LTD. (in millions of Won)	POSCO ENERGY Co., Ltd.	Others	Total
Current assets	4,313,678	427,029	633,583	5,443,747	697,234	9,773,753	21,289,024
Non-current assets	6,110,630	3,019,191	879,536	1,075,367	3,115,599	8,538,325	22,738,648
Current liabilities	(4,258,245)	(611,434)	(269,749)	(3,632,188)	(674,370)	(8,990,091)	(18,436,077)
Non-current liabilities	(1,835,835)	(1,862,078)	(264,596)	(788,734)	(1,760,156)	(3,038,981)	(9,550,380)
Equity	4,330,228	972,708	978,774	2,098,192	1,378,307	6,283,006	16,041,215
Non-controlling interests	1,718,562	291,812	273,143	219,777	151,274	1,451,734	4,106,302
Sales	16,838,559		1,316,781	7,937,845	2,901,117	25,405,268	54,399,570
Profit for the period	42,312	(41,844)	31,749	138,724	146,419	(143,940)	173,420
Profit (loss) attributable to non-controlling interests	16,793	(12,553)	8,860	14,530	16,070	(15,634)	28,066
Cash flows from operating activities	(67,785)	(50,209)	18,721	40,815	32,174	23,342	(2,942)
Cash flows from investing activities	(123,609)	(405,186)	(54,152)	(15,888)	(94,741)	(337,253)	(1,030,829)
Cash flows from financing activities (before dividends to non-controlling interest)	156,326	467,617	80,213	(29,059)	62,273	375,947	1,113,317
Dividend to non-controlling interest	(13,558)		(2,217)	(2,885)		(9,125)	(27,785)
Effect of exchange rate fluctuation on cash held	(114)	(560)		(360)		(9,036)	(10,070)
Net increase in cash and cash equivalents	(48,740)	11,662	42,565	(7,377)	(294)	43,875	41,691

**Table of Contents****POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2012, 2013 and 2014**

2) December 31, 2014

	Daewoo International Corporation	PT. KRAKATAU POSCO	POSCO CHEMTECH	POSCO ENGINEERING & CONSTRUCTION CO., LTD. (in millions of Won)	POSCO ENERGY Co., Ltd.	Others	Total
Current assets	5,177,495	645,598	360,673	5,082,514	501,219	12,781,184	24,548,683
Non-current assets	6,028,358	3,303,632	251,206	1,333,612	3,393,917	10,135,827	24,446,552
Current liabilities	(5,046,468)	(988,132)	(131,389)	(3,494,647)	(546,791)	(11,493,074)	(21,700,501)
Non-current liabilities	(1,807,698)	(2,118,519)	(7,150)	(882,025)	(2,513,129)	(3,681,307)	(11,009,828)
Equity	4,351,687	842,579	473,340	2,039,454	835,216	7,742,630	16,284,906
Non-controlling interests	1,727,078	252,773	189,336	213,624	91,668	1,677,400	4,151,879
Sales	19,938,711	1,129,977	1,331,527	7,174,890	2,533,673	28,738,206	60,846,984
Profit for the period	83,167	(232,503)	68,196	50,023	21,100	(159,066)	(169,083)
Profit (loss) attributable to non-controlling interests	33,007	(69,751)	27,278	5,240	2,316	(62,302)	(64,212)
Cash flows from operating activities	(149,695)	(27,383)	20,676	24,592	36,346	(121,697)	(217,161)
Cash flows from investing activities	(167,573)	(74,454)	(28,349)	(33,755)	(117,154)	(230,954)	(652,239)
Cash flows from financing activities (before dividends to non-controlling interest)	336,114	75,680		(15,162)	83,014	406,904	886,550
Dividend to non-controlling interest	(13,558)		(3,544)	(1,923)	(2,648)	(5,748)	(27,421)
Effect of exchange rate fluctuation on cash held	(46)	134	43	(8)		3,636	3,759
Net increase in cash and cash equivalents	5,242	(26,023)	(11,174)	(26,256)	(442)	52,141	(6,512)

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**Table of Contents****POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2012, 2013 and 2014**

(d) Details of associates and joint ventures

## 1) Associates

Details of associates as of December 31, 2013 and 2014 are as follows:

Investee	Category of business	Ownership (%)		Region
		2013	2014	
<b>[Domestic]</b>				
EQP POSCO Global NO1 Natural Resources PEF	Investment in new technologies	27.23	28.48	Seoul
SNNC	Raw material manufacturing and sales	49.00	49.00	Gwangyang
QSONE Co.,Ltd.	Real estate rental and facility management	50.00	50.00	Seoul
Incheon-Gimpo Expressway Co., Ltd.	Construction	29.94	25.76	Anyang
BLUE OCEAN Private Equity Fund	Private equity financial	27.52	27.52	Seoul
UITrans LRT Co., Ltd.	Transporting	38.19	38.19	Seoul
CHUNGJU ENTERPRISE CITY DEVELOPMENT Co.,Ltd	Real estate development	25.10	25.10	Chungju
KoFC POSCO HANWHA KB Shared Growth NO. 2. Private Equity Fund (*1)	Investment in new technologies	12.50	12.50	Seoul
KONES, Corp.	Technical service	41.67	41.67	Gyeongju
Gunggi Green Energy (*1)	Electricity generation	19.00	19.00	Hwaseong
Gale International Korea, LLC	Real estate rental	29.90	29.90	Seoul
Pohang Techno Valley PFV Corporation (*2)	Real estate development	54.99	54.99	Pohang
Pohang Special Welding Co.,Ltd.	Welding material and tools manufacturing and sales	50.00	50.00	Pohang
KC Chemicals (*1)	Machinery manufacturing	19.00	19.00	Hwaseong
Green Jang Ryang Co.Ltd	Sewerage treatment	25.00	25.00	Pohang
DAEHO GLOBAL MANAGEMENT CO., LTD.	Investment advisory service	35.82	35.82	Pohang
Daewoo Public Car Sales (Gwangju) CO.,Ltd	Leasing services	50.00	50.00	Gwangju
Clean Gimpo Co., Ltd.	Construction	29.58	29.58	Gimpo
Pajoo & Viro Co., Ltd.	Construction	40.00	40.00	Paju
Posco-IDV Growth Ladder IP Fund (*1,3)	Investment in new technologies		17.86	Seoul
SuNAM Co., Ltd (*1)	Power supply manufacturing	19.17	19.17	Seoul
Pureun Tongyeong Enviro Co., Ltd.	Sewerage treatment	20.40	20.40	Tongyeong
Postech Early Stage Fund (*1)	Investment in venture companies	10.00	10.00	Pohang
Posgreen Co., Ltd. (*1)	Plastic manufacturing	19.00	19.00	Gwangyang
POSTECH Social Enterprise Fund (*1)	Investment in new technologies	9.17	9.17	Seoul
Applied Science Corp.	Machinery manufacturing	27.11	26.47	Paju
Suwon Green Environment Co.,Ltd	Construction	27.50	27.50	Hwaseong
Universal Studios Resort Asset Management Corporation	Real estate services	26.17	26.17	Seoul
Noel Green Energy Co., Ltd. (*3)	Electricity generation		20.00	Seoul
Synergy Private Equity Fund (*1,3)	Investment in new technologies		17.86	Seoul
Pure Gimpo Co., Ltd.	Construction	28.79	28.79	Seoul
Pohang Techno Valley AMC	Construction	29.50	29.50	Pohang
New Songdo International City Development, LLC	Real estate rental	29.90	29.90	Seoul
MTAPOLIS Co.,Ltd.	Multiplex development	40.05	40.05	Hwaseong

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Busan-Gimhae Light Rail Transit Co., Ltd.	Transporting	25.00	25.00	Gimhae
Clean Iksan Co., Ltd.	Construction	23.50	23.50	Pohang
Mokpo Deayang Industrial Corporation	Real estate development	27.40	27.40	Mokpo
Chun-cheon Energy Co., Ltd	Electricity generation	29.90	29.90	Chuncheon
Innovalley Co., Ltd.	Real estate development	28.77	28.77	Yongin
Garolim Tidal Power Plant Co.,Ltd	Tidal power plant construction and management	32.13	32.13	Seosan
Posco e&c Songdo International Building	Non-resident building lease	49.00	49.00	Seoul

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**Table of Contents****POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2012, 2013 and 2014**

Investee	Category of business	Ownership (%)		Region
		2013	2014	
POSCO PLANTEC Co., Ltd. (*4)	Industrial structure manufacturing	43.97		Ulsan
Future Creation Fund Postech Early Stage account (*4)	Investment in new technologies	40.00		Seoul
Taegisan Wind Power Corporation (*5)	Wind power plant construction and management	50.00		Hoengseong
Dakos Co., Ltd. (*6)	Railway equipment manufacturing	31.00		Seongnam
Gyeonggi CES Co.,Ltd (*5)	Facility construction	21.83		Yangju
Hyundai Investment Network Private Equity Fund I (*6)	Mine investment	50.00		Seoul
<b>[Foreign]</b>				
Eureka Moly LLC	Steel processing and sales	20.00	20.00	USA
South-East Asia Gas Pipeline Company Ltd.	Pipeline construction	25.04	25.04	Myanmar
7623704 Canada Inc. (*1)	Investments management	10.40	10.40	Canada
Nickel Mining Company SAS				New Caledonia
AES-VCM Mong Duong Power Company Limited	Electricity generation	30.00	30.00	Vietnam
AMCI (WA) PTY LTD.	Iron ore sales & mine development	49.00	49.00	Australia
KOREA LNG LTD.	Gas production and sales	20.00	20.00	England
CAML RESOURCES PTY LTD.	Raw material manufacturing and sales	33.34	33.34	Australia
NCR LLC	Coal sales	29.41	29.41	Canada
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd	Tinplate manufacturing and sales	34.00	34.00	China
PT. Batutua Tembaga Raya (*3)	Raw material manufacturing and sales		24.10	Indonesia
VSC POSCO Steel Corporation	Steel manufacturing and sales	50.00	50.00	Vietnam
PT. Wampu Electric Power	Construction and engineering service	20.00	20.00	Indonesia
POSCO SeAH Steel Wire (Nantong) Co., Ltd.	Steel processing and sales	25.00	25.00	China
POSCHROME (PROPRIETARY) LIMITED				South Africa
	Raw material manufacturing and sales	50.00	50.00	
LLP POSUK Titanium	Titanium manufacturing and sales	36.83	36.83	Kazakhstan
IMFA ALLOYS FINLEASE LTD	Raw material manufacturing and sales	24.00	24.00	India
AN KHANH NEW CITY DEVELOPMENT J.V CO., LTD.	Highway construction and new town development	50.00	50.00	Vietnam
XG Sciences (*3)	New materials manufacturing and development		26.27	USA
General Medicines Company Ltd.	Medicine manufacturing and sales	33.00	33.00	Sudan
PT.INDONESIA POS CHEMTECH CHOSUN Ref	Refractory manufacturing and sales	30.19	30.19	Indonesia
PT. Tanggamus Electric Power	Construction and engineering service	20.00	20.59	Indonesia
POS-SEAHSTEELWIRE(TIANJIN)CO.,Ltd	Steel manufacturing and sales	25.00	25.00	China
SHANGHAI LANSHENG DAEWOO CORP.	Trading	49.00	49.00	China
POSK(Pinghu) Steel Processing Center Co., Ltd.	Steel processing and sales	20.00	20.00	China
SHANGHAI WAIGAOQIAO FREE TRADE ZONE LANSHENG DAEWOO IN L TRADING CO., LTD.	Trading	49.00	49.00	China
NS-Thainox Auto Co., Ltd.	Steel manufacturing and sales	49.00	49.00	Vietnam
BGC-POS PTY LTD.	Construction	49.00	49.00	Australia
Sebang Steel	Scrap sales	49.00	49.00	Japan
Hampan Mulia	Resource development	45.00	45.00	Indonesia
Baganuur Energy Corporation	Refined oil manufacturing	50.00	50.00	Mongolia
POSCO-Poggenamp Electrical Steel Pvt. Ltd.	Steel manufacturing	26.00	26.00	India
Fifth Combined Heat and Power Plant LLC	Thermal power generation	30.00	30.00	Mongolia
GLOBAL KOMSCO Daewoo LLC	Mintage	35.00	35.00	Uzbekistan

