

POSCO and Subsidiaries

**Condensed Consolidated Interim Financial Statements
(Unaudited)
March 31, 2017**

(With Independent Auditors' Review Report Thereon)

Table of Contents

	Page
Independent Auditors' Review Report	1
Condensed Consolidated Interim Financial Statements	
Condensed Consolidated Interim Statements of Financial Position	6
Condensed Consolidated Interim Statements of Comprehensive Income	8
Condensed Consolidated Interim Statements of Changes in Equity.....	9
Condensed Consolidated Interim Statements of Cash Flows	11
Notes to the Condensed Consolidated Interim Financial Statements	13

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 March 31, 2017, the condensed consolidated interim statements of comprehensive income, changes in equity and cash flows for the three-month periods ended March 31, 2017 and 2016, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility

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

Auditor's review responsibility

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

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

Conclusion

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

Emphasis of matter

Without qualifying our opinion, we drew attention to the following key audit matters with related to production-to-order transactions.

Pursuant to “Practical Guide to Korean Standards on Auditing 2016-1”, audit matters related to entities engaged in production-to-order transactions are of significance in our review of the consolidated financial statements, which determination is based on our professional judgment and communications with those charged with governance. These matters were addressed in the context of our review of the consolidated financial statements as of and for the three-month period ended March 31, 2017 as a whole, and we do not provide a separate opinion on these matters.

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

An overview of key audit matters related to the industry with production-to-order transactions described in this review report is as follows.

Certain subsidiaries including POSCO ENGINEERING & CONSTRUCTION CO., LTD. and POSCO ICT are engaged in production-to-order transactions. Sales in relation to production-to-order transactions are approximately 11 % of consolidated sales for the three-month period ended March 31, 2017.

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 discussions with auditors of certain subsidiaries in industry with production-to-order transactions and review of their review documentation of identified significant risks. We also reviewed their review procedures in responding to those significant risks, which were conducted based on their professional judgments. Our 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 production-to-order transactions 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 three-month period ended March 31, 2017 and future periods 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.

- Review of appropriateness of accounting treatments in relation to revenue recognition by the input method
- Obtain and review of the contracts for major construction contracts which are newly commenced
- Analytical review and inquiries of construction progress and significant changes of major construction contracts
- Analytical review of key financial indicators (contract amounts, estimated costs, ratio of costs, ratio of due from customer for contract work, and others)

2) Uncertainty of estimated total contract costs

The changes in estimated total contract costs were ~~₩~~63,649 million for the three-month period ended March 31, 2017 (see note 26(d) to the consolidated financial statements). We identified significant risks regarding uncertainty of estimated total contract costs based on the impact on profit or loss for the three-month period ended March 31, 2017.

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

- For completed projects, inquires as to the cause of the changes if there was a significant difference between estimated ratio of costs and the actual ratio of costs Inquiries as to the cause of the changes for projects in which significant changes in estimated total contract costs were made
- Inquiries and inspection of document to construction projects which are completed if there was a significant difference between the rate of actual costs and the rate of estimated costs
- Inquiries regarding whether there are construction projects in which the probability that the estimated total contact costs are increased due to delay or extension of construction duration, and others
- Inquiries and analytical review to identify construction sites that input costs exceed the estimated contract cost by cost element

3) Assessment of the percentage-of-completion

The changes in estimated total contract costs were ~~₩~~63,649 million for the three-month period ended March 31, 2017 (note 26(d) to the consolidated financial statements). We identified significant risks regarding assessment of the percentage-of-completion as uncertainty of estimated total contract costs increased.

The following review procedures were performed regarding total contract costs and cumulative incurred contract costs in assessing of the percentage-of-completion.

- Identify whether there were construction contracts that the percentage-of-completion has changed and inquiries of the cause of the change
- Inquiries whether there were costs incurred but excluded when to calculate the percentage-of-completion and accounting treatment regarding such excluded costs
- Recalculation of the percentage-of-completion
- Comparison of the difference between the percentage-of-completion confirmed by other available information obtained and the actual percentage-of-completion used in the calculation and review the appropriateness of the rationale of the difference

4) Recoverability of due from customers for contract work

As of March 31, 2017 and December 31, 2016, the amounts of due from customers for contract work are ₩940,372 million and ₩964,304 million, respectively, or approximately 10% of consolidated trade accounts and note receivable (note 26(b) to the consolidated financial statements) 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.

- Identify whether there were any construction sites which indicates abnormally significant amount of due from customers for contract work as compared to billing and payment conditions on construction contract
- Inquiries of the cause of a significant difference between the percentage-of-completion and the billing rate of construction contract
- Inquiries and identify of the possibility of financial risk of customers through obtaining of other related information
- Inquiries whether there were a specific reasons such as litigation and others for a construction site which shows that the amount of due from customers for contract work has not been changed for a long time

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(d) to the consolidated financial statements). We identified significant risks regarding the accounting for the variation of construction work.

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

- Inquiries of the cause on significant changes in contract revenue of construction contracts
- Inquiries of the possibility of penalties incurred for the sites of which the completion of construction was delayed or completion due date is approaching
- Inquiries whether the customer is likely to approve the change of the contract amount due to changes in construction
- Confirm whether the additional estimated contract costs incurred due to the changes in construction are appropriately reflected in the estimated total contract costs and calculation of the percentage-of-completion

Other matters

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, 2016, 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 March 2, 2017, expressed an unqualified opinion. The accompanying condensed consolidated statement of financial position of the Company as of December 31, 2016, presented for comparative purposes, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

KPMG Samjong Accounting Corp.

Seoul, Korea
May 15, 2017

This report is effective as of May 15, 2017, 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.

POSCO and Subsidiaries
Condensed Consolidated Interim Statements of Financial Position
As of March 31, 2017 and December 31, 2016
(Unaudited)

(in millions of Won)

	<u>Notes</u>	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Assets			
Cash and cash equivalents	21	₩ 2,725,240	2,447,619
Trade accounts and notes receivable, net	4,21,26,33	9,765,221	9,786,927
Other receivables, net	5,21,33	1,425,977	1,539,742
Other short-term financial assets	6,21	4,932,462	5,224,911
Inventories	7	9,488,455	9,051,721
Current income tax assets		36,131	46,473
Assets held for sale	8	13,065	311,958
Other current assets	14	964,397	894,484
Total current assets		<u>29,350,948</u>	<u>29,303,835</u>
Long-term trade accounts and notes receivable, net	4,21	40,779	51,124
Other receivables, net	5,21	786,808	762,912
Other long-term financial assets	6,21	2,621,429	2,657,692
Investments in associates and joint ventures	9	3,703,549	3,882,389
Investment property, net	11	1,101,605	1,117,720
Property, plant and equipment, net	12	32,819,322	33,770,339
Intangible assets, net	13	6,055,830	6,088,729
Defined benefit assets, net	19	62,165	83,702
Deferred tax assets		1,452,830	1,476,873
Other non-current assets	14	537,970	567,680
Total non-current assets		<u>49,182,287</u>	<u>50,459,160</u>
Total assets		<u>₩ 78,533,235</u>	<u>79,762,995</u>

See accompanying notes to the condensed consolidated interim financial statements.

POSCO and Subsidiaries
Condensed Consolidated Interim Statements of Financial Position, Continued
As of March 31, 2017 and December 31, 2016
(Unaudited)

(in millions of Won)

	<u>Notes</u>	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Liabilities			
Trade accounts and notes payable	21,33	₩ 3,326,516	4,073,286
Short-term borrowings and current installments of long-term borrowings	4,15,21	9,960,684	10,194,807
Other payables	16,21,33	2,344,594	1,851,659
Other short-term financial liabilities	17,21	119,513	149,748
Current income tax liabilities		480,393	446,071
Liabilities of disposal group held for sale	8	177	-
Provisions	18,34	98,958	114,865
Other current liabilities	20,26	2,003,746	2,084,961
Total current liabilities		<u>18,334,581</u>	<u>18,915,397</u>
Long-term trade accounts and notes payable	21	47,696	44,512
Long-term borrowings, excluding current installments	15,21	11,506,074	12,510,191
Other payables	16,21	175,458	208,559
Other long-term financial liabilities	17,21	105,200	81,309
Defined benefit liabilities, net	19	139,844	123,604
Deferred tax liabilities		1,705,001	1,642,939
Long-term provisions	18,34	353,001	337,739
Other non-current liabilities	20	53,560	60,351
Total non-current liabilities		<u>14,085,834</u>	<u>15,009,204</u>
Total liabilities		<u>32,420,415</u>	<u>33,924,601</u>
Equity			
Share capital	22	482,403	482,403
Capital surplus	22	1,403,534	1,397,791
Hybrid bonds	23	996,919	996,919
Reserves	24	(520,660)	(143,985)
Treasury shares	25	(1,533,462)	(1,533,468)
Retained earnings		41,545,663	41,173,778
Equity attributable to owners of the controlling company		<u>42,374,397</u>	<u>42,373,438</u>
Non-controlling interests	23	<u>3,738,423</u>	<u>3,464,956</u>
Total equity		<u>46,112,820</u>	<u>45,838,394</u>
Total liabilities and equity	₩	<u><u>78,533,235</u></u>	<u><u>79,762,995</u></u>

See accompanying notes to the condensed consolidated interim financial statements.

POSCO and Subsidiaries

Condensed Consolidated Interim Statements of Comprehensive Income

For the three-month periods ended March 31, 2017 and 2016

(Unaudited)

(in millions of Won, except per share information)

	Notes	March 31, 2017	March 31, 2016
Revenue	26,33,36	₩ 15,077,184	12,461,199
Cost of sales	7,26,30,33	(12,819,122)	(10,919,765)
Gross profit		2,258,062	1,541,434
Selling and administrative expenses	27,30		
Administrative expenses		(532,136)	(496,236)
Selling expenses		(360,957)	(385,432)
Operating profit		1,364,969	659,766
Share of profit of equity-accounted investees, net	9	72,010	49,917
Finance income and costs	21,28		
Finance income		880,204	834,295
Finance costs		(947,080)	(986,940)
Other non-operating income and expenses	29		
Other non-operating income		78,436	51,177
Other non-operating expenses	30	(123,148)	(63,321)
Profit before income tax	36	1,325,391	544,894
Income tax expense	31,36	(348,503)	(206,528)
Profit		976,888	338,366
Other comprehensive income (loss)			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurements of defined benefit plans	19	(5,713)	(13,209)
Items that are or may be reclassified subsequently to profit or loss:			
Capital adjustment arising from investments in equity-accounted investees		(213,973)	22,423
Net changes in unrealized fair value of available-for-sale investments	21	37,010	(3,001)
Foreign currency translation differences		(250,922)	14,920
Other comprehensive income (loss), net of tax		(433,598)	21,133
Total comprehensive income		₩ 543,290	359,499
Profit attributable to:			
Owners of the controlling company		₩ 850,928	359,671
Non-controlling interests		125,960	(21,305)
Profit		₩ 976,888	338,366
Total comprehensive income attributable to :			
Owners of the controlling company		₩ 470,367	395,856
Non-controlling interests		72,923	(36,357)
Total comprehensive income		₩ 543,290	359,499
Basic and diluted earnings per share (in Won)	32	10,532	4,391

See accompanying notes to the condensed consolidated interim financial statements.

POSCO and Subsidiaries
Condensed Consolidated Interim Statements of Changes in Equity
For the three-month periods ended March 31, 2017 and 2016
(Unaudited)

(in millions of Won)

	Attributable to owners of the controlling company							Non-controlling interests	Total
	Share capital	Capital surplus	Hybrid bonds	Reserves	Treasury shares	Retained earnings	Subtotal		
Balance as of January 1, 2016	₩ 482,403	1,383,623	996,919	(594,756)	(1,533,898)	40,501,059	41,235,350	3,834,872	45,070,222
Comprehensive income:									
Profit	-	-	-	-	-	359,671	359,671	(21,305)	338,366
Other comprehensive income (loss)									
Remeasurements of defined benefit pension plans, net of tax	-	-	-	-	-	(5,259)	(5,259)	(7,950)	(13,209)
Capital adjustment arising from investments in equity-accounted Investees, net of tax	-	-	-	29,014	-	-	29,014	(6,591)	22,423
Net changes in unrealized fair value of available-for-sale investments, net of tax	-	-	-	(3,268)	-	-	(3,268)	267	(3,001)
Foreign currency translation differences, net of tax	-	-	-	15,698	-	-	15,698	(778)	14,920
Total comprehensive income	-	-	-	41,444	-	354,412	395,856	(36,357)	359,499
Transactions with owners of the controlling company, recognized directly in equity:									
Year-end dividends	-	-	-	-	-	(479,974)	(479,974)	(49,478)	(529,452)
Changes in subsidiaries	-	-	-	-	-	-	-	(6,620)	(6,620)
Changes in ownership interest in subsidiaries	-	813	-	-	-	-	813	4,680	5,493
Interest of hybrid bonds	-	-	-	-	-	(11,082)	(11,082)	(6,031)	(17,113)
Disposal of treasury shares	-	(4)	-	-	23	-	19	-	19
Others	-	(364)	-	836	-	(1,701)	(1,229)	(2,012)	(3,241)
Total transactions with owners of the controlling company	-	445	-	836	23	(492,757)	(491,453)	(59,461)	(550,914)
Balance as of March 31, 2016	₩ 482,403	1,384,068	996,919	(552,476)	(1,533,875)	40,362,714	41,139,753	3,739,054	44,878,807

See accompanying notes to the condensed consolidated interim financial statements.

POSCO and Subsidiaries

Condensed Consolidated Interim Statements of Changes in Equity, Continued For the three-month periods ended March 31, 2017 and 2016 (Unaudited)

(in millions of Won)

	Attributable to owners of the controlling company							Non-controlling interests	Total
	Share capital	Capital surplus	Hybrid bonds	Reserves	Treasury shares	Retained earnings	Subtotal		
Balance as of January 1, 2017	₩ 482,403	1,397,791	996,919	(143,985)	(1,533,468)	41,173,778	42,373,438	3,464,956	45,838,394
Comprehensive income:									
Profit	-	-	-	-	-	850,928	850,928	125,960	976,888
Other comprehensive income (loss)									
Remeasurements of defined benefit plans, net of tax	-	-	-	-	-	(5,413)	(5,413)	(300)	(5,713)
Capital adjustment arising from investments in equity-accounted investees, net of tax	-	-	-	(188,342)	-	-	(188,342)	(25,631)	(213,973)
Net changes in unrealized fair value of available-for-sale investments, net of tax	-	-	-	37,689	-	-	37,689	(679)	37,010
Foreign currency translation differences, net of tax	-	-	-	(224,495)	-	-	(224,495)	(26,427)	(250,922)
Total comprehensive income	-	-	-	(375,148)	-	845,515	470,367	72,923	543,290
Transactions with owners of the controlling company, recognized directly in equity:									
Year-end dividends	-	-	-	-	-	(459,987)	(459,987)	(38,023)	(498,010)
Changes in subsidiaries	-	-	-	-	-	-	-	(24,026)	(24,026)
Changes in ownership interest in subsidiaries	-	6,329	-	-	-	-	6,329	267,204	273,533
Interest of hybrid bonds	-	-	-	-	-	(11,109)	(11,109)	(5,964)	(17,073)
Disposal of treasury shares	-	1	-	-	6	-	7	-	7
Others	-	(587)	-	(1,527)	-	(2,534)	(4,648)	1,353	(3,295)
Total transactions with owners of the controlling company	-	5,743	-	(1,527)	6	(473,630)	(469,408)	200,544	(268,864)
Balance as of March 31, 2017	₩ 482,403	1,403,534	996,919	(520,660)	(1,533,462)	41,545,663	42,374,397	3,738,423	46,112,820

See accompanying notes to the condensed consolidated interim financial statements.

