

# **POSCO and Subsidiaries**

**Condensed Consolidated Interim Financial Statements  
(Unaudited)  
June 30, 2016**

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

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## **Independent Auditors' Review Report**

Based on a report originally issued in Korean

The Board of Directors and Shareholders  
POSCO:

### **Reviewed financial statements**

We have reviewed the accompanying condensed consolidated interim financial statements of POSCO and its subsidiaries (the "Company"), which comprise the condensed consolidated interim statement of financial position as of June 30, 2016, the condensed consolidated interim statements of comprehensive income for the three-month and six-month periods ended June 30, 2016 and 2015, the condensed consolidated interim statements of changes in equity and cash flows for the six-month periods ended June 30, 2016 and 2015 and notes, comprising a summary of significant accounting policies and other explanatory information.

### **Management's responsibility**

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

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

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

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

### **Conclusion**

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

## **Emphasis of matter**

Without qualifying our opinion, we draw attention to the following matter.

### *Key audit matters related to industry with production-to-order transactions and others*

Reviewing the financial statements on entities engaged in production-to-order transactions is a significant matter in our review of the condensed consolidated interim financial statements, which determination is based on auditor's professional judgment and communications with those who charged with governance, in accordance with Practical Guide of Korean Standards on Auditing 2016-1. This matter is part of our review of the condensed consolidated interim financial statements as a whole, and we do not express an opinion or review conclusion on this matter.

In addition, as mentioned in "Auditors' Review Responsibility" section, our responsibility is to issue a report on these condensed interim financial statements based on our reviews in accordance with Review Standards for Quarterly and Semi-annual Financial Statements established by the Securities and Futures Commission of the Republic of Korea. We have inquired primarily of personnel responsible for financial and accounting matters, and applied analytical and other review procedures on the review matter in connection with production-to-order transactions.

#### **(a) Overview**

In relation to key audit matter related to industry with production-to-order transactions described in this review report, the following is commonly applied.

Certain subsidiaries including POSCO ENGINEERING & CONSTRUCTION., LTD. and POSCO ICT are engaged in industry with production-to-order transactions. Sales in relation to production-to-order transactions are approximately 12% of consolidated sales for the six-month period ended June 30, 2016. As mentioned in note 26(a) to the condensed interim financial statements, when the outcome of a construction contract can be estimated reliably, the Company recognizes contract revenues and contract costs associated with the construction contract as revenue and expenses, respectively, based on the percentage-of-completion method at the end of the reporting period. The percentage-of-completion is calculated based on the ratio of contract costs incurred for work performed to date to estimated total contract costs. The gross amount due from customers for contract work is presented for all contracts in which costs incurred plus recognized profits (less recognized losses) exceeded progress billings. The gross amount due to customers for contract work is presented for all contracts in which progress billings exceed costs incurred plus recognized profits (less recognized losses).

#### **(b) Identification of significant risks and review procedures**

We identified the significant risks through discussion with auditors of certain subsidiaries in industry with production-to-order transactions and conducted reviews on their review procedures for those risks. The subsidiary's auditors conducted review procedures based on their judgments. Our review procedures include the review of the subsidiary auditors' review results, inquiries and application of analytical and other procedures on their review results. The identified significant risks and major review procedures for the Company's construction contracts are as follows:

### 1) Revenues recognized by the input method

We identified significant risks associated with revenues recognized by the input method. The variation of estimated amounts has significant impact on profit for the six-month period ended June 30, 2016 and future profit because the uncertainty of estimated total contract revenues and costs is high for large-scale development constructions at initial stage, constructions with delays and possibility of being discontinued of construction.

The following review procedures were performed regarding revenues recognized by the input method.

- Inquiry of significant construction contracts and accounting policy for construction revenues
- Analytical review and inquiries as to whether there is any circumstance of delay on construction progress
- Review of information in the press which implied discontinued construction and make inquiries of the circumstance
- Analytical review and inquiry of accounting treatment for certain projects which showed significant changes such as possibility of delay or discontinuance

### 2) Uncertainty of estimated total contract costs

The changes in estimated total contract costs are ~~₩~~403,920 million for the six-month period ended June 30, 2016 (Note 26(e)). We identified significant risks regarding uncertainty of estimated total contract costs based on the impact on profit or loss for the six-month period ended June 30, 2016.

The following review procedures were performed regarding the impact of uncertainty of estimated total contract costs on the condensed consolidated interim financial statements.

- Inquiry of the reasonableness of estimated costs by major projects
- Analytical review procedures regarding the impact of the significant change in estimated total contract costs on profit or loss for the period
- Inquiry of the cause of change for major projects with significant changes in estimated total contract costs during the period
- Analytical review procedures regarding major components of estimated total contract costs and inquiry of the changes in accounting policies
- Inquiry of the probability that estimated total contract costs are increased due to delay and the estimated possible penalties related to the delay.
- Review the significant difference between actual costs and estimated costs, and retrospective review the reasonableness of estimated procedures of total contract costs

### 3) Assessment of the percentage-of-completion

The changes in estimated total contract costs were ~~₩~~403,920 million for the six-month period ended June 30, 2016 (Note 26(e)). We identified significant risks regarding assessment of the percentage-of-completion as uncertainty of estimated total contract costs is increased.

The following review procedures were performed regarding total contract costs and cumulative contract costs on assessment of the percentage-of-completion.

- Analytical review procedures regarding increase or decrease of the percentage-of-completion by projects
- Inquiry of the cause for quarterly changes in percentage-of-completion for major projects
- Inquiry of costs that do not reflect the progress of contracts and related accounting

#### 4) Recoverability of due from customers for contract work

As of June 30, 2016 and December 31, 2015, the amounts of due from customers for contract work are ₩1,181,675 million and ₩1,218,031 million, respectively, and it is approximately 13% of total trade accounts and note receivable (Note 26(c)) as of both reporting dates. We identified significant risks regarding the recoverability of due from customers for contract work as the amounts of due from customers for contract work are significant.

The following review procedures were performed regarding the recoverability of due from customers for contract work.

- Analytical review procedures regarding the quarterly trends of the amount due from customers for contract work
- Review of the remaining balance of due from customers for projects for which the contract work was completed or substantially completed.
- Inquiry of the reason in increase in the amount due from customers for contract work
- Inquiry of the conditions of billing, payment and delivery time by major projects
- Inquiry of the recoverability considering the financial stability of ordering organization
- Review allowance for doubtful accounts through reassessment of the recoverability of due from customers for contract work

#### 5) Accounting for the variation of construction work

The variation of construction contracts due to changes in estimated total contract costs had significant influence on profits or loss of the construction (Note 26(e)). We identified significant risks regarding the accounting for the variation of construction works.

The following review procedures were performed regarding accounting of the variation of construction work and disclosures.

- Inquiry whether there is a consistent policy regarding the variation of contract amounts
- Inquiry of the cause on significant changes in contract amounts for projects
- Inquiry whether there is an approval by the ordering organization regarding the variation of contract amounts
- Inquiry of impact on estimated total contract costs and the percentage-of-completion by the variation of construction work

**Other matter**

The procedures and practices utilized in the Republic of Korea to review such condensed consolidated interim financial statements may differ from those generally accepted and applied in other countries.

The consolidated statement of financial position of the Company as of December 31, 2015, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, which are not accompanying this report, were audited by us in accordance with Korean Standards on Auditing and our report thereon, dated February 25, 2016, expressed an unqualified opinion. The accompanying condensed consolidated statement of financial position of the Company as of December 31, 2015, presented for comparative purposes, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

*KPMG Samjong Accounting Corp.*

Seoul, Korea  
August 12, 2016

<p>This report is effective as of August 12, 2016, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying condensed consolidated interim financial statements. Accordingly, the readers of the review report should understand that the above review report has not been updated to reflect the impact of such subsequent events or circumstances, if any.</p>
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**POSCO and Subsidiaries**  
**Condensed Consolidated Interim Statements of Financial Position**  
**As of June 30, 2016 and December 31, 2015**  
**(Unaudited)**

(in millions of Won)

	<u>Notes</u>	<u>June 30, 2016</u>	<u>December 31, 2015</u>
<b>Assets</b>			
Cash and cash equivalents	21 ₩	3,678,612	4,870,185
Trade accounts and notes receivable, net	4,21,26,33	9,351,769	9,595,935
Other receivables, net	5,21,33	1,939,287	1,679,879
Other short-term financial assets	6,21	4,784,547	3,910,387
Inventories	7	7,748,165	8,225,205
Current income tax assets		31,733	33,765
Assets held for sale	8	209,313	57,281
Other current assets	14	974,366	808,252
<b>Total current assets</b>		<u>28,717,792</u>	<u>29,180,889</u>
Long-term trade accounts and notes receivable, net	4,21	59,772	120,338
Other receivables, net	5,21	851,958	863,258
Other long-term financial assets	6,21	2,262,299	2,341,460
Investments in associates and joint ventures	9	4,098,105	3,945,333
Investment property, net	11	1,124,762	1,084,292
Property, plant and equipment, net	12	34,020,190	34,522,855
Intangible assets, net	13	6,286,711	6,405,754
Deferred tax assets		1,335,348	1,315,580
Other non-current assets	14,19	638,576	629,000
<b>Total non-current assets</b>		<u>50,677,721</u>	<u>51,227,870</u>
<b>Total assets</b>	₩	<u><u>79,395,513</u></u>	<u><u>80,408,759</u></u>

See accompanying notes to the condensed consolidated interim financial statements.



**POSCO and Subsidiaries**  
**Condensed Consolidated Interim Statements of Financial Position, Continued**  
**As of June 30, 2016 and December 31, 2015**  
**(Unaudited)**

<i>(in millions of Won)</i>			<b>June 30, 2016</b>	<b>December 31, 2015</b>
	<b>Notes</b>			
<b>Liabilities</b>				
Trade accounts and notes payable	21,33	₩	3,272,851	3,125,348
Short-term borrowings and current installments of long-term borrowings	4,15,21		11,268,779	12,371,032
Other payables	16,21,33		1,741,007	2,129,093
Other short-term financial liabilities	17,21		152,550	202,117
Current income tax liabilities			296,698	377,962
Liabilities of disposal group held for sale	8		-	34,202
Provisions	18,34		144,058	102,320
Other current liabilities	20,26		2,047,675	1,788,852
<b>Total current liabilities</b>			<b>18,923,618</b>	<b>20,130,926</b>
Long-term trade accounts and notes payable	21		40,722	11,098
Long-term borrowings	15,21		12,756,754	12,849,199
Other payables	16,21		213,333	134,470
Other long-term financial liabilities	17,21		81,708	54,696
Defined benefit liabilities, net	19		260,271	182,025
Deferred tax liabilities			1,647,188	1,676,658
Long-term provisions	18,34		254,542	221,692
Other non-current liabilities	20		82,993	77,773
<b>Total non-current liabilities</b>			<b>15,337,511</b>	<b>15,207,611</b>
<b>Total liabilities</b>			<b>34,261,129</b>	<b>35,338,537</b>
<b>Equity</b>				
Share capital	22		482,403	482,403
Capital surplus	22		1,388,428	1,383,623
Hybrid bonds	23		996,919	996,919
Reserves	24		(421,642)	(594,756)
Treasury shares	25		(1,533,782)	(1,533,898)
Retained earnings			40,588,240	40,501,059
<b>Equity attributable to owners of the controlling company</b>			<b>41,500,566</b>	<b>41,235,350</b>
<b>Non-controlling interests</b>	23		<b>3,633,818</b>	<b>3,834,872</b>
<b>Total equity</b>			<b>45,134,384</b>	<b>45,070,222</b>
<b>Total liabilities and equity</b>		₩	<b>79,395,513</b>	<b>80,408,759</b>

See accompanying notes to the condensed consolidated interim financial statements.

# POSCO and Subsidiaries

## Condensed Consolidated Interim Statements of Comprehensive Income

### For the three-month and six-month periods ended June 30, 2016 and 2015

#### (Unaudited)

(in millions of Won, except per share information)

	Notes	For the three-month periods ended June 30		For the six-month periods ended June 30	
		2016	2015	2016	2015
<b>Revenue</b>	26,33,36	₩ 12,857,384	15,189,492	25,318,582	30,290,403
<b>Cost of sales</b>	7,26,30,33	(11,288,360)	(13,468,091)	(22,208,124)	(26,771,402)
<b>Gross profit</b>		1,569,024	1,721,401	3,110,458	3,519,001
Selling and administrative expenses	27,30				
Administrative expenses		(527,162)	(582,852)	(1,023,398)	(1,210,411)
Selling expenses		(363,348)	(452,205)	(748,780)	(891,005)
<b>Operating profit</b>		678,514	686,344	1,338,280	1,417,585
Share of profit (loss) of equity-accounted investees, net	9	111,839	23,877	161,756	(39,051)
Finance income and costs	21,28				
Finance income		254,118	488,057	1,088,413	1,096,743
Finance costs		(763,412)	(747,286)	(1,750,351)	(1,478,207)
Other non-operating income and expenses	29				
Other non-operating income		74,341	116,252	125,518	312,371
Other non-operating expenses	30	(86,947)	(263,733)	(150,268)	(401,826)
<b>Profit before income tax</b>	36	268,453	303,511	813,348	907,615
Income tax expense	31,36	(47,913)	(186,115)	(254,442)	(455,019)
<b>Profit</b>		220,540	117,396	558,906	452,596
<b>Other comprehensive income (loss)</b>					
Items that will not be reclassified subsequently to profit or loss:					
Remeasurements of defined benefit pension plans	19	(60,273)	31,126	(73,482)	(23,436)
Items that are or may be reclassified subsequently to profit or loss:					
Capital adjustment arising from investments in equity-accounted investees		35,689	49,914	58,113	(67,474)
Net changes in the unrealized fair value of available-for-sale investments	21	131,250	(37,346)	128,249	(26,650)
Foreign currency translation differences		(43,274)	60,388	(28,355)	4,524
<b>Other comprehensive income (loss), net of tax</b>		63,392	104,082	84,525	(113,036)
<b>Total comprehensive income</b>		₩ 283,932	221,478	643,431	339,560
<b>Profit attributable to:</b>					
Owners of the controlling company		₩ 291,654	198,179	651,325	536,764
Non-controlling interests		(71,114)	(80,783)	(92,419)	(84,168)
<b>Profit</b>		₩ 220,540	117,396	558,906	452,596
<b>Total comprehensive income attributable to:</b>					
Owners of the controlling company		₩ 364,633	291,557	760,489	429,185
Non-controlling interests		(80,701)	(70,079)	(117,058)	(89,625)
<b>Total comprehensive income</b>		₩ 283,932	221,478	643,431	339,560
<b>Basic and diluted earnings per share (in Won)</b>	32	3,545	2,374	7,936	6,506

See accompanying notes to the condensed consolidated interim financial statements.

**POSCO and Subsidiaries**  
**Condensed Consolidated Interim Statements of Changes in Equity**  
**For the six-month periods ended June 30, 2016 and 2015**  
**(Unaudited)**

(in millions of Won)

(in millions of Won)	Attributable to owners of the controlling company							Non-controlling interests	Total	
	Share capital	Capital surplus	Hybrid bonds	Reserves	Treasury shares	Retained earnings	Subtotal			
Balance as of January 1, 2015	₩	482,403	1,083,718	996,919	(408,773)	(1,534,457)	40,967,558	41,587,368	3,703,996	45,291,364
Comprehensive income:										
Profit		-	-	-	-	-	536,764	536,764	(84,168)	452,596
Other comprehensive income (loss)										
Remeasurements of defined benefit pension plans, net of tax		-	-	-	-	-	(23,542)	(23,542)	106	(23,436)
Capital adjustment arising from investments in equity-accounted investees, net of tax		-	-	-	(69,692)	-	-	(69,692)	2,218	(67,474)
Net changes in the unrealized fair value of available-for-sale investments, net of tax		-	-	-	(24,039)	-	-	(24,039)	(2,611)	(26,650)
Foreign currency translation differences, net of tax		-	-	-	9,694	-	-	9,694	(5,170)	4,524
Total comprehensive income		-	-	-	(84,037)	-	513,222	429,185	(89,625)	339,560
Transactions with owners of the controlling company, recognized directly in equity:										
Year-end dividends		-	-	-	-	-	(479,959)	(479,959)	(32,410)	(512,369)
Interim dividends		-	-	-	-	-	-	-	(67,700)	(67,700)
Changes in subsidiaries		-	-	-	-	-	-	-	(282,217)	(282,217)
Changes in ownership interests in subsidiaries		-	(2,354)	-	-	-	-	(2,354)	21,499	19,145
Interest of hybrid bonds		-	-	-	-	-	(21,572)	(21,572)	(11,994)	(33,566)
Disposal of treasury shares		-	13	-	-	92	-	105	-	105
Others		-	296	-	1,152	-	(1,913)	(465)	(1,084)	(1,549)
Total transactions with owners of the controlling company		-	(2,045)	-	1,152	92	(503,444)	(504,245)	(373,906)	(878,151)
Balance as of June 30, 2015	₩	482,403	1,081,673	996,919	(491,658)	(1,534,365)	40,977,336	41,512,308	3,240,465	44,752,773

See accompanying notes to the condensed consolidated interim financial statements.

**POSCO and Subsidiaries**  
**Condensed Consolidated Interim Statements of Changes in Equity, Continued**  
**For the six-month periods ended June 30, 2016 and 2015**  
**(Unaudited)**

(in millions of Won)

	Attributable to owners of the controlling company							Non-controlling interests	Total
	Share capital	Capital surplus	Hybrid bonds	Reserves	Treasury shares	Retained earnings	Subtotal		
<b>Balance as of January 1, 2016</b>	₩ 482,403	1,383,623	996,919	(594,756)	(1,533,898)	40,501,059	41,235,350	3,834,872	45,070,222
<b>Comprehensive income:</b>									
Profit	-	-	-	-	-	651,325	651,325	(92,419)	558,906
Other comprehensive income (loss)									
Remeasurements of defined benefit pension plans, net of tax	-	-	-	-	-	(63,144)	(63,144)	(10,338)	(73,482)
Capital adjustment arising from investments in equity-accounted investees, net of tax	-	-	-	58,190	-	-	58,190	(77)	58,113
Net changes in the unrealized fair value of available-for-sale investments, net of tax	-	-	-	128,287	-	-	128,287	(38)	128,249
Foreign currency translation differences, net of tax	-	-	-	(14,169)	-	-	(14,169)	(14,186)	(28,355)
<b>Total comprehensive income</b>	-	-	-	172,308	-	588,181	760,489	(117,058)	643,431
<b>Transactions with owners of the controlling company, recognized directly in equity:</b>									
Year-end dividends	-	-	-	-	-	(479,974)	(479,974)	(50,333)	(530,307)
Changes in subsidiaries	-	-	-	-	-	-	-	(8,323)	(8,323)
Changes in ownership interests in subsidiaries	-	5,030	-	-	-	-	5,030	(10,416)	(5,386)
Interest of hybrid bonds	-	-	-	-	-	(21,734)	(21,734)	(12,060)	(33,794)
Disposal of treasury shares	-	5	-	-	116	-	121	-	121
Others	-	(230)	-	806	-	708	1,284	(2,864)	(1,580)
<b>Total transactions with owners of the controlling company</b>	-	4,805	-	806	116	(501,000)	(495,273)	(83,996)	(579,269)
<b>Balance as of June 30, 2016</b>	₩ 482,403	1,388,428	996,919	(421,642)	(1,533,782)	40,588,240	41,500,566	3,633,818	45,134,384

See accompanying notes to the condensed consolidated interim financial statements.

