

# **POSCO**

**Condensed Separate Interim Financial Statements  
(Unaudited)  
September 30, 2016**

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

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## **Independent Auditors' Review Report**

Based on a report originally issued in Korean

The Board of Directors and Shareholders  
POSCO:

### **Reviewed financial statements**

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

### **Management's responsibility**

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

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

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

We conducted our reviews in accordance with the Review Standards for Quarterly and Semiannual Financial Statements established by the Securities and Futures Commission of the Republic of Korea. A review of interim financial 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 separate interim financial statements referred to above are not prepared, in all material respects, in accordance with K-IFRS No. 1034 "Interim Financial Reporting".

**Other matter**

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

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

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

Seoul, Korea  
November 14, 2016

This report is effective as of November 14, 2016, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying condensed separate interim financial statements. Accordingly, the readers of the review report should understand that the above review report has not been updated to reflect the impact of such subsequent events or circumstances, if any.

# POSCO

## Condensed Separate Interim Statements of Financial Position

As of September 30, 2016 and December 31, 2015

(Unaudited)

<i>(in millions of Won)</i>			September 30,	December 31,
	Notes		2016	2015
<b>Assets</b>				
Cash and cash equivalents	20	₩	1,098,318	1,634,106
Trade accounts and notes receivable, net	4,14,20,31		2,690,465	2,740,104
Other receivables, net	5,20,31		186,787	246,431
Other short-term financial assets	6,20		3,882,612	3,326,012
Inventories	7,28		3,311,112	3,427,011
Assets held for sale	8		26,080	25,892
Other current assets	13		50,333	28,083
<b>Total current assets</b>			<b>11,245,707</b>	<b>11,427,639</b>
Long-term trade accounts and notes receivable, net	4,20		23,817	19,895
Other receivables, net	5,20		95,312	93,757
Other long-term financial assets	6,20		1,836,212	1,804,374
Investments in subsidiaries, associates and joint ventures	9		15,050,249	15,737,287
Investment property, net	10		96,133	86,752
Property, plant and equipment, net	11		22,284,871	21,514,150
Intangible assets, net	12		485,598	490,762
Other non-current assets	13		125,226	134,793
<b>Total non-current assets</b>			<b>39,997,418</b>	<b>39,881,770</b>
<b>Total assets</b>		₩	<b>51,243,125</b>	<b>51,309,409</b>

See accompanying notes to the condensed separate interim financial statements.

# POSCO

## Condensed Separate Interim Statements of Financial Position, Continued As of September 30, 2016 and December 31, 2015 (Unaudited)

<i>(in millions of Won)</i>	<b>Notes</b>	<b>September 30, 2016</b>	<b>December 31, 2015</b>
<b>Liabilities</b>			
Trade accounts and notes payable	20,31	₩ 755,734	577,856
Short-term borrowings			
and current installments of long-term borrowings	4,14,20	488,316	1,985,722
Other payables	15,20,31	849,523	946,735
Other short-term financial liabilities	16,20	15,554	25,676
Current income tax liabilities		235,767	227,569
Provisions	17	16,929	22,840
Other current liabilities	19	32,943	31,281
<b>Total current liabilities</b>		<b>2,394,766</b>	<b>3,817,679</b>
Long-term borrowings,			
excluding current installments	14,20	3,649,008	3,303,105
Other payables	15,20	116,647	37,656
Other long-term financial liabilities	16,20	108,630	81,496
Defined benefit liabilities, net	18	41,202	10,472
Deferred tax liabilities		1,039,131	994,867
Long-term provisions	17,32	52,389	21,954
Other non-current liabilities	19	15,831	16,623
<b>Total non-current liabilities</b>		<b>5,022,838</b>	<b>4,466,173</b>
<b>Total liabilities</b>		<b>7,417,604</b>	<b>8,283,852</b>
<b>Equity</b>			
Share capital	21	482,403	482,403
Capital surplus	21,34	1,156,277	1,247,581
Hybrid bonds	22	996,919	996,919
Reserves	23	195,906	(30,018)
Treasury shares	24	(1,533,748)	(1,533,898)
Retained earnings		42,527,764	41,862,570
<b>Equity</b>		<b>43,825,521</b>	<b>43,025,557</b>
<b>Total liabilities and equity</b>	₩	<b>51,243,125</b>	<b>51,309,409</b>

See accompanying notes to the condensed separate interim financial statements.

# POSCO

## Condensed Separate Interim Statements of Comprehensive Income For the three-month and nine-month periods ended September 30, 2016 and 2015 (Unaudited)

(in millions of Won, except per share information)

	Notes	For the three-month periods ended September 30		For the nine-month periods ended September 30	
		2016	2015	2016	2015
<b>Revenue</b>	31	₩ 6,106,520	6,298,801	17,883,260	19,661,927
<b>Cost of sales</b>	7,28,31	(4,816,309)	(5,179,880)	(14,432,730)	(16,399,165)
<b>Gross profit</b>		1,290,211	1,118,921	3,450,530	3,262,762
Selling and administrative expenses	25,28,31				
Administrative expenses		(216,542)	(218,689)	(640,929)	(654,469)
Selling expenses		(221,247)	(262,372)	(662,330)	(741,218)
<b>Operating profit</b>		852,422	637,860	2,147,271	1,867,075
Finance income and costs	20,26				
Finance income		176,007	130,888	545,256	597,116
Finance costs		(169,222)	(346,426)	(802,333)	(659,665)
Other non-operating income and expenses	27,31				
Other non-operating income		13,412	364,972	58,170	438,109
Other non-operating expenses	28	(107,216)	(477,033)	(226,283)	(870,408)
<b>Profit before income tax</b>		765,403	310,261	1,722,081	1,372,227
Income tax expense	29	(186,407)	35,950	(386,665)	(315,805)
<b>Profit</b>		578,996	346,211	1,335,416	1,056,422
<b>Other comprehensive income (loss)</b>					
Items that will not be reclassified subsequently to profit or loss:					
Remeasurements of defined benefit plans, net of tax	18	11,113	(13,681)	(37,530)	(34,104)
Items that are or may be reclassified subsequently to profit or loss:					
Net changes in unrealized fair value of available-for-sale investments, net of tax	6,20,23	96,579	(165,721)	225,924	(137,342)
<b>Total comprehensive income</b>		₩ 686,688	166,809	1,523,810	884,976
<b>Basic and diluted earnings per share (in Won)</b>	30	₩ 7,134	4,224	16,383	12,898

See accompanying notes to the condensed separate interim financial statements.