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KG Power(M) SDN. BHD

Energy & resource development

20.00

20.00

Malaysia

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Investee	Category of business	Ownership (%)		Region
		2013	2014	
Arctos Anthracite Joint Venture	Coal sales	20.00	20.00	Canada
LI3 ENERGY INC	Energy & resource development	26.06	26.06	Peru
POSCO China Suzhou Processing Center Co.,Ltd. (formerly, POSCO-SAMSUNG Suzhou Processing Center Co.,Ltd.) <sup>(*4)</sup>	Steel processing and sales	30.00		China
Hanjung Power Pty., Ltd <sup>(*4)</sup>	Electric power manufacturing and sales	49.00		Papua New Guinea
POSVINA Co., Ltd. <sup>(*5)</sup>	Plating steel sheet manufacturing and sales	50.00		Vietnam
Yingkou Posrec Refractories Co., Ltd. <sup>(*6)</sup>	Refractory manufacturing	25.00		China
Daewoo (THAILAND) CO., LTD. <sup>(*6)</sup>	Trading	49.00		Thailand
N.I.CO., LTD. <sup>(*6)</sup>	Trading	50.00		North Korea
Boulder Solar Power, LLC <sup>(*5)</sup>	Electric power manufacturing	21.74		USA

(\*1) The Company is able to exercise significant influence over the investees even though the Company's percentage of ownership is below 20%.

(\*2) Considering the composition of board of directors, the Company is not able to exercise control over the investee even though the Company's percentage of ownership is above 50%.

(\*3) These associates were newly established or acquired in 2014.

(\*4) Reclassified to subsidiary from associate due to an increase in ownership percentage and acquisition of control during the year ended December 31, 2014.

(\*5) Excluded from associates due to the disposal of shares during the year ended December 31, 2014.

(\*6) Excluded from associates due to the liquidation during the year ended December 31, 2014.

2) Joint ventures

Details of joint ventures as of December 31, 2013 and 2014 are as follows:

Investee	Category of business	Ownership (%)		Region
		2013	2014	

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<b>[Domestic]</b>					
POSCO ES MATERIALS	Secondary battery manufacturing	50.00	50.00		Gumi
POSCO MITSUBISHI CARBON TECHNOLOGY	Steel processing and sales	60.00	60.00		Gwangyang
<b>[Foreign]</b>					
Roy Hill Holdings Pty Ltd	Energy & resource development	12.50	12.50		Australia
POSCO-NPS Niobium LLC	Mine development	50.00	50.00		USA
CSP Compania Siderurgica do Pecem	Steel manufacturing and sales	20.00	20.00		Brazil
DMSA/AMSA	Energy & resource development	4.00	4.00		Madagascar
KOBRASCO	Facility lease	50.00	50.00		Brazil
BX STEEL POSCO Cold Rolled Sheet Co., Ltd.	Steel processing and sales	25.00	25.00		China
PT. POSMI Steel Indonesia	Steel processing and sale	36.69	36.69		Indonesia
POSCO-CDPC(POSCO ChengDu Processing Center) Co., Ltd (*1)	Steel processing and sale		43.00		China
Henan Tsingpu Ferro Alloy Co., Ltd.	Raw material manufacturing and sales	49.00	49.00		China
TANGGANG-POSCO LED (*1)	Led manufacturing and sales		50.00		China
VNS-DAEWOO Co., Ltd. (*1)	Steel processing and sale		40.00		Vietnam
POSCO-SAMSUNG-Slovakia Processing Center	Steel processing and sales	30.00	30.00		Slovakia
Zhangjiagang Pohang Refractories Co., Ltd.	Refractory manufacturing	50.00	50.00		China
Korea Siberia Wood CJSC	Forest resource development	50.00	50.00		Russia
United Spiral Pipe, LLC	Material manufacturing and sales	35.00	35.00		USA
SUNGJIN DRIVER INC (*1)	Moduel and Plant manufacturing		50.00		Canada
USS-POSCO Industries	Cold rolled coil manufacturing and sales	50.00	50.00		USA

(\*1) These joint ventures were newly established or acquired in 2014.



**Table of Contents****POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2012, 2013 and 2014**

(e) Newly included subsidiaries

1) Consolidated subsidiaries acquired or newly established during the year ended December 31, 2014 are as follows:

<b>Company</b>	<b>Date of acquisition</b>	<b>Ownership (%)</b>	<b>Reason</b>
Hanjung Power Pty., Ltd	January 2014	100.00	Reclassification from associate
Daewoo Amara Company Limited	January 2014	85.00	New establishment
POSMATE-CHINA CO., LTD	January 2014	100.00	New establishment
Daewoo Precious Resources Co., Ltd.	March 2014	60.00	New establishment
POSCO-Mexico Villagran Wire-rod Processing Center	March 2014	66.75	New establishment
POSCO Green Gas Technology	April 2014	100.00	New establishment
SANTOS CMI Guatemala S.A.	April 2014	100.00	Acquisition
Santos CMI Construction Inc S.A	April 2014	100.00	Acquisition
POSCO-China Dalian Steel Fabricating Center	May 2014	51.00	New establishment
Keystone Private Equity	June 2014	55.12	Reclassification from associate
POSCO WOMAN S FUND <sup>(*)</sup>	July 2014	40.00	New establishment
Chun Sa wind	July 2014	100.00	Acquisition
POSCO China Suzhou Processing Center Co.,Ltd. (formerly, POSCO-SAMSUNG Suzhou Processing Center Co.,Ltd.)	July 2014	100.00	Reclassification from associate
POPOWER Co., Ltd.	August 2014	100.00	Acquisition
Future Creation Fund Postech Early Stage account <sup>(*)</sup>	September 2014	40.00	Reclassification from associate
POSCO E&C HOLDINGS CO.,Ltd.	October 2014	100.00	New establishment
POSCO E&C (THAILAND) CO.,Ltd.	October 2014	100.00	New establishment
Songdo Posco family Housing	November 2014	100.00	New establishment
POSCO PLANTEC Co., Ltd.	December 2014	73.94	Reclassification from associate
SUNGJIN CANADA LTD.	December 2014	70.00	Reclassification by POSCO PLANTEC Co., Ltd.
POSCO PLANTEC Thailand CO. LTD	December 2014	82.40	Reclassification by POSCO PLANTEC Co., Ltd.
DAEWOO POWER PNG Ltd.	December 2014	100.00	New establishment

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

2) Cash outflows (inflows) caused by the acquisitions for the years ended December 31, 2012, 2013 and 2014.

2012                      2013                      2014  
(in millions of Won)

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Consideration transferred	287,085	4,359	747,569
Less: Cash and cash equivalent acquired	(188,205)	(10,088)	(358,991)
Total	98,880	(5,729)	388,578

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**Table of Contents****POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2012, 2013 and 2014**

(f) Excluded subsidiaries

Subsidiaries that were excluded from consolidation during the year ended December 31, 2014 are as follows:

<b>Company</b>	<b>Date of disposal</b>	<b>Reason</b>
POSCO-JOPC Co., Ltd.	January 2014	Statutory merger by POSCO-JWPC Co., Ltd. (formerly, POSCO-JKPC Co., Ltd.)
S&K -SANTOSMI S.A. DE C.V.	March 2014	Exclusion upon liquidation
Santos CMI Construction Inc S.A	September 2014	Statutory merger by SANTOS CMI Guatemala S.A
Daewoo International Cameroon S.A.	November 2014	Disposal
INTERNATIONAL BUSINESS CENTER CORPORATION	December 2014	Disposal

**2. Statement of Compliance****Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ( IFRSs ), as issued by the International Accounting Standards Board.

The consolidated financial statements were authorized for issue by the authorized directors on February 26, 2015.

**Basis of measurement**

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

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

**Functional and presentation currency**

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

**Use of estimates and judgments**

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period prospectively.

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**Notes to the Consolidated Financial Statements, Continued**

**As of December 31, 2012, 2013 and 2014**

(a) Judgments

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

Note 1 Subsidiaries, associates and joint venture

Note 8 Other financial assets

Note 12 Joint operations

Note 13 Investment property, net

Note 14 Property, plant and equipment, net

Note 15 Goodwill and other intangibles

(b) Assumptions and estimation uncertainties

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

Note 20 Provisions

Note 21 Employee benefits

Note 29 Construction contracts

Note 35 Income taxes

Note 38 Commitments and contingencies

(c) Measurement of fair value

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

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of 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.

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

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

Note 23 Financial instruments

**Changes in accounting policies**

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

- 1) IAS No. 32, Financial Instruments: Presentation
- 2) IAS No. 36, Impairment of Assets
- 3) IFRIC No. 21, Levies

The details of changes in accounting policies are as follows:

1) Offsetting financial assets and financial liabilities

The Company has adopted amendments to IAS No. 32, Offsetting Financial Assets and Financial Liabilities since January 1, 2014. The amendments clarify the meaning of currently has a legally enforceable right of set-off. According to the amendments, the right to set off should not be contingent on a future event, and legally enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendments also state that some gross settlement systems would be considered equivalent to net settlement if they eliminate or result in insignificant credit and liquidity risk and process receivables and payables in a single settlement process or cycle.

2) Disclosure of impairment loss

The Company has adopted amendments to IAS No. 36 Impairment of Assets since January 1, 2014. The amendments require the disclosure of information about the recoverable amount of impaired assets, if that amount is based on fair value less costs of disposal. They also require the

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disclosure of additional information about that fair value measurement. In addition, if the recoverable amount of impaired assets based on fair value less costs of disposal was measured using a present value technique, the amendments also require the disclosure of the discount rates that have been used in the current and previous measurements.