**POSCO and Subsidiaries**  
**Condensed Consolidated Interim Statements of Cash Flows**  
**For the six-month periods ended June 30, 2016 and 2015**  
**(Unaudited)**

(in millions of Won)

	Note	June 30, 2016	June 30, 2015
<b>Cash flows from operating activities</b>			
Profit	₩	558,906	452,596
Adjustments for:			
Depreciation		1,416,361	1,396,845
Amortization		184,445	186,497
Finance income		(397,957)	(546,448)
Finance costs		1,009,990	925,813
Income tax expense		254,442	455,019
Impairment loss on property, plant and equipment		7,290	71,908
Gain on disposal of property, plant and equipment		(17,935)	(14,819)
Loss on disposal of property, plant and equipment		43,962	58,263
Impairment loss on intangible assets		2,525	40,933
Share of loss (profit) of equity-accounted investees		(161,756)	39,051
Impairment loss on assets held for sale		6,325	23,417
Gain on disposal of assets held for sale		(22,184)	(219,180)
Costs for defined benefit plans		117,446	127,612
Bad debt expenses		28,166	117,040
Loss on valuation of inventories		108,149	97,600
Contribution to provisions		97,100	27,158
Others, net		(11,854)	41,841
		<u>2,664,515</u>	<u>2,828,550</u>
Changes in operating assets and liabilities	35	629,240	1,076,817
Interest received		118,469	90,564
Interest paid		(341,457)	(421,272)
Dividends received		100,069	87,190
Income taxes paid		<u>(378,720)</u>	<u>(440,389)</u>
Net cash provided by operating activities	₩	<u>3,351,022</u>	<u>3,674,056</u>

See accompanying notes to the condensed consolidated interim financial statements.

**POSCO and Subsidiaries**  
**Condensed Consolidated Interim Statements of Cash Flows, Continued**  
**For the six-month periods ended June 30, 2016 and 2015**  
**(Unaudited)**

<i>(in millions of Won)</i>	<b>Note</b>	<b>June 30, 2016</b>	<b>June 30, 2015</b>
<b>Cash flows from investing activities</b>			
Acquisitions of short-term financial instruments	₩	(9,778,295)	(5,989,240)
Proceeds from disposal of short-term financial instruments		8,858,682	4,248,615
Increase in loans		(597,331)	(249,419)
Collection of loans		132,414	154,132
Acquisitions of available-for-sale investments		(62,777)	(63,136)
Proceeds from disposal of available-for-sale investments		6,390	112,615
Acquisitions of investment in associates and joint ventures		(130,251)	(31,890)
Proceeds from disposal of investment in associates and joint ventures		3,355	3,958
Acquisition of investment property		(5,284)	(77,413)
Proceeds from disposal of investment property		601	-
Acquisitions of property, plant and equipment		(1,137,529)	(1,428,934)
Proceeds from disposal of property, plant and equipment		12,407	60,815
Acquisitions of intangible assets		(93,654)	(159,851)
Proceeds from disposal of intangible assets		6,902	5,696
Proceeds from disposal of assets held for sale		7,494	72,766
Cash received from disposal of business, net of cash transferred		17,021	435,962
Others, net		31,608	(6,710)
Net cash used in investing activities		(2,728,247)	(2,912,034)
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		1,433,303	1,012,081
Repayment of borrowings		(2,403,920)	(1,118,369)
Proceeds from (repayment of) short-term borrowings, net		(281,986)	181,157
Payment of cash dividends		(523,130)	(656,648)
Payment of interest of hybrid bonds		(33,924)	(33,801)
Other, net		(28,019)	34,252
Net cash used in financing activities		(1,837,676)	(581,328)
<b>Effect of exchange rate fluctuation on cash held</b>		22,329	9,937
<b>Net increase (decrease) in cash and cash equivalents</b>		(1,192,572)	190,631
<b>Cash and cash equivalents at beginning of the period</b>	8	4,871,184	4,022,137
<b>Cash and cash equivalents at end of the period</b>	₩	3,678,612	4,212,768

See accompanying notes to the condensed consolidated interim financial statements.

# POSCO and Subsidiaries

## Notes to the Condensed Consolidated Interim Financial Statements

### As of June 30, 2016

#### (Unaudited)

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#### 1. General Information

General information about POSCO, its 39 domestic subsidiaries including POSCO ENGINEERING & CONSTRUCTION., LTD. 166 foreign subsidiaries including POSCO America Corporation (collectively, the "Company") and its 100 associates and joint ventures are as follows:

##### (a) The controlling company

POSCO, the controlling company, was incorporated on April 1, 1968, to manufacture and sell steel rolled products and plates in the domestic and overseas 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 five of its overseas liaison offices.

As of June 30, 2016, the shares of the POSCO are listed on the Korea Exchange, while its depository receipts are listed on the New York Stock Exchanges.

##### (b) Consolidated subsidiaries included for the first time during the six-month period ended June 30, 2016 were as follows:

Company	Date of inclusion	Ownership (%)	Reason
Daewoo Minerals Canada Corporation	March 2016	100.00	New establishment
Pocastem Co., Ltd.	June 2016	100.00	Acquisition of control

##### (c) Subsidiaries excluded from consolidation during the six-month period ended June 30, 2016 were as follows:

Company	Date of exclusion	Reason
Tamara Offshore wind power Co., Ltd.	January 2016	Disposal
POSCO Investment Co., Ltd.	January 2016	Merged into POSCO Asia Co., Ltd.
Xenesys Inc.	February 2016	Disposal
Posco LED Co., Ltd.	March 2016	Disposal
POSHIMETAL Co., Ltd.	March 2016	Merged into POSCO Co., Ltd.
PMM PIPE	April 2016	Merged into POSCO-JEPC Co., Ltd.
Posco Green Gas Technology	May 2016	Merged into POSCO Co., Ltd.
Qingdao Pos-metal Co., Ltd.	May 2016	Disposal
POSCO FOUNDATION	June 2016	Exclusion upon liquidation
POSCO MEXICO HUMAN TECH S.A. de C.V.	June 2016	Merged into POSCO MEXICO S.A. DE C.V.

## **POSCO and Subsidiaries**

### **Notes to the Condensed Consolidated Interim Financial Statements, Continued As of June 30, 2016 (Unaudited)**

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## **2. Statement of Compliance**

### **Statement of compliance**

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

These condensed consolidated interim financial statements have been prepared in accordance with K-IFRS No. 1034 "*Interim Financial Reporting*" as part of the period covered by the Company's K-IFRS annual financial statements. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the last annual consolidated financial statements as of and for the year ended December 31, 2015. These condensed consolidated interim financial statements do not include all of the disclosures required for full annual financial statements.

### **Use of estimates and judgments**

#### **(a) Judgments, assumptions and estimation uncertainties**

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

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as of and for the year ended December 31, 2015.

#### **(b) Measurement of fair value**

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

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



## **POSCO and Subsidiaries**

### **Notes to the Condensed Consolidated Interim Financial Statements, Continued As of June 30, 2016 (Unaudited)**

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The Company reports the significant valuation matters to the Audit Committee.

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 liabilities, either directly or indirectly.
- Level 3 - inputs for the assets or liabilities that are not based on observable market data.

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

Further information about the assumptions made in measuring fair value is included in note 21.

### **3. Summary of Significant Accounting Policies**

Except as described in K-IFRS No. 1034 "*Interim Financial Reporting*", the accounting policies applied by the Company in these condensed consolidated interim financial statements are the same as those applied by the Company in its consolidated financial statements as of and for the year ended December 31, 2015.

## POSCO and Subsidiaries

### Notes to the Condensed Consolidated Interim Financial Statements, Continued As of June 30, 2016 (Unaudited)

#### 4. Trade Accounts and Notes Receivable

Trade accounts and notes receivable as of June 30, 2016 and December 31, 2015 are as follows:

(in millions of Won)

		<b>June 30, 2016</b>	<b>December 31, 2015</b>
<b>Current</b>			
Trade accounts and notes receivable	₩	8,576,340	8,953,245
Finance lease receivables		16,157	21,042
Due from customers for contract work		1,181,675	1,218,031
Less: Allowance for doubtful accounts		(422,403)	(596,383)
	₩	<u>9,351,769</u>	<u>9,595,935</u>
<b>Non-current</b>			
Trade accounts and notes receivable	₩	75,893	126,200
Finance lease receivables		16,544	22,758
Less: Allowance for doubtful accounts		(32,665)	(28,620)
	₩	<u>59,772</u>	<u>120,338</u>

The trade accounts and notes receivable sold to financial institutions, for which the derecognition conditions were not met, amounted to ₩641,251 million and ₩846,676 million as of June 30, 2016 and December 31, 2015, respectively. The fair value of trade accounts and notes receivable approximates the carrying amounts and trade accounts and notes receivable are included in short-term borrowings from financial institutions (Note 15).

#### 5. Other Receivables

Other receivables as of June 30, 2016 and December 31, 2015 are as follows:

(in millions of Won)

		<b>June 30, 2016</b>	<b>December 31, 2015</b>
<b>Current</b>			
Loans	₩	749,763	405,281
Other accounts receivable		1,180,858	1,255,075
Accrued income		133,553	136,762
Deposits		100,602	89,444
Others		24,119	20,383
Less: Allowance for doubtful accounts		(249,608)	(227,066)
	₩	<u>1,939,287</u>	<u>1,679,879</u>
<b>Non-current</b>			
Loans	₩	741,581	725,968
Other accounts receivable		128,054	142,290
Accrued income		4,342	1,236
Deposits		123,276	141,373
Less: Allowance for doubtful accounts		(145,295)	(147,609)
	₩	<u>851,958</u>	<u>863,258</u>

## POSCO and Subsidiaries

### Notes to the Condensed Consolidated Interim Financial Statements, Continued As of June 30, 2016 (Unaudited)

#### 6. Other Financial Assets

Other financial assets as of June 30, 2016 and December 31, 2015 are as follows:

(in millions of Won)

		June 30, 2016	December 31, 2015
<b>Current</b>			
Derivatives assets	₩	58,473	94,603
Available-for-sale securities (bonds)		18,000	17,994
Current portion of held-to-maturity securities		8,499	21,490
Short-term financial instruments(*1,2)		4,699,575	3,776,300
	₩	<u>4,784,547</u>	<u>3,910,387</u>
<b>Non-current</b>			
Derivatives assets	₩	49,880	93,886
Available-for-sale securities (equity instruments)(*3,4)		2,055,982	2,095,206
Available-for-sale securities (bonds)		47,436	36,914
Available-for-sale securities (others)		66,578	59,630
Held-to-maturity securities		2,082	1,889
Long-term financial instruments(*2)		40,341	53,935
	₩	<u>2,262,299</u>	<u>2,341,460</u>

(\*1) As of June 30, 2016 and December 31, 2015, ₩7,929 million and ₩6,593 million, respectively, are restricted for the use in a government project.

(\*2) As of June 30, 2016 and December 31, 2015, financial instruments amounting to ₩82,723 million and ₩105,195 million, respectively, are restricted for use in financial arrangements, pledge and others.

(\*3) During the six-month period ended June 30, 2016, there were objective evidences of impairment for listed equity securities such as Nippon Steel & Sumitomo Metal Corporation and others due to the significant or prolonged decline in the fair value of the shares and for non-listed equity securities such as Troika Foreign Resource Development Fund and others since its carrying amount significantly exceeded its fair value. As a result, an impairment loss of ₩225,674 million was recognized in profit or loss during the six-month period ended June 30, 2016.

(\*4) As of June 30, 2016 and December 31, 2015, ₩125,319 million and ₩124,541 million of available-for-sale securities, respectively, have been provided as collateral for borrowings, construction projects and others.

## POSCO and Subsidiaries

### Notes to the Condensed Consolidated Interim Financial Statements, Continued As of June 30, 2016 (Unaudited)

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#### 7. Inventories

Inventories as of June 30, 2016 and December 31, 2015 are as follows:

<i>(in millions of Won)</i>		<b>June 30, 2016</b>	<b>December 31, 2015</b>
Finished goods	₩	1,064,713	1,381,018
Merchandise		748,560	715,951
Semi-finished goods		1,199,255	1,390,382
Raw materials		1,836,390	1,868,773
Fuel and materials		816,160	810,516
Construction inventories		890,718	828,071
Materials-in-transit		1,267,811	1,382,291
Others		83,391	79,581
		<u>7,906,998</u>	<u>8,456,583</u>
Less: Allowance for inventories valuation		<u>(158,833)</u>	<u>(231,378)</u>
	₩	<u>7,748,165</u>	<u>8,225,205</u>

The amounts of loss on valuation of inventories recognized within cost of sales during the six-month period ended June 30, 2016 and the year ended December 31, 2015 were ₩108,149 million and ₩152,952 million, respectively.

## POSCO and Subsidiaries

### Notes to the Condensed Consolidated Interim Financial Statements, Continued As of June 30, 2016 (Unaudited)

#### 8. Assets Held for Sale

Details of assets held for sale and related liabilities as of June 30, 2016 and December 31, 2015 are as follows:

(in millions of Won)

	June 30, 2016			December 31, 2015		
	The controlling company(*1,2)	Subsidiaries (*3)	Total	The controlling company(*1)	Subsidiaries (*3,4)	Total
<b>Assets</b>						
Cash and cash equivalents(*5)	₩ -	-	-	-	999	999
Trade accounts and notes receivable and other receivables	-	-	-	-	7,724	7,724
Inventories	-	-	-	-	2,129	2,129
Investment in associates	166,791	-	166,791	-	4,626	4,626
Property, plant and equipment	25,892	16,630	42,522	25,892	10,383	36,275
Intangible assets	-	-	-	-	1,049	1,049
Other assets	-	-	-	-	4,479	4,479
	₩ 192,683	16,630	209,313	25,892	31,389	57,281
<b>Liabilities</b>						
Trade accounts and notes payable and other payables	₩ -	-	-	-	6,028	6,028
Borrowings	-	-	-	-	26,500	26,500
Other liabilities	-	-	-	-	1,674	1,674
	₩ -	-	-	-	34,202	34,202

- (\*1) During the year ended December 31, 2015, the Company determined to exchange 1FINEX facilities with the shares of newly established company in India, and has signed in Memorandum of Association (MOA) with Uttam Galva Steels Limited in India. The Company has classified the related facilities of ₩25,892 million as assets held for sale.
- (\*2) As of June 30, 2016, the Company determined the security of SeAH Changwon Integrated Special Steel would be highly probable to be sold. The Company classified the relating investment in associates amounting to ₩166,791 million as assets held for sale.
- (\*3) Besides the above, the controlling company and subsidiaries of the Company (POSCO Energy Co., Ltd., POSCO M-TECH, POSCO CHEMTECH and POSCO ICT) determined to dispose of certain tangible assets including land and disused facilities and classified them as assets held for sale.
- (\*4) During the year ended December 31, 2015, the Company determined to dispose of its shares in POSCO LED Co., Ltd., a subsidiary of the Company, to Armitron consortium, and reclassified related assets and liabilities as assets held for sale. Disposal of the assets and liabilities held for sale was completed during the period ended June 30, 2016, and the Company recognized ₩19,353 million of gain on disposal of assets held for sale.
- (\*5) Cash and cash equivalents classified as assets held for sale are included in the beginning balance of statement of cash flows for the six-month period ended June 30, 2016.

# POSCO and Subsidiaries

## Notes to the Condensed Consolidated Interim Financial Statements, Continued As of June 30, 2016 (Unaudited)

### 9. Investments in Associates and Joint Ventures

(a) Details of investments in associates as of June 30, 2016 and December 31, 2015 are as follows:

Company	June 30, 2016				December 31, 2015
	Number of shares	Ownership (%)	Acquisition cost	Book value	Book value
<b>[Domestic]</b>					
EQP POSCO Global NO1 Natural Resources PEF	178,713,975,892	28.93	₩ 178,787	₩ 175,837	175,676
SeAH Changwon Integrated Special Steel(*1,2)	7,190,000	19.94	159,978	-	165,754
POSCO PLANTEC CO., LTD(*1)	133,711,880	73.94	217,282	133,187	171,218
SNNC	18,130,000	49.00	90,650	102,543	111,326
QSONE Co., Ltd.	200,000	50.00	84,395	84,588	83,919
Chuncheon Energy Corp.	10,539,989	29.90	52,700	46,942	30,420
UITrans LRT Co., Ltd.(*3)	6,946,761	38.19	34,734	43,686	40,903
Incheon-Gimpo Expressway Co., Ltd(*3)	9,032,539	21.34	45,163	38,186	39,447
BLUE OCEAN Private Equity Fund	333	27.52	33,300	36,791	35,437
KoFC POSCO HANHWA KB Shared Growth NO. 2. Private Equity Fund(*4)	15,938	12.50	15,938	16,162	14,829
Keystone-HYUNDAI SECURITIES NO. 1. Private Equity Fund	13,800,000	40.45	13,800	13,342	13,015
CHUNGJU ENTERPRISE CITY DEVELOPMENT Co., Ltd.(*3)	2,008,000	29.53	10,040	12,041	12,265
KONES, Corp.	3,250,000	41.67	6,893	5,670	5,775
Others (32 companies)(*3)				57,454	47,933
				<u>766,429</u>	<u>947,917</u>
<b>[Foreign]</b>					
South-East Asia Gas Pipeline Company Ltd.	135,219,000	25.04	150,779	196,569	222,269
AES-VCM Mong Duong Power Company Limited	-	30.00	74,161	156,099	153,271
7623704 Canada Inc.(*4)	114,452,000	10.40	124,341	132,956	134,034
Eureka Moly LLC	-	20.00	240,123	87,321	87,878
AMCI (WA) PTY LTD.	49	49.00	209,664	72,143	72,289
Nickel Mining Company SAS	3,234,698	49.00	157,585	67,908	76,445
KOREA LNG LTD.	2,400	20.00	135,205	62,225	53,548
NCR LLC	-	29.41	32,348	35,596	35,447
PT. Batutua Tembaga Raya	128,285	24.10	21,602	22,334	15,382
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd	10,200,000	34.00	9,517	17,957	19,311
PT. Wampu Electric Power(*3)	8,708,400	20.00	10,044	9,193	8,855
POSCO SeAH Steel Wire(Nantong) Co., Ltd.	50	25.00	4,723	6,838	7,061
Others (24 companies)(*3)				70,100	42,264
				<u>937,239</u>	<u>928,054</u>
				<u>₩ 1,703,668</u>	<u>1,875,971</u>

(\*1) During the year ended December 31, 2015, it was reclassified from a subsidiary to an associate.

(\*2) As of June 30, 2016, the Company classified the security of SeAH Changwon Integrated Special Steel as assets held for sale. (Note 8)

(\*3) Investment in associates are provided as collateral related to associates' borrowings amounting to ₩150,306 million and ₩101,360 million as of June 30, 2016 and December 31, 2015, respectively.

(\*4) As of June 30, 2016, it was classified as an associate even though the Company's ownership percentage is less than 20% of ownership percentage since the Company has significant influence over the investee when considering its structure of the Board of Directors and others.