POSCO and Subsidiaries
Condensed Consolidated Interim Statements of Cash Flows
For the three-month periods ended March 31, 2017 and 2016
(Unaudited)

(in millions of Won)

	<u>Notes</u>	<u>March 31, 2017</u>	<u>March 31, 2016</u>
Cash flows from operating activities			
Profit	₩	976,888	338,366
Adjustments for:			
Depreciation		731,245	707,414
Amortization		102,581	97,581
Finance income		(601,667)	(441,391)
Finance costs		659,473	583,817
Income tax expense		348,503	206,528
Impairment loss on property, plant and equipment		6,941	-
Gain on disposal of property, plant and equipment		(5,171)	(11,184)
Loss on disposal of property, plant and equipment		31,259	15,510
Impairment loss on goodwill and intangible assets		22	444
Gain on disposal of investments			
in subsidiaries, associates and joint ventures		(49,671)	(1,857)
Loss on disposal of investments			
in subsidiaries, associates and joint ventures		19,488	908
Share of profit of equity-accounted investees		(72,010)	(49,917)
Gain on disposals of assets held for sale		(106)	(19,353)
Costs for defined benefit plans		48,774	59,507
Bad debt expenses (reversal of bad debt expenses)		49,098	(10,005)
Loss on valuation of inventories		82,671	135,802
Increase to provisions		40,515	38,460
Others, net		1,268	3,759
		<u>1,393,213</u>	<u>1,316,023</u>
Changes in operating assets and liabilities	35	(1,306,116)	369,538
Interest received		37,640	58,854
Interest paid		(133,744)	(139,638)
Dividends received		53,005	6,550
Income taxes paid		(190,570)	(166,904)
		<u>₩ 830,316</u>	<u>1,782,789</u>

See accompanying notes to the condensed consolidated interim financial statements.

POSCO and Subsidiaries
Condensed Consolidated Interim Statements of Cash Flows, Continued
For the three-month periods ended March 31, 2017 and 2016
(Unaudited)

(in millions of Won)

	Notes	March 31, 2017	March 31, 2016
Cash flows from investing activities			
Acquisitions of short-term financial instruments	₩	(4,167,926)	(4,977,650)
Proceeds from disposal of short-term financial instruments		4,415,422	4,708,346
Increase in loans		(235,891)	(140,150)
Collection of loans		203,505	57,646
Acquisitions of available-for-sale investments		(12,646)	(30,235)
Proceeds from disposal of available-for-sale investments		13,812	4,760
Acquisitions of investment in associates and joint ventures		(7,143)	(70,569)
Proceeds from disposal of investment in associates and joint ventures		32,926	-
Acquisitions of investment property		(974)	(1,979)
Acquisitions of property, plant and equipment		(543,323)	(621,737)
Proceeds from disposal of property, plant and equipment		9,027	8,961
Acquisitions of intangible assets		(69,849)	(43,697)
Proceeds from disposal of intangible assets		7,390	1,796
Proceeds from disposal of assets held for sale		203,224	150
Cash received from disposal of business, net of cash transferred		(10,568)	13,946
Others, net		(1,117)	9,224
Net cash used in investing activities		(164,131)	(1,081,188)
Cash flows from financing activities			
Proceeds from borrowings		125,831	201,657
Repayment of borrowings		(1,006,749)	(1,258,248)
Proceeds from short-term borrowings, net		332,553	13,300
Capital contribution from non-controlling interests		249,935	919
Payment of cash dividends		(5,052)	(3,021)
Payment of interest of hybrid bonds		(16,777)	(17,087)
Others, net		(13,554)	(1,177)
Net cash used in financing activities		(333,813)	(1,063,657)
Effect of exchange rate fluctuation on cash held		(52,256)	(28,747)
Net increase (decrease) in cash and cash equivalents		280,116	(390,803)
Cash and cash equivalents at beginning of the period		2,447,619	4,871,184
Cash and cash equivalents at end of the period	8 ₩	2,727,735	4,480,381

See accompanying notes to the condensed consolidated interim financial statements.

POSCO and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements

As of March 31, 2017

(Unaudited)

1. General Information

General information about POSCO, its 37 domestic subsidiaries including POSCO ENGINEERING & CONSTRUCTION CO., LTD., 145 foreign subsidiaries including POSCO America Corporation (collectively, "the Company") and its 102 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 March 31, 2017, the shares of the POSCO are listed on the Korea Exchange, while its depository receipts are listed on the New York Stock Exchange.

(b) Consolidated subsidiary included for the first time during the three-month period ended March 31, 2017 was as follows:

Company	Date of inclusion	Ownership (%)	Reason
POSCO RU Limited Liability Company	January 2017	100.00	New establishment

(c) Subsidiaries excluded from consolidation during the three-month period ended March 31, 2017 were as follows:

Company	Date of exclusion	Reason
POSCO (Zhangjiagang) STS Processing Center Co., Ltd	January 2017	Merged into Zhangjiagang Pohang Stainless Steel So., Ltd
POSCO MAPC SA DE CV	January 2017	Merged into POSCO MPPC S.A de C.V.
POSCO ENGINEERING CO., LTD	February 2017	Merged into POSCO ENGINEERING & CONSTRUCTION CO., LTD.
POSCO YongXin Rare Earth Metal Co., Ltd.	March 2017	Disposal
EPC EQUITIES LLP	March 2017	Disposal
SANTOS CMI CONSTRUCTION TRADING LLP	March 2017	Disposal
SANTOS CMI INC. USA	March 2017	Disposal
SANTOS CMI ENGENHARIA E CONSTRUCOES LTDA	March 2017	Disposal
SANTOS CMI PERU S.A.	March 2017	Disposal
SANTOS CMI CONSTRUCCIONES S.A.	March 2017	Disposal
GENTECH INTERNATIONAL INC.	March 2017	Disposal
SANTOS CMI S.A.	March 2017	Disposal
SANTOS CMI CONSTRUCCIONES DE CHILE S.A	March 2017	Disposal
COMPANIADEAUTOMATIZACION &CONTROL, GENESYS S.A	March 2017	Disposal
SANTOS CMI Guatemala S.A.	March 2017	Disposal
COINSA INGENIERIA Y PETROQUIMICA S.R.L	March 2017	Disposal
POSCO Electrical Steel India Private Limited	March 2017	Merged into POSCO Maharashtra Steel Private Limited

POSCO and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements, Continued As of March 31, 2017 (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, 2016. 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, 2016.

(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.

Significant valuation issues are reported to the Company's Audit Committee.

POSCO and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements, Continued As of March 31, 2017 (Unaudited)

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.

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" and below, 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, 2016.

Changes in Accounting Policies

The Company has applied the following amendments to standards for the first time for their interim reporting period beginning on January 1, 2017. The Company will apply the accounting policies set out below for their annual reporting period ending December 31, 2017.

(a) Amendments to K-IFRS No. 1007 "Statement of Cash Flows"

For the year beginning on January 1, 2017, the Company applied the amendments to K-IFRS No. 1007 "Statement of Cash Flows". K-IFRS No. 1007 requires liabilities related to the cash flows that were classified as a financing activity in the statement of cash flows or will be classified as a financing activity in the future should be disclosed as follows:

- Fluctuations in financing cash flows
- Changes in the acquisition or loss of control of a subsidiary or other business
- Exchange rate effect
- Fair value changes
- Other changes

K-IFRS No. 1007 does not require the disclosure of comparative information of prior period, and the Company will disclose the related disclosures in its annual financial statements for the year ending December 31, 2017.

POSCO and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements, Continued As of March 31, 2017 (Unaudited)

(b) Amendments to K-IFRS No. 1012 “Income Taxes”

For the year beginning on January 1, 2017, the Company applied the amendments to K-IFRS No. 1012 “Income Taxes”. In accordance with K-IFRS No. 1012, in the case of debt instruments measured at fair value, deferred tax accounting treatment is clarified. The difference between the carrying amount and taxable base amount of the debt liabilities is considered as temporary differences, regardless of the expected recovery method. When reviewing the recoverability of deferred tax assets, the estimated of probable future taxable income may include the recovery of some of the Company’s assets for more than their carrying amount if there is sufficient evidence that it is probable that the Company will recover the asset for more than its carrying amount. In addition, the estimated of probable future taxable income are determined as the amount before considering the deductible effect from reversal of the deductible temporary differences.

The Company believes that the effect of the amendments to the consolidated financial statements is not significant. Therefore, the Company has not retrospectively applied the amendments in accordance with the transitional requirements.

New standards and interpretations not yet adopted

The following new standards, interpretations and amendments to existing standards have been published but are not mandatory for the Company for annual period beginning on January 1, 2017, and the Company has not early adopted them.

(a) K-IFRS No. 1109 “Financial Instruments”

K-IFRS No. 1109 “Financial Instruments”, published on September 25, 2015, is effective for annual period beginning on or after January 1, 2018, with earlier adoption permitted. It replaces existing guidance in K-IFRS No. 1039 “Financial Instruments: Recognition and Measurement”. The Company plans to adopt K-IFRS No. 1109 for the year beginning on January 1, 2018.

K-IFRS No. 1109 will generally be applied retrospectively, however the Company plans to take advantage of the exemption allowing it not to restate the comparative information for prior periods with respect to classification and measurement including impairment changes. New hedge accounting requirements will generally be applied prospectively except for certain exemptions including the accounting for the time value of options.

POSCO and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements, Continued As of March 31, 2017 (Unaudited)

Key features of the new standard, K-IFRS No. 1109, are 1) classification and measurement of financial assets that reflects the business model in which the assets are managed and their cash flow characteristics, 2) impairment methodology that reflects 'expected credit loss' (ECL) model for financial assets, and 3) expanded scope of hedged items and hedging instruments which qualify for hedge accounting and changes in assessment method for effect of hedging relationships.

The Company has initiated procedures to prepare for changes related to K-IFRS No. 1109, and the Company is preparing analysis of the impact on the financial statements resulting from the application of K-IFRS No. 1109. The Company will complete the analysis of financial impacts arising from applying this standard in 2017.

(b) K-IFRS No. 1115 "Revenue from Contracts with Customers"

K-IFRS No. 1115 "Revenue from Contracts with Customers", published on November 6, 2015, is effective for annual period beginning on or after January 1, 2018, with earlier adoption permitted. It replaces existing revenue recognition guidance, including K-IFRS No. 1018 "Revenue", K-IFRS No. 1011 "Construction Contracts", K-IFRS No. 2031 "Revenue-Barter transactions involving advertising services", K-IFRS No. 2113 "Customer Loyalty Programs", K-IFRS No. 2115 "Agreements for the construction of real estate", and K-IFRS No. 2118 "Transfers of assets from customers". The Company shall apply this standard using one of the following two methods; (a) retrospectively to each prior reporting period presented in accordance with K-IFRS No. 1008 "Accounting Policies, Changes in Accounting Estimates and Errors" but using the practical expedients for completed contracts- i.e. completed contracts for the earliest prior period presented are not restated; or (b) retrospectively with the cumulative effect of initially applying this standard recognized at the date of initial application. The Company plans to adopt K-IFRS No. 1115 in its consolidated financial statements for the year ending December 31, 2018, however the Company has not determined the transition method.

Existing K-IFRS standards and interpretations including K-IFRS No. 1018 provide revenue recognition guidance by transaction types such as sales of goods, rendering of services, interest income, royalty income, dividend income and construction revenue; however, under the new standard, K-IFRS No. 1115, the five-step approach (Step 1: Identify the contract(s) with a customer, Step 2: Identify the performance obligations in the contract, Step 3: Determine the transaction price, Step 4: Allocate the transaction price to the performance obligations in the contract, Step 5: Recognize revenue when the entity satisfied a performance obligation) is applied for all types of contracts or agreements.

The Company has initiated procedures to prepare for changes related to K-IFRS No. 1115, and the Company is preparing analysis of the impact on the financial statements resulting from the application of K-IFRS No. 1115. The Company will complete the analysis of financial impacts arising from applying this standard in 2017.

POSCO and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements, Continued As of March 31, 2017 (Unaudited)

4. Trade Accounts and Notes Receivable

Trade accounts and notes receivable as of March 31, 2017 and December 31, 2016 are as follows:

(in millions of Won)

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Current		
Trade accounts and notes receivable	₩ 9,337,319	9,329,799
Finance lease receivables	10,252	10,300
Due from customers for contract work	940,372	964,304
Less: Allowance for doubtful accounts	(522,722)	(517,476)
	<u>₩ 9,765,221</u>	<u>9,786,927</u>
Non-current		
Trade accounts and notes receivable	₩ 72,686	80,447
Finance lease receivables	8,584	11,326
Less: Allowance for doubtful accounts	(40,491)	(40,649)
	<u>₩ 40,779</u>	<u>51,124</u>

Trade accounts and notes receivable sold to financial institutions, for which the derecognition conditions were not met, amounted to ₩425,962 million and ₩344,410 million as of March 31, 2017 and December 31, 2016, respectively. The fair value of trade accounts and notes receivable approximates the carrying amounts and recognized as short-term borrowings from financial institutions (Note 15).

5. Other Receivables

Other receivables as of March 31, 2017 and December 31, 2016 are as follows:

(in millions of Won)

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Current		
Loans	₩ 375,758	421,818
Other accounts receivable	1,069,573	1,131,492
Accrued income	158,041	139,618
Deposits	86,348	93,891
Others	15,522	13,606
Less: Allowance for doubtful accounts	(279,265)	(260,683)
	<u>₩ 1,425,977</u>	<u>1,539,742</u>
Non-current		
Loans	₩ 760,134	733,974
Other accounts receivable	72,746	81,938
Accrued income	1,735	1,746
Deposits	113,251	104,217
Less: Allowance for doubtful accounts	(161,058)	(158,963)
	<u>₩ 786,808</u>	<u>762,912</u>

POSCO and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements, Continued As of March 31, 2017 (Unaudited)

6. Other Financial Assets

Other financial assets as of March 31, 2017 and December 31, 2016 are as follows:

(in millions of Won)

		March 31, 2017	December 31, 2016
Current			
Derivatives assets held for trading	₩	43,562	49,281
Available-for-sale securities (bonds)		4,575	2,952
Current portion of held-to-maturity securities		13	422
Short-term financial instruments(*1,2)		4,884,312	5,172,256
	₩	<u>4,932,462</u>	<u>5,224,911</u>
Non-current			
Derivatives assets held for trading	₩	20,566	98,301
Available-for-sale securities (equity instruments)(*3,4)		2,428,585	2,392,534
Available-for-sale securities (bonds)		49,694	46,330
Available-for-sale securities (others)		74,374	73,108
Held-to-maturity securities		2,476	2,048
Long-term financial instruments(*2)		45,734	45,371
	₩	<u>2,621,429</u>	<u>2,657,692</u>

(*1) As of March 31, 2017 and December 31, 2016, ₩8,896 million and ₩6,813 million, respectively, are restricted for the use in a government project.

(*2) As of March 31, 2017 and December 31, 2016, financial instruments amounting to ₩78,829 million and ₩82,008 million, respectively, are restricted for use in financial arrangements, pledge and others.

(*3) During the three-month period ended March 31, 2017, there were objective evidences of impairment for listed equity securities such as FuelCell Energy and others due to the significant or prolonged decline in the fair value of the shares and for non-listed equity securities such as HYODONG DEVELOPMENT CO., LTD and others since its carrying amount significantly exceeded its fair value. As a result, an impairment loss of ₩3,959 million was recognized in profit or loss during the three-month period ended March 31, 2017.