### 3) Levies

The Company has adopted IFRIC No. 21, Levies since January 1, 2014. IFRIC No. 21 is an Interpretation of IAS No. 37 Provisions, Contingent Liabilities and Contingent Assets, on the accounting for levies imposed by governments. IAS No. 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present

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**Table of Contents****POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2012, 2013 and 2014**

obligation as a result of a past event (or obligating event). IFRIC No. 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

The interpretation does not provide guidance on the accounting for the costs arising from recognizing the liability to pay a levy. Other IFRSs should be applied to determine whether the recognition of a liability to pay a levy gives rise to an asset or an expense.

**Impact of changes in accounting policies**

Upon adoption of amendments to IAS No. 32 and IFRIC No. 21, there is no impact on the Company's prior year's consolidated financial statements. Upon adoption of amendments to IAS No. 36, the Company has made the required disclosures in the annual financial statements as applicable (see note 15).

**Correction of prior year financial statements for immaterial errors**

The accompanying consolidated financial statements of the Company as of December 31, 2013 and for the years ended December 31, 2012 and 2013 have been adjusted to correct the following immaterial errors.

Previously, revenue and expenses from the development and sale of certain residential real estate were recognized by reference to the stage of completion of the contract activity at the end of the reporting period. In 2014, the Company re-evaluated its accounting for sale of residential real estate under IFRS as issued by IASB, and has concluded that revenue and expenses from development and sale of such residential real estate should be recognized when an individual unit of residential real estate is delivered to the buyer.

The effect of this correction on the prior financial statements is as follows:

	As reported	As of January 1, 2012	
		Correction (in millions of Won)	As adjusted
Current assets	33,556,911	(9,793)	33,547,118
Non-current assets	44,851,927	2,370	44,854,297
Current liabilities	19,605,358		19,605,358
Non-current liabilities	18,073,560		18,073,560
Retained earnings	38,709,475	(6,645)	38,702,830
Non-controlling interests	2,373,570	(778)	2,372,792

As of and for the year ended December 31, 2012		
As reported	Correction	As adjusted
(in millions of Won, except per share information)		

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Current assets	31,566,116	250,389	31,816,505
Non-current assets	47,699,735	11,233	47,710,968
Current liabilities	19,775,001	48,590	19,823,591
Non-current liabilities	17,061,432	248,216	17,309,648
Revenue	63,604,151	(258,893)	63,345,258
Cost of sales	56,142,892	(222,269)	55,920,623
Profit before income tax	3,368,486	(36,624)	3,331,862
Profit	2,385,607	(27,761)	2,357,846
Basic and diluted earnings per share (in Won)	31,874	(322)	31,552

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	As of and for the year ended December 31, 2013		
	As reported	Correction	As adjusted
	(in millions of Won, except per share information)		
Current assets	31,666,211	372,500	32,038,711
Non-current assets	52,789,196	13,201	52,802,397
Current liabilities	20,241,159	116,385	20,357,544
Non-current liabilities	18,392,218	310,664	18,702,882
Revenue	61,864,650	(98,907)	61,765,743
Cost of sales	55,004,591	(90,775)	54,913,816
Profit before income tax	1,946,177	(8,132)	1,938,045
Profit	1,355,180	(6,164)	1,349,016
Basic and diluted earnings per share (in Won)	17,409	(71)	17,338

**3. Summary of Significant Accounting Policies**

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

**Basis of consolidation****(a) Business combinations**

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

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

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

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

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### (b) Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

Changes in the Company's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

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**POSCO and Subsidiaries**

**Notes to the Consolidated Financial Statements, Continued**

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(c) Subsidiaries

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

(d) Loss of control

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

(e) Interests in equity-accounted investees

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

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

(f) Transactions eliminated on consolidation

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

**Foreign currency transactions and translation**

1) Foreign currency transactions

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

was initially determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognized in profit or

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**POSCO and Subsidiaries**

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**As of December 31, 2012, 2013 and 2014**

loss in the period in which they arise. When gains or losses on non-monetary items are recognized in other comprehensive income, exchange components of those gains or losses are recognized in other comprehensive income. Conversely, when gains or losses on non-monetary items are recognized in profit or loss, exchange components of those gains or losses are recognized in profit or loss.

2) Foreign operations

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

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

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

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

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

**Cash and cash equivalents**

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

**Non-derivative financial assets**

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

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





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**POSCO and Subsidiaries**

**Notes to the Consolidated Financial Statements, Continued**

**As of December 31, 2012, 2013 and 2014**

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

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

(b) Held-to-maturity financial assets

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

(c) Loans and receivables

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

(d) Available-for-sale financial assets

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

(e) Derecognition of non-derivative financial assets

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

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

(f) Offsetting a financial asset and a financial liability

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

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**Inventories**

Inventory costs, except materials-in-transit in which costs are determined by using specific identification method, are determined by using the moving-weighted average method. The cost of inventories comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The allocation of fixed production overheads to the costs of finished goods or work in progress are based on the normal capacity of the production facilities.

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

**Non-current assets held for sale**

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

The Company recognizes an impairment loss for any initial or subsequent write-down of an asset or disposal group to fair value less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized in accordance with IAS No. 36 Impairment of Assets .

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

**Investment property**

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

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

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



**Table of Contents****POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2012, 2013 and 2014****Property, plant and equipment**

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

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

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

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

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

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

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

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

Buildings	5-60 years
Structures	4-50 years
Machinery and equipment	2-25 years
Vehicles	3-10 years
Tools	4-10 years
Furniture and fixtures	3-10 years
Lease assets	3-18 years

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

### **Borrowing costs**

The Company capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized

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**Table of Contents****POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2012, 2013 and 2014**

in expense as incurred. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale. Financial assets and inventories that are manufactured or otherwise produced over a short period of time are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

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

**Intangible assets**

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

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

Intellectual property rights	5-10 years
Development costs	3-10 years
Port facilities usage rights	4-75 years
Other intangible assets	2-25 years

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

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

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





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**Exploration for and evaluation of mineral resources**

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

(a) Exploration and evaluation assets

Exploration and evaluation assets consist of expenditures for topographical studies, geophysical studies and trenching. These assets are reclassified as development assets when it is proved that the exploration has identified commercially viable mineral deposit.

(b) Development assets

When proved reserves are determined and development is sanctioned, development expenditures incurred are capitalized. These expenditures include evaluation of oil fields, construction of oil/gas wells, drilling for viability and others. On completion of development and inception of extraction for commercial production of developed proved reserves, the development assets are reclassified as either property, plant and equipment or as intellectual property rights (mining rights) under intangible assets based on the nature of the capitalized expenditure.

The respective property, plant and equipment and intellectual property (mining rights) are each depreciated and amortized based on proved reserves on a unit of production basis.

**Government grants**

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

(a) Grants related to assets

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

(b) Grants related to income

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

**Leases**

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

(a) Finance leases

At the commencement of the lease term, the Company recognizes as finance assets and finance liabilities the lower amount of the fair value of the leased property and the present

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**POSCO and Subsidiaries**

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value of the minimum lease payments, each determined at the inception of the lease. Any initial direct costs are added to the amount recognized as an asset.

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

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

(b) Operating leases

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

(c) Determining whether an arrangement contains a lease

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

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

**Impairment for financial assets**

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

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

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- (a) significant financial difficulty of the issuer or obligor;
- (b) a breach of contract, such as a default or delinquency in interest or principal payments;
- (c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

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**POSCO and Subsidiaries**

**Notes to the Consolidated Financial Statements, Continued**

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- (d) it becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- (e) the disappearance of an active market for that financial asset because of financial difficulties; or
- (f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If there is objective evidence that financial assets are impaired, impairment losses are measured and recognized.

(a) Financial assets measured at amortized cost

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

(b) Financial assets carried at cost

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

(c) Available-for-sale financial assets

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

event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

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**Table of Contents****POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2012, 2013 and 2014****Impairment for non-financial assets**

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

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

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

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

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

**Derivative financial instruments and hedges**

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

**(a) Embedded derivatives**

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





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(b) Other derivatives

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

**Non-derivative financial liabilities**

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

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

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

(b) Other financial liabilities

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

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

1) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and

2) the amount initially recognized less, cumulative amortization recognized on a straight-line basis over the guarantee period

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

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

**Construction work in progress**

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

Construction work in progress is presented as part of trade accounts and notes receivable in the consolidated statement of financial position for all contracts in which costs incurred plus recognized

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profits exceed progress billings. If progress billings exceed costs incurred plus recognized profits, then the difference is presented as amounts due to customers for contract work in the consolidated statement of financial position.

**Employee benefits**

(a) Short-term employee benefits

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

(b) Other long-term employee benefits

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

(c) Retirement benefits: Defined contribution plans

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

(d) Retirement benefits: Defined benefit plans

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

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

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

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

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

**Provisions**

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

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

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

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

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

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



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**Equity instruments**

(a) Share capital

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

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

(b) Hybrid Bonds

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

**Revenue**

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

(a) Sale of goods

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

(b) Services rendered

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

(c) Construction contracts

Construction contracts of the Company primarily consist of contracts for the construction of plants and commercial or residential buildings (excluding certain pre-sale contracts), and revenue recognition for different types of contracts is as follows:

When the outcome of a construction contract can be estimated reliably, contract revenue is recognized in profit or loss in proportion to the stage of completion of the contract. Contract



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

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

(d) Rental income

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

**Finance income and finance costs**

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

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

**Income taxes**

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

(a) Current income tax

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

(b) Deferred income tax

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

The Company recognizes a deferred income tax liability for all taxable temporary differences associated with investments in subsidiaries, associates, and joint ventures, except to the extent that the Company is able to control the timing of the reversal of the

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

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

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

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

**Earnings per share**

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

**Operating segments**

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

With regard to construction segment, segment profit and loss is determined in the same way that consolidated profit after tax for the period is determined under IFRS except that revenues and expenses from the development and sale of certain residential real estate are determined by reference to the stage of completion of the contact activity at the end of the reporting period, while in the consolidated financial statements, they are recognized when an individual unit of residential real estate is delivered to the buyer. No adjustments are made for corporate allocations to segment profit and loss. In addition, segment assets and liabilities are measured based on total assets and liabilities in

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accordance with IFRS without any adjustment for corporate allocations, except that assets and liabilities in connection with the construction and sale of residential real estate are determined by reference to the stage of completion of the contract activity at the end of each period.

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

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

**New standards and interpretations not yet adopted**

The following new standards, interpretations and amendments to existing standards have been published and are mandatory for the Company for annual periods beginning after January 1, 2014, and the Company has not early adopted them.