## POSCO and Subsidiaries

### Notes to the Condensed Consolidated Interim Financial Statements, Continued As of June 30, 2016 (Unaudited)

(b) Details of investments in joint ventures as of June 30, 2016 and December 31, 2015 are as follows:

(in millions of Won)

Company	June 30, 2016				December 31, 2015
	Number of shares	Ownership (%)	Acquisition cost	Book value	Book value
<b>[Domestic]</b>					
POSCO MITSUBISHI CARBON TECHNOLOGY	11,568,000	60.00	₩ 115,680	₩ 85,594	104,970
POSCO ES MATERIALS	1,000,000	50.00	43,000	38,143	38,447
				<u>123,737</u>	<u>143,417</u>
<b>[Foreign]</b>					
Roy Hill Holdings Pty Ltd.(*1)	13,117,972	12.50	1,528,672	1,185,695	1,153,434
POSCO-NPS Niobium LLC	325,050,000	50.00	364,609	378,658	381,461
CSP-Compania Siderurgica do Pecem	1,108,696,532	20.00	544,513	374,245	80,805
DMSA/AMSA(*2)	-	4.00	290,236	118,282	105,964
BX STEEL POSCO Cold Rolled Sheet Co., Ltd	-	25.00	61,961	98,008	100,908
KOBRASCO	2,010,719,185	50.00	32,950	76,552	78,364
Others (11 companies)				39,260	25,009
				<u>2,270,700</u>	<u>1,925,945</u>
				<u>₩ 2,394,437</u>	<u>2,069,362</u>

(\*1) As of June 30, 2016 and December 31, 2015, investments in joint ventures amounting to ₩1,185,695 million and ₩1,153,434 million, respectively, are provided as collateral in relation to loan.

(\*2) As of June 30, 2016 and December 31, 2015, investments in joint ventures amounting to ₩118,282 and ₩105,964 million, respectively, are provided as collateral for the joint venture's guarantees.

# POSCO and Subsidiaries

## Notes to the Condensed Consolidated Interim Financial Statements, Continued As of June 30, 2016 (Unaudited)

(c) The movements of investments in associates and joint ventures for the six-month period ended June 30, 2016 and the year ended December 31, 2015 were as follows:

### 1) For the six-month period ended June 30, 2016

(in millions of Won)

Company	December 31, 2015 Book value	Acquisition	Dividend	Share of profits (losses)	Other increase (decrease)(*1)	June 30, 2016 Book value
<b>[Domestic]</b>						
EQP POSCO Global NO1 Natural Resources PEF	₩ 175,676	222	-	(252)	191	175,837
SeAH Changwon Integrated Special Steel	165,754	-	-	4,797	(170,551)	-
POSCO PLANTEC CO., LTD	171,218	-	-	(38,039)	8	133,187
SNNC	111,326	-	-	(8,785)	2	102,543
QSONE Co., Ltd.	83,919	-	-	669	-	84,588
Chuncheon Energy Corp.	30,420	19,832	-	(3,310)	-	46,942
UITrans LRT Co., Ltd.	40,903	2,979	-	(152)	(44)	43,686
Incheon-Gimpo Expressway Co., Ltd	39,447	-	-	(1,545)	284	38,186
BLUE OCEAN Private Equity Fund	35,437	-	-	1,909	(555)	36,791
KoFC POSCO HANHWA KB Shared Growth NO. 2. Private Equity Fund	14,829	1,875	-	870	(1,412)	16,162
Keystone-HYUNDAI SECURITIES NO. 1. Private Equity Fund	13,015	-	-	327	-	13,342
CHUNGJU ENTERPRISE CITY DEVELOPMENT Co., Ltd.	12,265	-	-	(224)	-	12,041
KONES, Corp.	5,775	-	-	(105)	-	5,670
POSCO MITSUBISHI CARBON TECHNOLOGY	104,970	-	-	(19,376)	-	85,594
POSCO ES MATERIALS	38,447	-	-	(303)	(1)	38,143
Others (32 companies)	47,933	7,736	-	6,128	(4,343)	57,454
	<u>1,091,334</u>	<u>32,644</u>	<u>-</u>	<u>(57,391)</u>	<u>(176,421)</u>	<u>890,166</u>
<b>[Foreign]</b>						
South-East Asia Gas Pipeline Company Ltd.	222,269	-	(44,602)	20,408	(1,506)	196,569
AES-VCN Mong Duong Power Company Limited	153,271	-	-	13,910	(11,082)	156,099
7623704 Canada Inc.	134,034	-	(921)	667	(824)	132,956
Eureka Moly LLC	87,878	-	-	(10)	(547)	87,321
AMCI (WA) PTY LTD.	72,289	-	-	(1,383)	1,237	72,143
Nickel Mining Company SAS	76,445	-	-	(9,809)	1,272	67,908
KOREA LNG LTD.	53,548	-	(1,327)	3,737	6,267	62,225
NCR LLC	35,447	-	-	(18)	167	35,596
PT. Batutua Tembaga Raya	15,382	6,817	-	-	135	22,334
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd	19,311	-	-	(656)	(698)	17,957
PT. Wampu Electric Power	8,855	-	-	394	(56)	9,193
POSCO SeAH Steel Wire(Nantong) Co., Ltd.	7,061	-	-	151	(374)	6,838
Roy Hill Holdings Pty Ltd	1,153,434	-	-	16,346	15,915	1,185,695
POSCO-NPS Niobium LLC	381,461	-	(2,869)	2,552	(2,486)	378,658
CSP - Companhia Siderurgica do Pecem	80,805	74,622	-	172,596	46,222	374,245
DMSA/AMSA	105,964	24,624	-	(13,069)	763	118,282
BX STEEL POSCO Cold Rolled Sheet Co., Ltd.	100,908	-	-	166	(3,066)	98,008
KOBRASCO	78,364	-	(29,297)	11,962	15,523	76,552
Others (35 companies)	67,273	16,167	(1,706)	1,203	26,423	109,360
	<u>2,853,999</u>	<u>122,230</u>	<u>(80,722)</u>	<u>219,147</u>	<u>93,285</u>	<u>3,207,939</u>
₩	<u>3,945,333</u>	<u>154,874</u>	<u>(80,722)</u>	<u>161,756</u>	<u>(83,136)</u>	<u>4,098,105</u>

(\*1) Other increase or decrease represents the changes in investments in associates and joint ventures due to replacement of assets held for sale, disposal and change in capital adjustments arising from translations of financial statements of foreign investees and others.



# POSCO and Subsidiaries

## Notes to the Condensed Consolidated Interim Financial Statements, Continued

### As of June 30, 2016

#### (Unaudited)

## 2) For the year ended December 31, 2015

(in millions of Won)

Company	December 31, 2014 Book value	Acquisition	Dividend	Share of profits (losses)	Other increase (decrease)(*1)	December 31, 2015 Book value
<b>[Domestic]</b>						
EOP POSCO Global NO1 Natural Resources PEF ₩	176,899	-	-	(1,223)	-	175,676
SeAH Changwon Integrated Special Steel	-	159,978	-	6,464	(688)	165,754
POSCO PLANTEC CO., LTD	-	217,282	-	(46,058)	(6)	171,218
SNNC	131,671	-	-	(20,566)	221	111,326
QSONE Co., Ltd.	83,849	-	-	70	-	83,919
Chuncheon Energy Corp.	-	32,853	-	(2,433)	-	30,420
UITrans LRT Co., Ltd.	30,098	9,777	-	1,086	(58)	40,903
Incheon-Gimpo Expressway Co., Ltd	43,045	-	-	(3,910)	312	39,447
BLUE OCEAN Private Equity Fund	31,439	-	-	5,645	(1,647)	35,437
KoFC POSCO HANHWA KB Shared Growth NO. 2. Private Equity Fund	12,268	3,725	-	211	(1,375)	14,829
Keystone-HYUNDAI SECURITIES NO. 1. Private Equity Fund	-	13,800	-	(451)	(334)	13,015
CHUNGJU ENTERPRISE CITY DEVELOPMENT Co., Ltd.	19,801	-	-	(7,536)	-	12,265
KONES, Corp.	5,430	-	-	311	34	5,775
POSCO MITSUBISHI CARBON TECHNOLOGY	112,837	-	-	(7,841)	(26)	104,970
POSCO ES MATERIALS	38,021	-	-	440	(14)	38,447
Others (31 companies)	33,511	17,800	-	2,877	(6,255)	47,933
	<u>718,869</u>	<u>455,215</u>	<u>-</u>	<u>(72,914)</u>	<u>(9,836)</u>	<u>1,091,334</u>
<b>[Foreign]</b>						
South-East Asia Gas Pipeline Company Ltd.	172,805	-	(18,602)	54,351	13,715	222,269
AES-VCN Mong Duong Power Company Limited	93,021	23,146	-	29,561	7,543	153,271
7623704 Canada Inc.	117,100	-	(1,775)	10,875	7,834	134,034
Eureka Moly LLC	228,004	-	-	(147,270)	7,144	87,878
AMCI (WA) PTY LTD.	88,050	-	-	(11,222)	(4,539)	72,289
Nickel Mining Company SAS	107,408	-	-	(25,562)	(5,401)	76,445
KOREA LNG LTD.	72,089	-	(12,195)	12,362	(18,708)	53,548
NCR LLC	32,598	-	-	(62)	2,911	35,447
PT. Batutua Tembaga Raya	14,653	-	-	-	729	15,382
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd	21,032	-	(376)	(1,787)	442	19,311
PT. Wampu Electric Power	7,611	1,015	-	(261)	490	8,855
POSCO SeAH Steel Wire(Nantong) Co., Ltd.	6,969	-	-	(76)	168	7,061
CAML RESOURCES PTY LTD.	38,240	-	-	(34,987)	(3,253)	-
Roy Hill Holdings Pty Ltd	1,268,678	-	-	(61,589)	(53,655)	1,153,434
POSCO-NPS Niobium LLC	357,874	-	(13,177)	12,967	23,797	381,461
CSP - Companhia Siderurgica do Pecem	260,906	-	-	(145,206)	(34,895)	80,805
DMSA/AMSA	165,094	72,430	-	(137,723)	6,163	105,964
BX STEEL POSCO Cold Rolled Sheet Co., Ltd.	98,893	-	-	291	1,724	100,908
KOBRASCO	99,787	-	(24,380)	31,124	(28,167)	78,364
Others (33 companies)	90,826	2,839	(5,506)	(18,926)	(1,960)	67,273
	<u>3,341,638</u>	<u>99,430</u>	<u>(76,011)</u>	<u>(433,140)</u>	<u>(77,918)</u>	<u>2,853,999</u>
₩	<u>4,060,507</u>	<u>554,645</u>	<u>(76,011)</u>	<u>(506,054)</u>	<u>(87,754)</u>	<u>3,945,333</u>

(\*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.

# POSCO and Subsidiaries

## Notes to the Condensed Consolidated Interim Financial Statements, Continued As of June 30, 2016 (Unaudited)

(d) Summarized financial information of associates and joint ventures as of and for the six-month period June 30, 2016 and the year ended December 31, 2015 are as follows:

### 1) June 30, 2016

(in millions of Won)

Company	Assets	Liabilities	Equity	Sales	Net income (loss)
<b>[Domestic]</b>					
EQP POSCO Global NO1 Natural Resources PEF ₩	607,755	866	606,889	-	(849)
SeAH Changwon Integrated Special Steel	1,334,332	585,979	748,353	432,940	22,660
POSCO PLANTEC CO., LTD	570,665	696,164	(125,499)	170,686	8,593
SNNC	726,099	499,090	227,009	237,001	(14,641)
QSONE Co.,Ltd.	246,641	77,465	169,176	7,909	1,337
Chuncheon Energy Corp.	366,476	195,345	171,131	-	(1,810)
UITrans LRT Co., Ltd.	359,937	276,375	83,562	-	(398)
Incheon-Gimpo Expressway Co., Ltd	805,427	606,659	198,768	-	(946)
BLUE OCEAN Private Equity Fund	373,973	233,373	140,600	223,351	6,938
KoFC POSCO HANHWA KB Shared Growth NO. 2. Private Equity Fund	130,072	775	129,297	8,220	6,962
Keystone-HYUNDAI SECURITIES NO. 1. Private Equity Fund	69,585	32,572	37,013	-	808
CHUNGJU ENTERPRISE CITY DEVELOPMENT Co., Ltd.	144,836	134,372	10,464	2,945	(760)
KONES, Corp.	2,765	1,588	1,177	2,254	(252)
POSCO MITSUBISHI CARBON TECHNOLOGY	456,237	314,555	141,682	11,775	(32,318)
POSCO ES MATERIALS	85,466	40,736	44,730	19,275	(605)
<b>[Foreign]</b>					
South-East Asia Gas Pipeline Company Ltd.	2,112,495	1,324,330	788,165	235,378	81,495
7623704 Canada Inc.	1,290,583	5	1,290,578	-	20,927
Nickel Mining Company SAS	450,401	268,892	181,509	55,772	(28,287)
KOREA LNG LTD.	324,422	18,980	305,442	19,301	18,687
PT. Batutua Tembaga Raya	371,309	352,918	18,391	-	-
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd	100,754	42,285	58,469	55,604	(1,901)
PT. Wampu Electric Power	205,315	162,415	42,900	3,165	1,969
POSCO SeAH Steel Wire(Nantong) Co., Ltd.	62,831	35,540	27,291	38,911	571
Roy Hill Holdings Pty Ltd.	9,880,284	6,992,170	2,888,114	-	130,765
POSCO-NPS Niobium LLC	757,112	-	757,112	-	8,923
CSP - Companhia Siderurgica do Pecem	5,471,597	3,762,563	1,709,034	-	522,803
DMSA/AMSA	6,271,585	4,384,828	1,886,757	279,814	(304,797)
BX STEEL POSCO Cold Rolled Sheet Co., Ltd.	768,666	404,251	364,415	467,681	664
KOBRASCO	203,792	50,689	153,103	39,967	23,924

# POSCO and Subsidiaries

## Notes to the Condensed Consolidated Interim Financial Statements, Continued As of June 30, 2016 (Unaudited)

2) December 31, 2015

(in millions of Won)

Company	Assets	Liabilities	Equity	Sales	Net income (loss)
<b>[Domestic]</b>					
EQP POSCO Global NO1 Natural Resources PEF ₩	607,966	1,043	606,923	-	(1,231)
SeAH Changwon Integrated Special Steel	1,293,143	568,639	724,504	971,557	23,403
POSCO PLANTEC CO., LTD	609,655	725,406	(115,751)	457,180	(330,819)
SNNC	793,480	551,830	241,650	509,044	(57,156)
QSONE Co., Ltd.	249,482	81,644	167,838	15,068	140
Chuncheon Energy Corp.	149,025	42,094	106,931	-	(2,389)
UITrans LRT Co., Ltd.	343,744	267,543	76,201	-	(846)
Incheon-Gimpo Expressway Co., Ltd	648,602	458,137	190,465	-	(1,567)
BLUE OCEAN Private Equity Fund	380,000	244,316	135,684	492,065	24,422
KoFC POSCO HANHWA KB Shared Growth NO. 2. Private Equity Fund	119,747	1,112	118,635	5,012	1,804
Keystone-HYUNDAI SECURITIES NO. 1. Private Equity Fund	68,315	31,626	36,689	-	(1,956)
CHUNGJU ENTERPRISE CITY DEVELOPMENT Co., Ltd.	154,695	137,471	17,224	21,518	(30,023)
KONES, Corp.	3,544	2,114	1,430	5,337	746
POSCO MITSUBISHI CARBON TECHNOLOGY	489,393	315,392	174,001	-	(13,068)
POSCO ES MATERIALS	84,719	39,381	45,338	29,214	880
<b>[Foreign]</b>					
South-East Asia Gas Pipeline Company Ltd.	2,223,846	1,333,048	890,798	554,927	220,203
7623704 Canada Inc.	1,300,951	7	1,300,944	76,114	118,007
Nickel Mining Company SAS	445,685	238,695	206,990	155,980	(45,748)
KOREA LNG LTD.	257,773	36	257,737	63,574	61,806
PT. Batutua Tembaga Raya	286,761	268,933	17,828	-	-
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd	107,874	45,534	62,340	114,994	(5,783)
PT. Wampu Electric Power	201,383	160,159	41,224	17,473	(1,304)
POSCO SeAH Steel Wire(Nantong) Co., Ltd.	65,973	38,336	27,637	67,700	(403)
CAML RESOURCES PTY LTD	136,112	41,768	94,344	146,909	(20,110)
Roy Hill Holdings Pty Ltd.	9,295,492	6,584,536	2,710,956	-	(492,709)
POSCO-NPS Niobium LLC	762,719	-	762,719	-	25,935
CSP - Companhia Siderurgica do Pecem	3,839,967	3,319,880	520,087	-	(721,937)
DMSA/AMSA	6,415,380	4,812,244	1,603,136	737,604	(3,308,836)
BX STEEL POSCO Cold Rolled Sheet Co., Ltd.	703,408	327,391	376,017	936,590	1,162
KOBRASCO	187,823	31,094	156,729	94,169	62,248

## 10. Joint Operations

Details of significant joint operations that the Company is participating in as a party to a joint arrangement as of June 30, 2016 are as follows:

Joint operations	Operation	Ownership (%)	Location
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
Arctos Anthracite coal project	Mine development	50.00	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
RUM J/V	Mine development	10.00	Australia

## POSCO and Subsidiaries

### Notes to the Condensed Consolidated Interim Financial Statements, Continued As of June 30, 2016 (Unaudited)

#### 11. Investment Property, Net

Changes in the carrying amount of investment property for the six-month period ended June 30, 2016 and the year ended December 31, 2015 were as follows:

(a) For the six-month period ended June 30, 2016

<i>(in millions of Won)</i>		<b>Beginning</b>	<b>Acquisitions</b>	<b>Disposals</b>	<b>Depreciation</b>	<b>Others(*1)</b>	<b>Ending</b>
Land	₩	346,879	1,055	(277)	-	45,665	393,322
Buildings		696,526	620	(310)	(12,157)	2,544	687,223
Structures		1,819	1	-	(84)	1,192	2,928
Construction-in-progress		39,068	3,608	-	-	(1,387)	41,289
	₩	<u>1,084,292</u>	<u>5,284</u>	<u>(587)</u>	<u>(12,241)</u>	<u>48,014</u>	<u>1,124,762</u>

(\*1) Includes reclassifications resulting from changing purpose of use, adjustments of foreign currency translation difference and others.

(b) For the year ended December 31, 2015

<i>(in millions of Won)</i>		<b>Beginning</b>	<b>Acquisitions</b>	<b>Business combination</b>	<b>Disposals</b>	<b>Depreciation(*1)</b>	<b>Others(*2)</b>	<b>Ending</b>
Land	₩	415,512	2,665	5,964	(433)	(85)	(76,744)	346,879
Buildings		591,647	49,281	26,750	(909)	(25,391)	55,148	696,526
Structures		2,060	40	-	-	(173)	(108)	1,819
Construction-in-progress		46,373	9,492	-	-	-	(16,797)	39,068
	₩	<u>1,055,592</u>	<u>61,478</u>	<u>32,714</u>	<u>(1,342)</u>	<u>(25,649)</u>	<u>(38,501)</u>	<u>1,084,292</u>

(\*1) Impairment loss on investment property amounting to ₩85 million is included.

(\*2) Includes reclassifications resulting from changing purpose of use, adjustments of foreign currency translation difference and others.

## POSCO and Subsidiaries

### Notes to the Condensed Consolidated Interim Financial Statements, Continued As of June 30, 2016 (Unaudited)

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

Changes in the carrying amount of property, plant and equipment for the six-month period ended June 30, 2016 and the year ended December 31, 2015 were as follows:

(a) For the six-month period ended June 30, 2016

<i>(in millions of Won)</i>		<b>Beginning</b>	<b>Acquisitions</b>	<b>Disposals</b>	<b>Depreciation(*1)</b>	<b>Others(*2)</b>	<b>Ending</b>
Land	₩	2,572,807	6,395	(304)	-	(35,257)	2,543,641
Buildings		5,165,725	9,939	(2,019)	(178,046)	26,638	5,022,237
Structures		2,949,413	16,956	(21)	(105,921)	69,670	2,930,097
Machinery and equipment		21,093,743	164,525	(14,143)	(1,072,866)	503,141	20,674,400
Vehicles		52,005	4,602	(1,221)	(8,811)	5,384	51,959
Tools		73,478	7,339	(707)	(13,633)	1,969	68,446
Furniture and fixtures		148,099	12,475	(693)	(25,518)	2,784	137,147
Finance lease assets		92,796	79,854	(9)	(6,615)	199	166,225
Construction-in-progress		2,374,789	808,955	(2,244)	-	(755,462)	2,426,038
	₩	<u>34,522,855</u>	<u>1,111,040</u>	<u>(21,361)</u>	<u>(1,411,410)</u>	<u>(180,934)</u>	<u>34,020,190</u>

(\*1) Impairment loss on property, plant and equipment amounting to ₩7,290 million is included.

