

POSCO

and Subsidiaries

Condensed Consolidated Interim Financial Statements
(Unaudited)
September 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 September 30, 2016, the condensed consolidated interim statements of comprehensive income (loss) for the three-month and nine-month periods ended September 30, 2016 and 2015, the condensed consolidated interim statements of changes in equity and cash flows for the nine-month periods ended September 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, users of this review report need to pay attention to the following key audit matters related to industry with production-to-order transactions.

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 nine-month period ended September 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 nine-month period ended September 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 were ₩258,444 million for the nine-month period ended September 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 nine-month period ended September 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 ₩258,444 million for the nine-month period ended September 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 September 30, 2016 and December 31, 2015, the amounts of due from customers for contract work are ₩958,548 million and ₩1,218,031 million, respectively, and it is approximately 11% and 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.

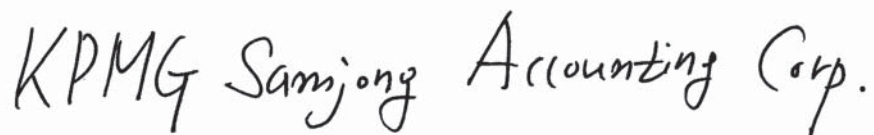
The following review procedures were performed regarding accounting of the variation of construction work and disclosures.

- 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.

A handwritten signature in black ink that reads "KPMG Samjong Accounting Corp." The signature is written in a cursive, flowing style.

Seoul, Korea
November 14, 2016

<p>This report is effective as of November 14, 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 September 30, 2016 and December 31, 2015
(Unaudited)

(in millions of Won)

	Notes	September 30, 2016	December 31, 2015
Assets			
Cash and cash equivalents	21 ₩	3,401,297	4,870,185
Trade accounts and notes receivable, net	4,21,26,33	8,655,473	9,595,935
Other receivables, net	5,21,33	1,490,450	1,679,879
Other short-term financial assets	6,21	4,702,226	3,910,387
Inventories	7	7,902,452	8,225,205
Current income tax assets		38,675	33,765
Assets held for sale	8	344,862	57,281
Other current assets	14	903,343	808,252
Total current assets		27,438,778	29,180,889
Long-term trade accounts and notes receivable, net	4,21	72,679	120,338
Other receivables, net	5,21	768,919	863,258
Other long-term financial assets	6,21	2,367,992	2,341,460
Investments in associates and joint ventures	9	3,875,882	3,945,333
Investment property, net	11	1,104,557	1,084,292
Property, plant and equipment, net	12	33,310,141	34,522,855
Intangible assets, net	13	6,200,707	6,405,754
Deferred tax assets		1,361,804	1,315,580
Other non-current assets	14,19	561,288	629,000
Total non-current assets		49,623,969	51,227,870
Total assets	₩	77,062,747	80,408,759

See accompanying notes to the condensed consolidated interim financial statements.

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

(in millions of Won)

	Notes	September 30, 2016	December 31, 2015
Liabilities			
Trade accounts and notes payable	21,33 ₩	2,944,571	3,125,348
Short-term borrowings and current installments of long-term borrowings	4,15,21	9,576,343	12,371,032
Other payables	16,21,33	1,833,345	2,129,093
Other short-term financial liabilities	17,21	105,866	202,117
Current income tax liabilities		293,751	377,962
Liabilities of disposal group held for sale	8	-	34,202
Provisions	18,34	149,737	102,320
Other current liabilities	20,26	2,041,300	1,788,852
Total current liabilities		16,944,913	20,130,926
Long-term trade accounts and notes payable	21	40,695	11,098
Long-term borrowings	15,21	12,184,842	12,849,199
Other payables	16,21	212,932	134,470
Other long-term financial liabilities	17,21	120,416	54,696
Defined benefit liabilities, net	19	289,290	182,025
Deferred tax liabilities		1,682,293	1,676,658
Long-term provisions	18,34	315,221	221,692
Other non-current liabilities	20	59,116	77,773
Total non-current liabilities		14,904,805	15,207,611
Total liabilities		31,849,718	35,338,537
Equity			
Share capital	22	482,403	482,403
Capital surplus	22	1,388,798	1,383,623
Hybrid bonds	23	996,919	996,919
Reserves	24	(677,376)	(594,756)
Treasury shares	25	(1,533,748)	(1,533,898)
Retained earnings		41,014,333	40,501,059
Equity attributable to owners of the controlling company		41,671,329	41,235,350
Non-controlling interests	23	3,541,700	3,834,872
Total equity		45,213,029	45,070,222
Total liabilities and equity	₩	77,062,747	80,408,759

See accompanying notes to the condensed consolidated interim financial statements.

POSCO and Subsidiaries

Condensed Consolidated Interim Statements of Comprehensive Income (Loss)

For the three-month and nine-month periods ended September 30, 2016 and 2015 (Unaudited)

(in millions of Won, except per share information)

	Notes	For the three-month periods ended September 30		For the nine-month periods ended September 30	
		2016	2015	2016	2015
Revenue	26,33,36	₩ 12,747,560	13,995,992	38,066,142	44,286,395
Cost of sales	7,26,30,33	(10,785,558)	(12,397,755)	(32,993,682)	(39,197,778)
Gross profit		1,962,002	1,598,237	5,072,460	5,088,617
Selling and administrative expenses	27,30				
Administrative expenses		(561,799)	(541,056)	(1,585,197)	(1,722,846)
Selling expenses		(365,907)	(405,269)	(1,114,688)	(1,296,274)
Operating profit		1,034,296	651,912	2,372,575	2,069,497
Share of profit (loss) of equity-accounted investees, net	9	(71,134)	(322,881)	90,622	(361,932)
Finance income and costs	21,28				
Finance income		585,673	926,715	1,674,086	2,023,457
Finance costs		(713,705)	(1,542,268)	(2,464,056)	(3,020,475)
Other non-operating income and expenses	29				
Other non-operating income		31,277	128,645	156,795	441,016
Other non-operating expenses	30	(203,063)	(617,789)	(353,331)	(1,019,615)
Profit (loss) before income tax	36	663,344	(775,666)	1,476,691	131,948
Tax benefit (expense)	31,36	(187,807)	117,425	(442,249)	(337,593)
Profit (loss)		475,537	(658,241)	1,034,442	(205,645)
Other comprehensive income (loss)					
Items that will not be reclassified subsequently to profit or loss:					
Remeasurements of defined benefit pension plans	19	14,057	(18,055)	(59,425)	(41,491)
Items that are or may be reclassified subsequently to profit or loss:					
Capital adjustment arising from investments in equity-accounted investees		(154,627)	42,061	(96,515)	(25,414)
Net changes in the unrealized fair value of available-for-sale investments	21	89,272	(169,320)	217,520	(195,970)
Foreign currency translation differences		(227,268)	118,240	(255,620)	122,765
Other comprehensive loss, net of tax		(278,566)	(27,074)	(194,040)	(140,110)
Total comprehensive income (loss)		₩ 196,971	(685,315)	840,402	(345,755)
Profit (loss) attributable to:					
Owners of the controlling company		₩ 545,689	(541,627)	1,197,014	(4,864)
Non-controlling interests		(70,152)	(116,614)	(162,572)	(200,781)
Profit (loss)		₩ 475,537	(658,241)	1,034,442	(205,645)
Total comprehensive income (loss) attributable to:					
Owners of the controlling company		₩ 301,715	(609,969)	1,062,204	(180,784)
Non-controlling interests		(104,744)	(75,346)	(221,802)	(164,971)
Total comprehensive income (loss)		₩ 196,971	(685,315)	840,402	(345,755)
Basic and diluted earnings (loss) per share (in Won)	32	6,717	(6,875)	14,653	(370)

See accompanying notes to the condensed consolidated interim financial statements.

POSCO and Subsidiaries

Condensed Consolidated Interim Statements of Changes in Equity

For the nine-month periods ended September 30, 2016 and 2015

(Unaudited)

(in millions of Won)

Balance as of January 1, 2015

Comprehensive income (loss):

Loss
Other comprehensive income (loss)
Remeasurements of defined benefit pension plans, net of tax
Capital adjustment arising from investments
in equity-accounted investees, net of tax
Net changes in the unrealized fair value
of available-for-sale investments, net of tax
Foreign currency translation differences, net of tax

Total comprehensive loss

Transactions with owners of the controlling company, recognized directly in equity:

Year-end dividends
Interim dividends
Changes in subsidiaries
Changes in ownership interests in subsidiaries
Interest of hybrid bonds
Disposal of treasury shares
Others

Total transactions with owners of the controlling company

Balance as of September 30, 2015

	Share capital	Capital surplus	Hybrid bonds	Reserves	Treasury shares	Retained earnings	Subtotal	Non-controlling interests	Total
₩	482,403	1,083,718	996,919	(408,773)	(1,534,457)	40,967,558	41,587,368	3,703,996	45,291,364
	-	-	-	-	-	(4,864)	(4,864)	(200,781)	(205,645)
	-	-	-	-	-	(39,267)	(39,267)	(2,224)	(41,491)
	-	-	-	(44,971)	-	-	(44,971)	19,557	(25,414)
	-	-	-	(193,956)	-	-	(193,956)	(2,014)	(195,970)
	-	-	-	102,274	-	-	102,274	20,491	122,765
	-	-	-	(136,653)	-	(44,131)	(180,784)	(164,971)	(345,755)
	-	-	-	-	-	(479,958)	(479,958)	(32,410)	(512,368)
	-	-	-	-	-	(159,987)	(159,987)	(67,700)	(227,687)
	-	-	-	-	-	-	-	(308,832)	(308,832)
	-	307,909	-	-	-	-	307,909	841,724	1,149,633
	-	-	-	-	-	(32,585)	(32,585)	(18,090)	(50,675)
	-	11	-	-	137	-	148	-	148
	-	692	-	1,891	-	(869)	1,714	1,443	3,157
	-	308,612	-	1,891	137	(673,399)	(362,759)	416,135	53,376
₩	482,403	1,392,330	996,919	(543,535)	(1,534,320)	40,250,028	41,043,825	3,955,160	44,998,985

See accompanying notes to the condensed consolidated interim financial statements.

POSCO and Subsidiaries

Condensed Consolidated Interim Statements of Changes in Equity, Continued

For the nine-month periods ended September 30, 2016 and 2015

(Unaudited)

(in millions of Won)

Balance as of January 1, 2016

Comprehensive income (loss):

Profit (loss)	₩	482,403	1,383,623	996,919	(594,756)	(1,533,898)	40,501,059	41,235,350	3,834,872	45,070,222
Other comprehensive income (loss)		-	-	-	-	-	1,197,014	1,197,014	(162,572)	1,034,442
Remeasurements of defined benefit pension plans, net of tax		-	-	-	-	-	(51,006)	(51,006)	(8,419)	(59,425)
Capital adjustment arising from investments in equity-accounted investees, net of tax		-	-	-	(80,192)	-	-	(80,192)	(16,323)	(96,515)
Net changes in the unrealized fair value of available-for-sale investments, net of tax		-	-	-	219,029	-	-	219,029	(1,509)	217,520
Foreign currency translation differences, net of tax		-	-	-	(222,641)	-	-	(222,641)	(32,979)	(255,620)

Total comprehensive income (loss)

	₩	-	-	-	(83,804)	-	1,146,008	1,062,204	(221,802)	840,402
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Transactions with owners of the controlling company,

recognized directly in equity:

Year-end dividends		-	-	-	-	-	(479,974)	(479,974)	(50,333)	(530,307)
Interim dividends		-	-	-	-	-	(119,994)	(119,994)	-	(119,994)
Changes in subsidiaries		-	-	-	-	-	-	-	6,898	6,898
Changes in ownership interests in subsidiaries		-	5,019	-	-	-	-	5,019	(5,982)	(963)
Interest of hybrid bonds		-	-	-	-	-	(32,724)	(32,724)	(18,156)	(50,880)
Disposal of treasury shares		-	6	-	-	150	-	156	-	156
Others		-	150	-	1,184	-	(42)	1,292	(3,797)	(2,505)

Total transactions with owners of the controlling company

	₩	-	5,175	-	1,184	150	(632,734)	(626,225)	(71,370)	(697,595)
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Balance as of September 30, 2016

	₩	482,403	1,388,798	996,919	(677,376)	(1,533,748)	41,014,333	41,671,329	3,541,700	45,213,029
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See accompanying notes to the condensed consolidated interim financial statements.