(a) Amendments to IAS No. 19 Employee Benefits

Amendments to IAS No. 19 introduced a practical expedient to accounting for defined benefit plan, when employees or third parties pay contributions if certain criteria are met. According to the amendments, an entity is permitted to recognize those contributions as a reduction of the service cost in the period in which the related service is rendered, instead of forecast future contributions from employees or third parties and attribute them to periods or service as negative benefits. This amendment is effective for the Company for annual periods beginning on or after January 1, 2015, with early adoption permitted.

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

(b) IFRS No. 15 Revenue from Contracts with Customers

IFRS No.15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS No. 18 Revenue, IAS No. 11 Construction Contracts and IFRIC No. 13 Customer Loyalty Programmes. IFRS No. 15 is effective for annual reporting periods beginning on or after January 1, 2017, with early adoption permitted.

The Company is in the process of assessing the potential impact on its consolidated financial statements resulting from the application of IFRS No 15.



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**4. Financial risk management**

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

credit risk

liquidity risk

market risk

capital risk

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

(a) Financial risk management

1) Risk management policy

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

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

2) Credit risk

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

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

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for companies of similar assets in respect of losses that have been incurred but not yet identified. The collective

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loss allowance is determined based on historical data of payment statistics for similar financial assets. Debt securities are analyzed individually, and an expected loss shall be directly deducted from debt securities.

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

3) Liquidity risk management

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

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

4) Market risk management

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

Currency risk

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

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





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

**Interest rate risk**

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

**Other market price risk**

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

**(b) Management of capital risk**

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

Net borrowing-to-equity ratio as of December 31, 2013 and 2014 is as follows:

	<b>2013</b>	<b>2014</b>
	<b>(in millions of Won)</b>	
Total borrowings	26,246,605	27,428,257
Less: Cash and cash equivalents	4,208,562	3,811,202
Net borrowings	22,038,043	23,617,055
Total equity	45,780,682	45,257,396

Net borrowings-to-equity ratio	48.14%	52.18%
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**Table of Contents****POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2012, 2013 and 2014****5. Cash and Cash Equivalents**

Cash and cash equivalents as of December 31, 2013 and 2014 are as follows:

	<b>2013</b>	<b>2014 (*2)</b>
	<b>(in millions of Won)</b>	
Cash	12,575	2,100
Demand deposits and checking accounts	1,199,768	1,209,367
Time deposits	2,325,449	1,185,146
Other cash equivalents (*1)	670,770	1,414,589
	<b>4,208,562</b>	<b>3,811,202</b>

(\*1) Mainly includes money market trust and others.

(\*2) Cash and cash equivalents as of December 31, 2014 in the statement of cash flows are different from the amounts in the statement of financial position as disclosed above by 210,934 million, as the information disclosed above does not include cash and cash equivalents held by POSCO Specialty Steel Co., Ltd., and others which were classified as asset groups held for sale as of December 31, 2014.

**6. Trade Accounts and Notes Receivable**

(a) Trade accounts and notes receivable as of December 31, 2013 and 2014 are as follows:

	<b>2013</b>	<b>2014</b>
	<b>(in millions of Won)</b>	
<b>Current</b>		
Trade accounts and notes receivable	10,338,891	10,814,881
Finance lease receivables	36,029	24,344
Unbilled due from customers for contract work	1,555,907	1,406,678
Less: Allowance for doubtful accounts	(418,183)	(581,316)
	<b>11,512,644</b>	<b>11,664,587</b>

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<b>Non-current</b>		
Trade accounts and notes receivable	50,639	60,583
Finance lease receivables	67,251	42,907
Less: Allowance for doubtful accounts	(20,890)	(24,154)
	97,000	79,336

Trade accounts and notes receivable sold to financial institutions, for which the derecognition conditions were not met, amounted to 73,956 million and 106,985 million as of December 31, 2013 and 2014, respectively, and are included in short-term borrowings from financial institutions (Note 17).

(b) Finance lease receivables are as follows:

<b>Customer</b>	<b>Contents</b>	<b>2013</b>	<b>2014</b>
		<b>(in millions of Won)</b>	
Korea Electric Power Corporation	Combined thermal power plant 1~4	102,887	66,858
KC CHEMICAL Co., Ltd.	Machinery and equipment	393	393
		103,280	67,251

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**Table of Contents****POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2012, 2013 and 2014**

(c) The gross amount and present value of minimum lease payments as of December 31, 2013 and 2014 are as follows:

	<b>2013</b>	<b>2014</b>
	<b>(in millions of Won)</b>	
Less than 1 year	48,112	32,302
1 year - 5 years	84,270	51,999
Unrealized interest income	(29,102)	(17,050)
Present value of minimum lease payment	103,280	67,251

**7. Other Receivables**

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

	<b>2013</b>	<b>2014</b>
	<b>(in millions of Won)</b>	
<b>Current</b>		
Short-term loans	298,289	254,108
Other accounts receivable	1,322,352	1,523,659
Accrued income	74,968	76,393
Deposits	69,502	58,384
Others	275,892	227,192
Less : Allowance for doubtful accounts	(150,580)	(183,520)
	1,890,423	1,956,216
<b>Non-current</b>		
Long-term loans	604,478	960,652
Long-term other accounts receivable	152,383	158,018
Accrued income	1,110	1,533
Deposits	111,482	189,120
Less : Allowance for doubtful accounts	(71,998)	(165,163)
	797,455	1,144,160

**Table of Contents****POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2012, 2013 and 2014****8. Other Financial Assets**

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

	<b>2013</b>	<b>2014</b>
	<b>(in millions of Won)</b>	
<b>Current</b>		
Derivatives assets held for trading	44,082	77,182
Available-for-sale securities	10,772	25,512
Current portion of held-to-maturity securities (bonds)	2,232	15,297
Short-term financial instruments (*1,2)	2,913,579	1,344,929
	2,970,665	1,462,920
<b>Non-current</b>		
Derivatives assets held for trading	34,140	19,084
Available-for-sale securities (equity instruments) (*3,4)	4,068,766	2,294,244
Available-for-sale securities (bonds)	32,456	33,350
Available-for-sale securities (others)	54,390	67,135
Held-to-maturity securities (bonds)	1,602	1,796
Long-term financial instruments (*2)	274,376	40,291
	4,465,730	2,455,900

(\*1) As of December 31, 2013 and 2014, 949 million and 5,465 million, respectively, are restricted for the use in a government project.

(\*2) As of December 31, 2013 and 2014, financial instruments amounting to 261,034 million and 177,014 million, respectively, are restricted for use in financial arrangements, pledge and others.

(\*3) During the year ended December 31, 2014, there was objective evidence of impairment for shares such as HYUNDAI Heavy Industries and others due to the significant decline in the fair value of the shares for a prolonged period. As a result, an impairment loss of 369,723 million was recognized in profit or loss during the year ended December 31, 2014.

(\*4)

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As of December 31, 2013 and 2014, 691,801 million and 173,632 million of available-for-sale securities, respectively, have been provided as collateral for construction projects and borrowings.

### 9. Inventories

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

	<b>2013</b>	<b>2014</b>
	<b>(in millions of Won)</b>	
Finished goods	1,406,297	1,647,331
Merchandise	711,802	902,347
Semi-finished goods	1,711,294	1,654,556
Raw materials	2,228,110	2,334,992
Fuel and materials	801,992	759,193
Construction inventories	1,535,847	1,831,383
Materials-in-transit	1,848,389	2,109,207
Others	96,389	96,274
	<b>10,340,120</b>	<b>11,335,283</b>
Less: Allowance for inventories valuation	(189,282)	(161,940)
	<b>10,150,838</b>	<b>11,173,343</b>



**Table of Contents****POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2012, 2013 and 2014**

(b) The changes of allowance for inventories valuation for the years ended December 31, 2012, 2013 and 2014 were as follows:

	2012	2013	2014
	(in millions of Won)		
Beginning	215,594	214,795	189,282
Loss on valuation of inventories	76,484	49,172	41,713
Write-off	(71,459)	(73,220)	(69,996)
Reversal and others	(5,824)	(1,465)	941
Ending	214,795	189,282	161,940

**10. Assets Held for Sale**

Details of assets held for sale and related liabilities as of December 31, 2013 and 2014 are as follows:

	2013			2014		
	Controlling company <sup>(#7)</sup>	Subsidiaries <sup>(#8)</sup>	Total	Controlling company <sup>(#1,*6)</sup>	Subsidiaries <sup>(#2,*3,*4,*5,*6)</sup>	Total
	(in millions of Won)					
<b>Assets</b>						
Cash and cash equivalents					210,934	210,934
Trade accounts and notes receivable and other receivables					90,811	90,811
Other financial assets				580,062	21,028	601,090
Inventories					289,716	289,716
Investments in associates	1,304		1,304			
Investment property					22,067	22,067
Property, plant and equipment		1,190	1,190	2,672	895,391	898,063
Other assets					14,406	14,406
	1,304	1,190	2,494	582,734	1,544,353	2,127,087
<b>Liabilities</b>						
Trade accounts and notes payable and other payables					225,403	225,403
Borrowings					330,059	330,059
Other liabilities					35,520	35,520

(\*1) In November 2014, Nacional Minerios S.A. (which was an available-for-sale investment of the Company) entered into a merger agreement with another entity through share exchange. The merger transaction was approved by the Company's Board of Directors on December 12, 2014. Pursuant to the merger agreement, the Company will dispose of its equity interests in Nacional Minerios S.A. in exchange for equity interests in the new entity. Therefore, the Company reclassified the available-for-sale investment to assets held for sale. Before the reclassification, the Company recognized an impairment loss of 88,572 million in the investment due to a prolonged decline in the fair value of the shares below its cost.

(\*2) The Company agreed to sell 52.2% of its shares of POSCO Specialty Steel Co., Ltd. to SeAH Besteel Corp. by and entered into a disposal agreement. The agreement was approved by the Board of Directors on December 12, 2014, and the Company classified the related assets and liabilities as held for sale. Related assets and liabilities on POSCO Specialty Steel Co., Ltd. are current assets of 580,299 million, non-current assets of 795,295 million, current liabilities of 315,399 million and non-current liabilities of 210,696 million.

**Table of Contents****POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2012, 2013 and 2014**

(\*3) The Company agreed to sell its shares of POSFINE Co.,Ltd., an associate of the Company, to Hahn & Company PRIVATE EQUITY FUND No.1. The transaction was approved by the Board of Directors on November 7, 2014 and the Company classified the shares as assets held for sale.

(\*4) Daewoo International Corporation, a subsidiary of the Company, entered into a sales contract to dispose its Daewoo Department Store located in Masan in accordance with the Board of Directors' resolution on August 18, 2014. Accordingly, the Company classified it as assets held for sale and recognized an impairment loss of 16,769 million.

(\*5) POSCO M-TECH, a subsidiary of the Company, determined to dispose of its rare metal department and some of its assets in the Molybdenum factory in Yeongwol, and classified them as assets held-for-sale.