(*4) As of March 31, 2017 and December 31, 2016, ₩120,902 million and ₩123,220 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 March 31, 2017 (Unaudited)

7. Inventories

Inventories as of March 31, 2017 and December 31, 2016 are as follows:

<i>(in millions of Won)</i>		March 31, 2017	December 31, 2016
Finished goods	₩	1,302,613	1,200,344
Merchandise		872,132	851,325
Semi-finished goods		1,622,616	1,552,988
Raw materials		2,328,924	1,939,539
Fuel and materials		822,761	817,397
Construction inventories		985,288	990,941
Materials-in-transit		1,656,545	1,807,816
Others		100,695	94,535
		<u>9,691,574</u>	<u>9,254,885</u>
Less: Allowance for inventories valuation		<u>(203,119)</u>	<u>(203,164)</u>
	₩	<u>9,488,455</u>	<u>9,051,721</u>

The amounts of loss on valuation of inventories recognized within cost of sales during the three-month period ended March 31, 2017 and the year ended December 31, 2016 were ₩82,671 million and ₩152,249 million, respectively.

8. Assets Held for Sale

Details of assets held for sale and related liabilities as of March 31, 2017 and December 31, 2016 are as follows:

<i>(in millions of Won)</i>		March 31, 2017			December 31, 2016		
		The controlling company	Subsidiaries(*1)	Total	The controlling company	Subsidiaries(*2)	Total
Assets							
Cash and cash equivalents(*3)	₩	-	2,495	2,495	-	-	-
Property, plant and equipment		392	8,578	8,970	764	305,864	306,628
Other assets		-	1,600	1,600	-	5,330	5,330
	₩	<u>392</u>	<u>12,673</u>	<u>13,065</u>	<u>764</u>	<u>311,194</u>	<u>311,958</u>
Liabilities							
Trade accounts and notes payable and other payables	₩	-	137	137	-	-	-
Other liabilities		-	40	40	-	-	-
	₩	<u>-</u>	<u>177</u>	<u>177</u>	<u>-</u>	<u>-</u>	<u>-</u>

(*1) During the three-month period ended March 31, 2017, The Company determined to dispose of its shares in PT POSCO MTECH INDONESIA, a subsidiary of the Company, and classified the accompanying assets and liabilities as assets and liabilities held for sale.

(*2) During the year ended December 31, 2016, Posco e&c Songdo International Building, a subsidiary of the Company, entered into the disposal contract for the office building of POSCO ENGINEERING & CONSTRUCTION CO., LTD. in Songdo and classified the related property, plant and equipment as assets held for sale. During the three-month period ended March 31, 2017, disposal of the assets held for sale was completed.

(*3) Cash and cash equivalents classified as assets held for sale are included in the ending balance of statement of cash flows for the three-month period ended March 31, 2017.

POSCO and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements, Continued As of March 31, 2017 (Unaudited)

9. Investments in Associates and Joint Ventures

(a) Details of investments in associates as of March 31, 2017 and December 31, 2016 are as follows:

(in millions of Won)

Company	March 31, 2017				December 31, 2016
	Number of shares	Ownership (%)	Acquisition cost	Book value	Book value
[Domestic]					
EQP POSCO Global NO1					
Natural Resources PEF	178,713,975,892	29.83	₩ 178,787	₩ 175,809	175,690
SNNC	18,130,000	49.00	90,650	106,847	107,859
QSONE Co., Ltd.	200,000	50.00	84,395	84,903	84,799
Chuncheon Energy Corp. (*1)	10,539,989	29.90	52,700	44,319	45,077
Incheon-Gimpo Expressway Co., Ltd (*1,3)	9,032,539	18.28	45,163	36,778	37,372
BLUE OCEAN Private Equity Fund	333	27.52	33,300	34,317	35,752
UITrans LRT Co., Ltd (*1)	7,714,380	38.19	38,572	17,770	17,851
Keystone-HYUNDAI SECURITIES					
NO. 1. Private Equity Fund	13,800,000	40.45	13,800	13,083	13,314
CHUNGJU ENTERPRISE CITY					
DEVELOPMENT Co., Ltd.	2,008,000	29.53	10,040	16,374	12,551
Daesung Steel (*3)	108,038	17.54	14,000	14,793	12,302
KoFC POSCO HANWHA KB Shared Growth					
NO.2. Private Equity Fund	11,350	12.50	11,350	11,542	11,890
KONES, Corp.	3,250,000	41.67	6,893	5,336	5,641
Others (34 companies) (*1)				62,493	55,061
				<u>624,364</u>	<u>615,159</u>
[Foreign]					
South-East Asia Gas Pipeline Company Ltd.	135,219,000	25.04	150,779	200,725	215,996
AES-VCM Mong Duong					
Power Company Limited (*2)	-	30.00	74,161	159,757	167,141
7623704 Canada Inc. (*3)	114,452,000	10.40	124,341	127,642	137,512
Eureka Moly LLC	-	20.00	240,123	82,734	89,601
AMCI (WA) PTY LTD.	49	49.00	209,664	68,178	70,501
KOREA LNG LTD.	2,400	20.00	135,205	46,232	63,058
Nickel Mining Company SAS	3,234,698	49.00	157,585	41,186	45,138
NCR LLC	-	29.41	37,432	34,093	36,738
PT. Batutua Tembaga Raya	128,285	24.10	21,824	22,452	22,723
Zhongyue POSCO (Qinhuangdao)					
Tinplate Industrial Co., Ltd	10,200,000	34.00	9,517	16,399	18,008
PT. Wampu Electric Power (*1)	8,708,400	20.00	10,054	11,422	8,706
POSCO SeAH Steel Wire(Nantong) Co., Ltd.	50	25.00	4,723	6,257	6,840
Others (26 companies) (*1)				108,259	98,320
				<u>925,336</u>	<u>980,282</u>
				<u>₩ 1,549,700</u>	<u>1,595,441</u>

(*1) Investments in associates are provided as collateral related to associates' borrowings amounting to ₩136,039 million and ₩124,963 million as of March 31, 2017 and December 31, 2016, respectively.

(*2) Shares of PSC Energy Global Co., Ltd., a subsidiary of the Company, is provided as collateral related to associate's borrowings as of March 31, 2017 and December 31, 2016.

(*3) As of March 31, 2017, 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 March 31, 2017 (Unaudited)

(b) Details of investments in joint ventures as of March 31, 2017 and December 31, 2016 are as follows:

(in millions of Won)

Company	March 31, 2017				December 31, 2016
	Number of shares	Ownership (%)	Acquisition cost	Book value	Book value
[Domestic]					
POSCO MITSUBISHI CARBON TECHNOLOGY	11,568,000	60.00	₩ 115,680	₩ 82,768	83,113
[Foreign]					
Roy Hill Holdings Pty Ltd(*1)	13,117,972	12.50	1,528,672	1,149,679	1,186,859
POSCO-NPS Niobium LLC	325,050,000	50.00	364,609	362,850	393,570
CSP - Companhia Siderurgica do Pecem	1,108,696,532	20.00	558,821	274,312	330,463
BX STEEL POSCO					
Cold Rolled Sheet Co., Ltd.	-	25.00	61,961	92,356	97,369
KOBRASCO	2,010,719,185	50.00	32,950	96,532	88,308
DMSA/AMSA(*2)	-	4.00	294,869	65,573	74,935
Others (11 companies)				29,779	32,331
				2,071,081	2,203,835
			₩	2,153,849	2,286,948

(*1) As of March 31, 2017 and December 31, 2016, investments in joint ventures amounting to ₩1,149,679 million and ₩1,186,859 million, respectively, are provided as collateral in relation to loan.

(*2) As of March 31, 2017 and December 31, 2016, investments in joint ventures amounting to ₩65,573 million and ₩74,935 million, respectively, are provided as collateral for guarantees.

POSCO and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements, Continued As of March 31, 2017 (Unaudited)

(c) The movements of investments in associates and joint ventures for the three-month period ended March 31, 2017 and the year ended December 31, 2016 were as follows:

1) For the three-month period ended March 31, 2017

(in millions of Won)

Company	December 31, 2016 Book value	Acquisition	Dividend	Share of profits (losses)	Other increase (decrease)(*1)	March 31, 2017 Book value
[Domestic]						
EQP POSCO Global NO1						
Natural Resources PEF	₩ 175,690	-	-	119	-	175,809
SNNC	107,859	-	-	(971)	(41)	106,847
QSONE Co., Ltd.	84,799	-	(368)	472	-	84,903
Chuncheon Energy Corp.	45,077	-	-	(758)	-	44,319
Incheon-Gimpo Expressway Co., Ltd	37,372	-	-	(594)	-	36,778
BLUE OCEAN Private Equity Fund	35,752	-	-	168	(1,603)	34,317
UITrans LRT Co., Ltd.	17,851	-	-	(81)	-	17,770
Keystone-HYUNDAI SECURITIES						
NO. 1. Private Equity Fund	13,314	-	-	(231)	-	13,083
CHUNGJU ENTERPRISE CITY						
DEVELOPMENT Co., Ltd.	12,551	-	-	3,823	-	16,374
Daesung Steel	12,302	-	-	2,491	-	14,793
KoFC POSCO HANHWA KB Shared						
Growth NO. 2. Private Equity Fund	11,890	-	-	(348)	-	11,542
KONES, Corp.	5,641	-	-	(305)	-	5,336
POSCO MITSUBISHI CARBON						
TECHNOLOGY	83,113	-	-	(345)	-	82,768
Others (34 companies)	55,061	7,069	-	403	(40)	62,493
	<u>698,272</u>	<u>7,069</u>	<u>(368)</u>	<u>3,843</u>	<u>(1,684)</u>	<u>707,132</u>
[Foreign]						
South-East Asia Gas						
Pipeline Company Ltd.	215,996	-	(12,841)	14,367	(16,797)	200,725
AES-VCN Mong Duong						
Power Company Limited	167,141	-	-	4,019	(11,403)	159,757
7623704 Canada Inc.	137,512	-	(1,336)	2,120	(10,654)	127,642
Eureka Moly LLC	89,601	-	-	(12)	(6,855)	82,734
AMCI (WA) PTY LTD.	70,501	-	-	(834)	(1,489)	68,178
KOREA LNG LTD.	63,058	-	(1,886)	2,507	(17,447)	46,232
Nickel Mining Company SAS	45,138	-	-	(1,011)	(2,941)	41,186
NCR LLC	36,738	74	-	(20)	(2,699)	34,093
PT. Batutua Tembaga Raya	22,723	-	-	83	(354)	22,452
Zhongyue POSCO (Qinhuangdao)						
Tinplate Industrial Co., Ltd	18,008	-	-	(300)	(1,309)	16,399
PT. Wampu Electric Power	8,706	-	-	1,709	1,007	11,422
POSCO SeAH Steel Wire(Nantong)						
Co., Ltd.	6,840	-	-	131	(714)	6,257
Roy Hill Holdings Pty Ltd	1,186,859	-	-	39,740	(76,920)	1,149,679
POSCO-NPS Niobium LLC	393,570	-	(10,911)	10,457	(30,266)	362,850
CSP - Companhia						
Siderurgica do Pecem	330,463	-	-	(38,362)	(17,789)	274,312
BX STEEL POSCO						
Cold Rolled Sheet Co., Ltd.	97,369	-	-	751	(5,764)	92,356
KOBRASCO	88,308	-	-	12,704	(4,480)	96,532
DMSA/AMSA	74,935	4,310	-	(5,000)	(8,672)	65,573
Others (37 companies)	130,651	-	(1,186)	25,118	(16,545)	138,038
	<u>3,184,117</u>	<u>4,384</u>	<u>(28,160)</u>	<u>68,167</u>	<u>(232,091)</u>	<u>2,996,417</u>
₩	<u>3,882,389</u>	<u>11,453</u>	<u>(28,528)</u>	<u>72,010</u>	<u>(233,775)</u>	<u>3,703,549</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 March 31, 2017 (Unaudited)

2) For the year ended December 31, 2016

(in millions of Won)

Company	December 31, 2015 Book value	Acquisition	Dividends	Share of profits (losses)	Other increase (decrease)(*1)	December 31, 2016 Book value
[Domestic]						
EQP POSCO Global NO1 Natural Resources PEF ₩	175,676	222	-	(399)	191	175,690
POSCO PLANTEC Co., Ltd.	171,218	-	-	(171,927)	709	-
SeAH Changwon Integrated Special Steel	165,754	-	-	4,797	(170,551)	-
SNNC	111,326	-	-	(3,417)	(50)	107,859
QSONE Co., Ltd.	83,919	-	-	880	-	84,799
Chun-cheon Energy Co., Ltd.	30,420	19,832	-	(5,175)	-	45,077
Incheon-Gimpo Expressway Co., Ltd.	39,447	-	-	(2,758)	683	37,372
BLUE OCEAN Private Equity Fund	35,437	-	-	643	(328)	35,752
UITrans LRT Co., Ltd.	40,903	6,817	-	(29,825)	(44)	17,851
Keystone-HYUNDAI SECURITIES						
NO. 1. Private Equity Fund	13,015	-	-	281	18	13,314
CHUNGJU ENTERPRISE CITY						
DEVELOPMENT Co., Ltd.	12,265	-	-	286	-	12,551
Daesung Steel	14,000	-	-	(2,272)	574	12,302
KoFC POSCO HANWHA KB Shared Growth						
NO. 2. Private Equity Fund	14,829	1,875	-	1,186	(6,000)	11,890
KONES, Corp.	5,775	-	-	(256)	122	5,641
POSCO MITSUBISHI CARBON TECHNOLOGY	104,970	-	-	(21,929)	72	83,113
POSCO ES MATERIALS CO., LTD	38,447	-	-	(2,061)	(36,386)	-
Others (33 companies)	33,933	20,061	(200)	(2,802)	4,069	55,061
	<u>1,091,334</u>	<u>48,807</u>	<u>(200)</u>	<u>(234,748)</u>	<u>(206,921)</u>	<u>698,272</u>
[Foreign]						
South-East Asia Gas Pipeline Company Ltd.	222,269	-	(59,717)	46,855	6,589	215,996
AES-VCM Mong Duong Power Company Limited	153,271	-	-	27,031	(13,161)	167,141
7623704 Canada Inc.	134,034	-	(921)	175	4,224	137,512
Eureka Moly LLC	87,878	-	-	(18)	1,741	89,601
AMCI (WA) PTY LTD	72,289	-	-	(3,358)	1,570	70,501
KOREA LNG LTD.	53,548	-	(6,342)	6,392	9,460	63,058
Nickel Mining Company SAS	76,445	-	-	(31,047)	(260)	45,138
NCR LLC	35,447	-	-	(41)	1,332	36,738
PT. Batutua Tembaga Raya	15,382	7,040	-	-	301	22,723
Zhongyue POSCO (Qinhuangdao) Tinplate						
Industrial Co., Ltd	19,311	-	-	(412)	(891)	18,008
PT. Wampu Electric Power	8,855	-	-	(397)	248	8,706
POSCO SeAH Steel Wire(Nantong) Co., Ltd.	7,061	-	-	242	(463)	6,840
Roy Hill Holdings Pty Ltd	1,153,434	-	-	12,643	20,782	1,186,859
POSCO-NPS Niobium LLC	381,461	-	(10,893)	11,499	11,503	393,570
CSP - Companhia Siderurgica do Pecem	80,805	88,930	-	116,694	44,034	330,463
BX STEEL POSCO Cold Rolled Sheet Co., Ltd.	100,908	-	-	258	(3,797)	97,369
KOBRASCO	78,364	-	(29,297)	20,761	18,480	88,308
DMSA/AMSA	105,964	24,624	-	(60,415)	4,762	74,935
Others (37 companies)	67,273	28,993	(4,252)	(791)	39,428	130,651
	<u>2,853,999</u>	<u>149,587</u>	<u>(111,422)</u>	<u>146,071</u>	<u>145,882</u>	<u>3,184,117</u>
₩	<u>3,945,333</u>	<u>198,394</u>	<u>(111,622)</u>	<u>(88,677)</u>	<u>(61,039)</u>	<u>3,882,389</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 March 31, 2017 (Unaudited)