# POSCO

## Condensed Separate Interim Statements of Changes in Equity For the nine-month periods ended September 30, 2016 and 2015 (Unaudited)

(in millions of Won)

	Share capital	Capital surplus	Hybrid bonds	Reserves	Treasury shares	Retained earnings	Total
<b>Balance as of January 1, 2015</b>	₩ 482,403	1,247,616	996,919	94,043	(1,534,458)	41,188,908	42,475,431
<b>Comprehensive income:</b>							
Profit	-	-	-	-	-	1,056,422	1,056,422
Other comprehensive income (loss)							
Remeasurements of defined benefit plans, net of tax	-	-	-	-	-	(34,104)	(34,104)
Net changes in unrealized fair value of available-for-sale investments, net of tax	-	-	-	(137,342)	-	-	(137,342)
<b>Transactions with owners of the Company, recognized directly in equity:</b>							
Year-end dividends	-	-	-	-	-	(479,958)	(479,958)
Interim dividends	-	-	-	-	-	(159,987)	(159,987)
Interest of hybrid bonds	-	-	-	-	-	(32,585)	(32,585)
Disposal of treasury shares	-	11	-	-	137	-	148
<b>Balance as of September 30, 2015</b>	₩ 482,403	1,247,627	996,919	(43,299)	(1,534,321)	41,538,696	42,688,025
<b>Balance as of January 1, 2016</b>	₩ 482,403	1,247,581	996,919	(30,018)	(1,533,898)	41,862,570	43,025,557
<b>Comprehensive income:</b>							
Profit	-	-	-	-	-	1,335,416	1,335,416
Other comprehensive income (loss)							
Remeasurements of defined benefit plans, net of tax	-	-	-	-	-	(37,530)	(37,530)
Net changes in unrealized fair value of available-for-sale investments, net of tax	-	-	-	225,924	-	-	225,924
<b>Transactions with owners of the Company, recognized directly in equity:</b>							
Year-end dividends	-	-	-	-	-	(479,974)	(479,974)
Interim dividends	-	-	-	-	-	(119,994)	(119,994)
Business combination	-	(91,310)	-	-	-	-	(91,310)
Interest of hybrid bonds	-	-	-	-	-	(32,724)	(32,724)
Disposal of treasury shares	-	6	-	-	150	-	156
<b>Balance as of September 30, 2016</b>	₩ 482,403	1,156,277	996,919	195,906	(1,533,748)	42,527,764	43,825,521

See accompanying notes to the condensed separate interim financial statements.



# POSCO

## Condensed Separate Interim Statements of Cash Flows

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

(in millions of Won)

	Notes	September 30, 2016	September 30, 2015
<b>Cash flows from operating activities</b>			
Profit	₩	1,335,416	1,056,422
Adjustments for:			
Costs for defined benefit plans		83,681	90,511
Depreciation		1,540,520	1,539,392
Amortization		58,443	52,025
Finance income		(356,799)	(440,569)
Finance costs		575,085	528,686
Loss on valuation of inventories		2,418	12,990
Gain on disposal of property, plant and equipment		(17,601)	(8,543)
Loss on disposal of property, plant and equipment		69,774	57,201
Impairment loss on property, plant and equipment		34,056	68,720
Impairment loss on investments			
in subsidiaries, associates and joint ventures		75,347	260,833
Gain on disposal of assets held for sale		(6,814)	(409,173)
Loss on disposal of assets held for sale		-	20,133
Impairment of assets held for sale		-	95,737
Contribution to provisions		37,202	2,045
Income tax expense		386,664	315,805
Others		20,620	3,115
Changes in operating assets and liabilities	33	273,506	792,428
Interest received		64,776	59,051
Interest paid		(135,308)	(190,078)
Dividends received		130,053	493,850
Income taxes paid		(374,114)	(450,975)
Net cash provided by operating activities	₩	3,796,925	3,949,606

See accompanying notes to the condensed separate interim financial statements.

# POSCO

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

(in millions of Won)

	Notes	September 30, 2016	September 30, 2015
<b>Cash flows from investing activities</b>			
Proceeds from disposal of short-term financial instruments	₩	13,159,783	6,375,826
Proceeds from disposal of long-term financial instruments		-	2
Proceeds from disposal of available-for-sale financial assets		4,214	2,231
Decrease in short-term loans		-	69,443
Decrease in long-term loans		-	495
Proceeds from disposal of investment in subsidiaries, associates and joint ventures		1,690	3,613
Proceeds from disposal of intangible assets		2,536	3,147
Proceeds from disposal of assets held for sale		166,791	1,275,597
Proceeds from business combination		24,250	-
Acquisition of short-term financial investments		(13,714,796)	(8,642,765)
Acquisition of available-for-sale financial assets		-	(1,152)
Increase in short-term loans		(23,630)	(65,208)
Increase in long-term loans		(66)	(139)
Acquisition of investment in subsidiaries, associates and joint ventures		(235,431)	(390,817)
Acquisition of investment property		-	(146)
Acquisition of property, plant and equipment		(1,387,937)	(1,090,685)
Payment for disposal of property, plant and equipment		(14,485)	(15,977)
Acquisition of intangible assets		(14,482)	(28,941)
Net cash used in investing activities		(2,031,563)	(2,505,476)
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		985,373	21,067
Increase in long-term financial liabilities		3,554	3,086
Repayment of borrowings		(2,642,762)	(736,697)
Decrease in long-term financial liabilities		(5,233)	(3,486)
Payment of cash dividends		(600,020)	(639,998)
Payment of interest of hybrid bonds		(32,849)	(32,730)
Net cash used in financing activities		(2,291,937)	(1,388,758)
<b>Changes in cash due to foreign currency translation</b>		(9,213)	2,419
<b>Net increase (decrease) in cash and cash equivalents</b>		(535,788)	57,791
<b>Cash and cash equivalents at beginning of the period</b>		1,634,106	1,742,767
<b>Cash and cash equivalents at end of the period</b>	₩	1,098,318	1,800,558

See accompanying notes to the condensed separate interim financial statements.

# POSCO

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

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### 1. Reporting Entity

POSCO (the “Company”) is the largest steel producer in Korea which was incorporated on April 1, 1968, to manufacture and sell steel rolled products and plates in the domestic and overseas markets.

The shares of the Company have been listed on the Korea Exchange since 1988. The Company owns and operates two steel plants (Pohang and Gwangyang) and one office in Korea, and it also operates internationally through seven of its overseas liaison offices.

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

### 2. Statement of Compliance

#### Statement of compliance

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

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

These condensed interim financial statements are separate interim financial statements in accordance with K-IFRS No. 1027 “*Separate Financial Statements*” presented by a parent, an investor in a subsidiary, an associate or a venture in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.

#### Use of estimates and judgments

##### (a) 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.

## **POSCO**

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

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

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

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

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

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

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities, either directly or indirectly.
- Level 3 – inputs for the assets or liabilities that are not based on observable market data.

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

Further information about the assumptions made in measuring fair value is included in note 20.