(\*6) The controlling company and POSCO-VIETNAM Co., Ltd., a subsidiary of the Company, determined to dispose of some tangible assets including land and disused facilities and classified them as assets held for sale.

(\*7) The Company determined to dispose of its shares in 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 year ended December 31, 2014 and recognized a loss of 14 million on disposal of assets held for sale.

(\*8) POSCO AST, a subsidiary of the Company, determined to dispose of its land and building for employee welfare and classified them as assets held for sale as of December 31, 2012. POSCO AST recognized a loss of 436 million on impairment on assets held for sale during the year ended December 31, 2014.

**11. Investments in Associates and Joint ventures**

(a) Investments in associates and joint ventures as of December 31, 2013 and 2014 are as follows:

	<b>2013</b>	<b>2014</b>
	<b>(in millions of Won)</b>	
Investments in associates	1,830,047	1,626,801
Investments in joint ventures	1,978,646	2,433,706
	3,808,693	4,060,507



**Table of Contents****POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2012, 2013 and 2014**

(b) Details of investments in associates as of December 31, 2013 and 2014 are as follows:

Company	2013 Book value	Number of shares	2014		Book value
			Ownership (%) (in millions of Won)	Acquisition cost	
<b>[Domestic]</b>					
EQP POSCO Global NO1 Natual Resources PEF	177,563	178,565	28.48	178,566	176,899
SNNC	123,969	18,130,000	49.00	90,650	131,671
POSCO PLANTEC Co., Ltd. (*1)	234,203				
QSONE Co.,Ltd.	84,096	200,000	50.00	84,395	83,849
Incheon-Gimpo Expressway Co., Ltd. (*2)	37,759	9,032,539	25.76	45,163	43,045
BLUE OCEAN Private Equity Fund	29,391	333	27.52	33,300	31,439
UITrans LRT Co., Ltd. (*2)	19,185	4,395,669	38.19	21,978	30,098
CHUNGJU ENTERPRISE CITY DEVELOPMENT Co.,Ltd (*2)	23,733	2,008,000	25.10	10,040	19,801
KoFC POSCO HANWHA KB Shared Growth NO. 2. Private Equity Fund	6,685	11,862,500	12.50	11,863	12,268
KONES, Corp.	5,784	3,250,000	41.67	6,893	5,430
Gunggi Green Energy (*2)	4,996	2,880,000	19.00	14,400	4,642
Others (31 companies) (*2)	52,761				28,869
	800,125				568,011
<b>[Foreign]</b>					
Eureka Moly LLC	217,513		20.00	240,123	228,004
South-East Asia Gas Pipeline Company Ltd.	140,202	135,219,000	25.04	150,779	172,805
7623704 Canada Inc.	119,516	114,452,000	10.40	124,341	117,100
Nickel Mining Company SAS	135,178	3,234,698	49.00	157,585	107,408
AES-VCM Mong Duong Power Company Limited	81,436		30.00	74,161	93,021
AMCI (WA) PTY LTD	98,467	49	49.00	209,664	88,050
KOREA LNG LTD.	64,453	2,400	20.00	135,205	72,089
CAML RESOURCES PTY LTD	43,820	3,239	33.34	40,388	38,240
NCR LLC	30,496		29.41	32,348	32,598
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd	20,600	10,200,000	34.00	9,517	21,032
PT. Batutua Tembaga Raya		128,285	24.10	14,785	14,653
VSC POSCO Steel Corporation	9,464	1,000,000	50.00	9,014	7,621
PT. Wampu Electric Power (*2)	7,237	7,800,000	20.00	9,028	7,611
POSCO SeAH Steel Wire(Nantong) Co., Ltd.	6,083	50	25.00	4,723	6,969
Others (23 companies)	55,457				51,589
	1,029,922				1,058,790
	1,830,047				1,626,801

(\*1) During the year ended December 31, 2014, the investment in associates was reclassified from associate to subsidiary due to increase in percentage of ownership through capital increase.

(\*2) As of December 31, 2014, investment in associates amounting to 110,721 million is provided as collateral related to associates borrowings.

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**Table of Contents****POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2012, 2013 and 2014**

(c) Details of investments in joint ventures as of December 31, 2013 and 2014 are as follows:

Company	2013	Number of shares	Ownership (%) (in millions of Won)	2014	Book value
	Book value			Acquisition cost	
<b>[Domestic]</b>					
POSCO MITSUBISHI CARBON TECHNOLOGY	115,708	11,568,000	60.00	115,680	112,837
POSCO ES MATERIALS	40,386	1,000,000	50.00	43,000	38,021
	156,094				150,858
<b>[Foreign]</b>					
Roy Hill Holdings Pty Ltd (*1)	825,901	13,117,972	12.50	1,528,672	1,268,678
POSCO-NPS Niobium LLC	343,590	325,050,000	50.00	364,609	357,874
CSP - Companhia Siderurgica do Pecem	263,419	827,771,230	20.00	469,891	260,906
DMSA/AMSA (*2)	180,355		4.00	193,182	165,094
KOBRASCO	95,233	2,010,719,185	50.00	32,950	99,787
BX STEEL POSCO Cold Rolled Sheet Co., Ltd.	96,309		25.00	61,961	98,893
Others (11 companies)	17,745				31,616
	1,822,552				2,282,848
	1,978,646				2,433,706

(\*1) As of December 31, 2014, investment in joint ventures amounting to 1,268,678 million is provided as collateral in relation to loan from project financing of Roy Hill Holdings Pty Ltd.

(\*2) As of December 31, 2014, investment in joint ventures amounting to 165,094 million is provided as collateral for the joint venture's guarantees.

**Table of Contents****POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2012, 2013 and 2014**

(d) The movements of investments in associates and joint ventures for the years ended December 31, 2013 and 2014 were as follows:

1) For the year ended December 31, 2013

Company	December 31, 2012 Book value	Acquisition	Dividends (in millions of Won)	Share of profits (losses)	Other increase (decrease) (*1)	December 31, 2013 Book value
<b>[Domestic]</b>						
EQP POSCO Global NO1 Natural Resources PEF		178,566		(1,017)	14	177,563
SNNC	147,539		(27,685)	2,183	1,932	123,969
POSCO PLANTEC Co., Ltd.	181,361	101,210		(49,065)	697	234,203
QSONE Co.,Ltd.		84,395		(299)		84,096
Incheon-Gimpo Expressway Co., Ltd.	13,680	24,521		(441)	(1)	37,759
BLUE OCEAN Private Equity Fund	33,839			(2,015)	(2,433)	29,391
UITrans LRT Co., Ltd.	16,444	1,967		668	106	19,185
CHUNGJU ENTERPRISE CITY DEVELOPMENT Co.,Ltd	29,414			(5,535)	(146)	23,733
KoFC POSCO HANWHA KB Shared Growth NO. 2. Private Equity Fund		7,013		(327)	(1)	6,685
KONES, Corp.	6,476			(740)	48	5,784
Gunggi Green Energy	7,353	5,475		(8,213)	381	4,996
POSCO MITSUBISHI CARBON TECHNOLOGY	28,060	86,760		888		115,708
POSCO ES MATERIALS	42,388			(1,963)	(39)	40,386
Others (34 companies)	104,445	11,325		(6,585)	(56,424)	52,761
	610,999	501,232	(27,685)	(72,461)	(55,866)	956,219
<b>[Foreign]</b>						
Eureka Moly LLC	213,136				4,377	217,513
South-East Asia Gas Pipeline Company Ltd.	144,831			(2,585)	(2,044)	140,202
7623704 Canada Inc.		124,341		(1)	(4,824)	119,516
Nickel Mining Company SAS	146,699			(16,617)	5,096	135,178
AES-VCM Mong Duong Power Company Limited	48,636			(12,841)	45,641	81,436
AMCI (WA) PTY LTD	123,018			(6,283)	(18,268)	98,467
KOREA LNG LTD.	99,976		(21,999)	21,898	(35,422)	64,453
CAML RESOURCES PTY LTD	62,227		(12,428)	17,984	(23,963)	43,820
NCR LLC	39,303			(9,609)	802	30,496
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd	19,045			1,304	251	20,600
VSC POSCO Steel Corporation	9,347		(433)	760	(210)	9,464



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PT. Wampu Electric Power	7,414			(177)	7,237
POSCO SeAH Steel Wire(Nantong) Co., Ltd.	5,274		(62)	717	6,083
Roy Hill Holdings Pty Ltd	527,129	446,201		(37,781)	825,901
POSCO-NPS Niobium LLC	348,646		(16,188)	16,079	343,590
CSP - Compania Siderurgica do Pecem	214,761	128,185		(34,410)	263,419
DMSA/AMSA	124,326	58,374		31	180,355
KOBRASCO	113,847		(26,482)	21,948	95,233
BX STEEL POSCO Cold Rolled Sheet Co., Ltd.	92,888			2,400	96,309
Others (35 companies)	87,759	7,439	(11,953)	(70,342)	73,202
	2,428,262	764,540	(89,545)	(107,348)	2,852,474
	3,039,261	1,265,772	(117,230)	(179,809)	3,808,693

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

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2) For the year ended December 31, 2014

Company	December 31, 2013 Book value	Acquisition	Dividends	Share of profits (losses) (in millions of Won)	Other increase (decrease) <sup>(*)1</sup>	December 31, 2014 Book value
<b>[Domestic]</b>						
EQP POSCO Global NO1 Natural Resources PEF	177,563			(664)		176,899
SNNC	123,969		(5,149)	13,873	(1,022)	131,671
POSCO PLANTEC Co., Ltd. <sup>(*)2</sup>	234,203	25,356		(210,616)	(48,943)	
QSONE Co., Ltd.	84,096			(247)		83,849
Incheon-Gimpo Expressway Co., Ltd.	37,759	8,331		(340)	(2,705)	43,045
BLUE OCEAN Private Equity Fund	29,391			2,193	(145)	31,439
UITrans LRT Co., Ltd.	19,185	2,330		8,583		30,098
CHUNGJU ENTERPRISE CITY DEVELOPMENT Co., Ltd	23,733			(3,714)	(218)	19,801
KoFC POSCO HANWHA KB Shared Growth NO. 2. Private Equity Fund	6,685	6,113		(530)		12,268
KONES, Corp.	5,784			(378)	24	5,430
Gunggi Green Energy	4,996			(354)		4,642
POSCO MITSUBISHI CARBON TECHNOLOGY	115,708			(2,835)	(36)	112,837
POSCO ES MATERIALS	40,386			(2,229)	(136)	38,021
Others (31 companies)	52,761	12,875		(24,284)	(12,483)	28,869
	956,219	55,005	(5,149)	(221,542)	(65,664)	718,869
<b>[Foreign]</b>						
Eureka Moly LLC	217,513			(37)	10,528	228,004
South-East Asia Gas Pipeline Company Ltd.	140,202			25,638	6,965	172,805
7623704 Canada Inc.	119,516		(5,505)	(1,678)	4,767	117,100
Nickel Mining Company SAS	135,178			(17,391)	(10,379)	107,408
AES-VCM Mong Duong Power Company Limited	81,436			(3,845)	15,430	93,021
AMCI (WA) PTY LTD	98,467			(6,477)	(3,940)	88,050
KOREA LNG LTD.	64,453		(18,668)	18,613	7,691	72,089
CAML RESOURCES PTY LTD	43,820			(2,191)	(3,389)	38,240
NCR LLC	30,496			(3,984)	6,086	32,598
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd	20,600		(352)	378	406	21,032
PT. Batutua Tembaga Raya		14,785			(132)	14,653
VSC POSCO Steel Corporation	9,464		(1,850)	7		7,621
PT. Wampu Electric Power	7,237			134	240	7,611
POSCO SeAH Steel Wire(Nantong) Co., Ltd.	6,083			679	207	6,969
Roy Hill Holdings Pty Ltd	825,901	530,492		(14,783)	(72,932)	1,268,678
POSCO-NPS Niobium LLC	343,590		(16,414)	16,370	14,328	357,874
CSP - Compania Siderurgica do Pecem	263,419	75,966		(57,127)	(21,352)	260,906