(d) Summarized financial information of associates and joint ventures as of and for the three-month period March 31, 2017 and the year ended December 31, 2016 are as follows:

1) March 31, 2017

(in millions of Won)

Company	Assets	Liabilities	Equity	Sales	Net income (loss)
[Domestic]					
EQP POSCO Global NO1 Natural Resources PEF ₩	588,689	828	587,861	-	389
SNNC	711,737	478,321	233,416	123,126	(10,141)
QSONE Co., Ltd.	247,701	77,895	169,806	4,238	943
Chuncheon Energy Corp.	612,794	444,854	167,940	-	(1,252)
Incheon-Gimpo Expressway Co., Ltd	1,062,679	851,742	210,937	-	(314)
BLUE OCEAN Private Equity Fund	339,653	208,039	131,614	119,694	609
UITrans LRT Co., Ltd.	405,832	312,909	92,923	-	(213)
Keystone-HYUNDAI SECURITIES NO. 1. Private Equity Fund	133,720	94,857	38,863	-	(510)
CHUNGJU ENTERPRISE CITY DEVELOPMENT Co., Ltd.	136,857	111,717	25,140	47,271	12,949
Daesung Steel	165,090	112,138	52,952	12,537	14,203
KoFC POSCO HANHWA KB Shared Growth NO. 2. Private Equity Fund	93,410	1,073	92,337	1,101	(2,782)
KONES, Corp.	1,759	1,382	377	267	(731)
POSCO MITSUBISHI CARBON TECHNOLOGY	450,372	313,361	137,011	26,556	(537)
[Foreign]					
South-East Asia Gas Pipeline Company Ltd.	1,974,327	1,169,566	804,761	129,818	57,375
7623704 Canada Inc.	1,240,753	1,270	1,239,483	-	30,920
KOREA LNG LTD.	272,445	18,200	254,245	9,815	9,279
Nickel Mining Company SAS	443,941	315,688	128,253	22,608	(7,465)
PT. Batutua Tembaga Raya	327,544	309,411	18,133	39,512	528
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd	74,134	20,080	54,054	25,788	(874)
PT. Wampu Electric Power	199,608	154,007	45,601	4,574	8,543
POSCO SeAH Steel Wire(Nantong) Co., Ltd.	66,411	40,181	26,230	22,159	537
Roy Hill Holdings Pty Ltd	10,437,690	7,273,872	3,163,818	447,989	331,376
POSCO-NPS Niobium LLC	725,497	-	725,497	-	19,050
CSP - Companhia Siderurgica do Pecem	5,278,877	4,085,900	1,192,977	331,522	(192,239)
BX STEEL POSCO Cold Rolled Sheet Co., Ltd.	764,129	422,322	341,807	359,980	3,005
KOBRASCO	208,849	15,785	193,064	41,714	25,409
DMSA/AMSA	6,025,165	4,438,586	1,586,579	163,077	(124,716)

POSCO and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements, Continued As of March 31, 2017 (Unaudited)

2) December 31, 2016

(in millions of Won)

Company	Assets	Liabilities	Equity (deficit)	Sales	Net income (loss)
[Domestic]					
EQP POSCO Global NO1 Natural Resources PEF ₩	597,767	864	596,903	-	(1,349)
POSCO PLANTEC Co., Ltd.	501,659	678,004	(176,345)	361,351	(43,195)
SNNC	725,987	482,429	243,558	527,101	2,022
QSONE Co., Ltd.	247,385	77,786	169,599	15,961	1,760
Chun-cheon Energy Co., Ltd	547,805	378,613	169,192	-	(3,748)
Incheon-Gimpo Expressway Co., Ltd.	929,539	718,107	211,432	-	(1,910)
BLUE OCEAN Private Equity Fund	357,723	220,895	136,828	456,311	2,335
UITrans LRT Co., Ltd.	400,761	307,625	93,136	-	(822)
Keystone-HYUNDAI SECURITIES					
NO. 1. Private Equity Fund	119,378	79,946	39,432	197	694
CHUNGJU ENTERPRISE CITY					
DEVELOPMENT Co., Ltd	136,857	124,666	12,191	19,028	967
Daesung Steel	150,944	112,194	38,750	60,772	(12,955)
KoFC POSCO HANWHA KB Shared Growth					
NO. 2. Private Equity Fund	96,213	1,094	95,119	14,157	9,561
KONES, Corp.	2,627	1,519	1,108	3,952	(615)
POSCO MITSUBISHI CARBON TECHNOLOGY	448,618	311,070	137,548	53,908	(36,572)
[Foreign]					
South-East Asia Gas Pipeline Company Ltd.	2,171,689	1,305,942	865,747	491,011	187,114
7623704 Canada Inc.	1,334,391	1	1,334,390	-	19,485
KOREA LNG LTD.	303,389	19,704	283,685	33,035	31,962
Nickel Mining Company SAS	491,458	347,194	144,264	145,571	(61,473)
PT. Batutua Tembaga Raya	351,119	332,037	19,082	-	-
Zhongyue POSCO (Qinhuangdao) Tinplate					
Industrial Co., Ltd	83,291	24,676	58,615	117,387	(1,216)
PT. Wampu Electric Power	206,052	165,618	40,434	3,405	(1,984)
POSCO SeAH Steel Wire(Nantong) Co., Ltd.	67,905	40,451	27,454	81,260	938
Roy Hill Holdings Pty Ltd	10,962,261	8,059,714	2,902,547	845,243	129,968
POSCO-NPS Niobium LLC	786,937	-	786,937	-	24,719
CSP - Companhia Siderurgica do Pecem	5,682,161	4,237,247	1,444,914	226,669	243,151
BX STEEL POSCO Cold Rolled Sheet Co., Ltd.	789,336	427,475	361,861	948,488	1,033
KOBRASCO	178,853	2,236	176,617	72,274	41,522
DMSA/AMSA	6,570,172	4,842,560	1,727,612	579,388	(519,969)

POSCO and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements, Continued As of March 31, 2017 (Unaudited)

10. Joint Operations

Details of significant joint operations that the Company is participating in as a party to a joint arrangement as of March 31, 2017 are as follows:

Joint operations	Operation	Ownership (%)	Location
Myanmar A-1/A-3 mine	Mine development and gas production	51.00	Myanmar
Offshore midstream	Gas transportation facility	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

11. Investment Property, Net

Changes in the carrying amount of investment property for the three-month period ended March 31, 2017 and the year ended December 31, 2016 were as follows:

(a) For the three-month period ended March 31, 2017

<i>(in millions of Won)</i>		Beginning	Acquisitions	Depreciation	Others(*1)	Ending
Land	₩	392,723	-	-	2,758	395,481
Buildings		671,539	-	(6,049)	(10,656)	654,834
Structures		2,147	-	(100)	228	2,275
Construction-in-progress		51,311	974	-	(3,270)	49,015
	₩	<u>1,117,720</u>	<u>974</u>	<u>(6,149)</u>	<u>(10,940)</u>	<u>1,101,605</u>

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

(b) For the year ended December 31, 2016

<i>(in millions of Won)</i>		Beginning	Acquisitions	Disposals	Depreciation(*1)	Others(*2)	Ending
Land	₩	346,879	24,116	(8,056)	-	29,784	392,723
Buildings		696,526	7,548	(3,339)	(24,043)	(5,153)	671,539
Structures		1,819	1	-	(288)	615	2,147
Construction-in-progress		39,068	13,910	-	-	(1,667)	51,311
	₩	<u>1,084,292</u>	<u>45,575</u>	<u>(11,395)</u>	<u>(24,331)</u>	<u>23,579</u>	<u>1,117,720</u>

(*1) Impairment loss on investment property amounting to ₩318 million is included.

(*2) Includes 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 March 31, 2017 (Unaudited)

12. Property, Plant and Equipment, Net

Changes in the carrying amount of property, plant and equipment for the three-month period ended March 31, 2017 and the year ended December 31, 2016 were as follows:

(a) For the three-month period ended March 31, 2017

<i>(in millions of Won)</i>		Beginning	Acquisitions	Disposals	Depreciation(*1)	Others(*2)	Ending
Land	₩	2,601,208	720	(2,654)	-	(54,389)	2,544,885
Buildings		4,995,631	15,332	(1,679)	(89,999)	(66,619)	4,852,666
Structures		2,908,480	1,871	(503)	(53,309)	(9,993)	2,846,546
Machinery and equipment		20,318,390	48,127	(14,417)	(558,593)	126,556	19,920,063
Vehicles		46,699	2,038	(316)	(4,969)	(472)	42,980
Tools		71,380	2,304	(2,342)	(7,135)	2,661	66,868
Furniture and fixtures		132,406	7,853	(394)	(12,300)	(1,350)	126,215
Finance lease assets		159,013	4,614	(165)	(3,207)	(2,921)	157,334
Bearer plants		-	-	-	(2,525)	51,793	49,268
Construction-in-progress		2,537,132	429,613	(575)	-	(753,673)	2,212,497
	₩	<u>33,770,339</u>	<u>512,472</u>	<u>(23,045)</u>	<u>(732,037)</u>	<u>(708,407)</u>	<u>32,819,322</u>

(*1) Impairment losses on property, plant and equipment amounting to ₩6,941 million are included.

(*2) Represents assets transferred from construction-in-progress to intangible assets and other property, plant and equipment, reclassifications resulting from changing purpose of use, adjustments of foreign currency translation differences and others.

(b) For the year ended December 31, 2016

<i>(in millions of Won)</i>		Beginning	Acquisitions	Business combination	Disposals	Depreciation(*1)	Others(*2)	Ending
Land	₩	2,572,807	8,901	15,687	(16,176)	(6,452)	26,441	2,601,208
Buildings		5,165,725	37,493	277,242	(12,857)	(396,899)	(75,073)	4,995,631
Structures		2,949,413	19,043	-	(1,994)	(216,631)	158,649	2,908,480
Machinery and equipment		21,093,743	193,856	47,021	(36,095)	(2,277,740)	1,297,605	20,318,390
Vehicles		52,005	8,967	88	(1,990)	(18,484)	6,113	46,699
Tools		73,478	17,546	635	(848)	(27,396)	7,965	71,380
Furniture and fixtures		148,099	30,650	32	(4,248)	(51,361)	9,234	132,406
Finance lease assets		92,796	79,556	-	(38)	(13,409)	108	159,013
Construction-in-progress		2,374,789	1,935,339	2,181	(4,255)	-	(1,770,922)	2,537,132
	₩	<u>34,522,855</u>	<u>2,331,351</u>	<u>342,886</u>	<u>(78,501)</u>	<u>(3,008,372)</u>	<u>(339,880)</u>	<u>33,770,339</u>

(*1) Includes impairment losses on property, plant and equipment amounting to ₩196,882 million. During the year ended December 31, 2016, due to the existence of indicators for impairment, such as continuing operating loss on fuel cell business of the POSCO ENERGY CO., LTD., which is included in Other reportable segment, the Company performed impairment test and recognized impairment loss of ₩61,565 million. Recoverable amount was determined based on value-in-use, which was calculated by applying a 14.0% discount rate. The impairment recorded in 2016 also included ₩58,388 million related to POSCO for individual assets based on disposal plans.

(*2) Represents assets transferred from construction-in-progress to intangible assets and other property, plant and equipment, 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 March 31, 2017 (Unaudited)

13. Goodwill and Other Intangible Assets, Net

Changes in the carrying amount of goodwill and other intangible assets for the three-month period ended March 31, 2017 and the year ended December 31, 2016 were as follows:

(a) For the three-month period ended March 31, 2017

(in millions of Won)

	Beginning	Acquisitions	Disposals	Amortization	Impairment loss	Others(*2)	Ending
Goodwill	₩ 1,375,131	-	-	-	-	(3,433)	1,371,698
Intellectual property rights	2,521,171	11,622	(253)	(54,712)	(19)	(9,284)	2,468,525
Premium in rental(*1)	119,039	2,709	(96)	(101)	-	(854)	120,697
Development expense	117,012	177	(934)	(16,396)	-	6,067	105,926
Port facilities usage rights	256,617	-	-	(4,196)	-	41,310	293,731
Exploration and evaluation assets	162,268	10,747	-	-	-	(74)	172,941
Customer relationships	514,245	-	-	(10,151)	-	(2,630)	501,464
Power generation permit	539,405	-	-	-	-	-	539,405
Other intangible assets	483,841	18,149	(187)	(17,025)	(3)	(3,332)	481,443
	₩ 6,088,729	43,404	(1,470)	(102,581)	(22)	27,770	6,055,830

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

(*2) Represents assets transferred from construction-in-progress to intangible assets and assets transferred from property, plant and equipment, adjustments of foreign currency translation difference and others.

(b) For the year ended December 31, 2016

(in millions of Won)

	Beginning	Acquisitions	Disposals	Amortization	Impairment loss	Others(*2)	Ending
Goodwill	₩ 1,461,954	-	-	-	(95,984)	9,161	1,375,131
Intellectual property rights	2,667,086	56,849	(753)	(204,112)	(16,786)	18,887	2,521,171
Premium in rental(*1)	127,949	1,964	(7,526)	(243)	(1,559)	(1,546)	119,039
Development expense	135,796	4,027	(60)	(61,732)	(298)	39,279	117,012
Port facilities usage rights	264,801	-	-	(15,217)	-	7,033	256,617
Exploration and evaluation assets	151,144	45,524	-	-	(3,290)	(31,110)	162,268
Customer relationships	559,809	-	-	(47,790)	-	2,226	514,245
Power generation permit	539,405	-	-	-	-	-	539,405
Other intangible assets	497,810	52,350	(1,454)	(48,910)	(7,353)	(8,602)	483,841
	₩ 6,405,754	160,714	(9,793)	(378,004)	(125,270)	35,328	6,088,729

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

(*2) Represents assets transferred from construction-in-progress to intangible assets and assets transferred from property, plant and equipment, adjustments of foreign currency translation difference and others.

POSCO and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements, Continued As of March 31, 2017 (Unaudited)

14. Other Assets

Other assets as of March 31, 2017 and December 31, 2016 are as follows:

(in millions of Won)

		<u>March 31, 2017</u>	<u>December 31, 2016</u>
Current			
Advance payments	₩	792,710	787,452
Prepaid expenses		170,002	105,102
Others		1,685	1,930
	₩	<u>964,397</u>	<u>894,484</u>
Non-current			
Long-term advance payments	₩	26,735	27,189
Long-term prepaid expenses		359,035	380,678
Others(*1)		152,200	159,813
	₩	<u>537,970</u>	<u>567,680</u>

(*1) As of March 31, 2017 and December 31, 2016, the Company recognized tax assets amounting to ₩96,419 million and ₩100,693 million, respectively, based on the Company's best estimate of the tax amounts to be refunded when the results of the Company's appeal in connection with the additional income tax payment in prior years' tax audits that were finalized and claim for rectification are finalized.