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

### 3. Summary of Significant Accounting Policies

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

### 4. Trade Accounts and Notes Receivable

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

<i>(in millions of Won)</i>		<b>September 30, 2016</b>	<b>December 31, 2015</b>
<b>Current</b>			
Trade accounts and notes receivable	₩	2,719,519	2,749,056
Less: Allowance for doubtful accounts		(29,054)	(8,952)
	₩	<u>2,690,465</u>	<u>2,740,104</u>
<b>Non-current</b>			
Trade accounts and notes receivable	₩	36,319	30,034
Less: Present value discount		(10,216)	(7,852)
Less: Allowance for doubtful accounts		(2,286)	(2,287)
	₩	<u>23,817</u>	<u>19,895</u>

The trade accounts and notes receivable sold to financial institutions, for which the derecognition conditions were not met, amounted to ₩23,900 million as of September 30, 2016. The fair value of trade accounts and notes receivable approximates the carrying amounts and trade accounts and notes receivable are included in short-term borrowings from financial institutions. (Note 14)

### 5. Other Receivables

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

<i>(in millions of Won)</i>		<b>September 30, 2016</b>	<b>December 31, 2015</b>
<b>Current</b>			
Other accounts receivable	₩	176,106	233,415
Others		15,119	13,341
Less: Allowance for doubtful accounts		(4,438)	(325)
	₩	<u>186,787</u>	<u>246,431</u>
<b>Non-current</b>			
Long-term loans	₩	20,699	24,293
Long-term other accounts receivable		71,807	66,541
Others		2,806	2,923
	₩	<u>95,312</u>	<u>93,757</u>

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

### 6. Other Financial Assets

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

(in millions of Won)

		September 30, 2016	December 31, 2015
<b>Current</b>			
Short term derivatives assets held for trading	₩	14,178	12,591
Available-for-sale securities (bonds)		15,000	15,000
Short-term financial instruments (*1)		3,845,458	3,291,828
Cash deposits (*2)		7,976	6,593
	₩	<u>3,882,612</u>	<u>3,326,012</u>
<b>Non-current</b>			
Long-term derivatives assets held for trading	₩	15,862	78,292
Available-for-sale securities (equity instruments)		1,814,028	1,723,082
Available-for-sale securities (others)		6,289	2,967
Cash deposits (*3)		33	33
	₩	<u>1,836,212</u>	<u>1,804,374</u>

(\*1) Short-term financial instruments amounting to ₩1,384 million are levied in relation to pending litigations as of September 30, 2016 and December 31, 2015.

(\*2) Deposits amounting to ₩7,976 million and ₩6,593 million as of September 30, 2016 and December 31, 2015, respectively, are restricted in relation to government assigned project.

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

(b) Available-for-sale equity securities as of September 30, 2016 and December 31, 2015 are as follows:

(in millions of Won)

	September 30, 2016							December 31, 2015
	Number of shares	Ownership (%)	Acquisition cost	Fair value	Net changes in fair value of available-for-sale investments	Accumulated impairment loss	Book value	Book value
<b>Marketable equity securities</b>								
Hana Financial group Inc.	2,430,498	0.82	₩ 15,633	67,689	52,056	-	67,689	57,359
Nippon Steel & Sumitomo Metal Corporation(*1)	23,835,200	2.51	719,622	531,188	2,821	(191,255)	531,188	559,740
Hyundai Heavy Industries Co., Ltd.	1,477,000	1.94	343,506	203,826	74,145	(213,825)	203,826	129,681
Shinhan Financial group Inc.	4,369,881	0.92	228,778	175,451	52,815	(106,142)	175,451	172,829
KB Financial group Inc. (*1)	11,590,550	3.00	536,517	438,702	69,543	(167,358)	438,702	384,227
Seoul Semiconductor Co., Ltd.	591,000	1.01	24,999	8,658	266	(16,607)	8,658	9,279
SAMWONSTEEL Co., Ltd.	5,700,000	14.25	8,930	20,976	18,449	(6,403)	20,976	20,748
Others (10 companies)(*1)			92,109	83,738	33,278	(41,649)	83,738	60,617
			<u>1,970,094</u>	<u>1,530,228</u>	<u>303,373</u>	<u>(743,239)</u>	<u>1,530,228</u>	<u>1,394,480</u>
<b>Non-marketable equity securities</b>								
Congonhas Minerios S.A. (*3)	3,658,394	2.02	221,535	176,465	(45,070)	-	176,465	221,535
Poongsan Special Metal Corp. (*4)	315,790	5.00	7,657	7,657	-	-	7,657	7,657
Intellectual Discovery (*2)	1,000,000	8.81	5,000	1,350	-	(3,650)	1,350	5,000
Others (40 companies)(*2,4)			239,219	98,328	150	(141,041)	98,328	94,410
			<u>473,411</u>	<u>283,800</u>	<u>(44,920)</u>	<u>(144,691)</u>	<u>283,800</u>	<u>328,602</u>
			₩ <u>2,443,505</u>	<u>1,814,028</u>	<u>258,453</u>	<u>(887,930)</u>	<u>1,814,028</u>	<u>1,723,082</u>

(\*1) The Company has recognized ₩191,255 million, ₩15,068 million, ₩1,152 million of impairment loss on securities of Nippon Steel & Sumitomo Metal Corporation, KB Financial Group Inc. and Steel Flower Co., Ltd., respectively, due to prolonged decline in the fair value of these securities during the period ended September 30, 2016.

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

- (\*2) The Company has recognized ₩5,286 million, ₩3,650 million, ₩2,724 million and ₩2,426 million of impairment loss on securities of Troika Foreign Resource Development Fund, Intellectual Discovery, XG Sciences and Miju Steel MFG Co., Ltd., respectively due to significant decline in the fair value of these securities during the period ended September 30, 2016.
- (\*3) Fair value is based on an analysis performed by an external professional evaluation agency.
- (\*4) Non-marketable equity securities whose fair values cannot be reliably measured are recorded at cost.

### 7. Inventories

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

<i>(in millions of Won)</i>	<b>September 30, 2016</b>	<b>December 31, 2015</b>
Finished goods	₩ 710,641	717,320
Semi-finished goods	833,002	964,062
By-products	3,945	5,983
Raw materials	569,657	656,117
Fuel and materials	567,177	523,796
Materials-in-transit	628,552	574,409
Others	556	578
	<u>3,313,530</u>	<u>3,442,265</u>
Less: Allowance for inventories valuation	<u>(2,418)</u>	<u>(15,254)</u>
	<u>₩ 3,311,112</u>	<u>3,427,011</u>

The amount of loss on valuation of inventories recognized within cost of sales during the nine-month period ended September 30, 2016 and the year ended December 31, 2015 were ₩2,418 million and ₩15,254 million, respectively.

# POSCO

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

### 8. Assets Held for Sale

Assets held for sale as of September 30, 2016 and December 31, 2015 are as follows:

<i>(in millions of Won)</i>		<b>September 30, 2016</b>	<b>December 31, 2015</b>
Property, plant and equipment(*1)	₩	26,080	25,892

(\*1) During the year ended December 31, 2015, the Company determined to exchange 1FINEX facilities with the shares of newly established company in India, and has signed in Memorandum of Association (MOA) with Uttam Galva Steels Limited in India. The Company has classified the related facilities of ₩25,892 million as assets held for sale.