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DMSA/AMSA	180,355		(21,793)	6,532	165,094
KOBRASCO	95,233	(18,429)	30,356	(7,373)	99,787
BX STEEL POSCO Cold Rolled Sheet Co., Ltd.	96,309		943	1,641	98,893
Others (34 companies)	73,202	50,605	(858)	2,419	83,205
	2,852,474	671,848	(62,076)	(78,351)	3,341,638
	3,808,693	726,853	(67,225)	(299,893)	4,060,507

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

(\*2) As of December 31, 2014, there is objective evidence of impairment due to the prolonged decline in the fair value of the investment below its cost. As a result, the Company recognized an impairment loss of 88,600 million as the carrying value was higher than its recoverable amount as of December 31, 2014.

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(e) Summarized financial information of associates and joint ventures as of and for years ended December 31, 2013 and 2014 is as follows:

## 1) December 31, 2013

Company	Assets	Liabilities	Equity (deficit) (in millions of Won)	Sales	Net income (loss)
<b>[Domestic]</b>					
EQP POSCO Global NO1 Natural Resources PEF	652,849	1,034	651,815		(3,684)
SNNC	504,351	235,830	268,521	405,419	8,458
POSCO PLANTEC Co., Ltd.	900,409	765,481	134,928	597,561	(98,435)
QSONE Co., Ltd.	247,592	79,399	168,193	882	(597)
Incheon-Gimpo Expressway Co., Ltd.	157,082	32,691	124,391		(1,473)
BLUE OCEAN Private Equity Fund	341,118	234,321	106,797	425,678	(7,321)
UITrans LRT Co., Ltd.	102,828	56,438	46,390		(925)
CHUNGJU ENTERPRISE CITY DEVELOPMENT Co.,Ltd	284,290	222,246	62,044	10,224	(15,924)
KoFC POSCO HANWHA KB Shared Growth NO. 2. Private Equity Fund	55,195	1,712	53,483	1,064	(1,116)
KONES, Corp.	3,748	2,296	1,452	7,442	(1,612)
Gunggi Green Energy	333,027	263,608	69,419	21,577	(5,526)
POSCO MITSUBISHI CARBON TECHNOLOGY	243,644	51,747	191,897		89
POSCO ES MATERIALS	59,807	10,590	49,217	5,759	(3,926)
<b>[Foreign]</b>					
South-East Asia Gas Pipeline Company Ltd.	1,755,847	1,195,935	559,912	19,878	(10,323)
7623704 Canada Inc.	1,161,363	15	1,161,348		(10)
Nickel Mining Company SAS	416,878	91,851	325,027	120,324	(39,686)
KOREA LNG LTD.	381,437	98	381,339	111,602	109,495
CAML RESOURCES PTY LTD	185,465	52,782	132,683	238,296	53,950
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd	133,554	67,202	66,352	205,453	3,859
VSC POSCO Steel Corporation	33,116	17,860	15,256	110,059	1,766
PT. Wampu Electric Power	122,733	89,862	32,871	27,042	(3,496)
POSCO SeAH Steel Wire(Nantong) Co., Ltd.	63,304	38,951	24,353	79,578	3,134
Roy Hill Holdings Pty Ltd	2,703,533	244,437	2,459,096		(302,248)
POSCO-NPS Niobium LLC	686,978		686,978		32,158
CSP - Companhia Siderurgica do Pecem	1,520,989	78,847	1,442,142		(16,915)
DMSA/AMSA	8,636,317	5,190,558	3,445,759		(473)
KOBRASCO	203,467	13,001	190,466	70,428	42,852
BX STEEL POSCO Cold Rolled Sheet Co., Ltd.	776,557	418,958	357,599	1,479,765	5,359

**Table of Contents****POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2012, 2013 and 2014**

2) December 31, 2014

Company	Assets	Liabilities	Equity (deficit) (in millions of Won)	Sales	Net income (loss)
<b>[Domestic]</b>					
EQP POSCO Global NO1 Natual Resources PEF	621,960	1,044	620,916		(576)
SNNC	826,597	528,246	298,351	345,836	41,117
QSONE Co., Ltd.	247,590	79,891	167,699	13,674	(603)
Incheon-Gimpo Expressway Co., Ltd.	337,639	172,464	165,175		(1,148)
BLUE OCEAN Private Equity Fund	361,810	247,573	114,237	574,476	8,489
UITrans LRT Co., Ltd.	169,574	117,996	51,578		(887)
CHUNGJU ENTERPRISE CITY DEVELOPMENT Co., Ltd	256,207	208,960	47,247	5,240	(14,789)
KoFC POSCO HANWHA KB Shared Growth NO. 2. Private Equity Fund	100,063	1,917	98,146	1,932	(4,238)
KONES, Corp.	3,756	3,155	601	7,269	(907)
Gunggi Green Energy	328,976	264,278	64,698	124,181	(4,720)
POSCO MITSUBISHI CARBON TECHNOLOGY	405,387	218,275	187,112		(4,725)
POSCO ES MATERIALS	64,088	19,602	44,486	13,403	(4,459)
<b>[Foreign]</b>					
South-East Asia Gas Pipeline Company Ltd.	1,997,068	1,306,957	690,111	353,439	102,385
7623704 Canada Inc.	1,138,126	4	1,138,122		(612)
Nickel Mining Company SAS	410,230	140,860	269,370	133,975	(24,800)
KOREA LNG LTD.	393,581	45	393,536	94,936	93,067
CAML RESOURCES PTY LTD	159,281	38,591	120,690	172,093	(6,570)
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd	148,077	80,538	67,539	186,733	1,112
PT. Batutua Tembaga Raya	100,142	151,591	(51,449)	1,309	(2,110)
VSC POSCO Steel Corporation	38,388	26,942	11,446	103,877	73
PT. Wampu Electric Power	172,950	138,012	34,938	43,184	670
POSCO SeAH Steel Wire(Nantong) Co., Ltd.	66,097	38,572	27,525	80,059	2,636
Roy Hill Holdings Pty Ltd	6,809,416	3,431,438	3,377,978		(118,264)
POSCO-NPS Niobium LLC	715,546		715,546		32,741
CSP - Companhia Siderurgica do Pecem	3,060,008	1,467,004	1,593,004		(90,649)
DMSA/AMSA	8,938,860	5,918,665	3,020,195	695,505	(544,837)
KOBRASCO	234,595	35,021	199,574	99,677	60,712
BX STEEL POSCO Cold Rolled Sheet Co., Ltd.	816,813	448,854	367,959	1,290,490	3,771

**Table of Contents****POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2012, 2013 and 2014****12. Joint Operations**

Details of significant joint operations that the Company is participating in as a party to a joint arrangement as of December 31, 2014 are as follows:

<b>Joint operations</b>	<b>Operation</b>	<b>Ownership (%)</b>	<b>Location</b>
Myanmar A-1/A-3 mine	Mine development	51.00	Myanmar
Offshore midstream	Mine development	51.00	Myanmar
Greenhills mine	Mine development	20.00	Canada
Actos Anthracite coal project	Mine development	20.00	Canada
Mt. Thorley J/V	Mine development	20.00	Australia
POSMAC J/V	Mine development	20.00	Australia
CD J/V	Mine development	5.00	Australia
Intergra Coal J/V	Mine development	2.35	Australia
RUM J/V	Mine development	10.00	Australia
Camberwell Coal J/V	Mine development	8.39	Australia

**13. Investment Property, Net**

(a) Investment property as of December 31, 2013 and 2014 are as follows:

	<b>Acquisition cost</b>	<b>2013 Accumulated depreciation and impairment loss</b>	<b>Book value (in millions of Won)</b>	<b>Acquisition cost</b>	<b>2014 Accumulated depreciation and impairment loss</b>	<b>Book value</b>
Land	200,468	(38,966)	161,502	447,350	(31,838)	415,512
Buildings	399,998	(160,805)	239,193	681,924	(90,277)	591,647
Structures	6,836	(3,237)	3,599	4,058	(1,998)	2,060
Construction-in-progress	20,935		20,935	46,373		46,373
	<b>628,237</b>	<b>(203,008)</b>	<b>425,229</b>	<b>1,179,705</b>	<b>(124,113)</b>	<b>1,055,592</b>

As of December 31, 2014, the fair value of investment property is 1,288,080 million, among which the Company evaluated the investment property of 6 subsidiaries, including DONG FANG JIN HONG, as its book value since it is believed that the book value of 812,591 million approximates fair value. Also, the Company used the prior year's fair value for some of the investment property since it is believed to be approximately the same.

(b) Changes in the carrying value of investment property for the years ended December 31, 2013 and 2014 were as follows:

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1) For the year ended December 31, 2013

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

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

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**Table of Contents****POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2012, 2013 and 2014**

2) For the year ended December 31, 2014

	Beginning	Acquisitions	Business combination	Disposals (in millions of Won)	Depreciation (*1)	Others (*2)	Ending
Land	161,502	97,883	13	(20,500)		176,614	415,512
Buildings	239,193	195,722	208	(19,212)	(12,858)	188,594	591,647
Structures	3,599				(413)	(1,126)	2,060
Construction-in-progress	20,935	112,998				(87,560)	46,373
	425,229	406,603	221	(39,712)	(13,271)	276,522	1,055,592

(\*1) Impairment losses of investment property amounting to 23 million are included.

(\*2) Includes reclassification resulting from changing purpose of use, adjustment of foreign currency translation difference and others.