(\*2) Includes assets transferred from construction-in-progress, reclassifications resulting from changing purpose of use, adjustments of foreign currency translation differences and others.

(b) For the year ended December 31, 2015

<i>(in millions of Won)</i>		<b>Beginning</b>	<b>Acquisitions</b>	<b>Business combination</b>	<b>Disposals</b>	<b>Depreciation (*1)</b>	<b>Others(*2)</b>	<b>Ending</b>
Land	₩	2,801,288	47,858	12,520	(30,222)	(1,517)	(257,120)	2,572,807
Buildings		5,359,324	57,042	56,156	(20,759)	(349,774)	63,736	5,165,725
Structures		3,030,163	23,149	-	(3,819)	(213,550)	113,470	2,949,413
Machinery and equipment		21,199,885	239,430	301	(74,445)	(2,244,183)	1,972,755	21,093,743
Vehicles		56,695	9,735	-	(1,601)	(18,221)	5,397	52,005
Tools		64,069	25,230	1,714	(1,169)	(29,401)	13,035	73,478
Furniture and fixtures		143,782	43,697	1,497	(1,502)	(63,754)	24,379	148,099
Finance lease assets		80,081	598	157	(98)	(9,026)	21,084	92,796
Construction-in-progress		2,505,908	2,245,729	-	(4,418)	(17,846)	(2,354,584)	2,374,789
	₩	<u>35,241,195</u>	<u>2,692,468</u>	<u>72,345</u>	<u>(138,033)</u>	<u>(2,947,272)</u>	<u>(397,848)</u>	<u>34,522,855</u>

(\*1) Impairment loss on property, plant and equipment amounting to ₩136,269 million are included.

(\*2) Includes assets transferred from construction-in-progress, reclassifications resulting from changing purpose of use, adjustments of foreign currency translation differences and others.

# POSCO and Subsidiaries

## Notes to the Condensed Consolidated Interim Financial Statements, Continued As of June 30, 2016 (Unaudited)

### 13. Goodwill and Other Intangible Assets, Net

Changes in the carrying amount of goodwill and other intangible assets for the six-month period ended June 30, 2016 and the year ended December 31, 2015 were as follows:

(a) For the six-month period ended June 30, 2016

<i>(in millions of Won)</i>		<b>Beginning</b>	<b>Acquisitions</b>	<b>Disposals</b>	<b>Amortization</b>	<b>Impairment loss</b>	<b>Others(*2)</b>	<b>Ending</b>
Goodwill	₩	1,461,954	-	-	-	-	(245)	1,461,709
Intellectual property rights		2,667,086	11,603	(2)	(93,996)	-	(13,188)	2,571,503
Premium in rental(*1)		127,949	1,349	(6,534)	(104)	(684)	(1,484)	120,492
Development expense		135,796	21,478	-	(27,500)	-	3,352	133,126
Port facilities usage rights		264,801	-	-	(7,500)	-	-	257,301
Exploration and evaluation assets		151,144	33,386	-	-	-	(27,616)	156,914
Mining development assets		-	12,634	-	-	-	27,812	40,446
Customer relationships		559,809	-	-	(23,985)	-	1,224	537,048
Power generation permit		539,405	-	-	-	-	-	539,405
Other intangible assets		497,810	25,765	(718)	(31,360)	112	(22,842)	468,767
	₩	<u>6,405,754</u>	<u>106,215</u>	<u>(7,254)</u>	<u>(184,445)</u>	<u>(572)</u>	<u>(32,987)</u>	<u>6,286,711</u>

(\*1) Premium in rental includes memberships with indefinite useful lives.

(\*2) Includes assets transferred from construction-in-progress, adjustments of foreign currency translation difference and others.

(b) For the year ended December 31, 2015

<i>(in millions of Won)</i>		<b>Beginning</b>	<b>Acquisitions</b>	<b>Disposals</b>	<b>Amortization</b>	<b>Impairment loss</b>	<b>Others(*2)</b>	<b>Ending</b>
Goodwill	₩	1,795,144	-	-	-	(99,052)	(234,138)	1,461,954
Intellectual property rights		2,762,679	127,112	(3,921)	(192,660)	(20,725)	(5,399)	2,667,086
Premium in rental(*1)		130,942	13,530	(10,594)	(171)	(2,413)	(3,345)	127,949
Development expense		168,746	6,749	(1,084)	(53,740)	(3,034)	18,159	135,796
Port facilities usage rights		156,444	-	-	(11,810)	-	120,167	264,801
Exploration and evaluation assets		92,459	61,427	-	-	-	(2,742)	151,144
Customer relationships		641,625	-	-	(51,808)	(28,402)	(1,606)	559,809
Power generation permit		539,405	-	-	-	-	-	539,405
Other intangible assets		597,545	88,105	(488)	(71,394)	(7,531)	(108,427)	497,810
	₩	<u>6,884,989</u>	<u>296,923</u>	<u>(16,087)</u>	<u>(381,583)</u>	<u>(161,157)</u>	<u>(217,331)</u>	<u>6,405,754</u>

(\*1) Premium in rental includes memberships with indefinite useful lives.

(\*2) Includes assets transferred from construction-in-progress, adjustments of foreign currency translation difference and others.

## POSCO and Subsidiaries

### Notes to the Condensed Consolidated Interim Financial Statements, Continued As of June 30, 2016 (Unaudited)

#### 14. Other Assets

Other assets as of June 30, 2016 and December 31, 2015 are as follows:

(in millions of Won)

		<b>June 30, 2016</b>	<b>December 31, 2015</b>
<b>Current</b>			
Advance payment	₩	827,211	696,839
Prepaid expenses		143,531	107,379
Others		3,624	4,034
	₩	<u>974,366</u>	<u>808,252</u>
<b>Non-current</b>			
Long-term advance payment	₩	24,675	3,467
Long-term prepaid expenses		389,004	403,536
Net defined benefit assets		4,387	-
Others(*1)		220,510	221,997
	₩	<u>638,576</u>	<u>629,000</u>

(\*1) As of June 30, 2016 and December 31, 2015, the Company recognized tax assets amounting to ₩127,475 million and ₩132,489 million, respectively, based on the Company's best estimate of the tax amounts to be refunded when the result of the Company's appeal in connection with the additional income tax payment for prior years as a result of tax audits that were finalized in 2014 and claim for rectification are finalized.

# POSCO and Subsidiaries

## Notes to the Condensed Consolidated Interim Financial Statements, Continued As of June 30, 2016 (Unaudited)

### 15. Borrowings

(a) Short-term borrowings and current portion of long-term borrowings as of June 30, 2016 and December 31, 2015 are as follows:

<i>(in millions of Won)</i>	<b>Bank</b>	<b>Interest rate (%)</b>		<b>June 30, 2016</b>	<b>December 31, 2015</b>
<b>Short-term borrowings</b>					
Bank overdrafts	Bank of America and others	0.2~5.0	₩	145,167	129,891
Short-term borrowings	HSBC and others	0.2~10.8		7,967,548	8,285,869
				<u>8,112,715</u>	<u>8,415,760</u>
<b>Current portion of long-term liabilities</b>					
Current portion of long-term borrowings	Export-Import Bank of Korea and others	0.5~8.5		1,393,454	1,318,276
Current portion of foreign loan(*1)	NATIXIS	2.0		405	401
Current portion of debentures	Korea Development Bank and others	0.9~5.9		1,762,494	2,637,614
Less: Current portion of discount on debentures				(289)	(1,019)
				<u>3,156,064</u>	<u>3,955,272</u>
			₩	<u>11,268,779</u>	<u>12,371,032</u>

(\*1) Korea Development Bank has provided guarantees related to the foreign loan.

(b) Long-term borrowings, excluding current portion as of June 30, 2016 and December 31, 2015 are as follows:

<i>(in millions of Won)</i>	<b>Bank</b>	<b>Interest rate (%)</b>		<b>June 30, 2016</b>	<b>December 31, 2015</b>
Long-term borrowings	Export-Import Bank of Korea and others	0.4~9.8	₩	6,366,698	6,814,753
Less: Present value discount				(64,250)	(76,828)
Foreign loan	-	-		-	200
Debentures	Korea Development Bank and others	1.2~6.3		6,475,858	6,134,132
Less: Discount on debentures issued				(21,552)	(23,058)
			₩	<u>12,756,754</u>	<u>12,849,199</u>

(c) Property, plant and equipment including investment property, trade accounts and notes receivable, financial assets, available-for-sale financial assets, inventories and other assets amounting to ₩6,222,565 million, ₩22,398 million (96 sheets of note receivable), ₩59,408 million, ₩9,747 million, ₩65,478 million and ₩152,830 million, respectively, are provided as collateral related to short-term borrowings, long-term borrowings and debentures.



## POSCO and Subsidiaries

### Notes to the Condensed Consolidated Interim Financial Statements, Continued As of June 30, 2016 (Unaudited)

#### 16. Other Payables

Other payables as of June 30, 2016 and December 31, 2015 are as follows:

<i>(in millions of Won)</i>		<b>June 30, 2016</b>	<b>December 31, 2015</b>
<b>Current</b>			
Accounts payable	₩	707,116	983,408
Accrued expenses		668,640	759,598
Dividend payable		13,501	6,453
Finance lease liabilities		28,398	26,876
Withholdings		323,352	352,758
	₩	<u>1,741,007</u>	<u>2,129,093</u>
<b>Non-current</b>			
Long-term accounts payable	₩	18,995	22,665
Long-term accrued expenses		34,397	30,221
Finance lease liabilities		88,163	14,409
Long-term withholdings		71,778	67,175
	₩	<u>213,333</u>	<u>134,470</u>

#### 17. Other Financial Liabilities

Other financial liabilities as of June 30, 2016 and December 31, 2015 are as follows:

<i>(in millions of Won)</i>		<b>June 30, 2016</b>	<b>December 31, 2015</b>
<b>Current</b>			
Derivatives liabilities	₩	110,932	117,841
Financial guarantee liabilities		41,618	84,276
	₩	<u>152,550</u>	<u>202,117</u>
<b>Non-current</b>			
Derivatives liabilities	₩	37,020	37,661
Financial guarantee liabilities		44,688	17,035
	₩	<u>81,708</u>	<u>54,696</u>

# POSCO and Subsidiaries

## Notes to the Condensed Consolidated Interim Financial Statements, Continued As of June 30, 2016 (Unaudited)

### 18. Provisions

(a) Provisions as of June 30, 2016 and December 31, 2015 are as follows:

(in millions of Won)

	June 30, 2016		December 31, 2015	
	Current	Non-current	Current	Non-current
Provision for bonus payments	₩ 35,107	-	42,602	-
Provision for construction warranties	15,624	69,688	10,656	70,790
Provision for legal contingencies and claims(*1)	2,879	57,415	-	52,610
Provision for restoration(*2)	14,853	23,277	15,569	26,357
Others(*3,4)	75,595	104,162	33,493	71,935
	₩ 144,058	254,542	102,320	221,692

(\*1) The Company recognized probable outflow of resources amounting to ₩32,364 million and ₩32,220 million as provisions for legal contingencies and asserted claims in relation to lawsuits against the Company as of June 30, 2016 and December 31, 2015, respectively.

(\*2) Due to contamination of land near the Company's magnesium smelting plant located in Gangneung province, a provision has been recognized with a present value of estimated costs for recovery. In order to compute the estimated costs, the Company has assumed that it would use all of technologies and materials available for now to recover the land. In addition, the Company has applied a discount rate of 2.03% to assess present value of these costs.

(\*3) As of June 30, 2016 and December 31, 2015, POSCO ENERGY CO., LTD., a subsidiary of the Company, recognized ₩73,894 million and ₩41,638 million of provisions for warranties, respectively, for the service contract on fuel cell cased on its estimate of probable outflow of resources.

(\*4) As of June 30, 2016 and December 31, 2015, the amount includes a provision of ₩23,600 million for expected outflow of resources in connection with the performance guarantee for the Hwaseong-Dongtan complexes development project of POSCO ENGINEERING & CONSTRUCTION., LTD.

(b) Changes in provisions for the six-month period ended June 30, 2016 and the year ended December 31, 2015 were as follows:

1) For the six-month period ended June 30, 2016

(in millions of Won)

	Beginning	Increase	Utilization	Reversal	Others(*1)	Ending
Provision for bonus payments	₩ 42,602	19,465	(25,488)	(290)	(1,182)	35,107
Provision for construction warranties	81,446	14,391	(10,063)	(1,430)	968	85,312
Provision for legal contingencies and claims	52,610	4,970	-	(78)	2,792	60,294
Provision for restoration	41,926	573	(4,338)	-	(31)	38,130
Others	105,428	85,308	(4,860)	(6,634)	515	179,757
	₩ 324,012	124,707	(44,749)	(8,432)	3,062	398,600

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

## POSCO and Subsidiaries

### Notes to the Condensed Consolidated Interim Financial Statements, Continued As of June 30, 2016 (Unaudited)

#### 2) For the year ended December 31, 2015

(in millions of Won)

	<b>Beginning</b>	<b>Increase</b>	<b>Utilization</b>	<b>Reversal</b>	<b>Others(*1)</b>	<b>Ending</b>
Provision for bonus payments	₩ 49,505	46,420	(49,563)	(1,493)	(2,267)	42,602
Provision for construction warranties	80,348	33,698	(21,166)	(4,822)	(6,612)	81,446
Provision for legal contingencies and claims	50,424	15,998	(2,467)	(4,058)	(7,287)	52,610
Provision for restoration	74,798	2,293	(35,461)	-	296	41,926
Others	118,194	59,219	(46,994)	(15,425)	(9,566)	105,428
	<u>₩ 373,269</u>	<u>157,628</u>	<u>(155,651)</u>	<u>(25,798)</u>	<u>(25,436)</u>	<u>324,012</u>

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

## 19. Employee Benefits

### (a) Defined contribution plans

The expenses related to post-employment benefit plans under defined contribution plans for the three-month and six-month periods ended June 30, 2016 and 2015 were as follows:

(in millions of Won)

		<b>For the three-month periods ended June 30</b>		<b>For the six-month periods ended June 30</b>	
		<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Expense related to post-employment benefit plans under defined contribution plans	₩	6,825	6,152	14,510	13,026

### (b) Defined benefit plan

- 1) The amounts recognized in relation to defined benefit obligations in the statements of financial position as of June 30, 2016 and December 31, 2015 are as follows:

(in millions of Won)

		<b>June 30, 2016</b>	<b>December 31, 2015</b>
Present value of funded obligations	₩	1,840,173	1,702,735
Fair value of plan assets(*1)		(1,590,599)	(1,532,090)
Present value of non-funded obligations		10,697	11,380
Net defined benefit liabilities	₩	<u>260,271</u>	<u>182,025</u>

(\*1) As of June 30, 2016, the Company recognized net defined benefit assets amounting to ₩4,387 million since there is a subsidiary whose fair value of plan assets exceeds present value of the defined benefit obligations (Note 14).

## POSCO and Subsidiaries

### Notes to the Condensed Consolidated Interim Financial Statements, Continued As of June 30, 2016 (Unaudited)

- 2) Changes in present value of defined benefit obligations for the six-month period ended June 30, 2016 and the year ended December 31, 2015 were as follows:

<i>(in millions of Won)</i>		<b>June 30, 2016</b>	<b>December 31, 2015</b>
Defined benefit obligation at the beginning of period	₩	1,714,115	1,718,243
Current service costs		116,405	239,508
Interest costs		20,052	47,039
Remeasurements		97,779	(63,364)
Benefits paid		(97,697)	(157,983)
Others		216	(69,328)
Defined benefit obligation at the end of period	₩	<u>1,850,870</u>	<u>1,714,115</u>

- 3) Changes in fair value of plan assets for the six-month period ended June 30, 2016 and the year ended December 31, 2015 were as follows:

<i>(in millions of Won)</i>		<b>June 30, 2016</b>	<b>December 31, 2015</b>
Fair value of plan assets at the beginning of period	₩	1,532,090	1,427,918
Interest on plan assets		19,011	41,145
Remeasurement of plan assets		(3,079)	(8,515)
Contributions to plan assets		129,882	243,082
Benefits paid		(79,890)	(127,808)
Others		(7,415)	(43,732)
Fair value of plan assets at the end of period	₩	<u>1,590,599</u>	<u>1,532,090</u>

- 4) The amounts recognized in condensed consolidated interim statements of comprehensive income for the three-month and six-month periods ended June 30, 2016 and 2015 were as follows:

<i>(in millions of Won)</i>		<b>For the three-month periods ended June 30</b>		<b>For the six-month periods ended June 30</b>	
		<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Current service costs	₩	57,406	58,747	116,405	124,479
Net interest costs		533	1,693	1,041	3,133
	₩	<u>57,939</u>	<u>60,440</u>	<u>117,446</u>	<u>127,612</u>

## POSCO and Subsidiaries

### Notes to the Condensed Consolidated Interim Financial Statements, Continued As of June 30, 2016 (Unaudited)

#### 20. Other Liabilities

Other liabilities as of June 30, 2016 and December 31, 2015 are as follows:

<i>(in millions of Won)</i>		<b>June 30, 2016</b>	<b>December 31, 2015</b>
<b>Current</b>			
Due to customers for contract work	₩	917,260	812,120
Advances received		903,917	780,357
Unearned revenue		9,643	11,684
Withholdings		193,405	153,562
Others		23,450	31,129
	₩	<u>2,047,675</u>	<u>1,788,852</u>
<b>Non-current</b>			
Unearned revenue		20,330	20,838
Others		62,663	56,935
	₩	<u>82,993</u>	<u>77,773</u>

#### 21. Financial Instruments

(a) Classification of financial instruments

1) Financial assets as of June 30, 2016 and December 31, 2015 are as follows:

<i>(in millions of Won)</i>		<b>June 30, 2016</b>	<b>December 31, 2015</b>
Financial assets at fair value through profit or loss			
Derivatives assets	₩	108,353	188,489
Available-for-sale financial assets		2,187,996	2,209,744
Held-to-maturity investments		10,581	23,379
Loans and receivables		20,273,808	20,601,109
	₩	<u>22,580,738</u>	<u>23,022,721</u>

# POSCO and Subsidiaries

## Notes to the Condensed Consolidated Interim Financial Statements, Continued As of June 30, 2016 (Unaudited)

2) Financial liabilities as of June 30, 2016 and December 31, 2015 are as follows:

<i>(in millions of Won)</i>	<b>June 30, 2016</b>	<b>December 31, 2015</b>
Financial liabilities at fair value through profit or loss		
Derivatives liabilities	₩ 147,952	155,502
Financial liabilities measured at amortized cost		
Trade accounts and notes payable	3,313,573	3,136,446
Borrowings	24,025,533	25,220,231
Financial guarantee liabilities	86,306	101,311
Others	1,849,518	2,197,463
	<u>29,274,930</u>	<u>30,655,451</u>
	₩ <u>29,422,882</u>	<u>30,810,953</u>

3) Finance income and costs by category of financial instrument for the six-month periods ended June 30, 2016 and 2015 were as follows:

① For the six-month period ended June 30, 2016

<i>(in millions of Won)</i>	<b>Finance income and costs</b>							<b>Other comprehensive income</b>
	<b>Interest income (expense)</b>	<b>Gain and loss on valuation</b>	<b>Gain and loss on foreign currency</b>	<b>Gain and loss on disposal</b>	<b>Impairment loss</b>	<b>Others</b>	<b>Total</b>	
Financial assets at fair value through profit or loss	₩ -	20,000	-	174,987	-	-	194,987	-
Available-for-sale financial assets	328	-	-	1,209	(225,674)	27,266	(196,871)	128,249
Held-to-maturity financial assets	188	-	-	-	-	19	207	-
Loans and receivables	92,147	-	(43,283)	(7,316)	-	(87)	41,461	-
Financial liabilities at fair value through profit or loss	-	(51,845)	-	(189,240)	-	-	(241,085)	-
Financial liabilities measured at amortized cost	(343,088)	-	(108,954)	(61)	-	(8,534)	(460,637)	-
	₩ <u>(250,425)</u>	<u>(31,845)</u>	<u>(152,237)</u>	<u>(20,421)</u>	<u>(225,674)</u>	<u>18,664</u>	<u>(661,938)</u>	<u>128,249</u>

② For the six-month period ended June 30, 2015

<i>(in millions of Won)</i>	<b>Finance income and costs</b>							<b>Other comprehensive loss</b>
	<b>Interest income (expense)</b>	<b>Gain and loss on valuation</b>	<b>Gain and loss on foreign currency</b>	<b>Gain and loss on disposal</b>	<b>Impairment loss</b>	<b>Others</b>	<b>Total</b>	
Financial assets at fair value through profit or loss	₩ -	72,851	-	142,976	-	-	215,827	-
Available-for-sale financial assets	1,449	-	-	57,760	(63,440)	47,007	42,776	(26,650)
Held-to-maturity financial assets	216	-	-	-	-	18	234	-
Loans and receivables	103,989	-	98,736	(8,177)	-	(84)	194,464	-
Financial liabilities at fair value through profit or loss	-	(62,920)	-	(108,440)	-	-	(171,360)	-
Financial liabilities measured at amortized cost	(424,401)	-	(185,437)	-	-	(53,567)	(663,405)	-
	₩ <u>(318,747)</u>	<u>9,931</u>	<u>(86,701)</u>	<u>84,119</u>	<u>(63,440)</u>	<u>(6,626)</u>	<u>(381,464)</u>	<u>(26,650)</u>

# POSCO and Subsidiaries

## Notes to the Condensed Consolidated Interim Financial Statements, Continued As of June 30, 2016 (Unaudited)

4) Finance income and costs by category of financial instrument for the three-month periods ended June 30, 2016 and 2015 were as follows:

① For the three-month period ended June 30, 2016

(in millions of Won)

	Finance income and costs							Other comprehensive income
	Interest income (expense)	Gain and loss on valuation	Gain and loss on foreign currency	Gain and loss on disposal	Impairment loss	Others	Total	
Financial assets at fair value								
through profit or loss	₩ -	(79,566)	-	60,666	-	-	(18,900)	-
Available-for-sale financial assets	85	-	-	1,121	(196,183)	6,587	(188,390)	131,250
Held-to-maturity financial assets	83	-	-	-	-	10	93	-
Loans and receivables	39,967	-	71,007	(3,513)	-	(43)	107,418	-
Financial liabilities at fair value through profit or loss	-	4,497	-	(60,412)	-	-	(55,915)	-
Financial liabilities measured at amortized cost	(165,748)	-	(182,596)	(61)	-	(5,195)	(353,600)	-
	₩ (125,613)	(75,069)	(111,589)	(2,199)	(196,183)	1,359	(509,294)	131,250

② For the three-month period ended June 30, 2015

(in millions of Won)

	Finance income and costs							Other comprehensive loss
	Interest income (expense)	Gain and loss on valuation	Gain and loss on foreign currency	Gain and loss on disposal	Impairment loss	Others	Total	
Financial assets at fair value								
through profit or loss	₩ -	7,815	-	64,660	-	-	72,475	-
Available-for-sale financial assets	796	-	-	55,206	(38,904)	9,035	26,133	(37,346)
Held-to-maturity financial assets	99	-	-	-	-	9	108	-
Loans and receivables	40,187	-	123,814	(4,235)	-	(44)	159,722	-
Financial liabilities at fair value through profit or loss	-	(875)	-	(58,261)	-	-	(59,136)	-
Financial liabilities measured at amortized cost	(210,057)	-	(201,514)	-	-	(46,960)	(458,531)	-
	₩ (168,975)	6,940	(77,700)	57,370	(38,904)	(37,960)	(259,229)	(37,346)

# POSCO and Subsidiaries

## Notes to the Condensed Consolidated Interim Financial Statements, Continued As of June 30, 2016 (Unaudited)

### (b) Fair value

#### 1) Fair value and book value

The carrying amount and the fair value of financial instruments as of June 30, 2016 and December 31, 2015 are as follows:

(in millions of Won)

	June 30, 2016		December 31, 2015	
	Book value	Fair value	Book value	Fair value
Assets measured at fair value				
Available-for-sale financial assets(*1)	₩ 1,807,961	1,807,961	1,854,784	1,854,784
Derivatives assets(*2)	108,353	108,353	188,489	188,489
	<u>1,916,314</u>	<u>1,916,314</u>	<u>2,043,273</u>	<u>2,043,273</u>
Assets measured at amortized cost(*3)				
Cash and cash equivalents	3,678,612	3,678,612	4,870,185	4,870,185
Trade accounts and notes receivable, net	9,411,541	9,411,541	9,716,273	9,716,273
Loans and other receivables, net	7,183,655	7,183,655	6,014,651	6,014,651
Held-to-maturity financial assets	10,581	10,581	23,379	23,379
	<u>20,284,389</u>	<u>20,284,389</u>	<u>20,624,488</u>	<u>20,624,488</u>
Liabilities measured at fair value				
Derivatives liabilities(*2)	147,952	147,952	155,502	155,502
Liabilities measured at amortized cost(*3)				
Trade accounts and notes payable	3,313,573	3,313,573	3,136,446	3,136,446
Borrowings	24,025,533	24,454,026	25,220,231	25,413,577
Financial guarantee liabilities	86,306	86,306	101,311	101,311
Others	1,849,518	1,849,518	2,197,463	2,197,463
	<u>₩ 29,274,930</u>	<u>29,703,423</u>	<u>30,655,451</u>	<u>30,848,797</u>

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

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

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



## POSCO and Subsidiaries

### Notes to the Condensed Consolidated Interim Financial Statements, Continued As of June 30, 2016 (Unaudited)

#### 2) The fair value hierarchy

The fair values of financial instruments by fair value hierarchy as of June 30, 2016 and December 31, 2015 are as follows:

##### ① June 30, 2016

<i>(in millions of Won)</i>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets				
Available-for-sale financial assets	₩ 1,449,198	-	358,763	1,807,961
Derivatives assets	-	87,568	20,785	108,353
	<u>₩ 1,449,198</u>	<u>87,568</u>	<u>379,548</u>	<u>1,916,314</u>
Financial liabilities				
Derivatives liabilities	₩ -	147,952	-	147,952

##### ② December 31, 2015

<i>(in millions of Won)</i>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets				
Available-for-sale financial assets	₩ 1,458,551	-	396,233	1,854,784
Derivatives assets	-	110,197	78,292	188,489
	<u>₩ 1,458,551</u>	<u>110,197</u>	<u>474,525</u>	<u>2,043,273</u>
Financial liabilities				
Derivatives liabilities	₩ -	147,384	8,118	155,502

#### (c) Financial risk management

The Company is exposed to credit risk, liquidity risk and market risk arising from financial assets and liabilities. The Company's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements as of and for the year ended December 31, 2015.

## POSCO and Subsidiaries

### Notes to the Condensed Consolidated Interim Financial Statements, Continued As of June 30, 2016 (Unaudited)

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#### 22. Share Capital and Capital Surplus

(a) Share capital as of June 30, 2016 and December 31, 2015 are as follows:

*(in Won, except share information)*

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
Authorized shares	200,000,000	200,000,000
Par value	₩ 5,000	5,000
Issued shares(*1)	87,186,835	87,186,835
Shared capital(*2)	₩ 482,403,125,000	482,403,125,000

(\*1) As of June 30, 2016, total shares of ADRs of 45,950,792, outstanding in overseas stock market, are equivalent to 11,487,698 shares of common stock.

(\*2) As of June 30, 2016, the difference between the ending balance of common stock and the par value of issued common stock is ₩46,469 million due to retirement of 9,293,790 treasury stocks.

(b) Capital surplus as of June 30, 2016 and December 31, 2015 are as follows:

*(in millions of Won)*

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
Share premium	₩ 463,825	463,825
Gain on disposal of treasury shares	783,761	783,756
Other capital surplus	140,842	136,042
	₩ 1,388,428	1,383,623

## POSCO and Subsidiaries

### Notes to the Condensed Consolidated Interim Financial Statements, Continued As of June 30, 2016 (Unaudited)

#### 23. Hybrid Bonds

(a) Hybrid bonds classified as equity as of June 30, 2016 and December 31, 2015 are as follows:

<i>(in millions of Won)</i>	<b>Date of issue</b>	<b>Date of maturity</b>	<b>Interest rate (%)</b>		<b>June 30, 2016</b>	<b>December 31, 2015</b>
Hybrid bond 1-1(*1)	2013-06-13	2043-06-13	4.30	₩	800,000	800,000
Hybrid bond 1-2(*1)	2013-06-13	2043-06-13	4.60		200,000	200,000
Issuance cost					(3,081)	(3,081)
				₩	<u>996,919</u>	<u>996,919</u>

(\*1) Details of hybrid bonds as of June 30, 2016 are as follows:

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

The interest accumulated but not paid on the hybrid bonds as of June 30, 2016 amounts to ₩2,150 million.

## POSCO and Subsidiaries

### Notes to the Condensed Consolidated Interim Financial Statements, Continued As of June 30, 2016 (Unaudited)

(b) POSCO ENERGY Co., Ltd., a subsidiary of the Company, issued hybrid bonds which are classified as non-controlling interests in the consolidated financial statements. Hybrid bonds as of June 30, 2016 and December 31, 2015 are as follows:

<i>(in millions of Won)</i>	<u>Date of issue</u>	<u>Date of maturity</u>	<u>Interest rate (%)</u>		<u>June 30, 2016</u>	<u>December 31, 2015</u>
Hybrid bond 1-1(*1)	2013-08-29	2043-08-29	4.66	₩	165,000	165,000
Hybrid bond 1-2(*1)	2013-08-29	2043-08-29	4.72		165,000	165,000
Hybrid bond 1-3(*1)	2013-08-29	2043-08-29	4.72		30,000	30,000
Hybrid bond 1-4(*1)	2013-08-29	2043-08-29	5.21		140,000	140,000
Issuance cost					(1,532)	(1,532)
				₩	<u>498,468</u>	<u>498,468</u>

(\*1) Details of hybrid bonds of POSCO ENERGY Co., Ltd. as of June 30, 2016 are as follows:

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

The interest accumulated but not paid on the hybrid bonds as of June 30, 2016 amounts to ₩2,121 million.

## 24. Reserves

Reserves as of June 30, 2016 and December 31, 2015 are as follows:

<i>(in millions of Won)</i>	<u>June 30, 2016</u>	<u>December 31, 2015</u>
Capital adjustment arising from investments in equity-accounted investees	₩ (368,170)	(426,360)
Net changes in unrealized fair value of available-for-sale investments	90,002	(38,294)
Foreign currency translation differences	(123,815)	(109,646)
Others	(19,659)	(20,456)
	₩ <u>(421,642)</u>	<u>(594,756)</u>

## POSCO and Subsidiaries

### Notes to the Condensed Consolidated Interim Financial Statements, Continued As of June 30, 2016 (Unaudited)

#### 25. Treasury Shares

As of June 30, 2016, the Company holds 7,190,644 shares of treasury stock for price stabilization and others in accordance with the Board of Director's resolution.

#### 26. Construction Contract

- (a) When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue and contract cost are recognized over the period of the contract by reference to the percentage-of-completion. Contract costs are recognized as expenses based on the percentage-of-completion method at the end of the reporting period. Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable. Expected losses are recognized immediately as an expense when there is high probability that total contract costs exceed total contract revenues.

The gross amount due from customers for contract work is presented for all contracts in which costs incurred plus recognized profits (less recognized losses) exceed progress billings. If progress billings exceed costs incurred plus recognized profits (less recognized losses), then the gross amount due to customers for contract work is presented. The Company recognizes advances received regarding the amount received from the ordering organization before the construction is progressing. Also, the Company recognized trade accounts and notes receivable with respect to the amount charged to the ordering organization but has not yet received.

- (b) Details of in-progress construction contracts as of June 30, 2016 and December 31, 2015, are as follows:

(in millions of Won)

	June 30, 2016		December 31, 2015	
	Construction segment	Others	Construction segment	Others
Accumulated cost	₩ 20,207,319	481,233	18,786,683	311,726
Add: Accumulated profit	1,504,429	62,228	1,374,548	34,939
Less: Accumulated loss	(751,807)	(20,823)	(430,957)	(16,510)
Accumulated revenue	20,959,941	522,638	19,730,274	330,155
Less: Progress billings	(20,692,506)	(529,583)	(19,265,173)	(344,252)
Others	1,503	2,422	(24,967)	(20,126)
	₩ 268,938	(4,523)	440,134	(34,223)

# POSCO and Subsidiaries

## Notes to the Condensed Consolidated Interim Financial Statements, Continued As of June 30, 2016 (Unaudited)

- (c) Details of due from customers for contract work and due to customers for contract work related to construction as of June 30, 2016 and December 31, 2015, are as follow:

(in millions of Won)

	June 30, 2016		December 31, 2015	
	Construction segment	Others	Construction segment	Others
Due from customers for contract work	1,126,250	55,425	1,157,617	60,414
Due to customers for contract work	(857,312)	(59,948)	(717,483)	(94,637)
	<u>268,938</u>	<u>(4,523)</u>	<u>440,134</u>	<u>(34,223)</u>

- (d) Details of the provisions of construction loss as of June 30, 2016 and December, 2016 are as follow:

(in millions of Won)

	June 30, 2016	December 31, 2015
Construction segment	₩ 60,106	55,101
Others	1,477	1,380
	<u>₩ 61,583</u>	<u>56,481</u>

- (e) Due to the factors causing the variation of costs during the six-month period ended June 30, 2016, the estimated total costs for contracts-in-progress have changed. Details of changes in estimated total contract costs and the impact on profits or loss for the six-month period ended June 30, 2016 and the future period are as follows:

(in millions of Won)

		Changes in estimated total contract costs	Changes in profit (loss) of construction contract		
			Net income (loss)	Future income (loss)	Total
Construction segment	₩	402,785	(333,029)	68,863	(264,166)
Others		1,135	(1,380)	1,538	158
	₩	<u>403,920</u>	<u>(334,409)</u>	<u>70,401</u>	<u>(264,008)</u>

The impact on profit or loss for the current period and the future period is determined based on total contract costs, which are estimated based on the circumstances present for the period from the start of the contract to the end of reporting period as of June 30, 2016, and the estimated contract revenue as of June 30, 2016. Therefore, the estimated contract costs and contract revenues may be changed in the future.

## POSCO and Subsidiaries

### Notes to the Condensed Consolidated Interim Financial Statements, Continued As of June 30, 2016 (Unaudited)

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#### (f) Uncertainty of estimates

##### 1) Total contract revenues

Total contract revenues are measured based on contractual amount initially agreed. However, the contract revenues can be increased by additional contract work, claims and incentive payments in the course of construction, or decreased by the penalty when the completion of contract is delayed due to the Company's fault. Therefore, this measurement of contract revenues are affected by the uncertainty of the occurrence of future events.

##### 2) Total contract costs

Construction revenues are recognized according to the percentage of completion, which is measured on the basis of the gross amount incurred to date. Total contract costs are estimated based on future estimates of material costs, labor costs, outsourcing cost and others. There are the uncertainty of future estimates due to various internal and external effect such as fluctuation of market, the risk of business partner and the experience of project performance and others. The significant assumptions including uncertainty of the estimate of total contract costs are as follows:

	<b>Method of significant assumption</b>
Material cost	Assumption based on recent purchasing price and quoted market price
Labor cost	Assumption based on standard monthly and daily labor cost
Outsourcing cost	Assumption based on the past experience rate of similar project and market price

Management reviews the assumptions used in estimated contract costs each end of the reporting period and adjusts them, if necessary.

# POSCO and Subsidiaries

## Notes to the Condensed Consolidated Interim Financial Statements, Continued As of June 30, 2016 (Unaudited)

### 27. Selling and Administrative Expenses

#### (a) Administrative expenses

Administrative expenses for the three-month and six-month periods ended June 30, 2016 and 2015 were as follows:

(in millions of Won)

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2016	2015	2016	2015
Wages and salaries	₩ 185,260	194,883	393,231	408,613
Expenses related to post-employment benefits	24,246	13,733	45,955	44,084
Other employee benefits	43,314	49,880	89,797	110,578
Travel	9,793	12,829	20,494	23,985
Depreciation	25,339	22,835	52,006	56,954
Amortization	30,624	30,869	67,201	82,710
Communication	2,609	3,809	5,418	6,955
Electricity expenses	1,981	2,917	4,074	5,638
Taxes and public dues	23,279	22,638	40,486	42,434
Rental	28,683	35,620	50,834	69,081
Repairs	2,571	4,041	5,518	6,649
Entertainment	3,141	3,534	6,714	7,989
Advertising	20,868	23,634	37,715	45,390
Research & development	30,000	30,808	50,789	55,630
Service fees	37,134	74,695	84,074	153,108
Supplies	2,012	3,531	3,954	6,119
Vehicles maintenance	2,667	3,192	5,142	6,203
Industry association fee	3,041	4,656	6,621	8,287
Conference	3,353	4,250	6,742	8,786
Contribution to provisions	1,707	2,581	4,903	6,427
Bad debt expenses	38,450	27,850	25,724	34,445
Others	7,090	10,067	16,006	20,346
₩	<u>527,162</u>	<u>582,852</u>	<u>1,023,398</u>	<u>1,210,411</u>

#### b) Selling expenses

Selling expenses for the three-month and six-month periods ended June 30, 2016 and 2015 were as follows:

(in millions of Won)

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2016	2015	2016	2015
Freight and custody expenses	₩ 322,037	405,471	665,254	804,633
Operating expenses for distribution center	2,525	3,009	5,105	5,701
Sales commissions	21,401	17,252	42,350	31,888
Sales advertising	379	564	1,000	1,122
Sales promotion	931	5,626	4,731	10,407
Sample	636	569	1,417	1,320
Sales insurance premium	7,696	7,904	14,390	15,776
Contract cost	6,010	7,912	11,223	14,862
Others	1,733	3,898	3,310	5,296
₩	<u>363,348</u>	<u>452,205</u>	<u>748,780</u>	<u>891,005</u>



# POSCO and Subsidiaries

## Notes to the Condensed Consolidated Interim Financial Statements, Continued As of June 30, 2016 (Unaudited)

### 28. Finance Income and Costs

Details of finance income and costs for the three-month and six-month periods ended June 30, 2016 and 2015 were as follows:

(in millions of Won)

(in millions of Won)