### 9. Investments in Subsidiaries, Associates and Joint ventures

(a) Details of subsidiaries and carrying amounts as of September 30, 2016 and December 31, 2015 are as follows:

<i>(in millions of Won)</i>					<b>September 30, 2016</b>	<b>December 31, 2015</b>
	<b>Country</b>	<b>Principal operations</b>	<b>Ownership (%)</b>		<b>Book value</b>	<b>Book value</b>
<b>[Domestic]</b>						
POSCO DAEWOO Corporation (formerly, Daewoo International Corporation)(*1)	Korea	Trading	60.31	₩	3,371,481	3,371,481
POSCO ENGINEERING & CONSTRUCTION., LTD.	Korea	Engineering and construction	52.80		1,014,314	1,014,314
POSCO GREEN GAS TECHNOLOGY(*2)	Korea	Gas production and sales	-		-	682,600
POSCO ENERGY CO., LTD.	Korea	Power generation	89.02		658,176	658,176
POSCO Processing&Service	Korea	Steel sales and trading	96.01		624,678	624,678
POSCO COATED & COLOR STEEL Co., Ltd.	Korea	Coated steel manufacturing and sales	56.87		108,421	108,421
POSCO Capital Co., Ltd.	Korea	Investment in venture companies	95.00		103,780	103,780
POSCO CHEMTECH	Korea	Refractory manufacturing and sales	60.00		100,535	100,535
POSMATE	Korea	Business facility maintenance	57.25		73,374	73,374
POSCO ICT	Korea	Computer hardware and software distribution	65.38		70,990	70,990
POSCO M-TECH(*3)	Korea	Packing materials manufacturing and sales	48.85		53,651	53,651
POSCO Family Strategy Fund	Korea	Investment in venture companies	69.91		45,273	45,273
Busan E&E Co., Ltd.(*4)	Korea	Municipal solid waste fuel and power generation	70.00		30,148	30,148
Others (9 companies)					159,755	162,547
				₩	<u>6,414,576</u>	<u>7,099,968</u>



# POSCO

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

(in millions of Won)

(in millions of Won)					December 31,	
	Country	Principal operations	September 30, 2016		2015	
			Ownership (%)	Book value	Book value	
[Foreign]						
PT. KRAKATAU POSCO	Indonesia	Steel manufacturing and sales	70.00	₩	813,431	813,431
POSCO WA PTY LTD	Australia	Iron ore sales and mine development	100.00		625,868	623,258
POSCO Maharashtra Steel Private Limited	India	Steel manufacturing and sales	100.00		617,590	536,860
POSCO AUSTRALIA PTY LTD	Australia	Iron ore sales and mine development	100.00		330,623	330,623
Zhangjiagang Pohang Stainless Steel Co., Ltd.	China	Stainless steel manufacturing and sales	58.60		283,845	283,845
POSCO Thainox Public Company Limited(*5)	Thailand	Stainless steel manufacturing and sales	84.93		246,986	251,812
POSCO SS VINA Co., Ltd.	Vietnam	Steel manufacturing and sales	100.00		241,426	241,426
POSCO-China Holding Corp.	China	Investment management	100.00		240,430	240,430
POSCO-India Private Limited	India	Steel manufacturing and sales	99.99		184,815	184,815
POSCO MEXICO S.A. DE C.V.(*7)	Mexico	Plate steel manufacturing and sales	84.84		180,072	180,069
POSCO America Corporation	USA	Steel trading	99.45		187,504	167,285
POSCO-VIETNAM Co., Ltd.	Vietnam	Steel manufacturing	100.00		160,572	160,572
POSCO VST CO., LTD.	Vietnam	Stainless steel manufacturing and sales	95.65		144,573	144,573
POSCO(Guangdong) Automotive Steel Co., Ltd.	China	Plate steel manufacturing and sales	83.64		130,751	130,751
POSCO COATED STEEL (THAILAND) CO., LTD.	Thailand	Plate steel manufacturing and sales	100.00		121,592	121,592
POSCO Asia Co., Ltd.(*8)	Hong Kong	Steel and raw material trading	100.00		117,710	32,189
POSCO ASSAN TST STEEL INDUSTRY	Turkey	Steel manufacturing and sales	60.00		92,800	92,800
POSCO Investment Co., Ltd.(*8)	Hong Kong	Finance	-		-	85,521
POSCO JAPAN Co., Ltd.	Japan	Steel trading	100.00		68,436	68,436
Qingdao Pohang Stainless Steel Co., Ltd.	China	Stainless steel manufacturing	70.00		65,982	65,982
POSCO(Suzhou) Automotive Processing Center Co., Ltd.	China	Steel manufacturing and sales	90.00		62,494	62,494
POSCO Electrical Steel India Private Limited	India	Electrical steel processing and sales	100.00		57,119	57,119
POSCO AFRICA (PROPRIETARY) LIMITED	South Africa	Trading	100.00		50,297	50,297
POSCO-Malaysia SDN. BHD.	Malaysia	Steel manufacturing and sales	81.79		45,479	45,479
POSCO China Dalian Plate Processing Center Co., Ltd.(*6)	China	Heavy plate processing and sales	80.00		-	32,992
POSCO(Guangdong) Coated Steel Co., Ltd.	China	Plate steel sheet manufacturing and sales	87.04		31,299	31,299
Others (32 companies)(*6,7)					390,215	366,124
					5,491,909	5,402,074
				₩	11,906,485	12,502,042

(\*1) Daewoo International Corporation was renamed POSCO DAEWOO Corporation.

(\*2) The Company merged with POSCO Green Gas Technology on the acquisition date of May 1, 2016. (Note 34)

(\*3) POSCO M-TECH was classified as an investment in a subsidiary as the Company has more than half of the voting rights by virtue of an agreement with Pohang University of Science and Technology, which has 4.72% of ownership in POSCO M-TECH.

(\*4) As of September 30, 2016, and December 31, 2015 the investments in subsidiaries amounting to ₩30,148 million were provided as collateral in relation to the loan agreements of Busan E&E Co., Ltd.

(\*5) As of September 30, 2016, there is objective evidence of impairment due to the prolonged decline in the fair value of POSCO Thainox Public Company Limited below its cost. Recoverable amount was determined based on fair value less cost to sell, which was calculated by adding 10.9% of management premium and expected disposal cost on the stock price as of September 30, 2016. As a result, the Company recognized an impairment loss of ₩4,826 million as carrying amount was higher than its recoverable amount.

# POSCO

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

- (\*6) As of September 30, 2016, there is objective evidence of impairment due to the decision to cease operation of POSCO China Dalian Plate Processing Center Co., Ltd and POSCO-China Dalian Steel Fabricating Center. As a result, the Company recognized an impairment loss of ~~₩~~32,992 million and ~~₩~~4,058 million as carrying amount was higher than its recoverable amount.
- (\*7) During the period ended September 30, 2016, POSCO MEXICO S.A. DE C.V. merged with POSCO MEXICO HUMAN TECH S.A de C.V
- (\*8) During the period ended September 30, 2016, POSCO Asia Co., Ltd. merged with POSCO Investment Co., Ltd.