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

(in millions of Won)

	Note	September 30, 2016	September 30, 2015
Cash flows from operating activities			
Profit (loss)	₩	1,034,442	(205,645)
Adjustments for:			
Depreciation		2,142,737	2,095,456
Amortization		276,615	283,427
Finance income		(646,857)	(1,009,846)
Finance costs		1,354,590	1,950,651
Income tax expense		442,249	337,593
Impairment loss on property, plant and equipment		74,026	128,200
Gain on disposal of property, plant and equipment		(22,467)	(19,312)
Loss on disposal of property, plant and equipment		61,073	70,918
Impairment loss of intangible assets		14,660	114,074
Share of loss (profit) of equity-accounted investees		(90,622)	361,932
Impairment loss on assets held for sale		24,759	132,244
Gain on disposal of assets held for sale		(22,269)	(227,009)
Costs for defined benefit plans		219,713	188,045
Bad debt expenses		80,028	208,289
Loss on valuation of inventories		128,621	123,745
Contribution to provisions		152,143	53,936
Others, net		2,847	(22,527)
		<u>4,191,846</u>	<u>4,769,816</u>
Changes in operating assets and liabilities	35	759,528	1,961,949
Interest received		152,563	139,737
Interest paid		(472,339)	(591,912)
Dividends received		107,380	94,655
Income taxes paid		<u>(579,842)</u>	<u>(640,427)</u>
Net cash provided by operating activities	₩	<u>5,193,578</u>	<u>5,528,173</u>

See accompanying notes to the condensed consolidated interim financial statements.

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

(in millions of Won)

	Note	September 30, 2016	September 30, 2015
Cash flows from investing activities			
Acquisitions of short-term financial instruments	₩	(14,479,425)	(9,981,223)
Proceeds from disposal of short-term financial instruments		13,627,927	7,812,432
Increase in loans		(720,280)	(258,056)
Collection of loans		290,596	195,821
Acquisitions of available-for-sale investments		(87,081)	(65,334)
Proceeds from disposal of available-for-sale investments		24,208	169,280
Acquisitions of investment in associates and joint ventures		(169,084)	(62,794)
Proceeds from disposal of investment in associates and joint ventures		4,754	5,306
Acquisition of investment property		(36,012)	(64,265)
Proceeds from disposal of investment property		9,735	1,120
Acquisitions of property, plant and equipment		(1,991,060)	(2,021,288)
Proceeds from disposal of property, plant and equipment		36,020	62,941
Acquisitions of intangible assets		(106,826)	(250,838)
Proceeds from disposal of intangible assets		7,810	25,195
Proceeds from disposal of assets held for sale		174,993	121,002
Cash paid in acquisition of business, net of cash acquired		4,503	-
Cash received from disposal of business, net of cash transferred		17,021	436,257
Others, net		31,080	(29,604)
Net cash used in investing activities		(3,361,121)	(3,904,048)
Cash flows from financing activities			
Proceeds from borrowings		1,888,899	1,421,499
Repayment of borrowings		(3,520,653)	(2,008,296)
Repayment of short-term borrowings, net		(887,631)	(225,555)
Capital contribution from non-controlling interests and proceeds from disposal of subsidiary while maintaining control		24,422	1,249,743
Payment of cash dividends		(643,045)	(821,293)
Payment of interest of hybrid bonds		(51,135)	(50,824)
Other, net		(33,884)	(27,379)
Net cash used in financing activities		(3,223,027)	(462,105)
Effect of exchange rate fluctuation on cash held		(79,317)	59,331
Net increase (decrease) in cash and cash equivalents		(1,469,887)	1,221,351
Cash and cash equivalents at beginning of the period	8	4,871,184	4,022,136
Cash and cash equivalents at end of the period	₩	3,401,297	5,243,487

See accompanying notes to the condensed consolidated interim financial statements.

POSCO and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

As of September 30, 2016

(Unaudited)

1. General Information

General information about POSCO, its 39 domestic subsidiaries including POSCO ENGINEERING & CONSTRUCTION., LTD., 165 foreign subsidiaries including POSCO America Corporation (collectively, the "Company") and its 103 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 seven of its overseas liaison offices.

As of September 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 nine-month period ended September 30, 2016 were as follows:

Company	Date of inclusion	Ownership (%)	Reason
Daewoo Minerals Canada Corporation	March 2016	100.00	New establishment
POCA STEM Co., Ltd.	June 2016	100.00	Acquisition of control
Chongqing POSCO CISL Automotive Steel Co., Ltd.	July 2016	51.00	New establishment
Posco e&c Songdo International Building	September 2016	100.00	Transferred from associate to subsidiary

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

Company	Date of exclusion	Reason
Tamra 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 AST	July 2016	Merged into POSCO Processing&Service
KRAKATAU POS-CHEM DONG-SUH CHEMICAL	September 2016	Classified as an associate due to disposal of shares
Dalian POSCO ICT-DONGFANG Engineering Co., Ltd.	September 2016	Merged into POSCO ICT-China

POSCO and Subsidiaries

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

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 September 30, 2016 (Unaudited)

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 September 30, 2016 (Unaudited)

4. Trade Accounts and Notes Receivable

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

<i>(in millions of Won)</i>		September 30, 2016	December 31, 2015
Current			
Trade accounts and notes receivable	₩	8,127,299	8,953,245
Finance lease receivables		13,228	21,042
Due from customers for contract work		958,548	1,218,031
Less: Allowance for doubtful accounts		(443,602)	(596,383)
	₩	<u>8,655,473</u>	<u>9,595,935</u>
Non-current			
Trade accounts and notes receivable	₩	91,118	126,200
Finance lease receivables		13,928	22,758
Less: Allowance for doubtful accounts		(32,367)	(28,620)
	₩	<u>72,679</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 ₩284,584 million as of September 30, 2016. 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 September 30, 2016 and December 31, 2015 are as follows:

<i>(in millions of Won)</i>		September 30, 2016	December 31, 2015
Current			
Loans	₩	446,777	405,281
Other accounts receivable		1,065,616	1,255,075
Accrued income		117,435	136,762
Deposits		85,969	89,444
Others		23,065	20,383
Less: Allowance for doubtful accounts		(248,412)	(227,066)
	₩	<u>1,490,450</u>	<u>1,679,879</u>
Non-current			
Loans	₩	689,637	725,968
Other accounts receivable		113,771	142,290
Accrued income		1,876	1,236
Deposits		116,506	141,373
Less: Allowance for doubtful accounts		(152,871)	(147,609)
	₩	<u>768,919</u>	<u>863,258</u>

POSCO and Subsidiaries

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

6. Other Financial Assets

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

(in millions of Won)

		<u>September 30, 2016</u>	<u>December 31, 2015</u>
Current			
Derivatives assets	₩	53,549	94,603
Available-for-sale securities (bonds)		18,814	17,994
Current portion of held-to-maturity securities		921	21,490
Short-term financial instruments(*1,2)		4,628,942	3,776,300
	₩	<u>4,702,226</u>	<u>3,910,387</u>
Non-current			
Derivatives assets	₩	33,820	93,886
Available-for-sale securities (equity instruments)(*3,4)		2,175,716	2,095,206
Available-for-sale securities (bonds)		48,761	36,914
Available-for-sale securities (others)		66,717	59,630
Held-to-maturity securities		2,098	1,889
Long-term financial instruments(*2)		40,880	53,935
	₩	<u>2,367,992</u>	<u>2,341,460</u>

(*1) As of September 30, 2016 and December 31, 2015, ₩7,976 million and ₩6,593 million, respectively, are restricted for the use in a government project.

(*2) As of September 30, 2016 and December 31, 2015, financial instruments amounting to ₩84,598 million and ₩105,195 million, respectively, are restricted for use in financial arrangements, pledge and others.

(*3) During the nine-month period ended September 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 ₩229,923 million was recognized in profit or loss during the nine-month period ended September 30, 2016.

(*4) As of September 30, 2016 and December 31, 2015, ₩128,348 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 September 30, 2016 (Unaudited)

7. Inventories

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

<i>(in millions of Won)</i>		September 30, 2016	December 31, 2015
Finished goods	₩	1,167,398	1,381,018
Merchandise		762,257	715,951
Semi-finished goods		1,195,114	1,390,382
Raw materials		1,670,986	1,868,773
Fuel and materials		832,947	810,516
Construction inventories		985,169	828,071
Materials-in-transit		1,368,379	1,382,291
Others		93,317	79,581
		<u>8,075,567</u>	<u>8,456,583</u>
Less: Allowance for inventories valuation		<u>(173,115)</u>	<u>(231,378)</u>
	₩	<u><u>7,902,452</u></u>	<u><u>8,225,205</u></u>

The amounts of loss on valuation of inventories recognized within cost of sales during the nine-month period ended September 30, 2016 and the year ended December 31, 2015 were ₩128,621 million and ₩152,952 million, respectively.

POSCO and Subsidiaries

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

8. Assets Held for Sale

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

(in millions of Won)

	September 30, 2016			December 31, 2015		
	The controlling company(*1)	Subsidiaries (*2,3)	Total	The controlling company(*1)	Subsidiaries (*3,4)	Total
Assets						
Cash and cash equivalents(*5)	₩ -	-	-	-	999	999
Trade accounts and notes receivable and other receivables	-	-	-	-	7,724	7,724
Investment in associates	-	-	-	-	4,626	4,626
Property, plant and equipment	26,080	318,782	344,862	25,892	10,383	36,275
Others	-	-	-	-	7,657	7,657
	₩ 26,080	318,782	344,862	25,892	31,389	57,281
Liabilities						
Borrowings	₩ -	-	-	-	26,500	26,500
Others	-	-	-	-	7,702	7,702
	₩ -	-	-	-	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) During the nine-month period ended September 30, 2016, Posco e&c Songdo International Building, a subsidiary of the Company, determined to dispose of the Songdo office building of POSCO ENGINEERING & CONSTRUCTION., Ltd. and entered into a sales contract with Booyoung Housing Co., Ltd. on September 9, 2016. As a result, the Company classified them as assets held for sale and recognized ₩17,943 million of impairment loss on 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, POSCO ICT, POSCO Humans and SANTOS CMI Guatemala S.A.) 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 nine-month period ended September 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 nine-month period ended September 30, 2016.

POSCO and Subsidiaries

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

9. Investments in Associates and Joint Ventures

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

Company	September 30, 2016				December 31, 2015
	Number of shares	Ownership (%)	Acquisition cost	Book value	Book value
[Domestic]					
EQP POSCO Global NO1 Natural Resources PEF	178,713,975,892	28.93	₩ 178,787	₩ 175,475	175,676
SeAH Changwon Integrated Special Steel(*1,2)	-	-	-	-	165,754
POSCO PLANTEC CO., LTD(*2)	133,711,880	73.94	217,282	103,788	171,218
SNNC	18,130,000	49.00	90,650	102,628	111,326
QSONE Co., Ltd.	200,000	50.00	84,395	84,550	83,919
Chuncheon Energy Corp.	10,539,989	29.90	52,700	46,009	30,420
UITrans LRT Co., Ltd.(*3)	7,252,281	38.19	36,261	45,141	40,903
Incheon-Gimpo Expressway Co., Ltd(*3)	9,032,539	20.89	45,163	37,653	39,447
BLUE OCEAN Private Equity Fund	333	27.52	33,300	35,278	35,437
KoFC POSCO HANHWA KB Shared Growth NO. 2. Private Equity Fund(*5)	15,300	12.50	15,300	15,604	14,829
Keystone-HYUNDAI SECURITIES NO. 1. Private Equity Fund	13,800,000	40.45	13,800	13,261	13,015
Daesung Steel(*5)	108,038	17.54	14,000	13,170	14,000
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	5,462	5,775
Others (33 companies)(*3)				51,527	33,933
				<u>741,587</u>	<u>947,917</u>
[Foreign]					
South-East Asia Gas Pipeline Company Ltd.	135,219,000	25.04	150,779	199,571	222,269
AES-VCM Mong Duong Power Company Limited(*4)	-	30.00	74,161	130,536	153,271
7623704 Canada Inc.(*5)	114,452,000	10.40	124,341	124,848	134,034
Eureka Moly LLC	-	20.00	240,123	81,286	87,878
AMCI (WA) PTY LTD.	49	49.00	209,664	68,692	72,289
Nickel Mining Company SAS	3,234,698	49.00	157,585	60,289	76,445
KOREA LNG LTD.	2,400	20.00	135,205	51,584	53,548
NCR LLC	-	29.41	32,348	33,342	35,447
PT. Batutua Tembaga Raya	128,285	24.10	21,824	22,296	15,382
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd	10,200,000	34.00	9,517	16,865	19,311
PT. Wampu Electric Power(*3)	8,708,400	20.00	10,044	8,972	8,855
POSCO SeAH Steel Wire(Nantong) Co., Ltd.	50	25.00	4,723	6,221	7,061
Others (26 companies)(*3)				86,379	42,264
				<u>890,881</u>	<u>928,054</u>
				<u>₩ 1,632,468</u>	<u>1,875,971</u>

(*1) During the nine-month period ended September 30, 2016, the Company sold the security of SeAH Changwon Integrated Special Steel.

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

(*3) Investment in associates are provided as collateral related to associates' borrowings amounting to ₩151,822 million and ₩101,360 million as of September 30, 2016 and December 31, 2015, respectively.

(*4) As of September 30, 2016, the security of PSC Energy Global Co., Ltd is provided as collateral related to associates' borrowings.