		For the three-month periods ended June 30		For the six-month periods ended June 30	
		2016	2015	2016	2015
<b>Finance income</b>					
Interest income	₩	40,135	41,083	92,663	105,654
Dividend income		6,587	9,035	27,266	47,007
Gain on foreign currency transactions		234,927	194,933	513,445	404,595
Gain on foreign currency translations		(63,306)	98,357	178,582	239,307
Gain on derivatives transactions		62,625	67,456	177,011	145,689
Gain on valuations of derivatives		(30,788)	13,907	94,569	87,845
Gain on disposals of available-for-sale financial assets		2,180	55,484	2,401	58,048
Others		1,758	7,802	2,476	8,598
	₩	254,118	488,057	1,088,413	1,096,743
<b>Finance costs</b>					
Interest expenses	₩	165,748	210,058	343,088	424,401
Loss on foreign currency transactions		269,856	213,407	538,291	422,060
Loss on foreign currency translations		13,354	157,583	305,973	308,543
Loss on derivatives transactions		62,371	61,057	191,264	111,153
Loss on valuation of derivatives		44,281	6,967	126,414	77,914
Impairment loss on available-for-sale financial assets		196,183	38,904	225,674	63,440
Others		11,619	59,310	19,647	70,696
	₩	763,412	747,286	1,750,351	1,478,207

# POSCO and Subsidiaries

## Notes to the Condensed Consolidated Interim Financial Statements, Continued As of June 30, 2016 (Unaudited)

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

Details of other non-operating income and expenses for the three-month and six-month periods ended June 30, 2016 and 2015 were as follows:

	For the three-month periods		For the six-month periods	
	ended June 30		ended June 30	
	2016	2015	2016	2015
<i>(in millions of Won)</i>				
<b>Other non-operating income</b>				
Gain on disposals of assets held for sale	₩ 2,831	55,971	22,184	219,180
Gain on disposals of investment				
in subsidiaries, associates and joint ventures	4,516	6,378	6,373	6,435
Gain on disposals of property, plant and equipment	6,751	7,961	17,935	14,819
Reversal of other bad debt expenses	6,099	445	6,099	445
Gain on insurance proceeds	12,420	1,761	14,199	6,749
Others	41,724	43,736	58,728	64,743
	₩ 74,341	116,252	125,518	312,371
<b>Other non-operating expenses</b>				
Impairment losses on assets held for sale	₩ 6,325	11,421	6,325	23,417
Loss on disposals of investment				
in subsidiaries, associates and joint ventures	807	11,549	1,715	11,549
Loss on disposals of property, plant and equipment	28,452	46,878	43,962	58,263
Impairment loss on property, plant and equipment	7,290	61,906	7,290	71,908
Impairment loss on intangible assets	2,081	40,921	2,525	40,933
Contribution to provisions	4,956	(1,447)	19,645	6,598
Other bad debt expenses	5,820	47,066	8,541	83,040
Donations	3,374	8,354	18,172	24,930
Idle tangible assets expenses	1,491	3,336	2,423	7,481
Others	26,351	33,750	39,670	73,707
	₩ 86,947	263,734	150,268	401,826

### 30. Expenses by Nature

Expenses that are recorded by nature as cost of sales, selling and administrative expenses and other non-operating expenses in the statements of comprehensive income for the three-month and six-month periods June 30, 2016 and 2015 were as follows (excluding finance costs and income tax expense):

	For the three-month periods		For the six-month periods	
	ended June 30		ended June 30	
	2016	2015	2016	2015
<i>(in millions of Won)</i>				
Raw material used, changes in inventories and others	₩ 6,837,165	8,102,988	13,806,425	17,146,706
Employee benefits expenses	991,089	783,853	1,818,770	1,628,322
Outsourced processing cost	1,871,329	2,170,622	3,611,188	4,412,555
Electricity expenses	247,885	324,320	527,065	651,989
Depreciation(*1)	708,947	675,986	1,416,361	1,396,845
Amortization	86,864	91,407	184,445	186,497
Freight and custody expenses	322,037	405,471	665,254	804,633
Sales commissions	21,401	17,252	42,350	31,888
Loss on disposals of property, plant and equipment	28,452	46,878	43,962	58,263
Impairment loss on property, plant and equipment	7,290	61,906	7,290	71,908
Impairment loss on intangible assets	2,081	40,921	2,525	40,933
Contribution to provisions	58,640	4,488	97,100	27,159
Donations	3,374	8,354	18,172	24,930
Others	1,079,263	2,032,435	1,889,663	2,792,016
	₩ 12,265,817	14,766,881	24,130,570	29,274,644

(\*1) Includes depreciation expense of investment property.

## POSCO and Subsidiaries

### Notes to the Condensed Consolidated Interim Financial Statements, Continued As of June 30, 2016 (Unaudited)

#### 31. Income Taxes

The effective tax rate of the Company for the six-month periods ended June 30, 2016 and 2015 was 31.28% and 50.13%, respectively. The effective tax rate for the six-month period ended June 30, 2016 was higher than the statutory tax rate of 24.2% for the controlling company mainly due to the effect of deductible temporary difference in the Company's investment in subsidiaries and associates, for which no deferred tax assets are recognized due to the expectations on repatriation of the investments. The effective tax rate for the six-month period ended June 30, 2015 was higher than the statutory tax rate of 24.2% for the controlling company mainly due to the increase in deferred tax liabilities related to the controlling company's investment in POSCO ENGINEERING & CONSTRUCTION., LTD. as a result of changes in management's expectations on repatriation of the investment and the effect of deductible temporary difference in the Company's investments in subsidiaries and associates, for which no deferred tax assets are recognized due to the expectations on repatriation of the investments.

#### 32. Earnings per Share

Basic and diluted earnings per share for the three-month and six-month periods ended June 30, 2016 and 2015 were as follows:

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2016	2015	2016	2015
(in Won, except per share information)				
Profit attributable to controlling interest	₩ 291,654,126,047	198,179,216,537	651,325,016,303	536,763,585,499
Interests of hybrid bonds	(8,073,975,372)	(8,240,301,971)	(16,474,401,438)	(16,351,402,838)
	283,580,150,675	189,938,914,566	634,850,614,865	520,412,182,661
Weighted-average number of common shares outstanding(*1)	79,996,105	79,993,372	79,995,921	79,993,215
Basic and diluted earnings per share	₩ 3,545	2,374	7,936	6,506

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

	For the three-month periods ended June 30		For the six-month periods ended June 30	
	2016	2015	2016	2015
(Share)				
Total number of common shares issued	87,186,835	87,186,835	87,186,835	87,186,835
Weighted-average number of treasury shares	(7,190,730)	(7,193,463)	(7,190,914)	(7,193,620)
Weighted-average number of common shares outstanding	79,996,105	79,993,372	79,995,921	79,993,215

Since there were no potential shares of common stock which had dilutive effects as of June 30, 2016 and 2015, diluted earnings per share is equal to basic earnings per share.

# POSCO and Subsidiaries

## Notes to the Condensed Consolidated Interim Financial Statements, Continued As of June 30, 2016 (Unaudited)

### 33. Related Party Transactions

(a) Significant transactions between the controlling company and related parties for the six-month periods ended June 30, 2016 and 2015 were as follows:

1) For the six-month period ended June 30, 2016

(in millions of Won)

	Sales and others(*1)		Purchase and others(*2)			
	Sales	Others	Purchase of material	Purchase of fixed assets	Outsourced processing cost	Others
<b>Subsidiaries(*3)</b>						
POSCO ENGINEERING & CONSTRUCTION., LTD. ₩	27,360	16,629	-	153,331	-	16,046
POSCO Processing&Service	478,627	5,777	252,080	-	-	872
POSCO COATED & COLOR STEEL Co., Ltd.	153,329	2,560	-	-	6,491	56
POSCO ICT(*4)	686	292	-	81,440	17,783	81,535
eNtoB Corporation	-	-	122,429	4,164	56	8,923
POSCO CHEMTECH	159,436	18,012	246,706	6,603	141,213	3,334
POSCO ENERGY CO., LTD.	93,103	652	-	-	-	-
POSCO TMC Co., Ltd.	146,761	-	1	-	1,024	677
POSCO AST	152,108	1	-	-	19,695	922
POSCO DAEWOO Corporation (formerly, Daewoo International Corporation)(*5)	1,561,031	34,341	37,172	-	-	132
POSCO Thainox Public Company Limited	114,947	2,857	4,237	-	-	23
POSCO America Corporation	285,368	-	-	-	-	-
POSCO Canada Ltd.	-	-	63,481	-	-	-
POSCO Asia Co., Ltd.	900,391	123	164,289	49	291	722
Qingdao Pohang Stainless Steel Co., Ltd.	60,924	-	-	-	-	419
POSCO JAPAN Co., Ltd.	514,806	-	12,211	368	54	994
POSCO MEXICO S.A. DE C.V.	111,181	-	-	-	-	-
POSCO Maharashtra Steel Private Limited	192,584	-	-	-	-	57
Others	483,015	9,818	107,676	31,185	104,837	50,836
	<u>5,435,657</u>	<u>91,062</u>	<u>1,010,282</u>	<u>277,140</u>	<u>291,444</u>	<u>165,548</u>
<b>Associates and joint ventures(*3)</b>						
SeAH Changwon Integrated Special Steel(*6)	20	-	887	-	517	-
POSCO PLANTEC Co., Ltd.(*6)	1,854	25	1,812	92,003	8,170	4,869
SNNC	2,400	697	205,899	-	-	-
POSCO-SAMSUNG-Slovakia Processing Center	16,569	-	-	-	-	-
KOBRASCO	-	29,297	-	-	-	-
Others	18,227	4,610	28,298	-	-	-
	<u>39,070</u>	<u>34,629</u>	<u>236,896</u>	<u>92,003</u>	<u>8,687</u>	<u>4,869</u>
₩	<u>5,474,727</u>	<u>125,691</u>	<u>1,247,178</u>	<u>369,143</u>	<u>300,131</u>	<u>170,417</u>

(\*1) Sales and others mainly consist of sales of steel products to subsidiaries, associates and joint ventures.

(\*2) Purchases and others mainly consist of subsidiaries' purchases of construction services and purchases of raw materials to manufacture steel products.

(\*3) As of June 30, 2016, the Company provided guarantees to related parties. (Note 34)

(\*4) Others (purchase) mainly consist of service fees related to maintenance and repair of ERP System.

(\*5) During the period ended June 30, 2016, Daewoo International Corporation was renamed POSCO DAEWOO Corporation.

(\*6) During the period ended December 31, 2015, it was reclassified from a subsidiary to an associate.

# POSCO and Subsidiaries

## Notes to the Condensed Consolidated Interim Financial Statements, Continued As of June 30, 2016 (Unaudited)

2) For the six-month period ended June 30, 2015

(in millions of Won)

	Sales and others		Purchase and others			
	Sales	Others	Purchase of material	Purchase of fixed assets	Outsourced processing cost	Others
<b>Subsidiaries</b>						
POSCO ENGINEERING & CONSTRUCTION., LTD. ₩	2,027	90	19	291,361	1,822	29,336
POSCO Processing&Service	534,281	-	246,883	-	-	1,632
POSCO COATED & COLOR STEEL Co., Ltd.	198,400	-	-	-	5,698	54
POSCO ICT	680	4	-	84,512	14,669	88,429
eNtoB Corporation	-	-	146,452	2,396	53	10,464
POSCO CHEMTECH	245,830	17,633	259,499	6,182	150,021	499
POSCO ENERGY CO., LTD.	96,177	615	-	-	-	13
POSCO TMC Co., Ltd.	123,016	-	-	-	666	634
POSCO AST	199,145	3	4,115	-	19,271	109
POSHIMETAL Co., Ltd.	6,517	75	82,124	-	-	33
POSCO DAEWOO Corporation						
(formerly, Daewoo International Corporation)	1,782,130	34,341	26,749	-	-	769
SeAH Changwon Integrated Special Steel	2,811	176,904	8,239	-	515	75
POSCO PLANTEC Co., Ltd.	3,981	25	1,735	64,492	10,460	10,922
POSCO Thainox Public Company Limited	139,818	10	3,300	-	-	25
PT. KRAKATAU POSCO	-	-	115,557	-	-	-
POSCO America Corporation	336,072	7	-	-	-	85
POSCO Canada Ltd.	-	-	64,024	-	-	-
POSCO Asia Co., Ltd.	921,709	579	125,255	-	95	237
Qingdao Pohang Stainless Steel Co., Ltd.	80,851	-	-	-	-	46
POSCO JAPAN Co., Ltd.	507,507	9,383	11,934	1,674	-	519
POSCO MEXICO S.A. DE C.V.	132,429	153	-	-	-	-
POSCO Maharashtra Steel Private Limited	207,938	-	-	-	-	-
Others	462,894	10,125	120,512	45,174	106,843	46,262
	<u>5,984,213</u>	<u>249,947</u>	<u>1,216,397</u>	<u>495,791</u>	<u>310,113</u>	<u>190,143</u>
<b>Associates and joint ventures</b>						
SeAH Changwon Integrated Special Steel	1,653	-	2,672	-	229	1
SNNC	1,205	283	212,142	-	-	-
CSP - Companhia Siderurgica do Pecem	3,358	537	-	-	-	-
Others	19,541	30,862	28,295	-	-	-
	<u>25,757</u>	<u>31,682</u>	<u>243,109</u>	<u>-</u>	<u>229</u>	<u>1</u>
₩	<u>6,009,970</u>	<u>281,629</u>	<u>1,459,506</u>	<u>495,791</u>	<u>310,342</u>	<u>190,144</u>

# POSCO and Subsidiaries

## Notes to the Condensed Consolidated Interim Financial Statements, Continued As of June 30, 2016 (Unaudited)

(b) Significant transactions between the controlling company and related parties for the three-month periods ended June 30, 2016 and 2015 were as follows:

1) For the three-month period ended June 30, 2016

(in millions of Won)

	Sales and others		Purchase and others			
	Sales	Others	Purchase of material	Purchase of fixed assets	Outsourced processing cost	Others
<b>Subsidiaries</b>						
POSCO ENGINEERING & CONSTRUCTION., LTD. ₩	25,818	26	-	41,743	-	3,684
POSCO Processing&Service	254,568	-	153,745	-	-	627
POSCO COATED & COLOR STEEL Co., Ltd.	79,387	1	-	-	3,247	24
POSCO ICT	385	201	-	57,129	11,154	37,228
eNtoB Corporation	-	-	63,646	3,529	36	5,385
POSCO CHEMTECH	70,366	5,430	118,684	4,367	71,274	1,549
POSCO ENERGY CO., LTD.	47,919	344	-	-	-	-
POSCO TMC Co., Ltd.	77,021	-	-	-	556	366
POSCO AST	76,475	-	-	-	11,192	178
POSCO DAEWOO Corporation (formerly, Daewoo International Corporation)	767,009	-	13,367	-	-	-
POSCO Thainox Public Company Limited	59,981	2,857	2,280	-	-	23
POSCO America Corporation	160,552	-	-	-	-	-
POSCO Canada Ltd.	-	-	38,704	-	-	-
POSCO Asia Co., Ltd.	419,542	123	105,303	49	270	544
Qingdao Pohang Stainless Steel Co., Ltd.	36,386	-	-	-	-	190
POSCO JAPAN Co., Ltd.	242,575	-	6,520	-	26	842
POSCO MEXICO S.A. DE C.V.	33,181	-	-	-	-	-
POSCO Maharashtra Steel Private Limited	91,102	-	-	-	-	57
Others	271,562	1,575	61,975	16,427	54,072	31,586
	<u>2,713,829</u>	<u>10,557</u>	<u>564,224</u>	<u>123,244</u>	<u>151,827</u>	<u>82,283</u>
<b>Associates and joint ventures</b>						
SeAH Changwon Integrated Special Steel	15	-	435	-	379	-
POSCO PLANTEC Co., Ltd.	758	5	980	48,694	4,153	2,134
SNNC	1,175	531	98,109	-	-	-
POSCO-SAMSUNG-Slovakia Processing Center	8,714	-	-	-	-	-
KOBRASCO	-	29,297	-	-	-	-
Others	14,581	1,540	15,483	-	-	-
	<u>25,243</u>	<u>31,373</u>	<u>115,007</u>	<u>48,694</u>	<u>4,532</u>	<u>2,134</u>
₩	<u>2,739,072</u>	<u>41,930</u>	<u>679,231</u>	<u>171,938</u>	<u>156,359</u>	<u>84,417</u>

# POSCO and Subsidiaries

## Notes to the Condensed Consolidated Interim Financial Statements, Continued As of June 30, 2016 (Unaudited)

### 2) For the three-month period ended June 30, 2015

(in millions of Won)

	Sales and others		Purchase and others			
	Sales	Others	Purchase of material	Purchase of fixed assets	Outsourced processing cost	Others
<b>Subsidiaries</b>						
POSCO ENGINEERING & CONSTRUCTION., LTD. ₩	1,102	26	-	133,824	536	7,331
POSCO Processing&Service	254,405	-	102,440	-	-	325
POSCO COATED & COLOR STEEL Co., Ltd.	96,959	-	-	-	2,431	30
POSCO ICT	386	-	-	49,262	7,234	43,976
eNtoB Corporation	-	-	68,462	1,869	27	4,914
POSCO CHEMTECH	117,465	5,833	126,055	4,449	75,237	127
POSCO ENERGY CO., LTD.	48,575	313	-	-	-	-
POSCO TMC Co., Ltd.	68,482	-	-	-	407	355
POSCO AST	94,030	-	1,340	-	10,399	74
POSHIMETAL Co., Ltd.	3,346	41	44,991	-	-	-
POSCO DAEWOO Corporation (formerly, Daewoo International Corporation)	884,194	6	15,036	-	-	769
POSCO PLANTEC Co., Ltd.	1,608	7	857	36,665	4,834	5,267
POSCO Thainox Public Company Limited	67,861	-	1,431	-	-	25
PT. KRAKATAU POSCO	-	-	31,921	-	-	-
POSCO America Corporation	160,145	7	-	-	-	49
POSCO Canada Ltd.	-	-	31,027	-	-	-
POSCO Asia Co., Ltd.	456,563	579	74,436	-	95	145
Qingdao Pohang Stainless Steel Co., Ltd.	44,122	-	-	-	-	46
POSCO JAPAN Co., Ltd.	241,267	-	6,711	717	-	250
POSCO MEXICO S.A. DE C.V.	54,686	1	-	-	-	-
POSCO Maharashtra Steel Private Limited	105,543	-	-	-	-	-
Others	235,743	4,782	58,141	19,975	53,429	22,481
	<u>2,936,482</u>	<u>11,595</u>	<u>562,848</u>	<u>246,761</u>	<u>154,629</u>	<u>86,164</u>
<b>Associates and joint ventures</b>						
SeAH Changwon Integrated Special Steel	1,653	-	2,672	-	229	1
SNNC	567	77	114,966	-	-	-
CSP - Companhia Siderurgica do Pecem	-	537	-	-	-	-
Others	11,112	24,433	13,982	-	-	-
	<u>13,332</u>	<u>25,047</u>	<u>131,620</u>	<u>-</u>	<u>229</u>	<u>1</u>
₩	<u>2,949,814</u>	<u>36,642</u>	<u>694,468</u>	<u>246,761</u>	<u>154,858</u>	<u>86,165</u>

# POSCO and Subsidiaries

## Notes to the Condensed Consolidated Interim Financial Statements, Continued

### As of June 30, 2016

#### (Unaudited)

(c) The related account balances of significant transactions between the controlling company and related parties as of June 30, 2016 and December 31, 2015 are as follows:

#### 1) June 30, 2016

(in millions of Won)