- (b) Details of associates and carrying amounts as of September 30, 2016 and December 31, 2015 are as follows:

(in millions of Won)

(in millions of Won)

			September 30, 2016		December 31, 2015
	Country	Principal operations	Ownership (%)	Book value	Book value
<b>[Domestic]</b>					
EQP POSCO Global NO1					
Natural Resources PEF	Korea	Mine investment	27.40	₩ 169,316	169,106
SeAH Changwon Integrated Special Steel(*1)	Korea	Specialty steel manufacturing and sales	19.94	-	159,978
POSCO PLANTEC Co., Ltd.(*2)	Korea	Other structural metal product manufacturing	60.84	108,936	140,890
SNNC	Korea	STS material manufacturing and sales	49.00	100,655	100,655
Others (5 companies)				26,932	23,746
				405,839	594,375
<b>[Foreign]</b>					
Nickel Mining Company SAS	New Caledonia	Raw material manufacturing and sales	49.00	189,197	189,197
7623704 Canada Inc.(*3)	Canada	Mine investment	10.40	124,341	124,341
Zhongyue POSCO (Qinhuangdao)	China	Tinplate manufacturing and sales	24.00	11,003	11,003
Tinplate Industrial Co., Ltd				38,397	29,090
Others (5 companies)				362,938	353,631
				₩ 768,777	948,006

- (\*1) During the period ended September 30, 2016, the Company disposed of its shares in SeAH Changwon Integrated Special Steel and recognized ~~₩~~6,814 million of gain on disposal of assets held for sale.
- (\*2) During the nine-month period ended September 30, 2016, there was objective evidence of impairment due to the prolonged decline at fair value of POSCO PLANTEC Co., Ltd, and, accordingly, the impairment test was performed. Recoverable amount was determined based on value-in-use, which was calculated by applying 7.4% discount rate. As a result, the Company recognized an impairment loss of ~~₩~~31,954 million as the carrying amount was higher than its recoverable amount.
- (\*3) As of September 30, 2016, it was classified as an associate even though the Company's ownership percentage is less than 20% of ownership since the Company has significant influence over the investee when considering its structure of the Board of Directors and others.

# POSCO

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

(c) Details of joint ventures and carrying amounts as of September 30, 2016 and December 31, 2015 are as follows:

(in millions of Won)

	Country	Principal operations	September 30, 2016		December 31, 2015
			Ownership (%)	Book value	Book value
Roy Hill Holdings Pty Ltd(*1)	Australia	Mine development	10.00	₩ 1,225,464	1,225,464
CSP - Companhia Siderurgica do Pecem	Brazil	Steel manufacturing and sales	20.00	575,948	488,200
POSCO-NPS Niobium LLC	USA	Mine development	50.00	364,609	364,609
KOBRASCO	Brazil	Facilities lease	50.00	98,962	98,962
Others (4 companies)				110,004	110,004
				₩ 2,374,987	2,287,239

(\*1) As of September 30, 2016 and December 31, 2015, the investments in joint ventures amounting to ₩1,225,464 million were provided as collateral in relation to loans from project financing of Roy Hill Holdings Pty Ltd.

### 10. Investment Property, Net

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

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

(in millions of Won)		Beginning	Depreciation(*1)	Transfer(*2)	Ending
Land	₩	35,557	-	2,478	38,035
Buildings		47,399	(2,145)	6,704	51,958
Structures		3,796	(184)	2,528	6,140
	₩	86,752	(2,329)	11,710	96,133

(\*1) The useful life and depreciation method of investment property are identical to those of property, plant and equipment.

(\*2) Mainly includes assets transferred from property, plant and equipment in relation to change in rental ratio and the purpose of use.

(b) For the year ended December 31, 2015

(in millions of Won)		Beginning	Acquisitions	Depreciation(*1)	Transfer(*2)	Ending
Land	₩	36,020	-	-	(463)	35,557
Buildings		50,112	346	(2,382)	(677)	47,399
Structures		4,005	-	(164)	(45)	3,796
	₩	90,137	346	(2,546)	(1,185)	86,752

(\*1) The useful life and depreciation method of investment property are identical to those of property, plant and equipment.

(\*2) Mainly includes assets transferred from property, plant and equipment in relation to change in rental ratio and the purpose of use.

# POSCO

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

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

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

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

(in millions of Won)

	Beginning	Acquisitions	Business combination	Disposals	Depreciation	Impairment(*1)	Others(*2)	Ending
Land	₩ 1,412,715	52	10,273	(206)	-	-	45,061	1,467,895
Buildings	2,566,168	869	70,641	(1,761)	(173,436)	(351)	29,745	2,491,875
Structures	2,519,866	1,312	8,630	(916)	(141,971)	(268)	94,573	2,481,226
Machinery and equipment	14,014,079	32,489	146,466	(15,037)	(1,199,703)	(33,425)	790,450	13,735,319
Vehicles	11,623	1,984	39	(11)	(5,462)	-	4,286	12,459
Tools	23,720	917	289	-	(7,784)	-	2,800	19,942
Furniture and fixtures	31,820	2,303	237	(21)	(6,805)	(12)	2,890	30,412
Finance lease assets	5,733	76,581	-	-	(3,030)	-	-	79,284
Construction-in-progress	928,426	1,025,155	1,031,906	-	-	-	(1,019,028)	1,966,459
₩	21,514,150	1,141,662	1,268,481	(17,952)	(1,538,191)	(34,056)	(49,223)	22,284,871

(\*1) The Company has recognized an impairment loss since recoverable amounts on production facilities of automotive steel and electric furnace of high mill (2<sup>nd</sup>) are less than their carrying amounts for the nine-month period ended September 30, 2016.

(\*2) Includes assets transferred from construction-in-progress, reclassification of investment property, intangible assets, assets held-for-sale and others.

(b) For the year ended December 31, 2015

(in millions of Won)

	Beginning	Acquisitions	Disposals	Depreciation	Impairment(*1)	Others(*2)	Ending
Land	₩ 1,420,994	-	(3,869)	-	-	(4,410)	1,412,715
Buildings	2,760,842	3,350	(4,544)	(243,678)	(7,926)	58,124	2,566,168
Structures	2,612,553	4,339	(2,826)	(192,301)	(473)	98,574	2,519,866
Machinery and equipment	14,503,266	76,768	(45,843)	(1,593,413)	(59,485)	1,132,786	14,014,079
Vehicles	12,953	1,669	-	(6,302)	-	3,303	11,623
Tools	23,324	6,824	(15)	(11,091)	-	4,678	23,720
Furniture and fixtures	37,584	3,934	(23)	(15,553)	(18)	5,896	31,820
Finance lease assets	6,370	-	-	(637)	-	-	5,733
Construction-in-progress	945,329	1,436,840	-	-	(2,772)	(1,450,971)	928,426
₩	22,323,215	1,533,724	(57,120)	(2,062,975)	(70,674)	(152,020)	21,514,150

(\*1) The Company has recognized an impairment loss since recoverable amounts on magnesium smelting plant in Gangneung and facilities which are related to the project for replacement deteriorated hot-rolling mill (1<sup>st</sup> and 2<sup>nd</sup>) in Pohang and electric furnace of high mill (1<sup>st</sup>) in Pohang are less than their carrying amounts for the year ended December 31, 2015.