15. Borrowings

(a) Short-term borrowings and current portion of long-term borrowings as of March 31, 2017 and December 31, 2016 are as follows:

(in millions of Won)

	<u>Lenders</u>	<u>Interest rate (%)</u>	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Short-term borrowings				
Bank overdrafts	Bank of America and others	0.7~4.0	₩ 164,082	254,036
Short-term borrowings	HSBC and others	0.1~13.0	7,884,713	7,725,691
			<u>8,048,795</u>	<u>7,979,727</u>
Current portion of long-term liabilities				
Current portion of long-term borrowings	Export-Import Bank of Korea and others	0.4~8.5	1,041,950	1,390,733
Current portion of debentures	Korea Development Bank and others	2.0~5.9	870,513	825,176
Less: Current portion of discount on debentures issued			(574)	(829)
			<u>1,911,889</u>	<u>2,215,080</u>
			₩ <u>9,960,684</u>	<u>10,194,807</u>

POSCO and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements, Continued As of March 31, 2017 (Unaudited)

(b) Long-term borrowings, excluding current portion as of March 31, 2017 and December 31, 2016 are as follows:

<i>(in millions of Won)</i>	Lenders	Interest rate (%)	March 31, 2017	December 31, 2016
Long-term borrowings	Export-Import Bank of Korea and others	0.4~8.4	₩ 5,730,056	6,420,612
Less: Present value discount			(52,759)	(55,799)
Debentures	Korea Development Bank and others	1.4~6.3	5,844,996	6,163,896
Less: Discount on debentures issued			(16,219)	(18,518)
			₩ <u>11,506,074</u>	<u>12,510,191</u>

(c) Property, plant and equipment including investment property, cash equivalents, trade accounts and notes receivable, financial instruments, available-for-sale financial assets, inventories and other assets amounting to ₩5,961,439 million, ₩66,228 million, ₩4,977 million (74 of notes receivable), ₩42,084 million, ₩10,055 million, ₩62,708 million and ₩141,980 million, respectively, are provided as collateral related to short-term borrowings, long-term borrowings and debentures.

16. Other Payables

Other payables as of March 31, 2017 and December 31, 2016 are as follows:

<i>(in millions of Won)</i>	March 31, 2017	December 31, 2016
Current		
Accounts payable	₩ 934,598	854,623
Accrued expenses	630,446	665,295
Dividend payable	501,024	7,770
Finance lease liabilities	21,740	24,523
Withholdings	256,786	299,448
	₩ <u>2,344,594</u>	<u>1,851,659</u>
Non-current		
Accounts payable	₩ 5,129	6,823
Accrued expenses	10,198	41,082
Finance lease liabilities	88,623	89,886
Long-term withholdings	71,508	70,768
	₩ <u>175,458</u>	<u>208,559</u>

POSCO and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements, Continued As of March 31, 2017 (Unaudited)

17. Other Financial Liabilities

Other financial liabilities as of March 31, 2017 and December 31, 2016 are as follows:

(in millions of Won)

		March 31, 2017	December 31, 2016
Current			
Derivative liabilities	₩	54,664	85,786
Financial guarantee liabilities		64,849	63,962
	₩	<u>119,513</u>	<u>149,748</u>
Non-current			
Derivative liabilities	₩	71,440	37,110
Financial guarantee liabilities		33,760	44,199
	₩	<u>105,200</u>	<u>81,309</u>

18. Provisions

(a) Provisions as of March 31, 2017 and December 31, 2016 are as follows:

(in millions of Won)

		March 31, 2017		December 31, 2016	
		Current	Non-current	Current	Non-current
Provision for bonus payments	₩	23,257	-	42,986	-
Provision for construction warranties		11,894	89,966	10,551	86,158
Provision for legal contingencies and claims(*1)		4,140	79,639	4,348	80,498
Provision for the restoration(*2)		10,421	35,206	10,169	37,962
Others(*3,4)		49,246	148,190	46,811	133,121
	₩	<u>98,958</u>	<u>353,001</u>	<u>114,865</u>	<u>337,739</u>

(*1) The Company recognized probable outflow of resources amounting to ₩29,794 million and ₩30,425 million as provisions in relation to lawsuits against the Company as of March 31, 2017 and December 31, 2016, respectively.

(*2) Due to contamination of lands near the Company's magnesium smelting plant located in Gangneung province and others, the Company recognized present values of estimated costs for recovery as provisions for restoration as of March 31, 2017. In order to determine the estimated costs, the Company has assumed that it would use all of technologies and materials available for now to recover the land. In addition, the Company has applied a discount rate of 2.37 ~ 2.49% to assess present value of these costs.

(*3) As of March 31, 2017 and December 31, 2016, POSCO ENERGY CO., LTD., a subsidiary of the Company, recognized ₩96,189 million and ₩87,827 million of provisions for warranties, respectively, for the service contract on fuel cell based on its estimate of probable outflow of resources.

(*4) As of March 31, 2017 and December 31, 2016, 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 CO., LTD.

POSCO and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements, Continued As of March 31, 2017 (Unaudited)

(b) Changes in provisions for the three-month period ended March 31, 2017 and the year ended December 31, 2016 were as follows:

1) For the three-month period ended March 31, 2017

(in millions of Won)

	Beginning	Increase	Utilization	Reversal	Others(*1)	Ending
Provision for bonus payments	₩ 42,986	20,643	(39,155)	(779)	(438)	23,257
Provision for construction warranties	96,709	8,505	(230)	(523)	(2,601)	101,860
Provision for legal contingencies and claims	84,846	1,361	-	(389)	(2,039)	83,779
Provision for the restoration	48,131	404	(2,065)	-	(843)	45,627
Others	179,932	31,311	(16,456)	(154)	2,803	197,436
	<u>₩ 452,604</u>	<u>62,224</u>	<u>(57,906)</u>	<u>(1,845)</u>	<u>(3,118)</u>	<u>451,959</u>

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

2) For the year ended December 31, 2016

(in millions of Won)

	Beginning	Increase	Utilization	Reversal	Others(*1)	Ending
Provision for bonus payments	₩ 42,602	44,106	(42,211)	(272)	(1,239)	42,986
Provision for construction warranties	81,446	33,925	(19,469)	(2,695)	3,502	96,709
Provision for legal contingencies and claims	52,610	45,525	(14,012)	(188)	911	84,846
Provision for the restoration	41,926	31,673	(13,367)	(12,475)	374	48,131
Others	105,428	142,767	(68,143)	(3,086)	2,966	179,932
	<u>₩ 324,012</u>	<u>297,996</u>	<u>(157,202)</u>	<u>(18,716)</u>	<u>6,514</u>	<u>452,604</u>

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

19. Employee Benefits

(a) Defined contribution plans

The expenses related to post-employment benefit plans under defined contribution plans for the three-month periods ended March 31, 2017 and 2016 were as follows:

(in millions of Won)

	March 31, 2017	March 31, 2016
Expense related to post-employment benefit plans under defined contribution plans	₩ 8,588	7,685

POSCO and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements, Continued As of March 31, 2017 (Unaudited)

(b) Defined benefit plan

- 1) The amounts recognized in relation to net defined benefit liabilities in the statements of financial position as of March 31, 2017 and December 31, 2016 are as follows:

<i>(in millions of Won)</i>	March 31, 2017	December 31, 2016
Present value of funded obligations	₩ 1,707,940	1,715,583
Fair value of plan assets(*1)	(1,640,801)	(1,693,118)
Present value of non-funded obligations	10,540	17,437
Net defined benefit liabilities	₩ <u>77,679</u>	<u>39,902</u>

(*1) As of March 31, 2017 and December 31, 2016, the Company recognized net defined benefit assets amounting to ₩62,165 million and ₩83,702 million, respectively, since there are consolidated entities whose fair value of plan assets exceeded the present value of defined benefit obligations.

- 2) Changes in present value of defined benefit obligations for the three-month period ended March 31, 2017 and the year ended December 31, 2016 were as follows:

<i>(in millions of Won)</i>	March 31, 2017	December 31, 2016
Defined benefit obligation		
at the beginning of period	₩ 1,733,020	1,714,115
Current service costs	50,896	285,706
Interest costs	8,795	39,286
Remeasurements	5,477	(32,927)
Benefits paid	(74,643)	(278,278)
Others	(5,065)	5,118
Defined benefit obligation at the end of period	₩ <u>1,718,480</u>	<u>1,733,020</u>

- 3) Changes in fair value of plan assets for the three-month period ended March 31, 2017 and the year ended December 31, 2016 were as follows:

<i>(in millions of Won)</i>	March 31, 2017	December 31, 2016
Fair value of plan assets		
at the beginning of period	₩ 1,693,118	1,532,090
Interest on plan assets	10,917	37,385
Remeasurement of plan assets	(2,387)	(6,963)
Contributions to plan assets	-	328,671
Benefits paid	(61,267)	(189,817)
Others	420	(8,248)
Fair value of plan assets at the end of period	₩ <u>1,640,801</u>	<u>1,693,118</u>

POSCO and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements, Continued As of March 31, 2017 (Unaudited)

- 4) The amounts recognized in condensed consolidated interim statements of comprehensive income for the three-month periods ended March 31, 2017 and 2016 were as follows:

<i>(in millions of Won)</i>		March 31, 2017	March 31, 2016
Current service costs	₩	50,896	58,999
Net interest costs		(2,122)	508
	₩	<u>48,774</u>	<u>59,507</u>

20. Other Liabilities

Other liabilities as of March 31, 2017 and December 31, 2016 are as follows:

<i>(in millions of Won)</i>		March 31, 2017	December 31, 2016
Current			
Due to customers for contract work	₩	962,707	1,160,201
Advances received		800,608	707,086
Unearned revenue		8,413	8,702
Withholdings		214,684	186,665
Others		17,334	22,307
	₩	<u>2,003,746</u>	<u>2,084,961</u>
Non-current			
Unearned revenue	₩	19,354	20,013
Others		34,206	40,338
	₩	<u>53,560</u>	<u>60,351</u>

21. Financial Instruments

- (a) Classification of financial instruments

- 1) Financial assets as of March 31, 2017 and December 31, 2016 are as follows:

<i>(in millions of Won)</i>		March 31, 2017	December 31, 2016
Financial assets at fair value through profit or loss			
Derivative assets held for trading	₩	64,128	147,582
Available-for-sale financial assets		2,557,228	2,514,924
Held-to-maturity financial assets		2,489	2,470
Loans and receivables		19,316,795	19,390,610
	₩	<u>21,940,640</u>	<u>22,055,586</u>

POSCO and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements, Continued As of March 31, 2017 (Unaudited)

2) Financial liabilities as of March 31, 2017 and December 31, 2016 are as follows:

<i>(in millions of Won)</i>	March 31, 2017	December 31, 2016
Financial liabilities at fair value through profit or loss		
Derivative liabilities held for trading	₩ 126,104	122,896
Financial liabilities measured at amortized cost		
Trade accounts and notes payable	3,374,212	4,117,798
Borrowings	21,466,758	22,704,998
Financial guarantee liabilities	98,609	108,161
Others	2,375,919	2,007,114
	₩ <u>27,441,602</u>	<u>29,060,967</u>

3) Finance income and costs by category of financial instrument for the three-month periods ended March 31, 2017 and 2016 were as follows:

① For the three-month period ended March 31, 2017

<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	Total	
Financial assets at fair value								
through profit or loss	₩ -	12,117	-	57,863	-	-	69,980	-
Available-for-sale financial assets	14	-	-	(1,584)	(3,959)	42,013	36,484	37,010
Held-to-maturity financial assets	52	-	-	(3)	-	5	54	-
Loans and receivables	40,353	-	(461,814)	(10,077)	-	1	(431,537)	-
Financial liabilities at fair value								
through profit or loss	-	(101,393)	-	(54,031)	-	-	(155,424)	-
Financial liabilities measured at amortized cost	(168,609)	-	586,912	-	-	(4,736)	413,567	-
	₩ <u>(128,190)</u>	<u>(89,276)</u>	<u>125,098</u>	<u>(7,832)</u>	<u>(3,959)</u>	<u>37,283</u>	<u>(66,876)</u>	<u>37,010</u>

② For the three-month period ended March 31, 2016

<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	Total	
Financial assets at fair value								
through profit or loss	₩ -	99,566	-	114,321	-	-	213,887	-
Available-for-sale financial assets	243	-	-	88	(29,491)	20,679	(8,481)	(3,001)
Held-to-maturity financial assets	105	-	-	-	-	9	114	-
Loans and receivables	52,180	-	(114,290)	(3,803)	-	(44)	(65,957)	-
Financial liabilities at fair value								
through profit or loss	-	(56,341)	-	(128,828)	-	-	(185,169)	-
Financial liabilities measured at amortized cost	(177,340)	-	73,641	-	-	(3,340)	(107,039)	-
	₩ <u>(124,812)</u>	<u>43,225</u>	<u>(40,649)</u>	<u>(18,222)</u>	<u>(29,491)</u>	<u>17,304</u>	<u>(152,645)</u>	<u>(3,001)</u>

POSCO and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements, Continued As of March 31, 2017 (Unaudited)

(b) Fair value

1) Fair value and book value

The carrying amount and the fair value of financial instruments as of March 31, 2017 and December 31, 2016 are as follows:

(in millions of Won)

	March 31, 2017		December 31, 2016	
	Book value	Fair value	Book value	Fair value
Assets measured at fair value				
Available-for-sale financial assets(*1)	₩ 2,177,067	2,177,067	2,139,687	2,139,687
Derivative assets held for trading(*1,2)	64,128	64,128	147,582	147,582
	<u>2,241,195</u>	<u>2,241,195</u>	<u>2,287,269</u>	<u>2,287,269</u>
Assets measured at amortized cost(*3)				
Cash and cash equivalents	2,725,240	2,725,240	2,447,619	2,447,619
Trade accounts and notes receivable, net	9,806,000	9,806,000	9,838,051	9,838,051
Loans and other receivables, net	6,785,555	6,785,555	7,104,940	7,104,940
Held-to-maturity financial assets	2,489	2,489	2,470	2,470
	<u>19,319,284</u>	<u>19,319,284</u>	<u>19,393,080</u>	<u>19,393,080</u>
Liabilities measured at fair value				
Derivative liabilities held for trading(*2)	126,104	126,104	122,896	122,896
Liabilities measured at amortized cost(*3)				
Trade accounts and notes payable	3,374,212	3,374,212	4,117,798	4,117,798
Borrowings	21,466,758	21,738,654	22,704,998	22,956,571
Financial guarantee liabilities	98,609	98,609	108,161	108,161
Others	2,375,919	2,375,919	2,007,114	2,007,114
	<u>₩ 27,315,498</u>	<u>27,587,394</u>	<u>28,938,071</u>	<u>29,189,644</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 and derivatives which are classified as fair value hierarchy level 3 is calculated using valuation model such as a discounted cash flow model and others in which weighted average cost of capital of evaluated companies are used as a discount rates. Available-for-sale financial assets which are not measured at fair value are not included.
- (*2) The fair value of derivatives which are classified as fair value hierarchy level 2 is measured using derivatives' valuation models such as market approach and others. Principal input variables of derivatives' valuation model are interest rate, spot price of underlying asset and others.
- (*3) The fair value of financial assets and liabilities measured at amortized cost is measured using a present value calculated by market interest rate as of the end of reporting period. The fair value is mainly calculated for the disclosures in the note. On the other hand, the Company has not performed fair value measurement for the financial assets and liabilities measured at amortized cost except borrowings which are classified as fair value hierarchy level 2 since their carrying amounts approximate fair value.