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

(a) Property, plant and equipment as of December 31, 2013 and 2014 are as follows:

	2013				2014			
	Acquisition cost	Accumulated depreciation and impairment loss	Government grants	Book value (in millions of Won)	Acquisition cost	Accumulated depreciation and impairment loss	Government grants	Book value
Land	2,719,989	(11,979)		2,708,010	2,801,288			2,801,288
Buildings	8,112,980	(3,223,992)	(153)	4,888,835	8,824,462	(3,460,858)	(4,280)	5,359,324
Structures	4,649,271	(1,864,574)	(110)	2,784,587	5,106,863	(2,076,499)	(201)	3,030,163
Machinery and equipment	40,685,986	(21,242,212)	(938)	19,442,836	43,972,182	(22,771,455)	(842)	21,199,885
Vehicles	284,113	(233,080)		51,033	304,346	(247,611)	(40)	56,695
Tools	346,018	(283,120)	(45)	62,853	360,625	(296,517)	(39)	64,069



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Furniture and fixtures	568,313	(394,958)	(203)	173,152	577,126	(433,330)	(14)	143,782
Finance lease assets	151,219	(50,695)		100,524	162,154	(82,073)		80,081
Construction-in-progress	5,553,322		(5,033)	5,548,289	2,511,009		(5,101)	2,505,908
	63,071,211	(27,304,610)	(6,482)	35,760,119	64,620,055	(29,368,343)	(10,517)	35,241,195

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**Table of Contents****POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2012, 2013 and 2014**

(b) Changes in the carrying value of property, plant and equipment for the years ended December 31, 2013 and 2014 were as follows:

1) For the year ended December 31, 2013

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

(\*1) Impairment losses of property, plant and equipment amounting to 9,742 million are included.

(\*2) Includes reclassification for changing purpose of use, adjustments of foreign currency translation differences and others.

2) For the year ended December 31, 2014

	Beginning	Acquisitions	Business combination	Disposals	Depreciation <sup>(*1)</sup>	Others <sup>(*2)</sup>	Ending
	(in millions of Won)						
Land	2,708,010	92,645	146,755	(10,410)	(1,839)	(133,873)	2,801,288
Buildings	4,888,835	97,701	72,483	(18,968)	(372,445)	691,718	5,359,324
Structures	2,784,587	42,341	15,525	(3,517)	(223,487)	414,714	3,030,163
Machinery and equipment	19,442,836	372,448	26,998	(45,777)	(2,194,014)	3,597,394	21,199,885
Vehicles	51,033	17,665	614	(2,136)	(20,166)	9,685	56,695
Tools	62,853	29,351	4,210	(578)	(33,480)	1,713	64,069
Furniture and fixtures	173,152	41,113	1,599	(2,291)	(70,938)	1,147	143,782

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Finance lease assets	100,524	2,710		(31)	(29,825)	6,703	80,081
Construction-in-progress	5,548,289	2,804,568	19,156	(14,088)		(5,852,017)	2,505,908
	35,760,119	3,500,542	287,340	(97,796)	(2,946,194)	(1,262,816)	35,241,195

(\*1) Impairment losses of property, plant and equipment amounting to 64,833 million are included.

(\*2) Includes reclassification for changing purpose of use, adjustment of foreign currency translation differences and others.

(c) Borrowing costs capitalized and the capitalized interest rate for the years ended December 31, 2013 and 2014 were as follows:

	2013	2014
	(in millions of Won)	
Weighted average expenditure	6,442,564	1,772,492
Borrowing costs capitalized	290,117	76,566
Capitalization rate	4.50%	4.32%

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**Table of Contents****POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2012, 2013 and 2014**

(d) Property, plant and equipment and investment property pledged as collateral as of December 31, 2013 and 2014 are as follows:

	Collateral right holder	2013 (in millions of Won)	2014 (in millions of Won)
Land (*1)	Korean Development Bank and others	767,004	1,040,850
Buildings and structures (*1)	Korean Development Bank and others	1,112,855	1,324,597
Machinery and equipment	Korean Development Bank and others	3,343,747	3,594,331
Tools	Korean Development Bank	7,300	104
Construction-in-progress	The Export-Import Bank of Korea	382,339	
		5,613,245	5,959,882

(\*1) Investment property is included.

**15. Goodwill and Other Intangible Assets, Net**

(a) Goodwill and other intangible assets as of December 31, 2013 and 2014 are as follows:

	2013				2014			
	Acquisition cost	Accumulated amortization and impairment	Government grants	Book value	Acquisition cost	Accumulated amortization and impairment	Government grants	Book value
	(in millions of Won)							
Goodwill	1,741,562	(125,624)		1,615,938	1,932,065	(136,921)		1,795,144
Intellectual property rights	1,551,898	(76,026)	(1,013)	1,474,859	2,910,143	(146,544)	(920)	2,762,679
Premium in rental	148,295	(17,028)		131,267	150,438	(19,496)		130,942
Development expense	158,228	(95,780)	(1,346)	61,102	330,365	(161,263)	(356)	168,746
Port facilities usage rights	504,331	(337,220)		167,111	506,125	(349,681)		156,444
Exploration and evaluation assets	389,601	(29,853)		359,748	123,025	(30,566)		92,459
Mining development assets	968,191			968,191				
Customer relationships	856,308	(163,428)		692,880	859,023	(217,398)		641,625
Power generation permit					539,405			539,405
Other intangible assets	843,705	(384,960)	(1)	458,744	1,159,574	(562,014)	(15)	597,545

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7,162,119	(1,229,919)	(2,360)	5,929,840	8,510,163	(1,623,883)	(1,291)	6,884,989
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**Table of Contents****POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2012, 2013 and 2014**

(2) The changes in carrying value of goodwill and other intangible assets for the years ended December 31, 2013 and 2014 were as follows:

1) For the year ended December 31, 2013

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

(\*1) Business combination amounts include goodwill amounting to 2,668 million related to the acquisition of POSCO YongXin Rare Earth Metal Co., Ltd.

(\*2) Premium in rental includes memberships with indefinite useful lives.

(\*3) Includes translation adjustment and reclassification.

2) For the year ended December 31, 2014

	Beginning	Acquisitions	Business combination	Disposals	Amortization	Impairment loss	Others <sup>(*3)</sup>	Ending
	(in millions of Won)							
Goodwill <sup>(*1)</sup>	1,615,938		187,285			(11,297)	3,218	1,795,144
Intellectual property rights	1,474,859	199,850	32	(218)	(143,548)	(27,720)	1,259,424	2,762,679

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Premium in rental <sup>(*2)</sup>	131,267	8,775	1,661	(4,484)	(265)	(2,609)	(3,403)	130,942
Development expense	61,102	18,032	2,659	(3,484)	(56,453)	(9,366)	156,256	168,746
Port facilities usage rights	167,111	433			(12,462)		1,362	156,444
Exploration and evaluation assets	359,748	32,191				(718)	(298,762)	92,459
Mining development assets	968,191	1,484					(969,675)	
Customer relationships	692,880				(53,969)		2,714	641,625
Power generation permit <sup>(*4)</sup>			539,405					539,405
Other intangible assets <sup>(*5)</sup>	458,744	262,076	88,808	(665)	(77,243)	(717)	(133,458)	597,545
	5,929,840	522,841	819,850	(8,851)	(343,940)	(52,427)	17,676	6,884,989

(\*1) Business combination amounts include goodwill amounting to 180,418 million related to the acquisition of POSCO PLANTEC Co., Ltd.

(\*2) Premium in rental includes memberships with indefinite useful lives.

(\*3) Includes translation adjustment and reclassification.

(\*4) POSCO ENERGY CO., LTD. recognized other intangible assets amounting to 539,405 million in relation to operation permit for electricity business when acquiring POSPOWER CO., Ltd.

(\*5) For the year ended December 31, 2014, POSCO ENGINEERING & CONSTRUCTION, LTD. recognized other intangible assets and other provisions amounting to 169,000 million in relation to project financing agreements on the Urban Development Project in Gaepo-dong, Seoul.

**Table of Contents****POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2012, 2013 and 2014**

(c) For the purpose of impairment testing, goodwill is allocated to individually operating entities which are determined to be CGUs. The goodwill amounts as of December 31, 2013 and 2014 are as follows:

Reporting segments	Total number of CGUs		CGUs	2013	2014
	2013	2014			
	(in millions of Won)				
Steel	10	10	POSCO Thainox Public Company Limited	18,624	16,206
			POSCO VST CO., LTD.	36,955	36,955
			Others	14,084	13,623
Trading	3	3	Daewoo International Corporation <sup>(*)1</sup>	1,163,922	1,163,922
			Others	9,711	9,918
E&C	4	5	POSCO Engineering Co., Ltd. <sup>(*)2</sup>	194,637	194,637
			EPC EQUITIES LLP	44,412	44,719
			POSCO PLANTEC Co., Ltd. <sup>(*)3</sup>		180,418
			Others	11,119	14,802
Others	10	9	PONUTech Co., Ltd	77,298	77,298
			POSCO ENERGY Co., LTD.	26,471	26,471
			Others	18,705	16,175
<b>Total</b>	<b>27</b>	<b>27</b>		<b>1,615,938</b>	<b>1,795,144</b>

(\*1) Recoverable amounts of Daewoo International Corporation are determined based on its value-in-use. As of December 31, 2014, value-in-use is estimated by applying 7.17% discount rate and 2.5% terminal growth rate with 5 years, the period for the estimated future cash flows, based on management's business plan. The key assumption for the estimated future cash flow projections for the next 5 years is the revenue growth rate. The average annual growth rate of 7.86% is used based on the average growth rate of revenue in the past 5 years (2010 through 2014) and the Company's business plan for next 5 years. No impairment loss of goodwill recognized during the year ended December 31, 2014 as the recoverable amount exceeded the carrying value of the CGU.

The estimated recoverable amount of CGU exceeded the carrying value by 212,085 million. Value-in-use of the CGU was affected by the assumption such as discount rate and terminal growth used in discount cash flow model. When the discount rate increases by 1%, value-in-use will be decreased by 9.17% and when the terminal growth rate decreases by 1%, value-in-use will be decreased by 5.36%.

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



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(\*2) Recoverable amounts of POSCO Engineering Company are determined based on its value-in-use. As of December 31, 2014, value-in-use is estimated by applying 9.17% discount rate and 1% terminal growth rate with 5 years. The estimated future cash flows for the next 5 years are based on management's approved business plan. The most significant assumption on the cash flow projections for the next 5 years is the cash flows from construction projects based on the business plan. No impairment loss of goodwill was recognized during the year ended December 31, 2014 as the recoverable amount exceeded the carrying value of the CGU.

The estimated recoverable amounts of CGU exceeded the carrying value by 13,837 million. Value-in-use of the CGU was affected by the assumption such as discount rate and terminal growth used in discount cash flow model. When the discount rate increases by 0.25%, value-in-use will be decreased by 3.38% and when the terminal growth rate decreases by 0.25%, value-in-use will be decreased by 2.55%. The change has no effect on the impairment loss of the goodwill.