(\*2) Includes assets transferred from construction-in-progress, reclassification of investment property, intangible assets, assets held-for-sale and others.

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

### 12. Intangible Assets, Net

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

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

(in millions of Won)

	Beginning	Acquisitions	Business combination	Disposals	Amortization	Impairment(*2)	Transfer(*3)	Ending
Intellectual property rights	₩ 19,997	-	-	(752)	(2,596)	-	4,419	21,068
Membership(*1)	52,058	-	-	(2,108)	-	407	(1,669)	48,688
Development expense	98,038	316	23,033	-	(39,615)	-	26,706	108,478
Port facilities usage rights	265,575	-	-	-	(11,482)	-	7,033	261,126
Construction-in-progress	31,951	19,802	-	-	-	-	(30,947)	20,806
Other intangible assets	23,143	2,671	235	(488)	(4,750)	-	4,621	25,432
	₩ 490,762	22,789	23,268	(3,348)	(58,443)	407	10,163	485,598

(\*1) Economic useful life of memberships is indefinite.

(\*2) The Company has recognized an impairment loss on some membership since the recoverable amounts were less than carrying amounts. Also, the Company reversed the accumulated impairment loss up to the carrying amount before recognition of any impairment loss since recoverable amounts of some memberships exceeded the carrying amounts.

(\*3) Includes assets transferred from construction-in-progress, reclassification of property, plant and equipment, and others.

(b) For the year ended December 31, 2015

(in millions of Won)

	Beginning	Acquisitions	Disposals	Amortization	Impairment(*2)	Transfer(*3)	Ending
Intellectual property rights	₩ 17,594	-	(126)	(2,829)	-	5,358	19,997
Membership(*1)	53,154	2,861	(3,680)	-	(11)	(266)	52,058
Development expense	127,941	1,172	-	(48,154)	-	17,079	98,038
Port facilities usage rights	162,028	-	-	(12,006)	-	115,553	265,575
Construction-in-progress	16,756	36,863	-	-	-	(21,668)	31,951
Other intangible assets	26,434	2,422	-	(7,753)	-	2,040	23,143
	₩ 403,907	43,318	(3,806)	(70,742)	(11)	118,096	490,762

(\*1) Economic useful life of membership is indefinite.

(\*2) The Company has recognized an impairment loss on some membership since the recoverable amounts were less than carrying amounts.

(\*3) Includes assets transferred from construction-in-progress, reclassification of property, plant and equipment, and others.

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

### 13. Other Assets

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

<i>(in millions of Won)</i>		<b>September 30, 2016</b>	<b>December 31, 2015</b>
<b>Current</b>			
Advance payments	₩	10,935	7,912
Prepaid expenses		39,398	19,722
Others		-	449
	₩	<u>50,333</u>	<u>28,083</u>
<b>Non-current</b>			
Long-term prepaid expenses	₩	5,804	6,215
Others(*1)		119,422	128,578
	₩	<u>125,226</u>	<u>134,793</u>

(\*1) As of September 30, 2016 and December 31, 2015, the Company recognized tax assets amounting to ₩115,571 million and ₩124,787 million, respectively, based on the Company's best estimate of the tax amounts to be refunded when the result of the Company's appeal in connection with the additional income tax payment for prior years as a result of tax audits that were finalized in 2014 and claim for rectification are finalized.

### 14. Borrowings

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

<i>(in millions of Won)</i>		<b>September 30, 2016</b>	<b>December 31, 2015</b>
<b>Short-term borrowings</b>			
Short-term borrowings	₩	223,900	-
Current portion of long-term borrowings		32,361	126,579
Current portion of loans from foreign financial institutions		193	401
Current portion of debentures		231,908	1,859,610
Less: Current portion of discount on debentures issued		(46)	(868)
	₩	<u>488,316</u>	<u>1,985,722</u>
<b>Long-term borrowings</b>			
Long-term borrowings	₩	31,401	141,868
Loans from foreign financial institutions		-	200
Debentures		3,630,844	3,175,406
Less: Discount on debentures issued		(13,237)	(14,369)
	₩	<u>3,649,008</u>	<u>3,303,105</u>

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

(b) Short-term borrowings as of September 30, 2016 and December 31, 2015 are as follows:

(in millions of Won)

	Lenders	Insurance date	Maturity date	Annual interest rate (%)		September 30, 2016	December 31, 2015
Short-term borrowings	Korea Development Bank	2016.04.08	2017.04.10	2.00	₩	200,000	-
Transfers of account receivables that do not qualify for derecognition	-	-	-	-		23,900	-
					₩	<u>223,900</u>	<u>-</u>

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

(in millions of Won)

	Lenders	Issuance date	Maturity date	Annual interest rate (%)		September 30, 2016	December 31, 2015
Borrowings	Woori Bank and others	2006.10.31~ 2011.04.28	2017.03.15~ 2024.06.15	0.75 ~ 1.75	₩	13,491	15,532
Borrowings	Export-Import Bank of Korea	2010.02.18	2017.02.18	4.50		18,870	111,047
Loans from foreign financial institutions(*1)	NATIXIS	1986.03.31	2017.03.31	2.00		193	401
Debentures	-	-	-	-		-	1,299,507
Debentures	Samurai Bond 12 and others	2011.10.20~ 2013.12.11	2016.10.20~ 2016.12.08	0.93 ~ 2.03		231,862	559,235
					₩	<u>264,416</u>	<u>1,985,722</u>

(\*1) Korea Development Bank has provided guarantees to the Company for loans from foreign financial institutions.

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

(in millions of Won)

	Lenders	Issuance date	Maturity date	Annual interest rate (%)		September 30, 2016	December 31, 2015
Borrowings	Woori Bank and others	2006.10.31~ 2011.04.28	2018.03.15~ 2024.06.15	0.75~1.75	₩	26,914	36,522
Borrowings	Korea National Oil Corporation	2007.12.27~ 2009.12.29	2022.06.25~ 2024.12.29	3 year Government bond		4,487	105,346
Loans from foreign financial institutions	-	-	-	-		-	200
Debentures	Domestic debentures 304-1 and others	2011.11.28~ 2016.05.03	2018.10.04~ 2023.10.04	1.76~4.12		1,496,785	997,745
Debentures	Samurai Bond 13 and others	2010.10.28~ 2013.12.11	2018.12.10~ 2021.12.22	1.35~5.25		2,120,822	2,163,292
					₩	<u>3,649,008</u>	<u>3,303,105</u>

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

### 15. Other Payables

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

(in millions of Won)

		<b>September 30, 2016</b>	<b>December 31, 2015</b>
<b>Current</b>			
Accounts payable	₩	445,831	546,884
Accrued expenses		379,933	380,383
Dividend payable		9,704	9,882
Finance lease liabilities		5,309	1,349
Withholdings		8,746	8,237
	₩	<u>849,523</u>	<u>946,735</u>
<b>Non-current</b>			
Long-term accounts payable	₩	1,505	-
Long-term accrued expenses		33,628	26,250
Finance lease liabilities		73,001	2,889
Long-term withholdings		8,513	8,517
	₩	<u>116,647</u>	<u>37,656</u>