	Receivables			Payables			
	Trade accounts and notes receivable	Others	Total	Trade accounts and notes payable	Accounts payable	Others	Total
<b>Subsidiaries</b>							
POSCO ENGINEERING & CONSTRUCTION Co., LTD.	₩ 1	1,370	1,371	-	6,269	523	6,792
POSCO Processing & Service Co., Ltd.	100,905	88	100,993	14,133	697	1	14,831
POSCO COATED & COLOR STEEL Co., Ltd.	45,521	226	45,747	-	372	1,570	1,942
POSCO ICT	-	169	169	882	47,801	6,026	54,709
eNtoB Corporation	-	-	-	9,491	17,483	18	26,992
POSCO CHEMTECH	24,167	4,337	28,504	53,843	11,562	17,584	82,989
POSCO Energy CO., LTD	15,094	1,060	16,154	-	-	1,945	1,945
POSCO TMC Co., Ltd.	77,080	51	77,131	-	23	304	327
POSCO AST Co., Ltd.	31,260	17	31,277	-	2,118	4,058	6,176
POSCO Daewoo (formerly, Daewoo International Corp.)	145,710	17	145,727	382	16	49	447
POSCO Thainox Public Company Limited	59,978	-	59,978	-	-	-	-
POSCO America Corporation	61,415	-	61,415	-	-	-	-
POSCO Asia Co., Ltd.	272,232	73	272,305	2,335	-	133	2,468
Qingdao Pohang Stainless Steel Co., Ltd.	22,008	-	22,008	-	-	-	-
POSCO MEXICO S.A. DE C.V.	47,331	-	47,331	-	-	-	-
POSCO Maharashtra Steel Pvt. Ltd.	149,641	9	149,650	-	-	-	-
Others	190,101	3,201	193,302	18,015	24,732	28,626	71,373
	1,242,444	10,618	1,253,062	99,081	111,073	60,837	270,991
<b>Associates and joint ventures</b>							
SeAH Changwon Integrated Special Steel	11	-	11	7	-	159	166
POSCO PLANTEC Co., Ltd.	4	13	17	1,922	17,050	55	19,027
SNNC Co., Ltd.	223	18	241	21,476	4	1,082	22,562
KOBRASCO	-	14,648	14,648	-	-	-	-
Others	587	6	593	-	-	-	-
	825	14,685	15,510	23,405	17,054	1,296	41,755
₩	1,243,269	25,303	1,268,572	122,486	128,127	62,133	312,746

#### 2) December 31, 2015

(in millions of Won)

	Receivables			Payables			
	Trade accounts and notes receivable	Others	Total	Trade accounts and notes payable	Accounts payable	Others	Total
<b>Subsidiaries</b>							
POSCO ENGINEERING & CONSTRUCTION Co., LTD.	₩ 508	30,368	30,876	-	42,159	1,002	43,161
POSCO Processing & Service Co., Ltd.	74,985	175	75,160	10,868	603	-	11,471
POSCO COATED & COLOR STEEL Co., Ltd.	43,669	66	43,735	-	-	1,262	1,262
POSCO ICT	-	6,832	6,832	1,060	94,865	5,880	101,805
eNtoB Corporation	-	-	-	8,683	14,209	12	22,904
POSCO CHEMTECH	32,670	4,500	37,170	54,636	11,398	18,062	84,096
POSCO Energy CO., LTD	18,680	2,585	21,265	-	-	-	-
POSCO TMC Co., Ltd.	63,521	31	63,552	-	180	195	375
POSCO AST Co., Ltd.	54,844	54	54,898	-	1,915	3,294	5,209
POSHIMETAL Co., Ltd.	707	9	716	-	10,148	-	10,148
POSCO Daewoo (formerly, Daewoo International Corp.)	144,970	-	144,970	-	-	-	-
POSCO Thainox Public Company Limited	65,152	2	65,154	542	-	-	542
POSCO America Corporation	38,715	-	38,715	-	-	-	-
POSCO Asia Co., Ltd.	299,608	235	299,843	21,198	69	-	21,267
Qingdao Pohang Stainless Steel Co., Ltd.	16,689	-	16,689	-	-	-	-
POSCO MEXICO S.A. DE C.V.	94,588	-	94,588	-	-	-	-
POSCO Maharashtra Steel Pvt. Ltd.	205,390	20	205,410	-	-	-	-
Others	172,019	5,035	177,054	18,208	45,476	23,985	87,669
	1,326,715	49,912	1,376,627	115,195	221,022	53,692	389,909
<b>Associates and joint ventures</b>							
SeAH Changwon Integrated Special Steel	1,201	-	1,201	161	15	-	176
POSCO PLANTEC Co., Ltd.	123	19	142	1,901	46,159	-	48,060
SNNC Co., Ltd.	298	20	318	639	2	-	641
Others	740	12,200	12,940	-	145	-	145
	2,362	12,239	14,601	2,701	46,321	-	49,022
₩	1,329,077	62,151	1,391,228	117,896	267,343	53,692	438,931



# POSCO and Subsidiaries

## Notes to the Condensed Consolidated Interim Financial Statements, Continued As of June 30, 2016 (Unaudited)

(d) Significant transactions between the Company, excluding the controlling company, and related companies for the six-month periods ended June 30, 2016 and 2015 were as follows:

1) For the six-month period ended June 30, 2016

(in millions of Won)

	Sales and others		Purchase and others	
	Sales	Others	Purchase of material	Others
<b>Associates and joint ventures</b>				
SeAH Changwon Integrated Special Steel	₩ 13,926	-	20,632	-
POSCO PLANTEC Co., Ltd.	6,344	-	1,606	1,608
New Songdo International City Development, LLC	128,333	-	-	8
SNNC	9,176	-	18,368	5,083
Posco e&c Songdo International Building	2,822	-	-	12,847
CHUNCHEON ENERGY CO., LTD	196,179	-	-	-
VSC POSCO Steel Corporation	23,025	48	513	-
USS-POSCO Industries	166,976	-	494	-
CSP - Companhia Siderurgica do Pecem	7,901	-	-	-
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd	31,776	-	35,000	-
BX STEEL POSCO Cold Rolled Sheet Co., Ltd.	-	-	17,643	-
POS-SEAHSTEELWIRE(TIANJIN)CO.,Ltd	6,156	-	-	-
POSCO SeAH Steel Wire(Nantong) Co., Ltd.	13,742	-	20	-
Zhangjiagang Pohang Refractories Co., Ltd.	125	14	215	1,195
Sebang Steel	-	-	13,094	-
SHANGHAI WAIGAOQIAO FREE TRADE ZONE LANSHENG DAEWOO IN'L TRADING CO., LTD.	53,011	-	3,535	-
DMSA/AMSA	-	-	42,852	-
South-East Asia Gas Pipeline Company Ltd.	-	59,068	-	-
Others	117,700	2,874	13,065	422
	₩ 777,192	62,004	167,037	21,163

# POSCO and Subsidiaries

## Notes to the Condensed Consolidated Interim Financial Statements, Continued As of June 30, 2016 (Unaudited)

2) For the six-month period ended June 30, 2015

(in millions of Won)

	Sales and others		Purchase and others	
	Sales	Others	Purchase of material	Others
<b>Associates and joint ventures</b>				
SeAH Changwon Integrated Special Steel	₩ 16,087	-	19,001	1,982
New Songdo International City Development, LLC	248,012	-	-	85
SNNC	12,137	38	-	52,455
Posco e&c Songdo International Building	3,121	-	-	12,784
VSC POSCO Steel Corporation	13,054	-	2,071	2
USS-POSCO Industries	198,760	-	436	-
CSP - Companhia Siderurgica do Pecem	472,177	-	-	-
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd	44,499	-	43,069	-
BX STEEL POSCO Cold Rolled Sheet Co., Ltd.	-	-	11,874	-
POS-SEAHSTEELWIRE(TIANJIN)CO.,Ltd	5,521	-	-	-
POSCO SeAH Steel Wire(Nantong) Co., Ltd.	15,487	-	-	-
Zhangjiagang Pohang Refractories Co., Ltd.	472	8	11,601	637
Sebang Steel	-	-	16,063	-
SHANGHAI WAIGAOQIAO FREE TRADE ZONE LANSHENG DAEWOO IN'L TRADING CO., LTD.	90,686	-	3,040	3,189
DMSA/AMSA	7	4,530	-	-
South-East Asia Gas Pipeline Company Ltd.	-	14,597	-	-
Others	114,324	702	5,794	2,334
	₩ 1,234,344	19,875	112,949	73,468

# POSCO and Subsidiaries

## Notes to the Condensed Consolidated Interim Financial Statements, Continued As of June 30, 2016 (Unaudited)

(e) Significant transactions between the Company, excluding the controlling company, and related companies for the three-month periods ended June 30, 2016 and 2015 were as follows:

### 1) For the three-month period ended June 30, 2016

(in millions of Won)

	Sales and others		Purchase and others	
	Sales	Others	Purchase of material	Others
<b>Associates and joint ventures</b>				
SeAH Changwon Integrated Special Steel	₩ 7,482	-	9,978	-
POSCO PLANTEC Co., Ltd.	3,302	-	1,565	465
New Songdo International City Development, LLC	79,921	-	-	-
SNNC	3,606	-	8,284	4,709
Posco e&c Songdo International Building	1,411	-	-	6,423
CHUNCHEON ENERGY CO., LTD	87,169	-	-	-
VSC POSCO Steel Corporation	14,646	48	61	-
USS-POSCO Industries	96,067	-	334	-
CSP - Companhia Siderurgica do Pecem	(80,089)	-	-	-
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd	16,112	-	15,884	-
BX STEEL POSCO Cold Rolled Sheet Co., Ltd.	-	-	7,379	-
POS-SEAHSTEELWIRE(TIANJIN)CO.,Ltd	3,007	-	-	-
POSCO SeAH Steel Wire(Nantong) Co., Ltd.	6,547	-	5	-
Zhangjiagang Pohang Refractories Co., Ltd.	33	-	22	646
Sebang Steel	-	-	7,884	-
SHANGHAI WAIGAOQIAO FREE TRADE ZONE LANSHENG DAEWOO IN'L TRADING CO., LTD.	30,827	-	419	-
DMSA/AMSA	-	-	12,485	-
South-East Asia Gas Pipeline Company Ltd.	-	7,143	-	-
Others	62,679	595	7,169	275
	₩ 332,720	7,786	71,469	12,518

# POSCO and Subsidiaries

## Notes to the Condensed Consolidated Interim Financial Statements, Continued As of June 30, 2016 (Unaudited)

2) For the three-month period ended June 30, 2015

(in millions of Won)

(in millions of Won)

	Sales and others		Purchase and others		
	Sales	Others	Purchase of material	Others	
<b>Associates and joint ventures</b>					
SeAH Changwon Integrated Special Steel	₩	16,087	-	19,001	1,982
New Songdo International City Development, LLC		139,830	-	-	64
SNNC		3,529	-	-	5,618
Posco e&c Songdo International Building		1,568	-	-	6,401
VSC POSCO Steel Corporation		10,417	-	874	-
USS-POSCO Industries		78,362	-	364	-
CSP - Companhia Siderurgica do Pecem		214,432	-	-	-
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd		18,652	-	38,156	-
BX STEEL POSCO Cold Rolled Sheet Co., Ltd.		-	-	9,217	-
POS-SEAHSTEELWIRE(TIANJIN)CO.,Ltd		2,587	-	-	-
POSCO SeAH Steel Wire(Nantong) Co., Ltd.		9,316	-	-	-
Zhangjiagang Pohang Refractories Co., Ltd.		167	1	5,991	637
Sebang Steel		-	-	6,771	-
SHANGHAI WAIGAOQIAO FREE TRADE ZONE LANSHENG DAEWOO IN'L TRADING CO., LTD.		32,300	-	3,040	3,189
DMSA/AMSA		-	4,530	-	-
South-East Asia Gas Pipeline Company Ltd.		-	7,206	-	-
Others		105,650	141	5,693	1,489
	₩	632,897	11,878	89,107	19,380

(f) The related account balances of significant transactions between the Company, excluding the controlling company, and related companies as of June 30, 2016 and December 31, 2015 are as follows:

1) June 30, 2016

(in millions of Won)

(in millions of Won)

		Receivables				Payables		
		Trade accounts and notes receivable	Loans	Others	Total	Trade accounts and notes payable	Others	Total
Associates and joint ventures								
SeAH Changwon Integrated Special Steel	₩	5,841	-	-	5,841	2,929	-	2,929
POSCO PLANTEC Co., Ltd.		2,409	-	6	2,415	1,606	9,424	11,030
New Songdo International City Development, LLC		154,145	-	5,725	159,870	-	-	-
Posco e&c Songdo International Building		5,769	298,865	-	304,634	-	-	-
CHUNCHEON ENERGY CO., LTD		79,869	-	-	79,869	-	11,578	11,578
VSC POSCO Steel Corporation		12,055	-	-	12,055	34	-	34
USS-POSCO Industries		96,604	-	-	96,604	332	-	332
Nickel Mining Company SAS		140	58,235	97	58,472	-	-	-
AN KHANH NEW CITY DEVELOPMENT J.V CO., LTD.		64,024	58,235	673	122,932	-	1,386	1,386
CSP - Companhia Siderurgica do Pecem		418,237	-	119,551	537,788	-	213,132	213,132
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd		4,595	10,715	61	15,371	2,904	-	2,904
PT. Batutua Tembaga Raya		-	36,601	-	36,601	-	-	-
POSCO SeAH Steel Wire(Nantong) Co., Ltd.		5,565	9,900	53	15,518	28	4	32
SHANGHAI WAIGAOQIAO FREE TRADE ZONE LANSHENG DAEWOO IN'L TRADING CO., LTD.		80,414	-	-	80,414	-	-	-
DMSA/AMSA		-	81,063	-	81,063	2,561	-	2,561
South-East Asia Gas Pipeline Company Ltd.		-	281,526	-	281,526	-	-	-
Others		178,115	57,578	12,112	247,805	5,824	785	6,609
	₩	1,107,782	892,718	138,278	2,138,778	16,218	236,309	252,527

# POSCO and Subsidiaries

## Notes to the Condensed Consolidated Interim Financial Statements, Continued

### As of June 30, 2016

#### (Unaudited)

2) December 31, 2015

(in millions of Won)

(in millions of Won)		Receivables				Payables		
		Trade accounts and notes receivable	Loans	Others	Total	Trade accounts and notes payable	Others	Total
Associates and joint ventures								
SeAH Changwon Integrated Special Steel	₩	8,721	-	-	8,721	3,489	19	3,508
POSCO PLANTEC Co., Ltd.		9,853	-	6	9,859	6,263	8,908	15,171
New Songdo International City Development, LLC		168,646	-	25,964	194,610	-	14	14
Posco e&c Songdo International Building		5,821	-	-	5,821	-	-	-
VSC POSCO Steel Corporation		17,283	-	-	17,283	34	-	34
USS-POSCO Industries		170,170	-	-	170,170	9	-	9
Nickel Mining Company SAS		2,353	17,580	67	20,000	-	-	-
AN KHANH NEW CITY DEVELOPMENT J.V CO., LTD.		63,132	58,600	642	122,374	-	3,982	3,982
CSP - Companhia Siderurgica do Pecem		410,005	-	118,112	528,117	-	138,111	138,111
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd		9,455	10,782	6	20,243	3,999	-	3,999
PT. Batutua Tembaga Raya		-	36,830	-	36,830	-	-	-
POSCO SeAH Steel Wire(Nantong) Co., Ltd.		8,961	11,720	48	20,729	4	-	4
SHANGHAI WAIGAOQIAO FREE TRADE ZONE LANSHENG DAEWOO IN'L TRADING CO., LTD.		90,195	-	-	90,195	921	-	921
DMSA/AMSA		-	99,854	-	99,854	-	-	-
South-East Asia Gas Pipeline Company Ltd.		-	283,954	-	283,954	-	-	-
Others		192,621	52,034	13,648	258,303	12,591	21,181	33,772
	₩	1,157,216	571,354	158,493	1,887,063	27,310	172,215	199,525

(g) The details of significant financial transactions between the Company, excluding the controlling company, and related companies for the six-month period ended June 30, 2016 and the year ended December 31, 2015 were as follows:

1) For the six-month period ended June 30, 2016

(in millions of Won)

		Beginning	Loan	Collection	Others(*2)	Ending
<b>Associates and joint ventures</b>						
MTAPOLIS Co.,Ltd.	₩	26,000	-	-	-	26,000
Posco e&c Songdo International Building		-	298,865	-	-	298,865
DMSA/AMSA(*1)		99,854	5,745	-	(24,536)	81,063
South-East Asia Gas Pipeline Company Ltd.		283,954	28,681	(29,350)	(1,759)	281,526
PT. Batutua Tembaga Raya		-	36,830	-	(229)	36,601
PT. Tanggamus Electric Power		2,359	-	-	(15)	2,344
PT. Wampu Electric Power		4,454	-	-	(28)	4,426
PT. POSMI Steel Indonesia		4,688	-	-	(29)	4,659
Nickel Mining Company SAS		17,580	41,362	-	(707)	58,235
POSK(Pinghu) Steel Processing Center Co., Ltd.		5,743	5,791	-	(120)	11,414
AN KHANH NEW CITY DEVELOPMENT J.V CO., LTD.		58,600	-	-	(365)	58,235
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd		10,782	-	-	(67)	10,715
Hamparan Mulia		3,516	-	-	(22)	3,494
POS-SEAHSTEELWIRE(TIANJIN)CO.,Ltd		5,274	-	-	(33)	5,241
POSCO SeAH Steel Wire(Nantong) Co., Ltd.		11,720	-	(1,773)	(47)	9,900
	₩	571,354	380,444	(31,123)	(27,957)	892,718

(\*1) During the period ended June 30, 2016, loans amounting to ₩24,624 million have been converted to shares of DMSA/AMSA, and its amount is included in others.

(\*2) Includes adjustments of foreign currency translation differences and others.

# POSCO and Subsidiaries

## Notes to the Condensed Consolidated Interim Financial Statements, Continued As of June 30, 2016 (Unaudited)

2) For the year ended December 31, 2015

(in millions of Won)

	Beginning	Loan	Collection	Others(*2)	Ending
<b>Associates and joint ventures</b>					
MTAPOLIS Co., Ltd.	₩ 26,000	-	-	-	26,000
DMSA/AMSA(*1)	140,544	21,653	-	(62,343)	99,854
South-East Asia Gas Pipeline Company Ltd.	295,352	-	(29,885)	18,487	283,954
PT. Batutua Tembaga Raya	34,342	-	-	2,488	36,830
PT. Tanggamus Electric Power	1,733	493	-	133	2,359
PT. Wampu Electric Power	-	4,299	-	155	4,454
VSC POSCO Steel Corporation	2,024	-	(2,024)	-	-
PT. POSMI Steel Indonesia	4,397	-	-	291	4,688
Nickel Mining Company SAS	16,488	-	-	1,092	17,580
POSK(Pinghu) Steel Processing Center Co., Ltd.	10,772	-	(5,543)	514	5,743
AN KHANH NEW CITY DEVELOPMENT					
J.V CO., LTD.	54,960	-	-	3,640	58,600
Zhongyue POSCO (Qinhuangdao)					
Tinplate Industrial Co., Ltd	11,212	-	(1,132)	702	10,782
Hamparan Mulia	3,298	-	-	218	3,516
POS-SEAHSTEELWIRE(TIANJIN)CO.,Ltd	4,946	-	-	328	5,274
POSCO SeAH Steel Wire(Nantong) Co., Ltd.	10,992	-	-	728	11,720
	₩ 617,060	26,445	(38,584)	(33,567)	571,354

(\*1) During the period ended December 31, 2015, loans amounting to ₩72,430 million have been converted to shares of DMSA/AMSA, and its amount is included in others.

(\*2) Includes adjustments of foreign currency translation differences and others.

(h) For the six-month periods ended June 30, 2016 and 2015, details of compensation to key management officers were as follows:

(in millions of Won)

	June 30, 2016	June 30, 2015
Short-term benefits	₩ 47,077	55,550
Retirement benefits	9,480	13,119
Long-term benefits	8,869	9,728
	₩ 65,426	78,397

Key management officers include directors (including non-standing directors), executive officials and fellow officials who have significant influence and responsibilities in the Company's business and operations.