(*5) As of September 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 September 30, 2016 (Unaudited)

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

(in millions of Won)

Company	September 30, 2016				December 31, 2015
	Number of shares	Ownership (%)	Acquisition cost	Book value	Book value
[Domestic]					
POSCO MITSUBISHI CARBON TECHNOLOGY	11,568,000	60.00	₩ 115,680	₩ 83,812	104,970
POSCO ES MATERIALS	1,000,000	50.00	43,000	37,018	38,447
				120,830	143,417
[Foreign]					
Roy Hill Holdings Pty Ltd.(*1)	13,117,972	12.50	1,528,672	1,157,876	1,153,434
POSCO-NPS Niobium LLC	325,050,000	50.00	364,609	356,444	381,461
CSP-Compania Siderurgica do Pecem	1,108,696,532	20.00	558,821	339,641	80,805
DMSA/AMSA(*2)	-	4.00	290,236	67,126	105,964
BX STEEL POSCO Cold Rolled Sheet Co., Ltd	-	25.00	61,961	92,459	100,908
KOBRASCO	2,010,719,185	50.00	32,950	72,692	78,364
Others (11 companies)				36,346	25,009
				2,122,584	1,925,945
				₩ 2,243,414	2,069,362

(*1) As of September 30, 2016 and December 31, 2015, investments in joint ventures amounting to ₩1,157,876 million and ₩1,153,434 million, respectively, are provided as collateral in relation to loan.

(*2) As of September 30, 2016 and December 31, 2015, investments in joint ventures amounting to ₩67,126 and ₩105,964 million, respectively, are provided as collateral for the Company's guarantees.

POSCO and Subsidiaries

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

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

1) For the nine-month period ended September 30, 2016

(in millions of Won)

Company		December 31, 2015 Book value	Acquisition	Dividend	Share of profits (losses)	Other increase (decrease)(*1)	September 30, 2016
[Domestic]							
EQP POSCO Global NO1 Natural Resources PEF	₩	175,676	222	-	(614)	191	175,475
SeAH Changwon Integrated Special Steel		165,754	-	-	4,797	(170,551)	-
POSCO PLANTEC CO., LTD		171,218	-	-	(67,108)	(322)	103,788
SNNC		111,326	-	-	(8,705)	7	102,628
QSONE Co., Ltd.		83,919	-	-	631	-	84,550
Chuncheon Energy Corp.		30,420	19,832	-	(4,243)	-	46,009
UITrans LRT Co., Ltd.		40,903	4,506	-	(224)	(44)	45,141
Incheon-Gimpo Expressway Co., Ltd		39,447	-	-	(2,223)	429	37,653
BLUE OCEAN Private Equity Fund		35,437	-	-	2,080	(2,239)	35,278
KoFC POSCO HANHWA KB Shared Growth NO. 2. Private Equity Fund		14,829	1,875	-	950	(2,050)	15,604
Keystone-HYUNDAI SECURITIES NO. 1. Private Equity Fund		13,015	-	-	246	-	13,261
Daesung Steel		14,000	-	-	(1,404)	574	13,170
CHUNGJU ENTERPRISE CITY DEVELOPMENT Co., Ltd.		12,265	-	-	(224)	-	12,041
KONES, Corp.		5,775	-	-	(313)	-	5,462
POSCO MITSUBISHI CARBON TECHNOLOGY		104,970	-	-	(21,158)	-	83,812
POSCO ES MATERIALS		38,447	-	-	(1,428)	(1)	37,018
Others (33 companies)		33,933	17,686	-	1,805	(1,897)	51,527
		<u>1,091,334</u>	<u>44,121</u>	<u>-</u>	<u>(97,135)</u>	<u>(175,903)</u>	<u>862,417</u>
[Foreign]							
South-East Asia Gas Pipeline Company Ltd.		222,269	-	(44,602)	35,512	(13,608)	199,571
AES-VCM Mong Duong Power Company Limited		153,271	-	-	20,093	(42,828)	130,536
7623704 Canada Inc.		134,034	-	(921)	410	(8,675)	124,848
Eureka Moly LLC		87,878	-	-	(14)	(6,578)	81,286
AMCI (WA) PTY LTD.		72,289	-	-	(2,305)	(1,292)	68,692
Nickel Mining Company SAS		76,445	-	-	(13,990)	(2,166)	60,289
KOREA LNG LTD.		53,548	-	(1,327)	4,782	(5,419)	51,584
NCR LLC		35,447	-	-	(19)	(2,086)	33,342
PT. Batutua Tembaga Raya		15,382	7,040	-	-	(126)	22,296
Zhongyue POSCO (Qinhuangdao)		-	-	-	-	-	-
Tinplate Industrial Co., Ltd		19,311	-	-	(448)	(1,998)	16,865
PT. Wampu Electric Power		8,855	-	-	677	(560)	8,972
POSCO SeAH Steel Wire(Nantong) Co., Ltd.		7,061	-	-	222	(1,062)	6,221
Roy Hill Holdings Pty Ltd		1,153,434	-	-	22,274	(17,832)	1,157,876
POSCO-NPS Niobium LLC		381,461	-	(10,893)	10,884	(25,008)	356,444
CSP - Companhia Siderurgica do Pecem		80,805	88,930	-	152,954	16,952	339,641
DMSA/AMSA		105,964	24,624	-	(57,146)	(6,316)	67,126
BX STEEL POSCO Cold Rolled Sheet Co., Ltd.		100,908	-	-	197	(8,646)	92,459
KOBRASCO		78,364	-	(29,297)	13,310	10,315	72,692
Others (37 companies)		67,273	28,993	(2,548)	364	28,643	122,725
		<u>2,853,999</u>	<u>149,587</u>	<u>(89,588)</u>	<u>187,757</u>	<u>(88,290)</u>	<u>3,013,465</u>
₩		<u>3,945,333</u>	<u>193,708</u>	<u>(89,588)</u>	<u>90,622</u>	<u>(264,193)</u>	<u>3,875,882</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 September 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
[Domestic]						
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>
[Foreign]						
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 September 30, 2016 (Unaudited)

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

1) September 30, 2016

(in millions of Won)

Company	Assets	Liabilities	Equity	Sales	Net income (loss)
[Domestic]					
EQP POSCO Global NO1 Natural Resources PEF ₩	597,015	844	596,171	-	(2,082)
POSCO PLANTEC CO., LTD	489,844	657,074	(167,230)	239,132	(32,712)
SNNC	727,559	498,676	228,883	371,465	(12,768)
QSONE Co., Ltd.	246,563	77,463	169,100	11,404	1,262
Chuncheon Energy Corp.	474,588	304,496	170,092	-	(2,849)
UITrans LRT Co., Ltd.	359,308	271,954	87,354	-	(586)
Incheon-Gimpo Expressway Co., Ltd	854,574	651,674	202,900	-	(1,391)
BLUE OCEAN Private Equity Fund	335,557	200,452	135,105	331,375	7,557
KoFC POSCO HANHWA KB Shared Growth NO. 2. Private Equity Fund	125,608	773	124,835	9,232	7,600
Keystone-HYUNDAI SECURITIES NO. 1. Private Equity Fund	87,526	50,711	36,815	-	609
Daesung Steel	163,784	120,084	43,700	35,916	(8,004)
CHUNGJU ENTERPRISE CITY DEVELOPMENT Co., Ltd.	144,836	134,372	10,464	2,945	(760)
KONES, Corp.	2,016	1,339	677	2,556	(751)
POSCO MITSUBISHI CARBON TECHNOLOGY	457,172	318,444	138,728	29,327	(35,272)
POSCO ES MATERIALS	81,741	39,261	42,480	25,507	(2,855)
[Foreign]					
South-East Asia Gas Pipeline Company Ltd.	1,985,962	1,185,810	800,152	366,416	141,814
7623704 Canada Inc.	1,212,794	176	1,212,618	-	21,752
Nickel Mining Company SAS	448,066	283,515	164,551	99,131	(36,025)
KOREA LNG LTD.	310,587	17,863	292,724	24,715	23,912
PT. Batutua Tembaga Raya	367,133	349,823	17,310	-	-
Zhongyue POSCO (Qinhuangdao)					
Tinplate Industrial Co., Ltd	80,204	24,793	55,411	86,655	(1,295)
PT. Wampu Electric Power	191,893	150,143	41,750	3,057	3,385
POSCO SeAH Steel Wire(Nantong) Co., Ltd.	59,584	33,680	25,904	57,228	865
Roy Hill Holdings Pty Ltd.	9,606,019	6,770,725	2,835,294	-	178,190
POSCO-NPS Niobium LLC	712,685	-	712,685	-	23,489
CSP - Companhia Siderurgica do Pecem	5,085,778	3,587,447	1,498,331	45,088	424,538
DMSA/AMSA	5,956,140	4,311,340	1,644,800	388,306	(438,451)
BX STEEL POSCO Cold Rolled Sheet Co., Ltd.	617,720	275,501	342,219	688,695	786
KOBRASCO	200,945	55,561	145,384	47,951	26,619

POSCO and Subsidiaries

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

2) December 31, 2015

(in millions of Won)

Company	Assets	Liabilities	Equity	Sales	Net income (loss)
[Domestic]					
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
[Foreign]					
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 September 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 September 30, 2016 (Unaudited)

11. Investment Property, Net

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

(a) For the nine-month period ended September 30, 2016

<i>(in millions of Won)</i>		Beginning	Acquisitions	Disposals	Depreciation	Others(*1)	Ending
Land	₩	346,879	23,797	(6,765)	-	32,622	396,533
Buildings		696,526	7,542	(2,835)	(17,898)	(19,806)	663,529
Structures		1,819	1	-	(189)	407	2,038
Construction-in-progress		39,068	7,498	-	-	(4,109)	42,457
	₩	<u>1,084,292</u>	<u>38,838</u>	<u>(9,600)</u>	<u>(18,087)</u>	<u>9,114</u>	<u>1,104,557</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>		Beginning	Acquisitions	Business combination	Disposals	Depreciation(*1)	Others(*2)	Ending
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 September 30, 2016 (Unaudited)

12. Property, Plant and Equipment, Net

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

(a) For the nine-month period ended September 30, 2016

(in millions of Won)

	Beginning	Acquisitions	Business combination	Disposals	Depreciation(*1)	Others(*2)	Ending
Land	₩ 2,572,807	6,648	13,967	(14,680)	-	(17,425)	2,561,317
Buildings	5,165,725	22,135	310,180	(10,588)	(271,993)	(296,022)	4,919,437
Structures	2,949,413	12,533	-	(799)	(159,955)	103,465	2,904,657
Machinery and equipment	21,093,743	123,124	-	(21,987)	(1,679,842)	668,573	20,183,611
Vehicles	52,005	7,736	63	(1,682)	(13,940)	3,042	47,224
Tools	73,478	11,106	-	(685)	(19,984)	1,626	65,541
Furniture and fixtures	148,099	17,734	1,629	(3,832)	(39,186)	(479)	123,965
Finance lease assets	92,796	79,803	-	(27)	(13,776)	1,710	160,506
Construction-in-progress	2,374,789	1,462,391	-	(610)	-	(1,492,687)	2,343,883
	₩ 34,522,855	1,743,210	325,839	(54,890)	(2,198,676)	(1,028,197)	33,310,141

(*1) Impairment losses on property, plant and equipment amounting to ₩74,026 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.

(b) For the year ended December 31, 2015

(in millions of Won)

	Beginning	Acquisitions	Business combination	Disposals	Depreciation(*1)	Others(*2)	Ending
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
	₩ 35,241,195	2,692,468	72,345	(138,033)	(2,947,272)	(397,848)	34,522,855

(*1) Impairment losses 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 September 30, 2016 (Unaudited)

13. Goodwill and Other Intangible Assets, Net

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

(a) For the nine-month period ended September 30, 2016

(in millions of Won)

	Beginning	Acquisitions	Disposals	Amortization	Impairment loss	Others(*2)	Ending
Goodwill	₩ 1,461,954	-	-	-	(860)	(888)	1,460,206
Intellectual property rights	2,667,086	20,563	(753)	(146,629)	(9,865)	20,817	2,551,219
Premium in rental(*1)	127,949	1,418	(7,237)	(151)	(1,437)	(1,936)	118,606
Development expense	135,796	775	-	(43,552)	-	26,518	119,537
Port facilities usage rights	264,801	-	-	(11,450)	-	7,033	260,384
Exploration and evaluation assets	151,144	37,830	-	-	-	(27,724)	161,250
Mining development assets	-	12,634	-	-	-	(12,634)	-
Customer relationships	559,809	-	-	(33,869)	-	(1,950)	523,990
Power generation permit	539,405	-	-	-	-	-	539,405
Other intangible assets	497,810	39,166	(978)	(40,964)	108	(29,032)	466,110
₩	6,405,754	112,386	(8,968)	(276,615)	(12,054)	(19,796)	6,200,707

(*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

(in millions of Won)

	Beginning	Acquisitions	Disposals	Amortization	Impairment loss	Others(*2)	Ending
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
₩	6,884,989	296,923	(16,087)	(381,583)	(161,157)	(217,331)	6,405,754

(*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 September 30, 2016 (Unaudited)