POSCO and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements, Continued As of March 31, 2017 (Unaudited)

2) The fair value hierarchy

The fair values of financial instruments by fair value hierarchy as of March 31, 2017 and December 31, 2016 are as follows:

① March 31, 2017

<i>(in millions of Won)</i>		Level 1	Level 2	Level 3	Total
Financial assets					
Available-for-sale financial assets	₩	1,853,002	-	324,065	2,177,067
Derivative assets held for trading		-	58,140	5,988	64,128
	₩	<u>1,853,002</u>	<u>58,140</u>	<u>330,053</u>	<u>2,241,195</u>
Financial liabilities					
Derivative liabilities held for trading	₩	-	126,104	-	126,104

② December 31, 2016

<i>(in millions of Won)</i>		Level 1	Level 2	Level 3	Total
Financial assets					
Available-for-sale financial assets	₩	1,800,943	-	338,744	2,139,687
Derivative assets held for trading		-	137,236	10,346	147,582
	₩	<u>1,800,943</u>	<u>137,236</u>	<u>349,090</u>	<u>2,287,269</u>
Financial liabilities					
Derivative liabilities held for trading	₩	-	122,896	-	122,896

(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, 2016.

POSCO and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements, Continued As of March 31, 2017 (Unaudited)

22. Share Capital and Capital Surplus

(a) Share capital as of March 31, 2017 and December 31, 2016 are as follows:

<i>(Share, in Won)</i>	March 31, 2017	December 31, 2016
Authorized shares	200,000,000	200,000,000
Par value	₩ 5,000	5,000
Issued shares(*1)	87,186,835	87,186,835
Shared capital(*2)	₩ 482,403,125,000	482,403,125,000

(*1) As of March 31, 2017, total shares of ADRs of 39,889,560, outstanding in overseas stock market, are equivalent to 9,972,390 shares of common stock.

(*2) As of March 31, 2017, the difference between the ending balance of common stock and the par value of issued common stock is ₩46,469 million due to retirement of 9,293,790 treasury stocks.

(b) Capital surplus as of March 31, 2017 and December 31, 2016 are as follows:

<i>(in millions of Won)</i>	March 31, 2017	December 31, 2016
Share premium	₩ 463,825	463,825
Gain on disposal of treasury shares	783,789	783,788
Other capital surplus	155,920	150,178
	₩ 1,403,534	1,397,791

POSCO and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements, Continued As of March 31, 2017 (Unaudited)

23. Hybrid Bonds

(a) Hybrid bonds classified as equity as of March 31, 2017 and December 31, 2016 are as follows:

<i>(in millions of Won)</i>	Date of issue	Date of maturity	Interest rate (%)		March 31, 2017	December 31, 2016
Hybrid bond 1-1(*1)	2013-06-13	2043-06-13	4.30	₩	800,000	800,000
Hybrid bond 1-2(*1)	2013-06-13	2043-06-13	4.60		200,000	200,000
Issuance cost					(3,081)	(3,081)
				₩	<u>996,919</u>	<u>996,919</u>

(*1) Details of hybrid bonds as of March 31, 2017 are as follows:

<i>(in millions of Won)</i>	Hybrid bond 1-1	Hybrid bond 1-2
Issue price	800,000	200,000
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)	
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 hybrid bond holders' preference in the event of liquidation is higher than the common stock holders, but lower than other creditors. The interest accumulated but not paid on the hybrid bonds as of March 31, 2017 amounts to ₩2,747 million.

POSCO and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements, Continued As of March 31, 2017 (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 March 31, 2017 and December 31, 2016 are as follows:

<i>(in millions of Won)</i>	<u>Date of issue</u>	<u>Date of maturity</u>	<u>Interest rate (%)</u>		<u>March 31, 2017</u>	<u>December 31, 2016</u>
Hybrid bond 1-1(*1)	2013-08-29	2043-08-29	4.66	₩	165,000	165,000
Hybrid bond 1-2(*1)	2013-08-29	2043-08-29	4.72		165,000	165,000
Hybrid bond 1-3(*1)	2013-08-29	2043-08-29	4.72		30,000	30,000
Hybrid bond 1-4(*1)	2013-08-29	2043-08-29	5.21		140,000	140,000
Issuance cost					(1,532)	(1,532)
				₩	<u>498,468</u>	<u>498,468</u>

(*1) Details of hybrid bonds of POSCO ENERGY Co., Ltd. as of March 31, 2017 are as follows:

<i>(in millions of Won)</i>	<u>Hybrid bond 1-1</u>	<u>Hybrid bond 1-2 and 1-3</u>	<u>Hybrid bond 1-4</u>
Issue price	165,000	195,000	140,000
Maturity date	30 years (The Company has a right to extend the maturity date)		
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 25 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 25 years: additionally +0.75%	Issue date ~ 2018-08-29 : 5.21 % Reset every 10 years as follows; · After 10 years: return on government bond (10 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 but for hybrid bond 1-3, the Company pays every quarter (3/30, 6/30, 9/30, 12/30))		
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 10 and interest payment date afterwards

The hybrid bond holders' preference in the event of liquidation is higher than the common stock holders, but lower than other creditors. The interest accumulated but not paid on the hybrid bonds as of March 31, 2017 amounts to ₩1,938 million.

24. Reserves

Reserves as of March 31, 2017 and December 31, 2016 are as follows:

<i>(in millions of Won)</i>	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Accumulated comprehensive loss of investments in associates and joint ventures	₩ (490,076)	(301,734)
Changes in unrealized fair value of available-for-sale investments	313,832	276,143
Foreign currency translation differences	(323,759)	(99,264)
Others	(20,657)	(19,130)
	₩ <u>(520,660)</u>	<u>(143,985)</u>

POSCO and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements, Continued As of March 31, 2017 (Unaudited)

25. Treasury Shares

As of March 31, 2017, the Company holds 7,189,140 shares of treasury stock for price stabilization and others in accordance with the Board of Director's resolution.

26. Construction Contracts

(a) Details of in-progress construction contracts as of March 31, 2017 and December 31, 2016 are as follows:

(in millions of Won)

		March 31, 2017		December 31, 2016	
		Construction segment	Others	Construction segment	Others
Accumulated cost	₩	22,098,686	271,099	22,493,050	313,422
Add: Accumulated profit		1,718,662	48,223	1,574,858	48,119
Less: Accumulated loss		(917,568)	(15,768)	(1,115,245)	(23,920)
Accumulated revenue		22,899,780	303,554	22,952,663	337,621
Less: Progress billings		(22,923,245)	(307,141)	(23,157,151)	(338,991)
Others		1,888	2,829	2,909	7,052
	₩	(21,577)	(758)	(201,579)	5,682

(b) Details of due from customers for contract work and due to customers for contract work related to construction as of March 31, 2017 and December 31, 2016 are as follows:

(in millions of Won)

		March 31, 2017		December 31, 2016	
		Construction segment	Others	Construction segment	Others
Due from customers for contract work	₩	883,958	56,414	894,181	70,123
Due to customers for contract work		(905,535)	(57,172)	(1,095,760)	(64,441)
	₩	(21,577)	(758)	(201,579)	5,682

(c) Details of the provisions of construction loss as of March 31, 2017 and December 31, 2016 are as follows:

(in millions of Won)

		March 31, 2017	December 31, 2016
Construction segment	₩	115,848	143,159
Others		2,034	3,524
	₩	117,882	146,683

POSCO and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements, Continued As of March 31, 2017 (Unaudited)

- (d) Due to the factors causing the variation of costs for the three-month period ended March 31, 2017, the estimated total contract costs have changed. Details of changes in estimated total contract costs and the impact on profits or loss for the three-month period ended March 31, 2017 and future periods 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	₩ (63,920)	32,842	(4,365)	28,477
Others	271	1,610	(31)	1,579
	₩ (63,649)	34,452	(4,396)	30,056

The effect on the current and future profit is estimated based on the circumstances that have occurred from the commencement date of the contracts as of March 31, 2017. The estimation is evaluated for the total contract cost and expected total contract revenue as of the end of the period. Also, it may change during future periods.

- (e) Uncertainty of estimates

1) Total contract revenues

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

2) Total contract costs

Construction revenues are recognized based on the percentage of completion, which is measured on the basis of the gross cost amount incurred to date. Total contract costs are estimated based on estimates of future material costs, labor costs, outsourcing cost and others. There is uncertainty in estimates on future contract costs due to various internal and external factors 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 at each reporting period end and adjusts them, if necessary.

POSCO and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements, Continued As of March 31, 2017 (Unaudited)

27. Selling and Administrative Expenses

Administrative expenses and selling expenses for the three-month periods ended March 31, 2017 and 2016 were as follows:

(a) Administrative expenses

<i>(in millions of Won)</i>		March 31, 2017	March 31, 2016
Wages and salaries	₩	209,293	207,971
Expenses related to post-employment benefits		22,406	21,709
Other employee benefits		40,593	46,483
Travel		8,838	10,701
Depreciation		24,022	26,667
Amortization		36,272	36,577
Communication		2,812	2,809
Electricity expenses		1,169	2,093
Taxes and public dues		20,323	17,207
Rental		16,336	22,151
Repairs		1,822	2,947
Entertainment		2,826	3,573
Advertising		23,805	16,847
Research & development		25,559	20,789
Service fees		51,188	46,940
Vehicles maintenance		2,128	2,475
Industry association fee		3,413	3,580
Conference		3,177	3,389
Contribution to provisions		3,213	3,196
Bad debt expenses (reversal of bad debt expenses)		25,971	(12,726)
Others		6,970	10,858
	₩	<u>532,136</u>	<u>496,236</u>

(b) Selling expenses

<i>(in millions of Won)</i>		March 31, 2017	March 31, 2016
Freight and custody expenses	₩	328,927	343,217
Operating expenses for distribution center		2,606	2,580
Sales commissions		13,945	20,949
Sales advertising		321	621
Sales promotion		2,499	3,800
Sample		523	781
Sales insurance premium		8,941	6,694
Contract cost		598	5,213
Others		2,597	1,577
	₩	<u>360,957</u>	<u>385,432</u>

POSCO and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements, Continued As of March 31, 2017 (Unaudited)

28. Finance Income and Costs

Details of finance income and costs for the three-month periods ended March 31, 2017 and 2016 were as follows:

(in millions of Won)

		March 31, 2017	March 31, 2016
Finance income			
Interest income	₩	40,419	52,528
Dividend income		42,013	20,679
Gain on foreign currency transactions		220,528	278,518
Gain on foreign currency translations		425,529	241,888
Gain on derivatives transactions		58,009	114,386
Gain on valuations of derivatives		89,132	125,357
Others		4,574	939
	₩	<u>880,204</u>	<u>834,295</u>
Finance costs			
Interest expenses	₩	168,609	177,340
Loss on foreign currency transactions		215,563	268,435
Loss on foreign currency translations		305,396	292,620
Loss on derivatives transactions		54,178	128,893
Loss on valuation of derivatives		178,408	82,132
Impairment loss on available-for-sale financial assets		3,959	29,491
Others		20,967	8,029
	₩	<u>947,080</u>	<u>986,940</u>

POSCO and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements, Continued As of March 31, 2017 (Unaudited)

29. Other Non-Operating Income and Expenses

Details of other non-operating income and expenses for the three-month periods ended March 31, 2017 and 2016 were as follows:

(in millions of Won)

	March 31, 2017	March 31, 2016
Other non-operating income		
Gain on disposals of assets held for sale	₩ 106	19,353
Gain on disposals of investment in subsidiaries, associates and joint ventures	49,671	1,857
Gain on disposals of property, plant and equipment	5,171	11,184
Gain on disposals of intangible assets	6,510	84
Gain on insurance proceeds	793	1,779
Others	16,185	16,920
	<u>₩ 78,436</u>	<u>51,177</u>
Other non-operating expenses		
Loss on disposals of investment in subsidiaries, associates and joint ventures	₩ 19,488	908
Loss on disposals of property, plant and equipment	31,259	15,510
Impairment loss on property, plant and equipment	6,941	-
Contribution to provisions	2,917	14,689
Other bad debt expenses	23,127	2,721
Donations	16,524	14,798
Others	22,892	14,695
	<u>₩ 123,148</u>	<u>63,321</u>

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 periods ended March 31, 2017 and 2016 were as follows (excluding finance costs and income tax expense):

(in millions of Won)

	March 31, 2017	March 31, 2016
Raw material used, changes in inventories and others	₩ 8,654,249	6,969,260
Employee benefits expenses	826,255	827,681
Outsourced processing cost	1,592,581	1,739,859
Electricity expenses	246,134	279,180
Depreciation(*1)	731,245	707,414
Amortization	102,581	97,581
Freight and custody expenses	328,927	343,217
Sales commissions	13,945	20,949
Loss on disposals of property, plant and equipment	31,259	15,510
Donations	16,524	14,798
Others	1,291,663	849,305
	<u>₩ 13,835,363</u>	<u>11,864,754</u>

(*1) Includes depreciation expense of investment property.

POSCO and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements, Continued As of March 31, 2017 (Unaudited)

31. Income Taxes

The effective tax rates of the Company for the three-month periods ended March 31, 2017 and 2016 were 26.3% and 37.9%, respectively. The effective tax rate for the three-month period ended March 31, 2016 was higher than the statutory tax rate of 24.2% for the controlling company mainly due to the effect of deductible temporary difference in the Company's investments in subsidiaries and associates, for which no deferred tax assets are recognized.

32. Earnings per Share

Basic and diluted earnings per share for the three-month periods ended March 31, 2017 and 2016 were as follows:

(in Won, except per share information)

	March 31, 2017	March 31, 2016
Profit attribute to controlling interest	₩ 850,928,260,062	359,670,890,256
Interests of hybrid bonds	(8,420,653,151)	(8,400,426,066)
Weighted-average number of common shares outstanding(*1)	79,997,687	79,995,736
Basic and diluted earnings per share	₩ 10,532	4,391

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

(Share)

	March 31, 2017	March 31, 2016
Total number of common shares issued	87,186,835	87,186,835
Weighted-average number of treasury shares	(7,189,148)	(7,191,099)
Weighted-average number of common shares outstanding	79,997,687	79,995,736

Since there were no potential shares of common stock which had dilutive effects as of March 31, 2017 and 2016, 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 March 31, 2017 (Unaudited)

33. Related Party Transactions

(a) Significant transactions between the controlling company and related companies for the three-month periods ended March 31, 2017 and 2016 were as follows:

1) For the three-month period ended March 31, 2017

(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 CO., LTD.	₩ 771	28	-	37,954	-	4,386
POSCO Processing&Service	298,781	1	113,628	4,595	8,309	404
POSCO COATED & COLOR STEEL Co., Ltd.	105,189	3,414	-	-	2,463	22
POSCO ICT(*4)	301	5,070	-	45,278	6,900	44,380
eNtoB Corporation	-	30	79,524	1,319	10	5,165
POSCO CHEMTECH	82,587	15,600	115,543	3,154	71,048	5,631
POSCO ENERGY CO., LTD.	43,455	367	-	-	-	-
POSCO DAEWOO Corporation	1,033,238	35,155	70,473	29	4,370	602
POSCO Thainox Public Company Limited	52,167	-	3,216	-	-	-
POSCO America Corporation	99,845	-	-	-	-	36
POSCO Canada Ltd.	-	29	59,998	-	-	-
POSCO Asia Co., Ltd.	524,989	556	67,561	194	191	977
Qingdao Pohang Stainless Steel Co., Ltd.	36,852	-	-	-	-	26
POSCO JAPAN Co., Ltd.	355,598	-	6,364	-	-	240
POSCO-VIETNAM Co., Ltd.	52,979	-	-	-	-	-
POSCO MEXICO S.A. DE C.V.	80,550	-	-	-	-	-
POSCO Maharashtra Steel Private Limited	96,384	-	-	-	-	21
POSCO(Suzhou) Automotive Processing Center Co., Ltd.	55,869	-	-	-	-	-
Others	236,245	6,404	43,854	11,312	57,440	23,490
	<u>3,155,800</u>	<u>66,654</u>	<u>560,161</u>	<u>103,835</u>	<u>150,731</u>	<u>85,380</u>
Associates and joint ventures(*3)						
POSCO PLANTEC Co., Ltd.	103	41	787	94,666	5,034	9,716
SNNC	1,267	151	121,809	-	-	1
POSCO-SAMSUNG-Slovakia Processing Center	12,976	-	-	-	-	-
Roy Hill Holdings Pty Ltd	-	-	156,249	-	-	-
CSP - Companhia Siderurgica do Pecem	-	-	76,941	-	-	-
Others	3,813	12,444	23,731	-	-	1
	<u>18,159</u>	<u>12,636</u>	<u>379,517</u>	<u>94,666</u>	<u>5,034</u>	<u>9,718</u>
₩	<u>3,173,959</u>	<u>79,290</u>	<u>939,678</u>	<u>198,501</u>	<u>155,765</u>	<u>95,098</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 March 31, 2017, 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.