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

(\*3) Recoverable amount of POSCO PLANTEC Co., Ltd. was determined based on fair value less cost to sell. No impairment loss of goodwill was recognized during the year ended December 31, 2014 as the recoverable amount exceeded the carrying value of the CGU.

**Table of Contents****POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2012, 2013 and 2014****16. Other Assets**

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

	2013	2014
	(in millions of Won)	
<b>Current</b>		
Advance payments	1,138,976	845,114
Prepaid expenses	130,272	129,914
Others	1,420	1,397
	1,270,668	976,425
<b>Non-current</b>		
Long-term advance payments	3,090	3,454
Long-term prepaid expenses	204,449	243,933
Others <sup>(*)</sup>	157,659	260,162
	365,198	507,549

(\*) As of December 31, 2014, the Company recognized assets amounting to 132,060 million in connection with the additional income tax payment for prior years as a result of tax audits that were finalized in 2014 based on the Company's best estimate of the tax amounts to be paid when the result of the Company's appeal is finalized.

**17. Borrowings**

(a) Short-term borrowings and current portion of long-term borrowings as of December 31, 2013 and 2014 are as follows:

	Bank	Issuance date	Maturity date	Interest rate (%)	2013	2014
	(in millions of Won)					
<b>Short-term borrowings</b>						
Bank overdrafts		January, 2014~ December, 2014	January, 2015~ December, 2015	0.1~6.0	100,211	105,673
	Bank of America and others					
Short-term borrowings		January, 2014~ December, 2014	January, 2015~ December, 2015	0.4~12.3	7,256,486	9,138,804
	HSBC and others					

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					7,356,697	9,244,477
Current portion of long-term liabilities						
Current portion of long-term borrowings						
	Export-Import Bank of Korea and others	June, 2003~ December, 2014	January, 2015~ December, 2015	0.5~9.0	856,188	1,159,090
Less: Present value discount					(59)	
Current portion of foreign loan	NATIXIS	March, 1986 August, 2009~	September, 2015	2.0	927	418
Current portion of debentures	Korean Development Bank and others	March, 2014	February, 2015~ December, 2015	1.3~6.0	2,502,246	1,793,252
Less: Current portion of discount on debentures issued					(2,353)	(1,753)
					3,356,949	2,951,007
					10,713,646	12,195,484

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

	<b>Bank</b>	<b>Issuance date</b>	<b>Maturity date</b>	<b>Interest rate (%)</b>	<b>2013</b>	<b>2014</b>
<b>(in millions of Won)</b>						
Long-term borrowings	Export-Import Bank of Korea and others	January, 1983~ December, 2014	January, 2016~ December, 2099	0.5~10.0	7,017,532	7,359,773
Less: Present value discount					(43,897)	(109,949)
Foreign loan (*1)	NATIXIS	March, 1986	March, 2017	2.0	1,140	627
Bonds	Korean Development Bank and others	August, 2006~ December, 2014	February, 2016~ October, 2023	0.9~6.3	8,590,965	8,009,547
Less: Discount on debentures issued					(45,372)	(27,225)
Add: Premium on debentures redemption					12,591	
					15,532,959	15,232,773

(\*1) Korea Development Bank has provided guarantees related to the foreign loan.

(c) Property, plant and equipment, trade accounts and notes receivable, financial assets, available-for-sale financial assets and inventories amounting to 5,950,260 million, 27,621 million (three hundred eleven sheets of notes receivable), 15,156 million, 6,726 million and 344,146 million, respectively, are provided as collateral related to short-term borrowings, long-term borrowings and debentures.

**18. Other Payables**

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

	<b>2013</b>	<b>2014</b>
<b>(in millions of Won)</b>		
<b>Current</b>		
Accounts payable	914,288	1,082,676
Accrued expenses	873,613	740,250
Dividend payable	11,709	12,077
Finance lease liabilities	14,218	21,888
Withholdings	315,026	337,822

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	2,128,854	2,194,713
<b>Non-current</b>		
Accounts payable	116,160	81,344
Accrued expenses	25,358	25,886
Finance lease liabilities	39,257	24,815
Long-term withholdings	25,859	37,941
	206,634	169,986

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**Table of Contents****POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2012, 2013 and 2014****19. Other Financial Liabilities**

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

	<b>2013</b>	<b>2014</b>
	<b>(in millions of Won)</b>	
<b>Current</b>		
Derivatives liabilities	128,370	84,146
Financial guarantee liabilities	7,534	27,491
	135,904	111,637
<b>Non-current</b>		
Derivatives liabilities	229,096	64,926
Financial guarantee liabilities	30,925	26,169
	260,021	91,095

**20. Provisions**

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

	<b>2013</b>		<b>2014</b>	
	<b>Current</b>	<b>Non-current</b>	<b>Current</b>	<b>Non-current</b>
	<b>(in millions of Won)</b>			
Provision for bonus payments	52,377		49,505	
Provision for construction warranties	35,027	20,669	16,352	63,996
Provision for legal contingencies and claims (*1)		30,330		50,424
Provisions for the restoration (*2)		4,385	39,336	35,462
Others (*3)	19,925	90,888	44,837	73,357
	107,329	146,272	150,030	223,239

(\*1) The Company recognized probable outflow of resources amounting to 17,549 million and 44,309 million as provisions for legal contingencies and asserted claims in relation to lawsuits against the Company as of December 31, 2013 and 2014, respectively.

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(\*2) Due to contamination of land near the Company's magnesium plant located in Gangneung, the Company recognized a provision of \$89,433 million related to restoration costs. When estimating related costs, the Company has assumed that it would use all of technologies and materials available to restore the land. In addition, the Company has applied a discount rate of 3.04% to measure the present value of these costs.

(\*3) As of December 31, 2013 and 2014, the amount includes a provision of \$74,888 million and \$23,600 million, respectively, for expected outflows of resources in connection with the subrogation and financial joint guarantee for the construction projects of POSCO ENGINEERING & CONSTRUCTION Co., LTD.

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

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

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(c) Changes in provisions for the years ended December 31, 2013 and 2014 were as follows:

1) For the year ended December 31, 2013

	<b>Beginning</b>	<b>Increase</b>	<b>Utilization</b>	<b>Reversal</b>	<b>Others<sup>(*1)</sup></b>	<b>Ending</b>
	<b>(in millions of Won)</b>					
Provision for bonus payments	42,904	48,362	(36,126)	(2,058)	(705)	52,377
Provision for construction warranties	50,716	27,008	(15,356)	(3,887)	(2,785)	55,696
Provision for legal contingencies and claims	30,920	5,090	(4,353)	(1,327)		30,330
Provisions for the restoration	4,371	130			(116)	4,385
Others	49,018	85,947	(23,576)	(1,597)	1,021	110,813
	177,929	166,537	(79,411)	(8,869)	(2,585)	253,601

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

2) For the year ended December 31, 2014

	<b>Beginning</b>	<b>Increase</b>	<b>Utilization</b>	<b>Reversal</b>	<b>Others<sup>(*1)</sup></b>	<b>Ending</b>
	<b>(in millions of Won)</b>					
Provision for bonus payments	52,377	45,071	(46,761)	(1,646)	464	49,505
Provision for construction warranties	55,696	34,410	(15,719)	(4,677)	10,638	80,348
Provision for legal contingencies and claims	30,330	15,289	(7,716)		12,521	50,424
Provisions for the restoration	4,385	89,565	(19,328)		176	74,798
Others	110,813	282,406	(258,571)	(19,523)	3,069	118,194
	253,601	466,741	(340,379)	(33,562)	26,868	373,269

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

**21. Employee Benefits**

(a) Defined contribution plans



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The expenses related to post-employment benefit plans under defined contribution plans for the years ended December 31, 2012, 2013 and 2014 were as follows:

	2012	2013	2014
	(in millions of Won)		
Expense related to post-employment benefit under defined contribution plans	16,520	19,126	23,414
(b) Defined benefit plans			

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

	2013	2014
	(in millions of Won)	
Present value of funded obligations	1,515,426	1,713,074
Fair value of plan assets	(1,247,483)	(1,427,918)
Present value of non-funded obligations	5,217	5,169
Net defined benefit liabilities	273,160	290,325

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2) Changes in present value of defined benefit obligations for the years ended December 31, 2013 and 2014 were as follows:

	<b>2013</b>	<b>2014</b>
	<b>(in millions of Won)</b>	
Defined benefit obligation at the beginning of period	1,410,399	1,520,643
Current service costs	238,386	230,445
Interest costs	47,039	54,737
Remeasurements :	(12,615)	85,166
Loss(Gain) from change in demograhpic assumptions	(5,624)	18,911
Loss from change in financial assumptions	7,667	54,131
Others	(14,658)	12,124
Business combinations	11,379	48,695
Benefits paid	(129,038)	(160,792)
Others	(44,907)	(60,651)
Defined benefit obligation at the end of period	1,520,643	1,718,243

3) Changes in fair value of plan assets for the years ended December 31, 2013 and 2014 were as follows:

	<b>2013</b>	<b>2014</b>
	<b>(in millions of Won)</b>	
Fair value of plan assets at the beginning of period	1,064,711	1,247,483
Interest on plan assets	37,677	47,296
Remeasurement of plan assets	(1,482)	(11,236)
Contributions to plan assets <sup>(*1)</sup>	254,771	273,867
Business combinations	9,372	30,863
Benefits paid	(82,624)	(109,352)
Others	(34,942)	(51,003)
Fair value of plan assets at the end of period	1,247,483	1,427,918

(\*1) The Company expects to make an estimated contribution of 272,767 million to the defined benefit plan assets in 2015.

4) The fair value of plan assets as of December 31, 2013 and 2014 are as follows:

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	<b>2013</b>	<b>2014</b>
	<b>(in millions of Won)</b>	
Equity instruments	35,364	43,010
Debt instruments	98,686	236,665
Deposits	958,509	997,414
Others	154,924	150,829
	1,247,483	1,427,918

5) The amounts recognized in consolidated statements of comprehensive income for the years ended December 31, 2012, 2013 and 2014 were as follows:

	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>(in millions of Won)</b>		
Current service costs	212,450	238,386	230,445
Net interest costs (*1)	13,682	9,362	7,441
	226,132	247,748	237,886

(\*1) The actual return on plan assets amounted to 39,826 million, 36,195 million and 36,060 million for the years ended December 31, 2012, 2013 and 2014, respectively.

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The above expenses by function were as follows:

	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>(in millions of Won)</b>		
Cost of sales	164,763	180,090	172,668
Selling and administrative expenses	60,457	66,327	64,960
Others	912	1,331	258
	226,132	247,748	237,886

6) Accumulated actuarial gains (losses), net of tax recognized in other comprehensive income for the years ended December 31, 2012, 2013 and 2014 were as follows:

	<b>2012</b>	<b>2013</b>	<b>2014</b>
	<b>(in millions of Won)</b>		
Beginning	(182,702)	(245,229)	