14. Other Assets

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

<i>(in millions of Won)</i>		September 30, 2016	December 31, 2015
Current			
Advance payment	₩	767,737	696,839
Prepaid expenses		133,049	107,379
Others		2,557	4,034
	₩	<u>903,343</u>	<u>808,252</u>
Non-current			
Long-term advance payment	₩	26,768	3,467
Long-term prepaid expenses		359,771	403,536
Net defined benefit assets		1,475	-
Others(*1)		173,274	221,997
	₩	<u>561,288</u>	<u>629,000</u>

(*1) As of September 30, 2016 and December 31, 2015, the Company recognized tax assets amounting to ₩116,098 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 September 30, 2016 (Unaudited)

15. Borrowings

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

<i>(in millions of Won)</i>	Bank	Interest rate (%)		September 30, 2016	December 31, 2015
Short-term borrowings					
Bank overdrafts	Bank of America and others	0.2~5.0	₩	97,854	129,891
Short-term borrowings	HSBC and others	0.2~10.8		6,954,109	8,285,869
				<u>7,051,963</u>	<u>8,415,760</u>
Current portion of long-term liabilities					
Current portion of long-term borrowings	Export-Import Bank of Korea and others	0.5~8.5		1,391,650	1,318,276
Current portion of foreign loan(*1)	NATIXIS	2.0		193	401
Current portion of debentures	Korea Development Bank and others	0.9~5.9		1,132,711	2,637,614
Less: Current portion of discount on debentures issued				(174)	(1,019)
				<u>2,524,380</u>	<u>3,955,272</u>
			₩	<u>9,576,343</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 September 30, 2016 and December 31, 2015 are as follows:

<i>(in millions of Won)</i>	Bank	Interest rate (%)		September 30, 2016	December 31, 2015
Long-term borrowings	Export-Import Bank of Korea and others	0.4~6.6	₩	6,034,809	6,814,753
Less: Present value discount				(61,420)	(76,828)
Foreign loan	-	-		-	200
Debentures	Korea Development Bank and others	1.2~6.3		6,231,021	6,134,132
Less: Discount on debentures issued				(19,568)	(23,058)
			₩	<u>12,184,842</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 ₩6,061,106 million, ₩13,098 million (73 sheets of note receivable), ₩59,374 million, ₩9,768 million, ₩59,711 million and ₩143,468 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 September 30, 2016 (Unaudited)

16. Other Payables

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

<i>(in millions of Won)</i>		September 30, 2016	December 31, 2015
Current			
Accounts payable	₩	829,111	983,408
Accrued expenses		674,572	759,598
Dividend payable		13,456	6,453
Finance lease liabilities		20,104	26,876
Withholdings		296,102	352,758
	₩	<u>1,833,345</u>	<u>2,129,093</u>
Non-current			
Long-term accounts payable	₩	6,084	22,665
Long-term accrued expenses		37,692	30,221
Finance lease liabilities		96,577	14,409
Long-term withholdings		72,579	67,175
	₩	<u>212,932</u>	<u>134,470</u>

17. Other Financial Liabilities

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

<i>(in millions of Won)</i>		September 30, 2016	December 31, 2015
Current			
Derivatives liabilities	₩	55,932	117,841
Financial guarantee liabilities		49,934	84,276
	₩	<u>105,866</u>	<u>202,117</u>
Non-current			
Derivatives liabilities	₩	81,942	37,661
Financial guarantee liabilities		38,474	17,035
	₩	<u>120,416</u>	<u>54,696</u>

POSCO and Subsidiaries

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

18. Provisions

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

(in millions of Won)

	September 30, 2016		December 31, 2015	
	Current	Non-current	Current	Non-current
Provision for bonus payments	₩ 28,563	-	42,602	-
Provision for construction warranties	7,661	81,302	10,656	70,790
Provision for legal contingencies and claims(*1)	3,144	54,635	-	52,610
Provision for restoration(*2)	15,863	59,703	15,569	26,357
Others(*3,4,5)	94,506	119,581	33,493	71,935
	₩ 149,737	315,221	102,320	221,692

(*1) The Company recognized probable outflow of resources amounting to ₩33,163 million and ₩32,220 million as provisions for legal contingencies and asserted claims in relation to lawsuits against the Company as of September 30, 2016 and December 31, 2015, respectively.

(*2) Due to contamination of land near the Company's magnesium smelting plant located in Gangneung province and gas treatment plant located in Pohang work, the Company recognized present values of estimated costs for recovery as provisions for restoration as of September 30, 2016. In order to determine the estimated costs, the Company used the assumption that it would use all of technologies and materials available for now to recover the land. In addition, the Company has applied discount rates of 2.01% and 1.65% to assess present value of these costs for recovery of land in Gangneung province and Pohang work, respectively.

(*3) As of September 30, 2016 and December 31, 2015, POSCO ENERGY CO., LTD., a subsidiary of the Company, recognized ₩80,542 million and ₩41,638 million of provisions for warranties, respectively, for the service contract on fuel cell based on its estimate of probable outflow of resources.

(*4) POSCO Engineering CO., Ltd., a subsidiary of the Company, announced the restructuring plan on September 30, 2016 and recognized expected outflow of restructuring amounting to ₩49,100 million as provisions as of September 30, 2016.

(*5) As of September 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 nine-month period ended September 30, 2016 and the year ended December 31, 2015 were as follows:

1) For the nine-month period ended September 30, 2016

(in millions of Won)

	Beginning	Increase	Utilization	Reversal	Others(*1)	Ending
Provision for bonus payments	₩ 42,602	29,154	(41,643)	(275)	(1,275)	28,563
Provision for construction warranties	81,446	22,890	(14,844)	(1,885)	1,356	88,963
Provision for legal contingencies and claims	52,610	7,535	-	(188)	(2,178)	57,779
Provision for restoration	41,926	40,749	(6,473)	-	(636)	75,566
Others	105,428	135,838	(24,261)	(3,696)	778	214,087
	₩ 324,012	236,166	(87,221)	(6,044)	(1,955)	464,958

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

POSCO and Subsidiaries

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

2) For the year ended December 31, 2015

(in millions of Won)

	Beginning	Increase	Utilization	Reversal	Others(*1)	Ending
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
	₩ 373,269	157,628	(155,651)	(25,798)	(25,436)	324,012

(*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 nine-month periods ended September 30, 2016 and 2015 were as follows:

(in millions of Won)

		For the three-month periods ended September 30		For the nine-month periods ended September 30	
		2016	2015	2016	2015
Expense related to post-employment benefit plans under defined contribution plans	₩	9,915	5,983	24,425	19,009

(b) Defined benefit plan

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

(in millions of Won)

		September 30, 2016	December 31, 2015
Present value of funded obligations	₩	1,836,206	1,702,735
Fair value of plan assets(*1)		(1,565,290)	(1,532,090)
Present value of non-funded obligations		18,374	11,380
Net defined benefit liabilities	₩	289,290	182,025

(*1) As of September 30, 2016, the Company recognized net defined benefit assets amounting to ₩1,475 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 September 30, 2016 (Unaudited)

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

<i>(in millions of Won)</i>		September 30, 2016	December 31, 2015
Defined benefit obligation at the beginning of period	₩	1,714,115	1,718,243
Current service costs		169,380	239,508
Interest costs		29,373	47,039
Remeasurements		75,161	(63,364)
Benefits paid		(131,126)	(157,983)
Others		(2,323)	(69,328)
Defined benefit obligation at the end of period	₩	<u>1,854,580</u>	<u>1,714,115</u>

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

<i>(in millions of Won)</i>		September 30, 2016	December 31, 2015
Fair value of plan assets at the beginning of period	₩	1,532,090	1,427,918
Interest on plan assets		28,140	41,145
Remeasurement of plan assets		(5,305)	(8,515)
Contributions to plan assets		135,832	243,082
Benefits paid		(116,015)	(127,808)
Others		(9,452)	(43,732)
Fair value of plan assets at the end of period	₩	<u>1,565,290</u>	<u>1,532,090</u>

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

<i>(in millions of Won)</i>		For the three-month periods ended September 30		For the nine-month periods ended September 30	
		2016	2015	2016	2015
Current service costs	₩	52,975	58,700	169,380	183,179
Net interest costs		192	1,733	1,233	4,866
	₩	<u>53,167</u>	<u>60,433</u>	<u>170,613</u>	<u>188,045</u>

POSCO and Subsidiaries

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

20. Other Liabilities

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

<i>(in millions of Won)</i>		September 30, 2016	December 31, 2015
Current			
Due to customers for contract work	₩	1,035,788	812,120
Advances received		809,912	780,357
Unearned revenue		10,208	11,684
Withholdings		167,258	153,562
Others		18,134	31,129
	₩	<u>2,041,300</u>	<u>1,788,852</u>
Non-current			
Unearned revenue		20,212	20,838
Others		38,904	56,935
	₩	<u>59,116</u>	<u>77,773</u>

21. Financial Instruments

(a) Classification of financial instruments

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

<i>(in millions of Won)</i>		September 30, 2016	December 31, 2015
Financial assets at fair value through profit or loss			
Derivatives assets	₩	87,369	188,489
Available-for-sale financial assets		2,310,008	2,209,744
Held-to-maturity investments		3,019	23,379
Loans and receivables		18,428,862	20,601,109
	₩	<u>20,829,258</u>	<u>23,022,721</u>

POSCO and Subsidiaries

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

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

<i>(in millions of Won)</i>	September 30, 2016	December 31, 2015
Financial liabilities at fair value through profit or loss		
Derivatives liabilities	₩ 137,874	155,502
Financial liabilities measured at amortized cost		
Trade accounts and notes payable	2,985,266	3,136,446
Borrowings	21,761,185	25,220,231
Financial guarantee liabilities	88,408	101,311
Others	1,843,189	2,197,463
	26,678,048	30,655,451
₩	26,815,922	30,810,953

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

① For the nine-month period ended September 30, 2016

<i>(in millions of Won)</i>	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	
Financial assets at fair value through profit or loss	₩ -	16,037	-	257,488	-	-	273,525
Available-for-sale financial assets	383	-	-	7,787	(229,923)	32,947	(188,806)
Held-to-maturity financial assets	229	-	-	-	-	29	258
Loans and receivables	140,784	-	(428,779)	(11,993)	-	(115)	(300,103)
Financial liabilities at fair value through profit or loss	-	(98,945)	-	(260,569)	-	-	(359,514)
Financial liabilities measured at amortized cost	(512,999)	-	311,821	(61)	-	(14,091)	(215,330)
₩	(371,603)	(82,908)	(116,958)	(7,348)	(229,923)	18,770	(789,970)
							217,520

② For the nine-month period ended September 30, 2015

<i>(in millions of Won)</i>	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	
Financial assets at fair value through profit or loss	₩ -	111,468	-	254,594	-	-	366,062
Available-for-sale financial assets	1,902	-	-	80,868	(93,874)	48,782	37,678
Held-to-maturity financial assets	347	-	-	-	-	(698)	(351)
Loans and receivables	158,697	-	432,904	(11,720)	-	(156)	579,725
Financial liabilities at fair value through profit or loss	-	(128,580)	-	(218,009)	-	-	(346,589)
Financial liabilities measured at amortized cost	(629,007)	-	(899,339)	-	-	(105,197)	(1,633,543)
₩	(468,061)	(17,112)	(466,435)	105,733	(93,874)	(57,269)	(997,018)
							(195,970)

POSCO and Subsidiaries

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

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

① For the three-month period ended September 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	₩ -	(3,963)	-	82,501	-	-	78,538	-
Available-for-sale financial assets	55	-	-	6,578	(4,249)	5,681	8,065	89,272
Held-to-maturity financial assets	41	-	-	-	-	10	51	-
Loans and receivables	48,637	-	(385,496)	(4,677)	-	(28)	(341,564)	-
Financial liabilities at fair value through profit or loss	-	(47,100)	-	(71,329)	-	-	(118,429)	-
Financial liabilities measured at amortized cost	(169,911)	-	420,775	-	-	(5,557)	245,307	-
	₩ (121,179)	(51,063)	35,279	13,073	(4,249)	106	(128,032)	89,272

② For the three-month period ended September 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	₩ -	38,618	-	111,618	-	-	150,236	-
Available-for-sale financial assets	453	-	-	23,108	(30,434)	1,775	(5,098)	(169,320)
Held-to-maturity financial assets	131	-	-	-	-	(716)	(585)	-
Loans and receivables	54,708	-	334,168	(3,543)	-	(72)	385,261	-
Financial liabilities at fair value through profit or loss	-	(65,660)	-	(109,569)	-	-	(175,229)	-
Financial liabilities measured at amortized cost	(204,606)	-	(713,903)	-	-	(51,629)	(970,138)	-
	₩ (149,314)	(27,042)	(379,735)	21,614	(30,434)	(50,642)	(615,553)	(169,320)

POSCO and Subsidiaries

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

(b) Fair value

1) Fair value and book value

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

(in millions of Won)

	September 30, 2016		December 31, 2015	
	Book value	Fair value	Book value	Fair value
Assets measured at fair value				
Available-for-sale financial assets(*1)	₩ 1,896,579	1,896,579	1,854,784	1,854,784
Derivatives assets(*2)	87,369	87,369	188,489	188,489
	<u>1,983,948</u>	<u>1,983,948</u>	<u>2,043,273</u>	<u>2,043,273</u>
Assets measured at amortized cost(*3)				
Cash and cash equivalents	3,401,297	3,401,297	4,870,185	4,870,185
Trade accounts and notes receivable, net	8,728,152	8,728,152	9,716,273	9,716,273
Loans and other receivables, net	6,299,413	6,299,413	6,014,651	6,014,651
Held-to-maturity financial assets	3,019	3,019	23,379	23,379
	<u>18,431,881</u>	<u>18,431,881</u>	<u>20,624,488</u>	<u>20,624,488</u>
Liabilities measured at fair value				
Derivatives liabilities(*2)	137,874	137,874	155,502	155,502
Liabilities measured at amortized cost(*3)				
Trade accounts and notes payable	2,985,266	2,985,266	3,136,446	3,136,446
Borrowings	21,761,185	22,195,937	25,220,231	25,413,577
Financial guarantee liabilities	88,408	88,408	101,311	101,311
Others	1,843,189	1,843,189	2,197,463	2,197,463
	<u>₩ 26,678,048</u>	<u>27,112,800</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 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 September 30, 2016 (Unaudited)

2) The fair value hierarchy

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

① September 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	₩ 1,584,628	-	311,951	1,896,579
Derivatives assets	-	71,507	15,862	87,369
	<u>₩ 1,584,628</u>	<u>71,507</u>	<u>327,813</u>	<u>1,983,948</u>
Financial liabilities				
Derivatives liabilities	₩ -	137,874	-	137,874

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 September 30, 2016 (Unaudited)

22. Share Capital and Capital Surplus

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

(in Won, except share information)

	September 30, 2016	December 31, 2015
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 September 30, 2016, total shares of ADRs of 51,622,460, outstanding in overseas stock market, are equivalent to 12,905,615 shares of common stock.