POSCO and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements, Continued As of March 31, 2017 (Unaudited)

2) For the three-month period ended March 31, 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 CO., LTD.	₩ 1,542	16,603	-	111,588	-	12,362
POSCO Processing&Service	224,059	5,777	98,335	-	-	245
POSCO COATED & COLOR STEEL Co., Ltd.	73,942	2,559	-	-	3,244	32
POSCO ICT	301	91	-	24,311	6,629	44,307
eNtoB Corporation	-	-	58,783	635	20	3,538
POSCO CHEMTECH	89,070	12,582	128,022	2,236	69,939	1,785
POSCO ENERGY CO., LTD.	45,184	308	-	-	-	-
POSCO TMC Co., Ltd.	69,740	-	1	-	468	311
POSCO AST	75,633	1	-	-	8,503	744
POSCO DAEWOO Corporation	794,022	34,341	23,805	-	-	198
POSCO Thainox Public Company Limited	54,966	-	1,957	-	-	-
PT. KRAKATAU POSCO	-	-	3,140	-	-	-
POSCO America Corporation	124,816	-	-	-	-	-
POSCO Canada Ltd.	-	-	24,777	-	-	-
POSCO Asia Co., Ltd.	480,849	-	58,986	-	21	178
Qingdao Pohang Stainless Steel Co., Ltd.	24,538	-	-	-	-	229
POSCO JAPAN Co., Ltd.	272,231	-	5,691	368	28	152
POSCO MEXICO S.A. DE C.V.	78,000	-	-	-	-	-
POSCO Maharashtra Steel Private Limited	101,482	-	-	-	-	-
Others	211,453	8,243	42,561	14,758	50,765	19,184
	<u>2,721,828</u>	<u>80,505</u>	<u>446,058</u>	<u>153,896</u>	<u>139,617</u>	<u>83,265</u>
Associates and joint ventures						
SeAH Changwon Integrated Special Steel	5	-	452	-	138	-
POSCO PLANTEC Co., Ltd.	1,096	20	832	43,309	4,017	2,735
SNNC	1,225	166	107,790	-	-	-
POSCO-SAMSUNG-Slovakia Processing Center	7,855	-	-	-	-	-
Others	3,646	3,070	12,815	-	-	-
	<u>13,827</u>	<u>3,256</u>	<u>121,889</u>	<u>43,309</u>	<u>4,155</u>	<u>2,735</u>
₩	<u>2,735,655</u>	<u>83,761</u>	<u>567,947</u>	<u>197,205</u>	<u>143,772</u>	<u>86,000</u>

(b) The related account balances of significant transactions between the controlling company and related companies as of March 31, 2017 and December 31, 2016 are as follows:

1) March 31, 2017

(in millions of Won)

	Receivables			Payables			
	Trade accounts and notes receivable	Others	Total	Trade accounts and notes payable	Accounts payable	Others	Total
Subsidiaries							
POSCO ENGINEERING & CONSTRUCTION CO., LTD.	₩ 24	690	714	-	8,453	537	8,990
POSCO COATED & COLOR STEEL Co., Ltd.	56,201	80	56,281	-	5	1,520	1,525
POSCO ICT	1	4,995	4,996	787	42,369	1,569	44,725
eNtoB Corporation	-	30	30	13,000	22,654	20	35,674
POSCO CHEMTECH	28,286	13,822	42,108	60,502	9,015	17,917	87,434
POSCO ENERGY CO., LTD.	13,218	585	13,803	-	-	1,425	1,425
POSCO DAEWOO Corporation	401,348	34,341	435,689	985	4,316	5,067	10,358
POSCO Thainox Public Company Limited	52,167	-	52,167	-	-	-	-
POSCO America Corporation	11,363	-	11,363	-	-	-	-
POSCO Asia Co., Ltd.	411,184	185	411,369	16,436	4	-	16,440
Qingdao Pohang Stainless Steel Co., Ltd.	23,220	-	23,220	-	-	-	-
POSCO MEXICO S.A. DE C.V.	116,717	-	116,717	-	-	-	-
POSCO Maharashtra Steel Private Limited	330,895	86	330,981	-	-	-	-
Others	319,551	7,770	327,321	6,941	19,426	27,305	53,672
	<u>1,764,175</u>	<u>62,584</u>	<u>1,826,759</u>	<u>98,651</u>	<u>106,242</u>	<u>55,350</u>	<u>260,243</u>
Associates and joint ventures							
POSCO PLANTEC Co., Ltd.	-	5	5	3,052	26,589	-	29,641
SNNC	247	39	286	33,370	-	-	33,370
Others	884	-	884	35,663	1,293	-	36,956
	<u>1,131</u>	<u>44</u>	<u>1,175</u>	<u>72,085</u>	<u>27,882</u>	<u>-</u>	<u>99,967</u>
₩	<u>1,765,306</u>	<u>62,628</u>	<u>1,827,934</u>	<u>170,736</u>	<u>134,124</u>	<u>55,350</u>	<u>360,210</u>

POSCO and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements, Continued As of March 31, 2017 (Unaudited)

2) December 31, 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 CO., LTD. ₩	3	3,359	3,362	-	9,825	515	10,340
POSCO Processing&Service	207,744	178	207,922	1,085	5,367	5,184	11,636
POSCO COATED & COLOR STEEL Co., Ltd.	48,716	324	49,040	-	5	1,600	1,605
POSCO ICT	-	128	128	1,062	89,382	6,074	96,518
eNtoB Corporation	-	-	-	9,948	29,310	15	39,273
POSCO CHEMTECH	27,253	3,868	31,121	54,702	11,870	19,282	85,854
POSCO ENERGY CO., LTD.	18,701	2,012	20,713	-	-	1,425	1,425
POSCO DAEWOO Corporation	182,700	11,184	193,884	460	183	49	692
POSCO Thainox Public Company Limited	62,034	8	62,042	-	224	-	224
POSCO America Corporation	10,008	-	10,008	-	-	-	-
POSCO Asia Co., Ltd.	375,823	7	375,830	25,101	-	-	25,101
Qingdao Pohang Stainless Steel Co., Ltd.	25,386	-	25,386	-	5	-	5
POSCO MEXICO S.A. DE C.V.	114,166	-	114,166	-	-	-	-
POSCO Maharashtra Steel Private Limited	208,737	2,512	211,249	-	-	-	-
Others	333,031	2,461	335,492	17,374	46,455	26,974	90,803
	1,614,302	26,041	1,640,343	109,732	192,626	61,118	363,476
Associates and jointventures							
POSCO PLANTEC Co., Ltd.	30	9	39	2,125	39,647	-	41,772
SNNC	223	26	249	40,201	-	-	40,201
Others	800	1	801	991	17,685	-	18,676
	1,053	36	1,089	43,317	57,332	-	100,649
₩	1,615,355	26,077	1,641,432	153,049	249,958	61,118	464,125

(c) Significant transactions between the Company, excluding the controlling company, and related companies for the three-month periods ended March 31, 2017 and 2016 were as follows:

1) March 31, 2017

(in millions of Won)

	Sales and others		Purchase and others	
	Sales	Others	Purchase of material	Others
Associates and joint ventures				
POSCO PLANTEC Co., Ltd. ₩	7,075	-	9	1,073
New Songdo International City Development, LLC	57,357	-	-	11
SNNC	12,348	-	-	1,733
Chuncheon Energy Co., Ltd.	32,507	-	-	-
Noeul Green Energy Co., Ltd.	1,775	-	-	306
VSC POSCO Steel Corporation	11,177	-	82	-
USS-POSCO Industries	7,430	47	430	-
CSP - Companhia Siderurgica do Pecem	40,481	-	-	-
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd	14,421	-	13,653	-
LLP POSUK Titanium	-	-	3,972	-
BX STEEL POSCO Cold Rolled Sheet Co., Ltd.	-	-	5,785	-
POS-SEAHSTEELWIRE(TIANJIN)CO.,Ltd	7,312	-	-	-
PT. Batutua Tembaga Raya	-	-	2,711	-
POSCO SeAH Steel Wire(Nantong) Co., Ltd.	10,871	-	22	-
Zhangjiagang Pohang Refractories Co., Ltd.	-	-	46	861
Sebang Steel	-	-	6,960	-
SHANGHAI WAIGAOQIAO FREE TRADE ZONE LANSHEG DAEWOO IN'L TRADING CO., LTD.	43,572	-	-	-
DMSA/AMSA	-	-	12,746	-
South-East Asia Gas Pipeline Company Ltd.	-	19,448	-	-
Others	22,722	3,666	3,780	871
₩	269,048	23,161	50,196	4,855

POSCO and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements, Continued As of March 31, 2017 (Unaudited)

2) March 31, 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	₩ 6,444	-	10,654	-
POSCO PLANTEC Co., Ltd.	3,042	-	41	1,143
New Songdo International City Development, LLC	48,412	-	-	8
SNNC	5,570	-	10,084	374
Posco e&c Songdo International Building	1,411	-	-	6,424
VSC POSCO Steel Corporation	8,379	-	452	-
USS-POSCO Industries	70,909	-	160	-
CSP - Companhia Siderurgica do Pecem	87,990	-	-	-
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd	15,664	-	19,116	-
BX STEEL POSCO Cold Rolled Sheet Co., Ltd.	-	-	10,264	-
POS-SEAHSTEELWIRE(TIANJIN)CO.,Ltd	3,149	-	-	-
POSCO SeAH Steel Wire(Nantong) Co., Ltd.	7,195	-	15	-
Zhangjiagang Pohang Refractories Co., Ltd.	92	14	193	549
Sebang Steel	-	-	5,210	-
SHANGHAI WAIGAOQIAO FREE TRADE ZONE LANSHEG DAEWOO IN'L TRADING CO., LTD.	22,184	-	3,116	-
DMSA/AMSA	-	-	30,367	-
South-East Asia Gas Pipeline Company Ltd.	-	51,925	-	-
Others	164,031	2,279	5,896	147
	₩ 444,472	54,218	95,568	8,645

POSCO and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements, Continued As of March 31, 2017 (Unaudited)

(d) The related account balances of significant transactions between the Company, excluding the controlling company, and related companies as of March 31, 2017 and December 31, 2016 are as follows:

1) March 31, 2017

(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.	₩ 1,320	-	6	1,326	620	7,936	8,556
New Songdo International City Development, LLC	314,495	-	5,725	320,220	-	7	7
Chuncheon Energy Co., Ltd.	22,396	-	-	22,396	-	2,010	2,010
VSC POSCO Steel Corporation	5,285	-	-	5,285	15	-	15
USS-POSCO Industries	3,923	-	45	3,968	185	-	185
Nickel Mining Company SAS	-	55,556	112	55,668	-	-	-
AN KHANH NEW CITY DEVELOPMENT J.V CO., LTD.	58,893	55,805	1,525	116,223	-	868	868
CSP - Companhia Siderurgica do Pecem	218,435	-	142,838	361,273	-	122,395	122,395
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd.	855	5,581	40	6,476	2,709	-	2,709
PT. Batutua Tembaga Raya	27	35,206	-	35,233	-	-	-
POSCO SeAH Steel Wire(Nantong) Co., Ltd.	9,003	7,813	41	16,857	25	-	25
SHANGHAI WAIGAOQIAO FREE TRADE ZONE LANSHEG DAEWOO IN'L TRADING CO., LTD.	27,650	-	-	27,650	-	548	548
DMSA/AMSA	-	79,243	1,488	80,731	-	-	-
South-East Asia Gas Pipeline Company Ltd.	-	244,662	44	244,706	-	-	-
Others	141,057	138,615	11,493	291,165	4,634	29,318	33,952
	₩ 803,339	622,481	163,357	1,589,177	8,188	163,082	171,270

2) December 31, 2016

(in millions of Won)

	Receivables				Payables		
	Trade accounts and notes receivable	Loans	Others	Total	Trade accounts and notes receivable	Others	Total
Associates and joint ventures							
POSCO PLANTEC Co., Ltd.	₩ 4,709	-	6	4,715	2,718	8,521	11,239
New Songdo International City Development, LLC	255,822	-	5,725	261,547	-	-	-
Chuncheon Energy Co., Ltd.	12,142	-	-	12,142	-	3,171	3,171
VSC POSCO Steel Corporation	5,265	-	-	5,265	-	-	-
USS-POSCO Industries	583	-	-	583	75	-	75
Nickel Mining Company SAS	133	60,425	116	60,674	-	-	-
AN KHANH NEW CITY DEVELOPMENT J.V CO., LTD.	62,814	60,425	1,643	124,882	-	875	875
CSP - Companhia Siderurgica do Pecem	224,760	-	149,700	374,460	-	109,272	109,272
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd.	3,279	6,647	6	9,932	1,365	-	1,365
PT. Batutua Tembaga Raya	-	38,120	-	38,120	2,293	-	2,293
POSCO SeAH Steel Wire(Nantong) Co., Ltd.	9,292	8,460	43	17,795	40	-	40
SHANGHAI WAIGAOQIAO FREE TRADE ZONE LANSHEG DAEWOO IN'L TRADING CO., LTD.	100,367	-	-	100,367	-	-	-
DMSA/AMSA	-	90,638	-	90,638	-	-	-
South-East Asia Gas Pipeline Company Ltd.	-	276,605	48	276,653	-	-	-
Others	184,402	142,812	6,593	333,807	4,615	750	5,365
	₩ 863,568	684,132	163,880	1,711,580	11,106	122,589	133,695

POSCO and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements, Continued As of March 31, 2017 (Unaudited)

(e) Significant financial transactions between the Company, excluding the controlling company, and related companies for the three-month period ended March 31, 2017 and the year ended December 31, 2016 were as follows:

1) March 31, 2017

(in millions of Won)

	Beginning	Lend	Collect	Others(*2)	Ending
Associates and joint ventures					
METAPOLIS Co.,Ltd.	₩ 13,270	-	-	-	13,270
DMSA/AMSA(*1)	90,638	-	-	(11,395)	79,243
South-East Asia Gas Pipeline Company Ltd.	276,605	-	(11,396)	(20,547)	244,662
PT. Batutua Tembaga Raya	38,120	-	-	(2,914)	35,206
PT. Tanggamus Electric Power	3,606	-	-	(275)	3,331
PT. Wampu Electric Power	5,761	-	-	(441)	5,320
PT. POSMI Steel Indonesia	4,834	-	-	(370)	4,464
Nickel Mining Company SAS	60,425	-	-	(4,869)	55,556
AN KHANH NEW CITY DEVELOPMENT J.V CO., LTD.	60,425	-	-	(4,620)	55,805
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd	6,647	-	(577)	(489)	5,581
KRAKATAU POS-CHEM DONG-SUH CHEMICAL	7,251	-	-	(554)	6,697
Hamparan Mulya	3,626	-	-	(278)	3,348
POS-SEAHSTEELWIRE (TIANJIN)CO.,Ltd	5,438	-	-	(416)	5,022
POSCO SeAH Steel Wire(Nantong) Co., Ltd.	8,460	-	-	(647)	7,813
POS-SeaAH Steel Wire (Thailand) Co., Ltd.	7,251	-	-	(554)	6,697
AMCI (WA) PTY LTD	91,775	671	-	(1,980)	90,466
	₩ 684,132	671	(11,973)	(50,349)	622,481

(*1) During the three-month period ended March 31, 2017, loans amounting to ₩4,310 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.