# POSCO and Subsidiaries

## Notes to the Condensed Consolidated Interim Financial Statements, Continued

### As of June 30, 2016

#### (Unaudited)

## 34. Commitments and Contingencies

### (a) Details of guarantees

Contingent liabilities on outstanding guarantees provided by the Company as of June 30, 2016, are as follows:

(in millions of Won)			Guarantee limit		Guarantee amount			
Guarantor	Guarantee beneficiary	Financial institution	Foreign currency	Won equivalent	Foreign currency	Won equivalent		
[The Company] POSCO	POSCO ASSAN TST STEEL INDUSTRY	SMBC and others	USD	146,527,500	170,660	USD	131,874,750	153,594
	POSCO COATED STEEL (THAILAND) CO., LTD.	The Great & Co Co., Ltd.(SPC)	THB	5,501,000,000	182,358	THB	5,501,000,000	182,358
	POSCO Electrical Steel India Private Limited	ING and others	USD	83,784,000	97,583	USD	83,784,000	97,583
	POSCO Asia Co., Ltd.	HSBC and others	USD	150,000,000	174,705	USD	150,000,000	174,705
	POSCO Maharashtra Steel Private Limited	Export-Import Bank of Korea and others	USD	566,069,000	659,301	USD	409,955,200	477,475
	POSCO MEXICO S.A. DE C.V.	HSBC and others	USD	284,725,000	331,619	USD	174,725,000	203,502
	POSCO SS-VINA	Export-Import Bank of Korea and others	USD	354,351,050	412,713	USD	354,351,050	412,713
	POSCO VST CO., LTD.	ANZ and others	USD	65,000,000	75,706	USD	32,500,000	37,853
	POSCO(Guangdong) Automotive Steel Co., Ltd.	SMBC and others	USD	65,000,000	75,706	USD	65,000,000	75,706
	POSCO-VIETNAM Co., Ltd.	Export-Import Bank of Korea	USD	196,000,000	228,281	USD	196,000,000	228,281
	PT. KRAKATAU POSCO	Export-Import Bank of Korea and others	USD	1,350,300,000	1,572,694	USD	1,222,747,825	1,424,134
	Zhangjiagang Pohang Stainless Steel Co., Ltd.	Korea Development Bank and others	CNY	1,084,955,000	189,509	CNY	1,084,955,000	189,509
POSCO DAEWOO Corporation (formerly, Daewoo International Corporation)	POSCO DAEWOO INDIA PVT., LTD.	Shinhan Bank and others	USD	120,000,000	139,764	USD	63,669,840	74,156
	Daewoo Paper Manufacturing Co., Ltd.	HSBC	USD	12,500,000	14,559	USD	12,500,000	14,559
	DAEWOO TEXTILE BUKHARA LLC	Export-Import Bank of Korea	USD	10,000,000	11,647	USD	10,000,000	11,647
	POSCO ASSAN TST STEEL INDUSTRY PT. Bio Inti Agrindo	ING and others	USD	14,652,750	17,066	USD	14,652,750	17,066
		Export-Import Bank of Korea and others	USD	68,000,000	79,200	USD	68,000,000	79,200
POSCO ENGINEERING & CONSTRUCTION., LTD.	Daewoo Power PNG Ltd.	Export-Import Bank of Korea	USD	54,400,000	63,360	USD	36,000,000	41,929
	EPC EQUITIES LLP	SG BANK SEOUL and others	USD	59,000,000	68,717	USD	59,000,000	68,717
	HONG KONG POSCO E&C (CHINA) INVESTMENT Co.,Ltd.	Woori Bank and others	USD	147,000,000	171,211	USD	144,000,000	167,717
	POSCO E&C Vietnam Co., Ltd.	Export-Import Bank of Korea	USD	16,500,000	19,217	USD	16,500,000	19,217
	POSCO ENGINEERING & CONSTRUCTION DO BRAZIL LTDA.	HSBC	USD	100,000,000	116,470	USD	100,000,000	116,470
POSCO ICT	SANTOS CMI INC. USA	Citi New York	USD	8,000,000	9,318	USD	8,000,000	9,318
	SANTOS CMI S.A.	Citi Ecuador	USD	3,000,000	3,494	USD	3,000,000	3,494
	PT.POSCO ICT INDONESIA	POSCO Asia Co., Ltd.	USD	2,100,000	2,446	USD	2,100,000	2,446
	POSCO Engineering CO.,Ltd	POSCO ENGINEERING (THAILAND) CO., LTD.	USD	16,000,000	18,635	USD	16,000,000	18,635
		PT PEN INDONESIA	POSCO Asia Co., Ltd.	USD	5,000,000	5,823	USD	5,000,000
POSCO M-TECH	PT. POSCO MTECH INDONESIA	POSCO Asia Co., Ltd.	USD	12,500,000	14,559	USD	12,500,000	14,559
POSCO CHEMTECH	KRAKATAU POS-CHEM DONG-SUH CHEMICAL	Hana Bank	USD	5,883,750	6,853	USD	3,731,751	4,346
POSCO Processing&Service	PT.Krakatau Posco Chemtech Calcination	KEB Bank	USD	33,600,000	39,134	USD	26,352,941	30,693
	POSCO Canada Ltd.	Korea Development Bank	USD	8,739,150	10,178	USD	8,323,000	9,694
	POSCO Gulf SFC LLC	KEB Bank and others	USD	33,000,000	38,435	USD	29,500,000	34,359
	Pos-Sea Pte Ltd	Woori Bank	USD	20,000,000	23,294	USD	6,350,000	7,396
	DAEWOO TEXTILE BUKHARA LLC	National Bank of Uzbekistan	USD	6,127,060	7,136	USD	6,127,060	7,136
DAEWOO TEXTILE FERGANA LLC	Bukhara TEX	USD	2,215,053	2,580	USD	2,215,053	2,580	
POSCO E&C CHINA CO., Ltd.	HONG KONG POSCO E&C (CHINA) INVESTMENT Co., Ltd.	Woori Bank	USD	17,000,000	19,800	USD	17,000,000	19,800
POSCO-China Holding Corp.	DONG FANG JIN HONG	Bank of Communications and others	CNY	1,850,000,000	323,140	CNY	1,525,992,037	266,545
POSCO JAPAN Co., Ltd.	POSCO-JWPC Co., Ltd.	Higo Bank and others	JPY	669,400,000	7,579	JPY	669,400,000	7,579
SANTOS CMI S.A.	COMPANIADEAUTOMATIZACION &CONTROL, GENESYS S.A.	Banco de Guayaquil and others	USD	670,000	780	USD	570,000	664
POSCO COATED & COLOR STEEL Co., Ltd.	Myanmar POSCO C&C Company, Limited.	POSCO Asia Co., Ltd. and others	USD	13,986,947	16,291	USD	13,986,947	16,291
POSCO ENERGY CO., LTD.	PT. KRAKATAU POSCO ENERGY	Export-Import Bank of Korea and others	USD	193,900,000	225,835	USD	161,642,558	188,265
POSCO-India Pune Processing Center. Pvt. Ltd.	POSCO India Steel Distribution Center Private Ltd.	HSBC	INR	13,600,000	235	INR	13,600,000	235

# POSCO and Subsidiaries

## Notes to the Condensed Consolidated Interim Financial Statements, Continued As of June 30, 2016 (Unaudited)

(in millions of Won)			Guarantee limit		Guarantee amount			
Guarantors	Guarantee beneficiary	Financial institution	Foreign currency	Won equivalent	Foreign currency	Won equivalent		
<b>[Associates and joint ventures]</b>								
POSCO	CSP - Companhia Siderurgica do Pecem	Export-Import Bank of Korea and others	USD	420,000,000	489,174	USD	405,416,944	472,189
		BNDES	BRL	464,060,000	166,806	BRL	348,349,782	125,214
	LLP POSUK Titanium	KB Bank	USD	15,000,000	17,471	USD	15,000,000	17,471
POSCO DAEWOO Corporation	GLOBAL KOMSCO Daewoo LLC	ICBC and others	USD	10,325,000	12,026	USD	8,225,000	9,580
(formerly, Daewoo International Corporation)	Yulchon Mexico S.A de C.V	Shinhan Bank	USD	480,000	559	USD	400,000	466
POSCO ENGINEERING & CONSTRUCTION., LTD.	New Songdo International City Development, LLC	Others	KRW	340,000	340,000	KRW	334,200	334,200
POSCO ICT	Incheon-Gimpo Expressway Co., Ltd	Korea Development Bank	KRW	100,000	100,000	KRW	100,000	100,000
	UITrans LRT Co., Ltd.	KB Bank	KRW	76,000	76,000	KRW	76,000	76,000
POSCO CHEMTECH	PT.INDONESIA POS							
	CHEMTECH CHOSUN Ref	KEB Bank	USD	4,500,000	5,241	USD	4,500,000	5,241
Daewoo (China) Co., Ltd.	SHANGHAI LANSHENG DAEWOO CORP.	Bank of Communications	CNY	30,000,000	5,240	CNY	30,000,000	5,240
	SHANGHAI WAIGAOQIAO FREE TRADE ZONE LANSHENG DAEWOO IN'L TRADING CO., LTD.	Bank of Communications	CNY	50,000,000	8,733	CNY	50,000,000	8,733
<b>[Others]</b>								
POSCO DAEWOO Corporation	Ambatovy Project Investments Ltd. and others	Export-Import Bank of Korea	USD	87,272,727	101,646	USD	52,551,303	61,207
(formerly, Daewoo International Corporation)								
POSCO ENGINEERING & CONSTRUCTION., LTD.	Ecocity CO. LTD and others	Others	KRW	975,350	975,350	KRW	530,723	530,723
	THE GALE INVESTMENTS COMPANY, L.L.C.	Woori Bank	USD	50,000,000	58,235	USD	50,000,000	58,235
POSCO ICT	Hyochun CO., LTD	Daegu Bank and others	KRW	39,575	39,575	KRW	39,575	39,575
	SMS Energy and others	Hana Bank and others	KRW	123,880	123,880	KRW	105,289	105,289
	BLT Enterprise and others	Kyobo Life Insurance Co., Ltd and others	KRW	1,190,515	1,190,515	KRW	1,190,515	1,190,515
POSCO Engineering CO., Ltd	SAMJIN SOLAR ENERGY and others	Hana Bank and others	KRW	22,440	22,440	KRW	11,487	11,487
POSCO AUSTRALIA PTY LTD	Department of Trade and Investment (NSW Government)	Woori Bank	AUD	8,023,765	6,962	AUD	8,023,765	6,962
	PERPETUAL TRUSTEE COMPANY LIMITED	CBA	AUD	253,571	220	AUD	253,571	220
POSCO(Suzhou) Automotive Processing Center Co., Ltd.	POS INFRA AUTO	Korea Development Bank	USD	405,000	472	USD	405,000	472
			USD	4,833,513,987	5,629,594	USD	4,204,157,972	4,896,584
			KRW	2,867,660	2,867,660	KRW	2,387,789	2,387,789
			CNY	3,014,955,000	526,622	CNY	2,690,947,037	470,027
			THB	5,501,000,000	182,358	THB	5,501,000,000	182,358
			JPY	669,400,000	7,579	JPY	669,400,000	7,579
			AUD	8,277,336	7,182	AUD	8,277,336	7,182
			BRL	464,060,000	166,806	BRL	348,349,782	125,214
			INR	13,600,000	235	INR	13,600,000	235

- (b) POSCO ENGINEERING & CONSTRUCTION., LTD. has provided completion guarantees for Samsung C&T Corporation amounting to ₩1,007,107 million while Samsung C&T Corporation has provided construction guarantees or payment guarantees on customers' borrowings on behalf of POSCO ENGINEERING & CONSTRUCTION., LTD. amounting to ₩717,495 million as of June 30, 2016.



## POSCO and Subsidiaries

### Notes to the Condensed Consolidated Interim Financial Statements, Continued As of June 30, 2016 (Unaudited)

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#### (c) Other commitments

Details of other commitments of the Company as of June 30, 2016, are as follows:

Company	Description
POSCO	<p>POSCO entered into long-term contracts to purchase iron ore, coal, nickel and others. The contracts of iron ore and coal generally have terms of more than three years and the contracts of nickel have terms of more than one year. These contracts provide for periodic price adjustments based on the market price. As of June 30, 2016, 153 million tons of iron ore and 23 million tons of coal remained to be purchased under such long-term contracts.</p> <p>POSCO entered into an agreement with Tangguh Liquefied Natural Gas (LNG) Consortium in Indonesia to purchase 550 thousand tons of LNG annually for 20 years commencing in August 2005. The purchase price is subject to change, based on changes of the monthly standard oil price (JCC) and with a price ceiling.</p> <p>As of June 30, 2016, POSCO entered into commitments with Korea National Oil Corporation for long-term foreign currency borrowings, which are limited up to the amount of USD 8.25 million and USD 6.49 million. The borrowings are related to the exploration of gas hydrates in Namangan-Chust and the exploration of gas hydrates in Western Fergana-Chenavard, respectively. The repayment of the borrowings depends on the success of the projects. POSCO is not liable for the repayment of full or part of the money borrowed if the respective projects fail. POSCO has agreed to pay a certain portion of its profits under certain conditions, as defined by the borrowing agreements. As of June 30, 2016, the ending balance of the borrowings amount to USD 4.11 million.</p> <p>POSCO has provided a supplemental funding agreement to POSCO ENERGY CO., LTD., as the largest shareholder, at the request of the creditors including Norddeutsche Landesbank, to guarantee successful funding for construction of new power plant.</p>
POSCO ENGINEERING & CONSTRUCTION., LTD.	<p>As of June 30, 2016, POSCO ENGINEERING &amp; CONSTRUCTION., LTD. has comprehensive loan agreements of up to ₩203.5 billion and USD 218 million with Woori Bank. Also, POSCO E&amp;C has bank overdraft agreements of up to ₩20 billion with WooriBank which is included in the limit of comprehensive loan agreements.</p>
POSCO ICT	<p>As of June 30, 2016, in relation to contract enforcement, POSCO ICT Co., Ltd. was provided with ₩75,146 million and ₩56,431 million guaranties from Korea Software Financial Cooperative and Seoul Guarantee Insurance, respectively.</p>

## POSCO and Subsidiaries

### Notes to the Condensed Consolidated Interim Financial Statements, Continued As of June 30, 2016 (Unaudited)

#### (d) Litigation in progress

The Company is involved in 219 lawsuits and claims for alleged damages aggregating to ₩691.4 billion as defendant as of June 30, 2016, which arise from the ordinary course of business. The Company has recognized provisions amounting to ₩32.4 billion for 10 lawsuits based on its reliable estimate of outflow of resources. However, the Company has not recognized any provisions for other 119 lawsuits and claims since the Company believes that it does not have a present obligation as of June 30, 2016.

#### (e) Other contingencies

Company	Description
POSCO	POSCO has provided two blank checks to Korea Resources Corporation as collateral for long-term domestic borrowings, and has provided six blank promissory notes and three blank checks to Korea National Oil Corporation as collateral for long-term foreign currency borrowings.
POSCO DAEWOO Corporation (formerly, Daewoo International Corporation)	As of June 30, 2016, Daewoo International Corporation has provided thirty-five blank promissory notes and sixteen blank checks to Korea National Oil Corporation as collateral for the guarantee on performance for contracts and others.
POSCO ENGINEERING & CONSTRUCTION., LTD.	As of June 30, 2016, POSCO E&C has provided thirty-four blank checks and eight blank promissory notes as collateral for agreements and outstanding loans.
POSCO ICT	As of June 30, 2016, POSCO ICT has provided two blank promissory notes and sixteen blank checks to financial institutions as collateral for the guarantee on performance for contracts and others.

## 35. Cash Flows from Operating Activities

Adjustments for operating cash flows for the six-month periods ended June 30, 2016 and 2015 were as follows:

(in millions of Won)

	June 30, 2016	June 30, 2015
Trade accounts and notes receivable	₩ 391,793	731,556
Other receivables	132,397	333,630
Inventories	486,263	997,492
Other current assets	(219,003)	(31,932)
Other non-current assets	4,772	12,090
Trade accounts and notes payable	46,288	(543,579)
Other payables	(244,537)	(156,297)
Other current liabilities	197,655	(51,087)
Provisions	(28,592)	(98,564)
Payment of severance benefits	(97,697)	(114,644)
Plan assets	(49,992)	22,410
Other non-current liabilities	9,893	(24,258)
	₩ 629,240	1,076,817

# POSCO and Subsidiaries

## Notes to the Condensed Consolidated Interim Financial Statements, Continued As of June 30, 2016 (Unaudited)

### 36. Operating Segments

The Company's operating businesses are organized based on the nature of markets and customers. The Company has four reportable operating segments - steel, trading, construction and others. The steel segment includes production of steel products and revenue of such products. The trading segment consists of exporting and importing a wide range of steel products and raw materials that are both obtained from and supplied to POSCO, as well as between other suppliers and purchasers in Korea and overseas. The construction segment includes planning, designing and construction of industrial plants, civil engineering projects and commercial and residential buildings, both in Korea and overseas. Other segment includes power generation, liquefied natural gas production, network and system integration and logistics. The policies of classification and measurement on operating segments were the same as those that applied to the consolidated financial statements as of and for the year ended December 31, 2015.

Segment assets, liabilities and profit (loss) are measured based on separate financial statements in accordance with Korean International Financial Reporting Standard ("K-IFRS") of the subsidiaries that organize reportable operating segments.

(a) Information about reportable segments for the six-month periods ended June 30, 2016 and 2015 were as follows:

#### 1) For the six-month period ended June 30, 2016

<i>(in millions of Won)</i>		<b>Steel</b>	<b>Trading</b>	<b>Construction</b>	<b>Others</b>	<b>Total</b>
External revenues	₩	12,898,585	7,980,048	3,201,080	1,238,869	25,318,582
Internal revenues		7,762,035	4,278,103	374,046	1,163,873	13,578,057
Inter segment revenue		4,379,843	2,328,140	303,147	1,115,723	8,126,853
Total revenues		20,660,620	12,258,151	3,575,126	2,402,742	38,896,639
Segment profits (loss)		484,196	127,585	(199,535)	16,027	428,273

#### 2) For the six-month period ended June 30, 2015

<i>(in millions of Won)</i>		<b>Steel</b>	<b>Trading</b>	<b>Construction</b>	<b>Others</b>	<b>Total</b>
External revenues	₩	14,648,727	9,775,495	4,250,096	1,616,085	30,290,403
Internal revenues		8,620,111	4,306,312	745,678	1,358,963	15,031,064
Inter segment revenue		4,690,929	2,193,268	618,535	1,296,045	8,798,777
Total revenues		23,268,838	14,081,807	4,995,774	2,975,048	45,321,467
Segment profits (loss)		342,388	155,537	(213,421)	54,675	339,179

## POSCO and Subsidiaries

### Notes to the Condensed Consolidated Interim Financial Statements, Continued As of June 30, 2016 (Unaudited)

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(b) Reconciliations of total segment profit or loss, to their respective consolidated financial statement line items for the six-month periods ended June 30, 2016 and 2015 were as follows:

*(in millions of Won)*

		<b>June 30, 2016</b>	<b>June 30, 2015</b>
		<hr/>	<hr/>
Total profit for reportable segments	₩	428,273	339,179
Corporate fair value adjustments		(43,719)	(48,176)
Elimination of inter-segment profits		174,352	161,593
Income tax expense		254,442	455,019
Profit before income tax expense	₩	<hr/> 813,348 <hr/>	<hr/> 907,615 <hr/>