(*2) As of September 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 September 30, 2016 and December 31, 2015 are as follows:

(in millions of Won)

	September 30, 2016	December 31, 2015
Share premium	₩ 463,825	463,825
Gain on disposal of treasury shares	783,761	783,756
Other capital surplus	141,212	136,042
	₩ 1,388,798	1,383,623

POSCO and Subsidiaries

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

23. Hybrid Bonds

(a) Hybrid bonds classified as equity as of September 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>September 30, 2016</u>	<u>December 31, 2015</u>
Hybrid bond 1-1(*1)	2013-06-13	2043-06-13	4.30	₩	800,000	800,000
Hybrid bond 1-2(*1)	2013-06-13	2043-06-13	4.60		200,000	200,000
Issuance cost					(3,081)	(3,081)
				₩	<u>996,919</u>	<u>996,919</u>

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

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

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

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Notes to the Condensed Consolidated Interim Financial Statements, Continued As of September 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 September 30, 2016 and December 31, 2015 are as follows:

<i>(in millions of Won)</i>	Date of issue	Date of maturity	Interest rate (%)		September 30, 2016	December 31, 2015
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 September 30, 2016 are as follows:

<i>(in millions of Won)</i>	Hybrid bond 1-1	Hybrid bond 1-2 and 1-3	Hybrid bond 1-4
Issue price	165,000	195,000	140,000
Maturity date	30 years (The Company has a right to extend the maturity date)	30 years (The Company has a right to extend the maturity date)	30 years (The Company has a right to extend the maturity date)
Interest rate	Issue date ~ 2018-08-29 : 4.66% 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 September 30, 2016 amounts to ₩1,996 million.

24. Reserves

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

<i>(in millions of Won)</i>	September 30, 2016	December 31, 2015
Capital adjustment arising from investments in equity-accounted investees	₩ (506,552)	(426,360)
Net changes in unrealized fair value of available-for-sale investments	180,745	(38,294)
Foreign currency translation differences	(332,288)	(109,646)
Others	(19,281)	(20,456)
	₩ <u>(677,376)</u>	<u>(594,756)</u>

POSCO and Subsidiaries

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

25. Treasury Shares

As of September 30, 2016, the Company holds 7,190,484 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. The percentage-of-completion is determined by calculating total contract costs incurred for work performed to date divided by latest estimated total contract costs. 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 September 30, 2016 and December 31, 2015 are as follows:

(in millions of Won)

	September 30, 2016		December 31, 2015	
	Construction segment	Others	Construction segment	Others
Accumulated cost	₩ 21,480,296	339,173	18,786,683	311,726
Add: Accumulated profit	1,683,560	46,565	1,374,548	34,939
Less: Accumulated loss	(874,322)	(20,223)	(430,957)	(16,510)
Accumulated revenue	22,289,534	365,515	19,730,274	330,155
Less: Progress billings	(22,359,223)	(372,401)	(19,265,173)	(344,252)
Others	(6,615)	5,950	(24,967)	(20,126)
	₩ (76,304)	(936)	440,134	(34,223)

POSCO and Subsidiaries

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

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

(in millions of Won)

	September 30, 2016		December 31, 2015	
	Construction segment	Others	Construction segment	Others
Due from customers for contract work	898,960	59,588	1,157,617	60,414
Due to customers for contract work	(975,264)	(60,524)	(717,483)	(94,637)
	<u>(76,304)</u>	<u>(936)</u>	<u>440,134</u>	<u>(34,223)</u>

- (d) Details of the provisions of construction loss, the allowance for due from customers and the accounts receivable of construction as of September 30, 2016 and December 31, 2015 are as follows:

(in millions of Won)

	September 30, 2016	December 31, 2015
Construction segment	₩ 100,357	55,101
Others	1,599	1,380
	<u>₩ 101,956</u>	<u>56,481</u>

- (e) Due to the factors causing the variation of costs during the nine-month period ended September 30, 2016, the estimated total contract costs have changed. Details of changes in estimated total contract costs and the impact on profits or loss for the nine-month period ended September 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	₩	249,604	(469,549)	80,672	(388,877)
Others		8,840	(208)	8,041	7,833
	₩	<u>258,444</u>	<u>(469,757)</u>	<u>88,713</u>	<u>(381,044)</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 September 30, 2016, and the estimated contract revenue as of September 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 September 30, 2016 (Unaudited)

(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:

	Method of significant assumption
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 September 30, 2016 (Unaudited)

27. Selling and Administrative Expenses

(a) Administrative expenses

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

(in millions of Won)

	For the three-month periods ended September 30		For the nine-month periods ended September 30	
	2016	2015	2016	2015
Wages and salaries	₩ 179,111	208,589	572,342	617,202
Expenses related to post-employment benefits	68,938	20,766	114,893	64,850
Other employee benefits	43,271	44,492	133,068	155,070
Travel	9,020	11,927	29,514	35,912
Depreciation	26,058	25,316	78,064	82,270
Amortization	35,570	41,556	102,771	124,266
Communication	2,315	2,358	7,733	9,313
Electricity expenses	1,825	1,765	5,899	7,403
Taxes and public dues	20,188	10,250	60,674	52,684
Rental	11,748	24,794	62,582	93,875
Repairs	2,003	2,293	7,521	8,942
Entertainment	3,248	3,725	9,962	11,714
Advertising	27,914	20,177	65,629	65,567
Research & development	26,869	32,906	77,658	88,536
Service fees	48,979	32,013	133,053	156,500
Supplies	1,912	1,816	5,866	7,935
Vehicles maintenance	2,617	2,031	7,759	8,234
Industry association fee	4,623	2,152	11,244	10,439
Conference	2,956	3,414	9,698	12,200
Contribution to provisions	4,530	3,318	9,433	9,745
Bad debt expenses	31,010	40,372	56,734	74,817
Others	7,094	5,026	23,100	25,372
	₩ 561,799	541,056	1,585,197	1,722,846

(b) Selling expenses

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

(in millions of Won)

	For the three-month periods ended September 30		For the nine-month periods ended September 30	
	2016	2015	2016	2015
Freight and custody expenses	₩ 310,554	362,199	975,808	1,166,832
Operating expenses for distribution center	2,598	2,594	7,703	8,295
Sales commissions	24,463	15,829	66,813	47,717
Sales advertising	1,271	417	2,271	1,539
Sales promotion	2,539	5,740	7,270	16,147
Sample	411	707	1,828	2,027
Sales insurance premium	7,501	7,097	21,891	22,873
Contract cost	10,652	7,012	21,875	21,874
Others	5,918	3,674	9,229	8,970
	₩ 365,907	405,269	1,114,688	1,296,274

POSCO and Subsidiaries

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

28. Finance Income and Costs

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

(in millions of Won)

(in millions of Won)

		For the three-month periods ended September 30		For the nine-month periods ended September 30	
		2016	2015	2016	2015
Finance income					
Interest income	₩	48,733	55,292	141,396	160,946
Dividend income		5,681	1,775	32,947	48,782
Gain on foreign currency transactions		252,043	350,549	765,488	755,144
Gain on foreign currency translations		191,394	339,103	369,976	578,411
Gain on derivatives transactions		84,713	112,768	261,724	258,456
Gain on valuations of derivatives		(5,026)	41,236	89,543	129,080
Gain on disposals of available-for-sale financial assets		7,509	23,132	9,910	81,180
Others		626	2,860	3,102	11,458
	₩	585,673	926,715	1,674,086	2,023,457
Finance costs					
Interest expenses	₩	169,911	204,606	512,999	629,007
Loss on foreign currency transactions		284,755	397,872	823,046	819,932
Loss on foreign currency translations		123,403	671,515	429,376	980,058
Loss on derivatives transactions		73,541	110,728	264,805	221,882
Loss on valuation of derivatives		46,037	68,278	172,451	146,192
Impairment loss on available-for-sale financial assets		4,249	30,434	229,923	93,874
Others		11,809	58,835	31,456	129,530
	₩	713,705	1,542,268	2,464,056	3,020,475

POSCO and Subsidiaries

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

29. Other Non-Operating Income and Expenses

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

(in millions of Won)

	For the three-month periods ended September 30		For the nine-month periods ended September 30	
	2016	2015	2016	2015
Other non-operating income				
Gain on disposals of assets held for sale	₩ 85	7,829	22,269	227,009
Gain on disposals of investment in subsidiaries, associates and joint ventures	2,219	72,678	8,592	79,114
Gain on disposals of property, plant and equipment	4,532	4,493	22,467	19,312
Reversal of other bad debt expenses	6,554	(425)	12,653	20
Gain on insurance proceeds	3,888	2,138	18,087	8,887
Others	13,999	41,932	72,727	106,674
	₩ 31,277	128,645	156,795	441,016
Other non-operating expenses				
Impairment losses on assets held for sale	₩ 18,434	108,827	24,759	132,244
Loss on disposals of property, plant and equipment	17,111	12,655	61,073	70,918
Impairment loss on property, plant and equipment	66,736	56,292	74,026	128,200
Impairment loss on intangible assets	12,135	73,141	14,660	114,074
Contribution to provisions	388	(2,954)	20,033	3,645
Other bad debt expenses	27,406	50,452	35,947	133,492
Donations	5,625	11,729	23,797	36,659
Idle tangible assets expenses	1,444	2,967	3,867	10,448
Others(*1)	53,784	304,680	95,169	389,935
	₩ 203,063	617,789	353,331	1,019,615

(*1) The Company paid ₩299,037 million in connection with its settlement with Nippon Steel & Sumitomo Metal Corporation for a civil lawsuit regarding improperly acquired trade secrets and patents during the three-month and nine-month periods ended September 30, 2015.

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 nine-month periods September 30, 2016 and 2015 were as follows (excluding finance costs and income tax expense):

(in millions of Won)

	For the three-month periods ended September 30		For the nine-month periods ended September 30	
	2016	2015	2016	2015
Raw material used, changes in inventories and others	₩ 6,744,733	9,277,298	20,551,158	26,424,004
Employee benefits expenses	701,686	833,524	2,520,456	2,461,846
Outsourced processing cost	1,870,194	1,890,432	5,481,382	6,302,987
Electricity expenses	237,353	276,209	764,418	928,198
Depreciation(*1)	726,376	698,611	2,142,737	2,095,456
Amortization	92,170	96,930	276,615	283,427
Freight and custody expenses	310,554	362,199	975,808	1,166,832
Sales commissions	24,463	15,829	66,813	47,717
Loss on disposals of property, plant and equipment	17,111	12,655	61,073	70,918
Impairment loss on property, plant and equipment	66,736	56,292	74,026	128,200
Impairment loss on intangible assets	12,135	73,141	14,660	114,074
Contribution to provisions	55,043	26,777	152,143	53,936
Donations	5,625	11,729	23,797	36,659
Others	1,052,148	330,243	2,941,812	3,122,259
	₩ 11,916,327	13,961,869	36,046,898	43,236,513

(*1) Includes depreciation expense of investment property.

POSCO and Subsidiaries

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

31. Income Taxes

The effective tax rate of the Company for the nine-month periods ended September 30, 2016 and 2015 was 29.95% and 255.9%, respectively.