2) December 31, 2016

(in millions of Won)

	Beginning	Lend	Collect	Others(*3)	Ending
Associates and joint ventures					
METAPOLIS Co.,Ltd.	₩ 26,000	-	(12,730)	-	13,270
Posco e&c Songdo International Building(*1)	-	298,865	-	(298,865)	-
DMSA/AMSA(*2)	99,854	11,774	-	(20,990)	90,638
South-East Asia Gas Pipeline Company Ltd.	283,954	27,087	(43,080)	8,644	276,605
PT. Batutua Tembaga Raya	36,830	-	-	1,290	38,120
PT. Tanggamus Electric Power	2,359	1,174	-	73	3,606
PT. Wampu Electric Power	4,454	1,169	-	138	5,761
PT. POSMI Steel Indonesia	4,688	-	-	146	4,834
Nickel Mining Company SAS	17,580	40,594	-	2,251	60,425
POSK(Pinghu) Steel Processing Center Co., Ltd.	5,743	5,683	(11,366)	(60)	-
AN KHANH NEW CITY DEVELOPMENT J.V CO., LTD.	58,600	-	-	1,825	60,425
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd	10,782	-	(4,471)	336	6,647
KRAKATAU POS-CHEM DONG-SUH CHEMICAL	-	6,959	-	292	7,251
Hamparan Mulya	3,516	-	-	110	3,626
POS-SEAHSTEELWIRE (TIANJIN)CO.,Ltd	5,274	-	-	164	5,438
POSCO SeAH Steel Wire(Nantong) Co., Ltd.	11,720	-	(3,480)	220	8,460
POS-SeAH Steel Wire (Thailand) Co., Ltd.	-	6,959	-	292	7,251
AMCI (WA) PTY LTD	85,168	4,665	-	1,942	91,775
	₩ 656,522	404,929	(75,127)	(302,192)	684,132

POSCO and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements, Continued As of March 31, 2017 (Unaudited)

(*1) During the year ended December 31, 2016, it was classified as a subsidiary from an associate.

(*2) During the year ended December 31, 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.

(f) For the three-month periods ended March 31, 2017 and 2016, details of compensation to key management officers were as follows:

(in millions of Won)

	March 31, 2017	March 31, 2016
Short-term benefits	₩ 41,315	27,148
Long-term benefits	3,166	3,864
Retirement benefits	4,222	4,614
	₩ 48,703	35,626

Key management officers include directors (including non-standing directors), executive officials and fellow officials who have significant influences 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 March 31, 2017 are as follows:

(in millions of Won)	Guarantor	Guarantee beneficiary	Financial institution	Guarantee limit		Guarantee amount	
				Foreign currency	Won equivalent	Foreign currency	Won equivalent
[The Company] POSCO		POSCO Asia Co., Ltd.	National Australia Bank	USD	50,000,000	50,000,000	55,805
		POSCO ASSAN TST STEEL INDUSTRY	SMBC and others	USD	146,527,500	131,874,750	147,185
		POSCO COATED STEEL (THAILAND) CO., LTD.	The Great & CO Co., Ltd.(SPC)	THB	5,501,000,000	5,501,000,000	178,067
		POSCO Maharashtra Steel Private Limited	Export-Import Bank of Korea and others	USD	649,853,000	422,832,300	471,923
		POSCO MEXICO S.A. DE C.V.	KDB Bank and others	USD	344,725,000	234,725,000	261,976
		POSCO SS VINA CO., LTD.	Export-Import Bank of Korea and others	USD	354,351,050	344,413,094	384,400
		POSCO VST CO., LTD.	ANZ and others	USD	65,000,000	24,375,000	27,205
		POSCO-VIETNAM Co., Ltd.	Export-Import Bank of Korea	USD	196,000,000	196,000,000	218,756
		PT. KRAKATAU POSCO	Export-Import Bank of Korea and others	USD	1,350,300,000	1,210,963,477	1,351,558
		Zhangjiagang Pohang Stainless Steel Co., Ltd.	KDB Bank and others	CNY	1,084,955,000	1,084,955,000	176,055
POSCO DAEWOO Corporation		Daewoo Power PNG Ltd.	Export-Import Bank of Korea	USD	54,400,000	45,000,000	50,225
		POSCO ASSAN TST STEEL INDUSTRY	ING and others	USD	14,652,750	14,652,750	16,354
		POSCO DAEWOO INDIA PVT., LTD.	Shinhan Bank and others	USD	230,000,000	197,476,979	220,404
		PT. Bio Inti Agrindo	Export-Import Bank of Korea and others	USD	130,125,000	103,625,000	115,656
		Daewoo Textile LLC	Export-Import Bank of Korea	USD	8,000,000	8,000,000	8,929
POSCO ENGINEERING & CONSTRUCTION CO., LTD.		Pos-Sea Pte Ltd	Woori Bank	USD	10,000,000	6,500,000	7,255
		HONG KONG POSCO E&C					
		(CHINA) INVESTMENT Co., Ltd.	Woori Bank and others	USD	138,000,000	154,022	154,022
		POSCO E&C Vietnam Co., Ltd.	Export-Import Bank of Korea	USD	16,500,000	16,500,000	18,416
		POSCO ENGINEERING & CONSTRUCTION DO BRAZIL LTDA.	HSBC	USD	100,000,000	100,000,000	111,610
POSCO ICT POSCO M-TECH POSCO CHEMTECH POSCO Japan Co., Ltd. POSCO COATED & COLOR STEEL Co., Ltd. POSCO ENERGY CO., LTD		PT. POSCO ICT INDONESIA	POSCO Asia Co., Ltd.	USD	39,451,000	39,451,000	44,031
		PT. POSCO MTECH INDONESIA	POSCO Asia Co., Ltd.	USD	5,000,000	5,000,000	5,581
		PT. POSCO E&C INDONESIA	BNP Indonesia	IDR	79,000,000,000	79,000,000,000	6,620
		PT. POSCO MTECH INDONESIA	POSCO Asia Co., Ltd.	USD	1,800,000	1,800,000	2,009
		PT. Krakatau Posco Chemtech Calcination	POSCO Asia Co., Ltd.	USD	12,500,000	12,500,000	13,951
		POSCO Japan PC Co., Ltd.	KEB Bank	USD	33,600,000	23,529,412	26,261
		Myanmar POSCO C&C Company, Limited.	Higo Bank and others	JPY	593,200,000	5,923	5,923
		PT. KRAKATAU POSCO ENERGY	POSCO Asia Co., Ltd. and others	USD	13,986,947	15,611	15,611
			Export-Import Bank of Korea and others	USD	193,900,000	153,560,430	171,389

POSCO and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements, Continued As of March 31, 2017 (Unaudited)

(in millions of Won)			Guarantee limit		Guarantee amount	
Guarantor	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	468,760	420,000,000
			BRL	464,060,000	164,486	464,060,000
			USD	15,000,000	16,742	15,000,000
POSCO DAEWOO Corporation	GLOBAL KOMSCO Daewoo LLC	ICBC and others	USD	9,012,500	10,059	8,225,000
POSCO ENGINEERING & CONSTRUCTION CO., LTD.	New Songdo International City Development, LLC	Others	KRW	340,000	340,000	312,500
POSCO ICT	Incheon-Gimpo Expressway Co, Ltd.	KDB Bank	KRW	100,000	100,000	100,000
	UITrans LRT Co., Ltd.	Kookmin Bank	KRW	76,000	76,000	76,000
POSCO CHEMTECH	KRAKATAU POS-CHEM					
	DONG-SUH CHEMICAL	KEB Bank	USD	1,140,000	1,272	1,140,000
	PT.INDONESIA POS CHEMTECH					
	CHOSUN Ref	KEB Bank	USD	3,900,000	4,353	3,900,000
[Others]						
POSCO DAEWOO Corporation	Ambatovy Project Investments Ltd. and others	Export-Import Bank of Korea	USD	87,272,727	97,405	44,188,348
POSCO ENGINEERING & CONSTRUCTION CO., LTD.	Ecocity CO.,LTD and others	Others	KRW	862,800	862,800	316,056
	THE GALE INVESTMENTS COMPANY, L.L.C.	Woori Bank	USD	50,000,000	55,805	50,000,000
POSCO ICT	Hyochun CO., LTD	Daegu Bank and others	KRW	39,575	39,575	39,575
	SMS Energy and others	Hana Bank and others	KRW	123,880	123,880	99,267
	BLT Enterprise and others	Kyobo Life Insurance Co.,Ltd and others	KRW	1,163,585	1,163,585	1,163,585
POSCO AUSTRALIA PTY LTD	Department of Trade and Investment (NSW Government)	Woori Bank and others	AUD	8,331,416	7,110	8,331,416
POSCO(Suzhou) Automotive Processing Center Co.,Ltd.	POS INFRA AUTO	KDB Bank	USD	405,000	452	405,000
			USD	4,745,402,474	5,296,345	4,037,624,487
			KRW	2,705,840	2,705,840	2,106,983
			CNY	1,084,955,000	176,055	1,084,955,000
			IDR	79,000,000,000	6,620	79,000,000,000
			THB	5,501,000,000	178,067	5,501,000,000
			JPY	593,200,000	5,923	593,200,000
			AUD	8,331,416	7,110	8,331,416
			BRL	464,060,000	164,486	464,060,000

- (b) POSCO ENGINEERING & CONSTRUCTION CO., LTD. has provided the completion guarantees for Samsung C&T Corporation amounting to ₩605,508 million while Samsung C&T Corporation has provided the construction guarantees or payment guarantees on customers' borrowings on behalf of POSCO ENGINEERING & CONSTRUCTION CO., LTD. amounting to ₩316,312 million as of March 31, 2017.

POSCO and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements, Continued As of March 31, 2017 (Unaudited)

(c) Other commitments

Details of other commitments of the Company as of March 31, 2017 are as follows:

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 March 31, 2017, 137 million tons of iron ore and 21 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 March 31, 2017, POSCO entered into a commitment for long-term foreign currency borrowings, which enables the Company to borrow up to the amount of USD 6.49 million. The borrowing is related to the exploration of gas hydrates in Western Fergana-Chinabad. The repayment of the borrowings depends on the success of the projects. POSCO is not liable for the repayment of full or part of the amount borrowed if the respective projects fail. POSCO has agreed to pay a certain portion of its profits under certain conditions, as defined by the borrowing agreements. As of March 31, 2017, the ending balance of the borrowing amounts to USD 4.09 million.</p> <p>POSCO has provided a supplemental funding agreement, as the largest shareholder, as requested from the creditors, including Norddeutsche Landesbank, for seamless funding to POSCO ENERGY Co., Ltd. under construction of new power plant.</p>
POSCO ENGINEERING & CONSTRUCTION CO., LTD.	<p>As of March 31, 2017, POSCO ENGINEERING & CONSTRUCTION CO., LTD. has comprehensive loan agreements of up to ₩160.1 billion and USD 169 million with Woori Bank. Also, POSCO ENGINEERING & CONSTRUCTION CO., LTD. has bank overdraft agreements of up to ₩10 billion with Woori Bank. Comprehensive loan agreements include bank overdraft up to ₩10 billion of loan on checking account during the day with Woori Bank.</p>
POSCO ICT	<p>As of March 31, 2017, in relation to contract enforcement, POSCO ICT was provided with ₩137,960 million and ₩41,092 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 March 31, 2017 (Unaudited)

(d) Litigation in progress

The Company is involved in 296 lawsuits and claims for alleged damages aggregating to ~~₩~~873.4 billion as defendant as of March 31, 2017, which arise from the ordinary course of business. The Company has recognized provisions amounting to ~~₩~~29.8 billion for 83 lawsuits based on its reliable estimate of outflow of resources. However, the Company has not recognized any provisions for other 213 lawsuits and claims since the Company believes that it does not have a present obligation as of March 31, 2017.

(e) Other contingencies

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	As of March 31, 2017, 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 CO., LTD.	As of March 31, 2017, POSCO ENGINEERING & CONSTRUCTION CO., LTD. has provided thirty-six blank checks and eight blank promissory notes as collateral for agreements and outstanding loans.
POSCO ICT	As of March 31, 2017, POSCO ICT has provided two blank promissory notes and eight blank checks to financial institutions as collateral for the guarantee on performance for contracts and others.

POSCO and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements, Continued As of March 31, 2017 (Unaudited)

35. Cash Flows from Operating Activities

Adjustments for operating cash flows for the three-month periods ended March 31, 2017 and 2016 were as follows:

(in millions of Won)

	March 31, 2017	March 31, 2016
Trade accounts and notes receivable	₩ (283,623)	359,908
Other receivables	32,252	77,888
Inventories	(551,524)	310,155
Other current assets	(95,480)	(172,168)
Other non-current assets	(16,275)	(11,478)
Trade accounts and notes payable	(492,544)	(214,364)
Other payables	69,987	(51,392)
Other current liabilities	85,004	134,613
Provisions	(35,972)	(34,405)
Payments of severance benefits	(74,643)	(66,256)
Plan assets	61,267	28,836
Other non-current liabilities	(4,565)	8,201
	₩ <u>(1,306,116)</u>	<u>369,538</u>

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, construction, trading and others. The steel segment includes production of steel products and revenue of such products. The construction segment includes planning, designing and construction of industrial plants, civil engineering projects and commercial and residential buildings, both in Korea and overseas. The 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. Other segments include 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, 2016.

Segment assets, liabilities and profit (loss) are generally measured based on separate financial statements in accordance with K-IFRS of the subsidiaries that constitute reportable operating segments.

POSCO and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements, Continued As of March 31, 2017 (Unaudited)

(a) Information about reportable segments for the three-month periods ended March 31, 2017 and 2016 was as follows:

1) For the three-month period ended March 31, 2017

<i>(in millions of Won)</i>		Steel	Trading	Construction	Others	Total
External revenues	₩	7,647,867	5,051,176	1,663,701	714,440	15,077,184
Internal revenues		4,611,671	3,227,688	73,272	607,400	8,520,031
Inter segment revenue		2,811,699	1,829,743	53,792	583,854	5,279,088
Total revenues		12,259,538	8,278,864	1,736,973	1,321,840	23,597,215
Segment profits		1,008,743	78,258	91,131	113,004	1,291,136

2) For the three-month period ended March 31, 2016

<i>(in millions of Won)</i>		Steel	Trading	Construction	Others	Total
External revenues	₩	6,234,549	3,972,721	1,590,756	663,173	12,461,199
Internal revenues		3,817,101	2,174,805	200,557	587,556	6,780,019
Inter segment revenue		2,201,202	1,196,420	174,749	561,013	4,133,384
Total revenues		10,051,650	6,147,526	1,791,313	1,250,729	19,241,218
Segment profits (loss)		314,451	95,971	(37,502)	18,720	391,640

(b) Reconciliations of total segment profit or loss, to their respective consolidated financial statement line items for the three-month periods ended March 31, 2017 and 2016 were as follows:

<i>(in millions of Won)</i>		March 31, 2017	March 31, 2016
Total profit for reportable segments	₩	1,291,136	391,640
Corporate fair value adjustments		(21,223)	(21,212)
Elimination of inter-segment profits		(293,025)	(32,062)
Income tax expense		348,503	206,528
Profit before income tax expense	₩	<u>1,325,391</u>	<u>544,894</u>