The effective tax rate for the nine-month period ended September 30, 2016 was higher than the statutory tax rate of 24% 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 nine-month period ended September 30, 2015 was higher than the statutory tax rate of 24% for the controlling company mainly due to the followings: 1) 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 2) 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 nine-month periods ended September 30, 2016 and 2015 were as follows:

		For the three-month periods ended September 30		For the nine-month periods ended September 30	
		2016	2015	2016	2015
(in Won, except per share information)					
Profit (loss) attributable to controlling interest	₩	545,688,730,131	(541,627,096,067)	1,197,013,746,434	(4,863,510,568)
Interests of hybrid bonds		(8,330,108,492)	(8,347,872,419)	(24,804,509,930)	(24,699,275,257)
		537,358,621,639	(549,974,968,486)	1,172,209,236,504	(29,562,785,825)
Weighted-average number of common shares outstanding(*1)		79,996,318	79,993,620	79,996,052	79,993,350
Basic and diluted earnings(loss) per share	₩	6,717	(6,875)	14,653	(370)

(*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 September 30		For the nine-month periods ended September 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	(7,190,517)	(7,193,215)	(7,190,783)	(7,193,485)
Weighted-average number of common shares outstanding	79,996,318	79,993,620	79,996,052	79,993,350

Since there were no potential shares of common stock which had dilutive effects as of September 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 September 30, 2016 (Unaudited)

33. Related Party Transactions

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

1) For the nine-month period ended September 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
Subsidiaries(*3)						
POSCO ENGINEERING & CONSTRUCTION., LTD. ₩	28,110	16,642	8	180,712	-	18,236
POSCO Processing & Service	814,370	5,777	375,111	-	10,503	1,333
POSCO COATED & COLOR STEEL Co., Ltd.	232,828	2,560	-	-	9,390	121
POSCO ICT(*4)	987	523	-	132,485	24,974	124,867
eNtoB Corporation	-	5	186,764	4,924	80	13,231
POSCO CHEMTECH	238,837	23,813	374,993	10,269	216,581	4,503
POSCO Energy CO., LTD	138,359	1,023	-	-	-	22
POSCO TMC Co., Ltd.	204,163	-	2	-	1,024	733
POSCO AST	152,108	1	-	-	19,695	922
POSCO DAEWOO Corporation (formerly, Daewoo International Corp.)(*5)	2,368,416	34,341	62,308	-	-	132
POSCO Thainox Public Company Limited	175,429	2,915	6,891	-	-	176
POSCO America Corporation	404,184	-	-	-	-	641
POSCO Canada Ltd.	-	-	83,005	-	-	-
POSCO Asia Co., Ltd.	1,304,048	221	307,166	102	735	1,657
Qingdao Pohang Stainless Steel Co., Ltd.	97,707	-	-	-	-	513
POSCO(Suzhou) Automotive Processing Center Co., Ltd.	102,823	-	-	-	-	-
POSCO Japan Co., Ltd.	806,338	-	16,672	2,406	322	2,017
POSCO MEXICO S.A. DE C.V.	172,017	-	-	-	-	-
POSCO Maharashtra Steel Private Limited	268,152	106	-	-	-	57
Others	720,889	10,201	156,233	41,955	159,168	82,790
	<u>8,229,765</u>	<u>98,128</u>	<u>1,569,153</u>	<u>372,853</u>	<u>442,472</u>	<u>251,951</u>
Associates and joint ventures(*3)						
SeAH Changwon Integrated Special Steel(*6)	28	-	1,095	-	627	-
POSCO PLANTEC Co., Ltd.(*6)	2,193	31	2,533	143,946	12,248	6,825
SNNC	4,661	863	334,208	-	-	-
POSCO-SAMSUNG-Slovakia Processing Center	31,456	-	-	-	-	-
KOBRASCO	-	29,297	-	-	-	-
Others	21,996	12,923	57,106	-	-	-
	<u>60,334</u>	<u>43,114</u>	<u>394,942</u>	<u>143,946</u>	<u>12,875</u>	<u>6,825</u>
₩	<u>8,290,099</u>	<u>141,242</u>	<u>1,964,095</u>	<u>516,799</u>	<u>455,347</u>	<u>258,776</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 September 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 September 30, 2016, Daewoo International Corporation was renamed POSCO DAEWOO Corporation.

(*6) During the year 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 September 30, 2016 (Unaudited)

2) For the nine-month period ended September 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
Subsidiaries						
POSCO ENGINEERING & CONSTRUCTION., LTD. ₩	3,127	114	19	358,910	1,822	29,398
POSCO Processing & Service	839,457	-	338,817	-	-	1,829
POSCO COATED & COLOR STEEL Co., Ltd.	298,089	-	-	-	7,510	56
POSCO ICT	893	5	-	180,537	22,249	131,964
eNtoB Corporation	-	-	203,061	5,118	94	15,004
POSCO CHEMTECH	340,549	24,756	387,038	6,893	225,706	1,180
POSCO Energy CO., LTD	140,252	999	-	-	-	13
POSCO TMC Co., Ltd.	202,421	-	-	-	1,058	1,017
POSCO AST Co., Ltd.	283,513	3	4,115	-	29,363	412
POSHIMETAL Co., Ltd.	9,071	118	114,935	-	-	33
POSCO DAEWOO Corporation (formerly, Daewoo International Corp.)	2,652,467	34,341	37,732	-	-	865
SeAH Changwon Integrated Special Steel	2,811	176,904	8,239	-	515	75
POSCO PLANTEC Co., Ltd.	4,280	33	2,544	116,912	15,135	13,649
POSCO Thainox Public Company Limited	203,411	10	3,833	-	-	28
PT. KRAKATAU POSCO	-	-	115,557	-	-	-
POSCO America Corporation	496,793	7	-	-	-	139
POSCO Canada Ltd.	-	-	95,936	-	-	-
POSCO Asia Co., Ltd.	1,365,277	873	202,537	-	182	1,120
Qingdao Pohang Stainless Steel Co., Ltd.	97,498	-	-	-	-	46
POSCO JAPAN Co., Ltd.	785,031	9,383	18,625	2,198	201	1,086
POSCO MEXICO S.A. DE C.V.	201,101	189	-	-	-	2
POSCO Maharashtra Steel Private Limited	302,720	-	-	-	-	31
Others	667,261	11,960	182,468	73,807	161,069	78,332
	<u>8,896,022</u>	<u>259,695</u>	<u>1,715,456</u>	<u>744,375</u>	<u>464,904</u>	<u>276,279</u>
Associates and joint ventures						
SeAH Changwon Integrated Special Steel	3,547	-	3,327	-	268	1
SNNC	1,934	412	326,679	-	-	-
POSCO-SAMSUNG-Slovakia Processing Center	19,187	-	-	-	-	-
Others	12,023	40,278	43,220	-	1	-
	<u>36,691</u>	<u>40,690</u>	<u>373,226</u>	<u>-</u>	<u>269</u>	<u>1</u>
₩	<u>8,932,713</u>	<u>300,385</u>	<u>2,088,682</u>	<u>744,375</u>	<u>465,173</u>	<u>276,280</u>

POSCO and Subsidiaries

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

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

1) For the three-month period ended September 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
Subsidiaries						
POSCO ENGINEERING & CONSTRUCTION., LTD. ₩	750	13	8	27,381	-	2,190
POSCO Processing & Service	335,743	-	123,031	-	10,503	461
POSCO COATED & COLOR STEEL Co., Ltd.	79,499	-	-	-	2,899	65
POSCO ICT	301	231	-	51,045	7,191	43,332
eNtoB Corporation	-	5	64,335	760	24	4,308
POSCO CHEMTECH	79,401	5,801	128,287	3,666	75,368	1,169
POSCO Energy CO., LTD	45,256	371	-	-	-	22
POSCO TMC Co., Ltd.	57,402	-	1	-	-	56
POSCO DAEWOO Corporation						
(formerly, Daewoo International Corp.)	807,385	-	25,136	-	-	-
POSCO Thainox Public Company Limited	60,482	58	2,654	-	-	153
POSCO America Corporation	118,816	-	-	-	-	641
POSCO Canada Ltd.	-	-	19,524	-	-	-
POSCO Asia Co., Ltd.	403,657	98	142,877	53	444	935
Qingdao Pohang Stainless Steel Co., Ltd.	36,783	-	-	-	-	94
POSCO(Suzhou) Automotive Processing Center Co., Ltd.	38,436	-	-	-	-	-
POSCO Japan Co., Ltd.	291,532	-	4,461	2,038	268	1,023
POSCO MEXICO S.A. DE C.V.	60,836	-	-	-	-	-
POSCO Maharashtra Steel Private Limited	75,568	106	-	-	-	-
Others	302,261	383	48,557	10,770	54,331	31,954
	<u>2,794,108</u>	<u>7,066</u>	<u>558,871</u>	<u>95,713</u>	<u>151,028</u>	<u>86,403</u>
Associates and joint ventures						
SeAH Changwon Integrated Special Steel	8	-	208	-	110	-
POSCO PLANTEC Co., Ltd.	339	6	721	51,943	4,078	1,956
SNNC	2,261	166	128,309	-	-	-
POSCO-SAMSUNG-Slovakia Processing Center	14,887	-	-	-	-	-
Others	3,769	8,313	28,808	-	-	-
	<u>21,264</u>	<u>8,485</u>	<u>158,046</u>	<u>51,943</u>	<u>4,188</u>	<u>1,956</u>
₩	<u>2,815,372</u>	<u>15,551</u>	<u>716,917</u>	<u>147,656</u>	<u>155,216</u>	<u>88,359</u>

POSCO and Subsidiaries

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

2) For the three-month period ended September 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
Subsidiaries						
POSCO ENGINEERING & CONSTRUCTION., LTD. ₩	1,100	24	-	67,549	-	62
POSCO Processing & Service	305,176	-	91,934	-	-	197
POSCO COATED & COLOR STEEL Co., Ltd.	99,689	-	-	-	1,812	2
POSCO ICT	213	1	-	96,025	7,580	43,535
eNtoB Corporation	-	-	56,609	2,722	41	4,540
POSCO CHEMTECH	94,719	7,123	127,539	711	75,685	681
POSCO Energy CO., LTD	44,075	384	-	-	-	-
POSCO TMC Co., Ltd.	79,405	-	-	-	392	383
POSCO AST Co., Ltd.	84,368	-	-	-	10,092	303
POSHIMETAL Co., Ltd.	2,554	43	32,811	-	-	-
POSCO DAEWOO Corporation (formerly, Daewoo International Corp.)	870,337	-	10,983	-	-	96
POSCO PLANTEC Co., Ltd.	299	8	809	52,420	4,675	2,727
POSCO Thainox Public Company Limited	63,593	-	533	-	-	3
POSCO America Corporation	160,721	-	-	-	-	54
POSCO Canada Ltd.	-	-	31,912	-	-	-
POSCO Asia Co., Ltd.	443,568	294	77,282	-	87	883
Qingdao Pohang Stainless Steel Co., Ltd.	16,647	-	-	-	-	-
POSCO JAPAN Co., Ltd.	277,524	-	6,691	524	201	567
POSCO MEXICO S.A. DE C.V.	68,672	36	-	-	-	2
POSCO Maharashtra Steel Private Limited	94,782	-	-	-	-	31
Others	204,367	1,835	61,956	28,633	54,226	32,070
	<u>2,911,809</u>	<u>9,748</u>	<u>499,059</u>	<u>248,584</u>	<u>154,791</u>	<u>86,136</u>
Associates and joint ventures						
SeAH Changwon Integrated Special Steel	1,894	-	655	-	39	-
SNNC	729	129	114,537	-	-	-
POSCO-SAMSUNG-Slovakia Processing Center	4,788	-	-	-	-	-
Others	2,787	8,879	14,925	-	1	-
	<u>10,198</u>	<u>9,008</u>	<u>130,117</u>	<u>-</u>	<u>40</u>	<u>-</u>
₩	<u>2,922,007</u>	<u>18,756</u>	<u>629,176</u>	<u>248,584</u>	<u>154,831</u>	<u>86,136</u>

POSCO and Subsidiaries

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

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

1) September 30, 2016

(in millions of Won)

	Receivables			Payables			
	Trade accounts and notes receivable	Others	Total	Trade accounts and notes payable	Accounts payable	Others	Total
Subsidiaries							
POSCO ENGINEERING & CONSTRUCTION., ₩	-	686	686	-	5,192	482	5,674
POSCO Processing & Service	127,741	46	127,787	7,176	2,149	4,024	13,349
POSCO COATED & COLOR STEEL Co., Ltd.	42,508	80	42,588	-	5	1,474	1,479
POSCO ICT	-	139	139	846	43,537	6,446	50,829
eNtoB Corporation	-	-	-	8,158	17,460	15	25,633
POSCO CHEMTECH	26,611	3,551	30,162	56,983	14,421	17,484	88,888
POSCO Energy CO., LTD	17,147	622	17,769	-	-	1,945	1,945
POSCO TMC Co., Ltd.	58,785	8	58,793	-	25	269	294
POSCO DAEWOO Corporation (formerly, Daewoo International Corp.)	130,534	17	130,551	6,628	14	49	6,691
POSCO Thainox Public Company Limited	60,482	-	60,482	-	153	-	153
POSCO America Corporation	8,144	-	8,144	-	343	-	343
POSCO Asia Co., Ltd.	279,986	9	279,995	19,985	-	143	20,128
Qingdao Pohang Stainless Steel Co., Ltd.	21,733	-	21,733	-	32	-	32
POSCO MEXICO S.A. DE C.V.	73,730	-	73,730	-	-	-	-
POSCO Maharashtra Steel Private Limited	121,386	5	121,391	-	-	-	-
Others	305,209	2,497	307,706	7,088	22,180	24,320	53,588
	<u>1,273,996</u>	<u>7,660</u>	<u>1,281,656</u>	<u>106,864</u>	<u>105,511</u>	<u>56,651</u>	<u>269,026</u>
Associates and joint ventures							
POSCO PLANTEC Co., Ltd.	160	1	161	1,812	16,919	27	18,758
SNNC	214	32	246	28,222	-	598	28,820
KOBRASCO	-	14,648	14,648	-	-	-	-
Others	738	3	741	400	-	-	400
	<u>1,112</u>	<u>14,684</u>	<u>15,796</u>	<u>30,434</u>	<u>16,919</u>	<u>625</u>	<u>47,978</u>
₩	<u>1,275,108</u>	<u>22,344</u>	<u>1,297,452</u>	<u>137,298</u>	<u>122,430</u>	<u>57,276</u>	<u>317,004</u>

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
Subsidiaries							
POSCO ENGINEERING & CONSTRUCTION., ₩	508	30,368	30,876	-	42,159	1,002	43,161
POSCO Processing & Service	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	54,844	54	54,898	-	1,915	3,294	5,209
POSHIMETAL Co., Ltd.	707	9	716	-	10,148	-	10,148
POSCO DAEWOO Corporation (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 Private Limited	205,390	20	205,410	-	-	-	-
Others	172,019	5,035	177,054	18,208	45,476	23,985	87,669
	<u>1,326,715</u>	<u>49,912</u>	<u>1,376,627</u>	<u>115,195</u>	<u>221,022</u>	<u>53,692</u>	<u>389,909</u>
Associates and joint ventures							
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	298	20	318	639	2	-	641
Others	740	12,200	12,940	-	145	-	145
	<u>2,362</u>	<u>12,239</u>	<u>14,601</u>	<u>2,701</u>	<u>46,321</u>	<u>-</u>	<u>49,022</u>
₩	<u>1,329,077</u>	<u>62,151</u>	<u>1,391,228</u>	<u>117,896</u>	<u>267,343</u>	<u>53,692</u>	<u>438,931</u>

POSCO and Subsidiaries

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

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

1) For the nine-month period ended September 30, 2016

(in millions of Won)

	Sales and others		Purchase and others	
	Sales	Others	Purchase of material	Others
Associates and joint ventures				
SeAH Changwon Integrated Special Steel	₩ 17,435	-	22,035	-
POSCO PLANTEC Co., Ltd.	14,850	5	1,606	1,608
New Songdo International City Development, LLC	179,475	-	-	14
SNNC	16,188	-	20,068	8,765
Posco e&c Songdo International Building	4,245	-	-	16,219
CHUNCHEON ENERGY CO., LTD	240,765	-	-	-
VSC POSCO Steel Corporation	33,405	48	513	-
USS-POSCO Industries	286,879	-	947	-
CSP - Companhia Siderurgica do Pecem	131,644	-	-	-
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd	48,690	-	46,067	-
BX STEEL POSCO Cold Rolled Sheet Co., Ltd.	-	-	20,122	-
POS-SEAHSTEELWIRE(TIANJIN)CO.,Ltd	10,171	-	-	-
POSCO SeAH Steel Wire(Nantong) Co., Ltd.	22,024	-	31	-
Zhangjiagang Pohang Refractories Co., Ltd.	250	14	215	1,686
Sebang Steel	-	-	19,684	-
SHANGHAI WAIGAOQIAO FREE TRADE ZONE LANSHENG DAEWOO IN'L TRADING CO., LTD.	82,785	-	3,535	-
DMSA/AMSA	-	-	55,665	-
South-East Asia Gas Pipeline Company Ltd.	-	66,086	-	-
Others	190,424	3,906	25,984	427
	₩ 1,279,230	70,059	216,472	28,719

2) For the nine-month period ended September 30, 2015

(in millions of Won)

	Sales and others		Purchase and others	
	Sales	Others	Purchase of material	Others
Associates and joint ventures				
SeAH Changwon Integrated Special Steel	₩ 25,630	-	36,866	1,982
New Songdo International City Development, LLC	343,699	-	-	597
SNNC	21,706	41	-	52,790
Posco e&c Songdo International Building	4,725	-	-	19,053
VSC POSCO Steel Corporation	17,684	-	2,149	3
USS-POSCO Industries	279,014	-	912	-
CSP - Companhia Siderurgica do Pecem	666,618	-	-	-
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd	57,267	-	53,693	-
BX STEEL POSCO Cold Rolled Sheet Co., Ltd.	3	-	16,895	-
POS-SEAHSTEELWIRE(TIANJIN)CO.,Ltd	6,762	-	-	-
POSCO SeAH Steel Wire(Nantong) Co., Ltd.	20,947	-	-	-
Zhangjiagang Pohang Refractories Co., Ltd.	715	12	16,470	1,368
Sebang Steel	-	-	23,076	-
SHANGHAI WAIGAOQIAO FREE TRADE ZONE LANSHENG DAEWOO IN'L TRADING CO., LTD.	167,658	-	3,040	3,190
DMSA/AMSA	800	7,061	-	-
South-East Asia Gas Pipeline Company Ltd.	-	21,854	-	-
Others	186,348	1,035	8,769	2,510
	₩ 1,799,576	30,003	161,870	81,493

POSCO and Subsidiaries

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

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

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

(in millions of Won)

	Sales and others		Purchase and others	
	Sales	Others	Purchase of material	Others
Associates and joint ventures				
SeAH Changwon Integrated Special Steel	₩ 3,509	-	1,403	-
POSCO PLANTEC Co., Ltd.	8,506	5	-	-
New Songdo International City Development, LLC	51,142	-	-	6
SNNC	7,012	-	1,700	3,682
Posco e&c Songdo International Building	1,423	-	-	3,372
CHUNCHEON ENERGY CO., LTD	44,586	-	-	-
VSC POSCO Steel Corporation	10,380	-	-	-
USS-POSCO Industries	119,903	-	453	-
CSP - Companhia Siderurgica do Pecem	123,743	-	-	-
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd	16,914	-	11,067	-
BX STEEL POSCO Cold Rolled Sheet Co., Ltd.	-	-	2,479	-
POS-SEAHSTEELWIRE(TIANJIN)CO.,Ltd	4,015	-	-	-
POSCO SeAH Steel Wire(Nantong) Co., Ltd.	8,282	-	11	-
Zhangjiagang Pohang Refractories Co., Ltd.	125	-	-	491
Sebang Steel	-	-	6,590	-
SHANGHAI WAIGAOQIAO FREE TRADE ZONE LANSHENG DAEWOO IN'L TRADING CO., LTD.	29,774	-	-	-
DMSA/AMSA	-	-	12,813	-
South-East Asia Gas Pipeline Company Ltd.	-	7,018	-	-
Others	72,724	1,032	12,919	5
	₩ 502,038	8,055	49,435	7,556

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

(in millions of Won)

	Sales and others		Purchase and others	
	Sales	Others	Purchase of material	Others
Associates and joint ventures				
SeAH Changwon Integrated Special Steel	₩ 9,543	-	17,865	-
New Songdo International City Development, LLC	95,687	-	-	512
SNNC	9,569	3	-	335
Posco e&c Songdo International Building	1,604	-	-	6,269
VSC POSCO Steel Corporation	4,630	-	78	1
USS-POSCO Industries	80,254	-	476	-
CSP - Companhia Siderurgica do Pecem	194,441	-	-	-
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd	12,768	-	10,624	-
BX STEEL POSCO Cold Rolled Sheet Co., Ltd.	3	-	5,021	-
POS-SEAHSTEELWIRE(TIANJIN)CO.,Ltd	1,241	-	-	-
POSCO SeAH Steel Wire(Nantong) Co., Ltd.	5,460	-	-	-
Zhangjiagang Pohang Refractories Co., Ltd.	243	4	4,869	731
Sebang Steel	-	-	7,013	-
SHANGHAI WAIGAOQIAO FREE TRADE ZONE LANSHENG DAEWOO IN'L TRADING CO., LTD.	76,972	-	-	1
DMSA/AMSA	793	2,531	-	-
South-East Asia Gas Pipeline Company Ltd.	-	7,257	-	-
Others	72,024	333	2,975	176
	₩ 565,232	10,128	48,921	8,025

POSCO and Subsidiaries

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

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

1) September 30, 2016

(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							
POSCO PLANTEC Co., Ltd.	3,534	-	3	3,537	-	8,585	8,585
New Songdo International City Development, LLC	207,288	-	5,725	213,013	-	-	-
CHUNCHEON ENERGY CO., LTD	39,667	-	-	39,667	-	7,118	7,118
VSC POSCO Steel Corporation	12,720	-	-	12,720	-	-	-
USS-POSCO Industries	83,653	-	-	83,653	126	-	126
Nickel Mining Company SAS	140	54,815	96	55,051	-	-	-
AN KHANH NEW CITY DEVELOPMENT J.V CO., LTD.	59,372	54,815	643	114,830	-	868	868
CSP - Companhia Siderurgica do Pecem	421,769	-	111,233	533,002	-	210,395	210,395
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd	1,635	6,030	36	7,701	2,359	-	2,359
PT. Batutua Tembaga Raya	-	34,451	-	34,451	2,249	-	2,249
POSCO SeAH Steel Wire(Nantong) Co., Ltd.	7,602	9,319	45	16,966	19	-	19
SHANGHAI WAIGAOQIAO FREE TRADE ZONE LANSHEG DAEWOO IN'L TRADING CO., LTD.	51,352	-	-	51,352	-	-	-
DMSA/AMSA	-	82,223	-	82,223	-	-	-
South-East Asia Gas Pipeline Company Ltd.	-	254,668	-	254,668	-	-	-
Others	171,496	59,195	11,204	241,895	5,964	590	6,554
₩	1,060,228	555,516	128,985	1,744,729	10,717	227,556	238,273

2) December 31, 2015

(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 LANSHEG 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

POSCO and Subsidiaries

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

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

1) For the nine-month period ended September 30, 2016

(in millions of Won)

	Beginning	Loan	Collection	Others(*3)	Ending
Associates and joint ventures					
MTAPOLIS Co.,Ltd.	₩ 26,000	-	-	-	26,000
Posco e&c Songdo International Building(*1)	-	298,865	-	(298,865)	-
DMSA/AMSA(*2)	99,854	11,774	-	(29,405)	82,223
South-East Asia Gas Pipeline Company Ltd.	283,954	-	(11,594)	(17,692)	254,668
PT. Batutua Tembaga Raya	36,830	-	-	(2,379)	34,451
PT. Tanggamus Electric Power	2,359	-	-	(153)	2,206
PT. Wampu Electric Power	4,454	1,123	-	(351)	5,226
PT. POSMI Steel Indonesia	4,688	-	-	(303)	4,385
Nickel Mining Company SAS	17,580	40,646	-	(3,411)	54,815
POSK(Pinghu) Steel Processing Center Co., Ltd.	5,743	5,690	(11,381)	(52)	-
AN KHANH NEW CITY DEVELOPMENT					
J.V CO., LTD.	58,600	-	-	(3,785)	54,815
Zhongyue POSCO (Qinhuangdao) Tinplate					
Industrial Co., Ltd	10,782	-	(4,297)	(455)	6,030
KRAKATAU POS-CHEM DONG-SUH CHEMICAL	-	6,968	-	(390)	6,578
Hamparan Mulya	3,516	-	-	(227)	3,289
POS-SEAHSTEELWIRE(TIANJIN)CO.,Ltd	5,274	-	-	(341)	4,933
POSCO SeAH Steel Wire(Nantong) Co., Ltd.	11,720	-	-	(2,401)	9,319
Pos-SeAH Steel Wire (Thailand) Co., Ltd.	-	6,968	(1,742)	1,352	6,578
	₩ 571,354	372,034	(29,014)	(358,858)	555,516

(*1) During the nine-month period ended September 30, 2016, it was classified as a subsidiary from an associates.

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

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

2) For the year ended December 31, 2015

(in millions of Won)

	Beginning	Loan	Collection	Others(*2)	Ending
Associates and joint ventures					
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 Mulya	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.

POSCO and Subsidiaries

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

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

(in millions of Won)

		September 30, 2016	September 30, 2015
Short-term benefits	₩	69,895	81,692
Retirement benefits		13,371	17,289
Long-term benefits		13,714	15,472
	₩	96,980	114,453

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.

34. Commitments and Contingencies

(a) Details of guarantees

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

(in millions of Won)		Financial institution	Guarantee limit		Guarantee amount	
Guarantor	Guarantee beneficiary		Foreign currency	Won equivalent	Foreign currency	Won equivalent
[The Company] POSCO	POSCO ASSAN TST STEEL INDUSTRY	SMBC and others	USD	146,527,500	USD	131,874,750
	POSCO COATED STEEL (THAILAND) CO., LTD.	The Great & Co Co., Ltd.(SPC)	THB	5,501,000,000	THB	5,501,000,000
	POSCO Electrical Steel India Private Limited	ING and others	USD	83,784,000	USD	83,784,000
	POSCO Asia Co., Ltd.	HSBC and others	USD	150,000,000	USD	150,000,000
	POSCO Maharashtra Steel Private Limited	Export-Import Bank of Korea and others	USD	566,069,000	USD	395,655,200
	POSCO MEXICO S.A. DE C.V.	Korea Development Bank and others	USD	344,725,000	USD	234,725,000
	POSCO SS VINA Co., Ltd.	Export-Import Bank of Korea and others	USD	354,351,050	USD	354,351,050
	POSCO VST CO., LTD. (Guangdong)	ANZ and others	USD	65,000,000	USD	24,375,000
	Automotive Steel Co., Ltd.	SMBC and others	USD	65,000,000	USD	65,000,000
	POSCO-VIETNAM Co., Ltd.	Export-Import Bank of Korea	USD	196,000,000	USD	196,000,000
	PT. KRAKATAU POSCO	Export-Import Bank of Korea and others	USD	1,350,300,000	USD	1,222,747,825
	Zhangjiagang Pohang Stainless Steel Co., Ltd.	Korea Development Bank and others	CNY	1,084,955,000	CNY	1,084,955,000
	POSCO DAEWOO INDIA PVT., LTD.	Shinhan Bank and others	USD	165,000,000	USD	144,137,710
	Daewoo Paper Manufacturing Co., Ltd.	HSBC	USD	12,500,000	USD	12,500,000
	DAEWOO TEXTILE BUKHARA LLC	Export-Import Bank of Korea	USD	10,000,000	USD	10,000,000
	POSCO ASSAN TST STEEL INDUSTRY PT.POSCO INDONESIA INTI	ING and others	USD	14,652,750	USD	14,652,750
	Daewoo Power PNG Ltd.	Export-Import Bank of Korea	USD	90,000,000	USD	90,000,000
	EPC EQUITIES LLP	SG BANK SEOUL and others	USD	54,400,000	USD	36,000,000
	HONG KONG POSCO E&C (CHINA) INVESTMENT Co.,Ltd.	Woori Bank and others	USD	147,000,000	USD	144,000,000
	POSCO E&C Vietnam Co., Ltd.	Export-Import Bank of Korea	USD	16,500,000	USD	16,500,000
POSCO ENGINEERING & CONSTRUCTION., LTD.	CONSTRUCTION DO BRAZIL LTDA.	HSBC	USD	100,000,000	USD	100,000,000
	SANTOS CMI INC. USA	Citi New York	USD	8,000,000	USD	8,000,000
	SANTOS CMI S.A.	Citi Ecuador	USD	3,000,000	USD	3,000,000
	PT.POSCO ICT INDONESIA	POSCO Asia Co., Ltd.	USD	2,100,000	USD	2,100,000
	POSCO Engineering Co.,Ltd	POSCO Engineering (THAILAND) CO., LTD.	USD	16,000,000	USD	16,000,000
	PT PEN INDONESIA	POSCO Asia Co., Ltd.	USD	5,000,000	USD	5,000,000
	PT. POSCO MTECH INDONESIA	POSCO Asia Co., Ltd.	USD	12,500,000	USD	12,500,000
	POSCO CHEMTECH	PT.Krakatau Posco Chemtech Calcination	USD	33,600,000	USD	25,411,765
	POSCO Processing&Service	POSCO Canada Ltd.	USD	8,427,038	USD	8,025,750
		POSCO Gulf SFC LLC	USD	33,000,000	USD	30,950,000
DAEWOO TEXTILE BUKHARA LLC DAEWOO TEXTILE FERGANA LLC POSCO E&C CHINA CO., Ltd.	Pos-Sea Pie Ltd	Woori Bank and others	USD	20,000,000	USD	5,000,000
	DAEWOO TEXTILE FERGANA LLC	National Bank of Uzbekistan	USD	6,127,060	USD	6,127,060
	DAEWOO TEXTILE BUKHARA LLC	Bukhara TEX	USD	2,165,942	USD	2,165,942
	HONG KONG POSCO E&C (CHINA) INVESTMENT Co., Ltd.	Woori Bank	USD	17,000,000	USD	17,000,000
	POSCO JAPAN Co., Ltd.	POSCO-JWPC Co., Ltd.	JPY	669,400,000	JPY	669,400,000
	SANTOS CMI S.A.	COMPANIADEAUTOMATIZACION &CONTROL, GENESYS S.A.	USD	300,000	USD	144,000
	POSCO COATED & COLOR STEEL Co., Ltd.	Banco de Guayaquil	USD	329	USD	158
	POSCO ENERGY CO., LTD.	Myanmar POSCO C&C Company, Limited.	USD	13,986,947	USD	13,986,947
		PT. KRAKATAU POSCO ENERGY	USD	193,900,000	USD	161,642,558
		Export-Import Bank of Korea and others	USD	212,573	USD	177,209

POSCO and Subsidiaries

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

(in millions of Won)			Guarantee limit		Guarantee amount			
Guarantors	Guarantee beneficiary	Financial institution	Foreign currency	Won equivalent	Foreign currency	Won equivalent		
[Associates and joint ventures]								
POSCO	CSP - Companhia Siderurgica do Pecem	Export-Import Bank of Korea and others	USD	420,000,000	460,447	USD	413,416,940	453,228
	LLP POSUK Titanium	BNDES	BRL	464,060,000	156,124	BRL	348,349,782	117,195
POSCO DAEWOO Corporation (formerly, Daewoo International Corporation)	GLOBAL KOMSCO Daewoo LLC	Kookmin Bank	USD	15,000,000	16,445	USD	15,000,000	16,445
		ICBC and others	USD	10,325,000	11,319	USD	8,225,000	9,017
POSCO ENGINEERING & CONSTRUCTION., LTD.	New Songdo International City Development, LLC	Others	KRW	340,000	340,000	KRW	340,000	340,000
POSCO ICT	Incheon-Gimpo Expressway Co., Ltd	Korea Development Bank	KRW	100,000	100,000	KRW	100,000	100,000
	UITrans LRT Co., Ltd.	Kookmin Bank	KRW	76,000	76,000	KRW	76,000	76,000
POSCO CHEMTECH	PT.INDONESIA POS							
	CHEMTECH CHOSUN Ref	Hana Bank	USD	4,500,000	4,933	USD	4,500,000	4,933
	KRAKATAU POS-CHEM							
POSCO DAEWOO CHINA CO., LTD.	DONG-SUH CHEMICAL	Hana Bank	USD	5,883,750	6,450	USD	3,032,479	3,325
	SHANGHAI LANSHENG DAEWOO CORP.	Bank of Communications	CNY	30,000,000	4,919	CNY	30,000,000	4,919
	SHANGHAI WAIGAOQIAO FREE TRADE ZONE LANSHENG							
	DAEWOO IN'L TRADING CO., LTD.	Bank of Communications	CNY	50,000,000	8,198	CNY	50,000,000	8,198
[Others]								
POSCO DAEWOO Corporation (formerly, Daewoo International Corporation)	Ambatovy Project Investments Ltd. and others	Export-Import Bank of Korea	USD	87,272,727	95,677	USD	52,335,760	57,375
POSCO ENGINEERING & CONSTRUCTION., LTD.	Ecocity CO. LTD and others	Others	KRW	1,065,350	1,065,350	KRW	403,947	403,947
	THE GALE INVESTMENTS COMPANY, L.L.C.	Woori Bank	USD	50,000,000	54,815	USD	50,000,000	54,815
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	1,163,585	1,163,585	KRW	1,163,585	1,163,585
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)							
	PERPETUAL TRUSTEE COMPANY LIMITED	Woori Bank	AUD	8,023,765	6,717	AUD	8,023,765	6,717
		CBA	AUD	253,571	212	AUD	253,571	212
POSCO(Suzhou) Automotive Processing Center Co., Ltd.	POS INFRA AUTO	Korea Development Bank	USD	405,000	444	USD	405,000	444
			USD	4,959,302,764	5,436,889	USD	4,349,272,486	4,768,108
			KRW	2,930,830	2,930,830	KRW	2,239,883	2,239,883
			CNY	1,164,955,000	191,017	CNY	1,164,955,000	191,017
			THB	5,501,000,000	173,997	THB	5,501,000,000	173,997
			JPY	669,400,000	7,254	JPY	669,400,000	7,254
			AUD	8,277,336	6,929	AUD	8,277,336	6,929
			BRL	464,060,000	156,124	BRL	348,349,782	117,195

- (b) POSCO ENGINEERING & CONSTRUCTION., LTD. has provided completion guarantees for Samsung C&T Corporation amounting to ₩684,955 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 ₩645,737 million as of September 30, 2016.

POSCO and Subsidiaries

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

(c) Other commitments

Details of other commitments of the Company as of September 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 September 30, 2016, 144 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 September 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 6.49 million. The borrowings are related to the exploration of gas hydrates in Western Fergana-Chenavard. The repayment of the borrowings depends on the success of the project. POSCO is not liable for the repayment of full or part of the money borrowed if the respective project fail. POSCO has agreed to pay a certain portion of its profits under certain conditions, as defined by the borrowing agreements. As of September 30, 2016, the ending balance of the borrowings amount to USD 4.09 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 September 30, 2016, POSCO ENGINEERING & CONSTRUCTION., LTD. has comprehensive loan agreements of up to ₩203.5 billion and USD 218 million with Woori Bank. Also, POSCO ENGINEERING & CONSTRUCTION., LTD. 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 September 30, 2016, in relation to contract enforcement, POSCO ICT was provided with ₩76,888 million and ₩41,325 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 September 30, 2016 (Unaudited)

(d) Litigation in progress

The Company is involved in 251 lawsuits and claims for alleged damages aggregating to ₩695.7 billion as defendant as of September 30, 2016, which arise from the ordinary course of business. The Company has recognized provisions amounting to ₩33.2 billion for 11 lawsuits based on its reliable estimate of outflow of resources. However, the Company has not recognized any provisions for other 240 lawsuits and claims since the Company believes that it does not have a present obligation as of September 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 three 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 September 30, 2016, POSCO DAEWOO 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 September 30, 2016, POSCO ENGINEERING & CONSTRUCTION., LTD. has provided thirty-six blank checks and eight blank promissory notes as collateral for agreements and outstanding loans.
POSCO ICT	As of September 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 nine-month periods ended September 30, 2016 and 2015 were as follows:

(in millions of Won)

	September 30, 2016	September 30, 2015
Trade accounts and notes receivable	₩ 800,951	1,520,615
Other receivables	68,515	383,007
Inventories	155,321	1,358,663
Other current assets	(140,834)	(30,652)
Other non-current assets	49,102	(57,276)
Trade accounts and notes payable	(64,468)	(881,205)
Other payables	25,817	(274,247)
Other current liabilities	96,672	244,979
Provisions	(71,709)	(95,372)
Payment of severance benefits	(131,126)	(131,489)
Plan assets	(19,817)	6,044
Other non-current liabilities	(8,896)	(81,118)
	₩ 759,528	1,961,949

POSCO and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements, Continued As of September 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 nine-month periods ended September 30, 2016 and 2015 were as follows:

1) For the nine-month period ended September 30, 2016

<i>(in millions of Won)</i>		Steel	Trading	Construction	Others	Total
External revenues	₩	19,547,893	11,835,006	4,846,786	1,836,457	38,066,142
Internal revenues		11,839,844	6,787,444	631,367	1,737,818	20,996,473
Inter segment revenue		6,677,921	3,780,595	505,251	1,669,174	12,632,941
Total revenues		31,387,737	18,622,450	5,478,153	3,574,275	59,062,615
Segment profits (loss)		1,146,896	122,818	(382,656)	31,846	918,904

2) For the nine-month period ended September 30, 2015

<i>(in millions of Won)</i>		Steel	Trading	Construction	Others	Total
External revenues	₩	21,677,404	14,080,237	6,234,409	2,294,345	44,286,395
Internal revenues		12,768,532	6,534,252	1,069,493	2,049,713	22,421,990
Inter segment revenue		6,977,831	3,371,581	876,647	1,978,672	13,204,731
Total revenues		34,445,936	20,614,489	7,303,902	4,344,058	66,708,385
Segment profits (loss)		91,586	163,785	(287,923)	(11,295)	(43,847)

POSCO and Subsidiaries

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

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

<i>(in millions of Won)</i>		September 30, 2016	September 30, 2015
Total profit (loss) for reportable segments	₩	918,904	(43,847)
Corporate fair value adjustments		(102,052)	(72,749)
Elimination of inter-segment profits		217,590	(89,049)
Income tax expense		442,249	337,593
Profit before income tax expense	₩	<u>1,476,691</u>	<u>131,948</u>