### 16. Other Financial Liabilities

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

(in millions of Won)

		<b>September 30, 2016</b>	<b>December 31, 2015</b>
<b>Current</b>			
Derivative liabilities	₩	-	8,118
Financial guarantee liabilities		15,554	17,558
	₩	<u>15,554</u>	<u>25,676</u>
<b>Non-current</b>			
Derivative liabilities	₩	39,016	-
Financial guarantee liabilities		69,614	81,496
	₩	<u>108,630</u>	<u>81,496</u>



# POSCO

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

### 17. Provisions

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

(in millions of Won)

		September 30, 2016		December 31, 2015	
		Current	Non-current	Current	Non-current
Provision for bonus payments(*1)	₩	1,066	-	7,271	-
Provision for restoration(*2)		15,863	49,926	15,569	21,543
Provision for litigation(*3)		-	2,463	-	411
	₩	<u>16,929</u>	<u>52,389</u>	<u>22,840</u>	<u>21,954</u>

(\*1) Represents the provision for bonuses limited to 100% of annual salaries for executives.

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

(\*3) The Company has recognized provisions for certain litigations as of September 30, 2016.

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

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

(in millions of Won)

		Beginning	Increase	Utilization	Ending
Provision for bonus payments	₩	7,271	5,375	(11,580)	1,066
Provision for restoration		37,112	35,150	(6,473)	65,789
Provision for litigation		411	2,052	-	2,463
	₩	<u>44,794</u>	<u>42,577</u>	<u>(18,053)</u>	<u>69,318</u>

2) For the year ended December 31, 2015

(in millions of Won)

		Beginning	Increase	Utilization	Ending
Provision for bonus payments	₩	8,423	13,233	(14,385)	7,271
Provision for restoration		70,399	2,174	(35,461)	37,112
Provision for litigation		411	-	-	411
	₩	<u>79,233</u>	<u>15,407</u>	<u>(49,846)</u>	<u>44,794</u>

# POSCO

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

### 18. Employee Benefits

#### (a) Defined contribution plans

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

<i>(in millions of Won)</i>	<b>For the three-month periods ended September 30</b>		<b>For the nine-month periods ended September 30</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Expense related to post-employment benefit plans under defined contribution plans	₩ 5,251	4,888	16,369	15,406

#### (b) Defined benefit plans

1) The amount recognized in relation to net defined benefit liabilities in the statement of financial position as of September 30, 2016 and December 31, 2015 are as follows:

<i>(in millions of Won)</i>	<b>September 30, 2016</b>	<b>December 31, 2015</b>
Present value of funded obligations	₩ 1,105,331	1,023,071
Fair value of plan assets	(1,064,129)	(1,012,599)
Net defined benefit liabilities	₩ 41,202	10,472

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

<i>(in millions of Won)</i>	<b>September 30, 2016</b>	<b>December 31, 2015</b>
Defined benefit obligation at the beginning of period	₩ 1,023,071	1,017,164
Current service costs	85,274	118,770
Interest costs	18,102	29,743
Remeasurement	44,844	(58,397)
Transfer-in	-	283
Business combination	1,133	-
Benefits paid	(67,093)	(84,492)
Defined benefit obligation at the end of period	₩ 1,105,331	1,023,071

# POSCO

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

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

<i>(in millions of Won)</i>		<b>September 30, 2016</b>	<b>December 31, 2015</b>
Fair value of plan assets at the beginning of period	₩	1,012,599	931,006
Interest on plan assets		19,695	29,330
Remeasurement of plan assets		(4,668)	(7,064)
Contributions to plan assets		95,049	128,000
Transfer-in		-	283
Business combination		244	-
Benefits paid		(58,790)	(68,956)
Fair value of plan assets at the end of period	₩	<u>1,064,129</u>	<u>1,012,599</u>

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

<i>(in millions of Won)</i>		<b>For the three-month periods ended September 30</b>		<b>For the nine-month periods ended September 30</b>	
		<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Current service costs	₩	28,258	28,528	85,274	90,201
Net interest costs		(531)	104	(1,593)	310
	₩	<u>27,727</u>	<u>28,632</u>	<u>83,681</u>	<u>90,511</u>

## 19. Other Liabilities

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

<i>(in millions of Won)</i>		<b>September 30, 2016</b>	<b>December 31, 2015</b>
<b>Current</b>			
Advances received	₩	5,962	8,811
Withholding		25,334	20,847
Unearned revenue		1,647	1,623
	₩	<u>32,943</u>	<u>31,281</u>
<b>Non-current</b>			
Unearned revenue	₩	15,831	16,623

# POSCO

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

### 20. Financial Instruments

#### (a) Classification of financial instruments

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

<i>(in millions of Won)</i>	<b>September 30, 2016</b>	<b>December 31, 2015</b>
Financial assets at fair value through profit or loss		
Derivatives assets	₩ 30,040	90,883
Available-for-sale financial assets	1,835,317	1,741,049
Loans and receivables	7,888,118	7,954,222
	₩ <u>9,753,475</u>	<u>9,786,154</u>

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

<i>(in millions of Won)</i>	<b>September 30, 2016</b>	<b>December 31, 2015</b>
Financial liabilities at fair value through profit or loss		
Derivatives liabilities	₩ 39,016	8,118
Financial liabilities measured at amortized cost		
Trade accounts and notes payable	755,734	577,856
Borrowings	4,137,324	5,288,827
Financial guarantee liabilities(*1)	85,168	99,054
Others	860,121	978,648
	<u>5,838,347</u>	<u>6,944,385</u>
	₩ <u>5,877,363</u>	<u>6,952,503</u>

# POSCO

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

(\*1) Financial liabilities were recognized in connection with financial guarantee contracts as of September 30, 2016. The details of the amount of guarantees provided are as follows:

(in millions of Won)					
Guarantee beneficiary	Financial institution	Guarantee limit		Guarantee amount	
		Foreign currency	Won equivalent	Foreign currency	Won equivalent
POSCO(Guangdong)	SMBC	USD	35,000,000	USD	35,000,000
Automotive Steel Co., Ltd.	BOA	USD	30,000,000	USD	30,000,000
Zhangjiagang Pohang	Korea Development Bank	CNY	324,455,000	CNY	324,455,000
Stainless Steel Co., Ltd.	Credit Agricole	CNY	305,000,000	CNY	305,000,000
	BTMU	CNY	260,500,000	CNY	260,500,000
	SMBC	CNY	195,000,000	CNY	195,000,000
POSCO Maharashtra	Export-Import Bank of Korea	USD	193,000,000	USD	149,200,000
Steel Private Limited	HSBC	USD	110,000,000	USD	76,000,000
	DBS	USD	100,000,000	USD	80,000,000
	SCB	USD	73,069,000	USD	42,455,200
	Citi	USD	60,000,000	USD	36,000,000
	ING	USD	30,000,000	USD	12,000,000
POSCO ASSAN TST	SMBC	USD	62,527,500	USD	56,274,750
STEEL INDUSTRY	ING	USD	60,000,000	USD	54,000,000
	BNP	USD	24,000,000	USD	21,600,000
POSCO Electrical Steel	ING	USD	50,000,000	USD	50,000,000
India Private Limited	SCB	USD	33,784,000	USD	33,784,000
POSCO Asia Co., Ltd.	HSBC	USD	50,000,000	USD	50,000,000
	MIZUHO	USD	50,000,000	USD	50,000,000
	NAB	USD	50,000,000	USD	50,000,000
POSCO MEXICO S.A. DE C.V	SMBC	USD	89,725,000	USD	60,114,323
	Korea Development Bank	USD	50,000,000	USD	20,226,916
	MIZUHO	USD	45,000,000	USD	18,203,004
	BOA	USD	70,000,000	USD	46,180,757
	CITI BANAMEX	USD	40,000,000	USD	40,000,000
	BTMU	USD	30,000,000	USD	30,000,000
	ING	USD	20,000,000	USD	20,000,000
POSCO SS VINA Co., Ltd.	Export-Import Bank of Korea	USD	249,951,050	USD	249,951,050
	BOA	USD	40,000,000	USD	40,000,000
	BTMU	USD	40,000,000	USD	40,000,000
	DBS	USD	24,400,000	USD	24,400,000
POSCO-VIETNAM Co., Ltd.	Export-Import Bank of Korea	USD	196,000,000	USD	196,000,000
POSCO VST CO., LTD.	ANZ	USD	25,000,000	USD	9,375,000
	HSBC	USD	20,000,000	USD	7,500,000
	MIZUHO	USD	20,000,000	USD	7,500,000
PT. KRAKATAU POSCO	Export-Import Bank of Korea	USD	567,000,000	USD	515,176,565
	SMBC	USD	140,000,000	USD	127,393,609
	BTMU	USD	119,000,000	USD	106,582,609
	SCB	USD	107,800,000	USD	98,553,609
	MIZUHO	USD	105,000,000	USD	94,043,478
	Credit Suisse AG	USD	91,000,000	USD	81,504,348
	HSBC	USD	91,000,000	USD	81,504,348
	ANZ	USD	73,500,000	USD	67,832,738
	BOA	USD	35,000,000	USD	31,347,826
	The Tokyo Star Bank, Ltd	USD	21,000,000	USD	18,808,695
POSCO COATED STEEL					
(THAILAND) CO., LTD.	The Great & Co.	THB	5,501,000,000	THB	5,501,000,000
LLP POSUK Titanium	KB Bank	USD	15,000,000	USD	15,000,000
CSP - Companhia	Export-Import Bank of Korea	USD	182,000,000	USD	179,186,625
Siderurgica do Pecem	Santander	USD	47,600,000	USD	46,846,063
	BNP	USD	47,600,000	USD	46,846,063
	MIZUHO	USD	47,600,000	USD	46,846,063
	Credit Agricole	USD	20,000,000	USD	19,683,202
	SOCIETE GENERALE	USD	20,000,000	USD	19,683,202
	KfW	USD	20,000,000	USD	19,683,202
	BBVA Seoul	USD	17,600,000	USD	17,321,260
	ING	USD	17,600,000	USD	17,321,260
	BNDES	BRL	464,060,000	BRL	348,349,782
		USD	3,756,756,550	USD	3,286,929,765
		CNY	1,084,955,000	CNY	1,084,955,000
		THB	5,501,000,000	THB	5,501,000,000
		BRL	464,060,000	BRL	348,349,782

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

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

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

(in millions of Won)		Finance income and costs						Other comprehensive income	
		Interest income (expense)	Dividend income(*1)	Gain and loss on foreign currency	Gain and loss on disposal	Impairment loss	Others		Total
Financial assets at fair value through profit or loss	₩	-	-	-	(16,917)	-	(60,843)	(77,760)	-
Available-for-sale financial assets		225	26,574	-	1,346	(221,561)	-	(193,416)	225,924
Loans and receivables		68,285	-	(105,585)	-	-	(526)	(37,826)	-
Financial liabilities at fair value through profit or loss		-	-	-	-	-	(30,898)	(30,898)	-
Financial liabilities at amortized cost		(114,874)	-	73,929	-	-	6,341	(34,604)	-
	₩	(46,364)	26,574	(31,656)	(15,571)	(221,561)	(85,926)	(374,504)	225,924

(\*1) Finance income in the statement of comprehensive income includes the dividends from subsidiaries, associates and joint ventures of ₩117,427 million for the nine-month period ended September 30, 2016.

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

(in millions of Won)		Finance income and costs						Other comprehensive income	
		Interest income (expense)	Dividend income(*1)	Gain and loss on foreign currency	Gain and loss on disposal	Impairment loss	Others		Total
Financial assets at fair value through profit or loss	₩	-	-	-	(438)	-	7,733	7,295	-
Available-for-sale financial assets		34	43,148	-	54	(75,221)	-	(31,985)	(137,342)
Loans and receivables		66,904	-	95,698	-	-	(419)	162,183	-
Financial liabilities at fair value through profit or loss		-	-	-	-	-	6,579	6,579	-
Financial liabilities at amortized cost		(183,653)	-	(299,250)	-	-	2,025	(480,878)	-
	₩	(116,715)	43,148	(203,552)	(384)	(75,221)	15,918	(336,806)	(137,342)

(\*1) Finance income in the statement of comprehensive income includes the dividends from subsidiaries, associates and joint ventures of ₩274,257 million for the nine-month period ended September 30, 2015.

# POSCO

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

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

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

	Finance income and costs							Other comprehensive income
	Interest income (expense)	Dividend income(*1)	Gain and loss on foreign currency	Gain and loss on disposal	Impairment loss	Others	Total	
Financial assets at fair value through profit or loss	₩ -	-	-	(16,917)	-	(14,713)	(31,630)	-
Available-for-sale financial assets	13	3,365	-	(825)	(2,724)	-	(171)	96,579
Loans and receivables	24,832	-	(108,924)	-	-	(213)	(84,305)	-
Financial liabilities at fair value through profit or loss	-	-	-	-	-	(35,764)	(35,764)	-
Financial liabilities at amortized cost	(35,136)	-	184,448	-	-	1,244	150,556	-
₩	(10,291)	3,365	75,524	(17,742)	(2,724)	(49,446)	(1,314)	96,579

(\*1) Finance income in the statement of comprehensive income includes the dividends from subsidiaries, associates and joint ventures of ₩8,099 million for the three-month period ended September 30, 2016.

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

	Finance income and costs							Other comprehensive income
	Interest income (expense)	Dividend income(*1)	Gain and loss on foreign currency	Gain and loss on disposal	Impairment loss	Others	Total	
Financial assets at fair value through profit or loss	₩ -	-	-	-	-	2,786	2,786	-
Available-for-sale financial assets	14	364	-	71	(23,265)	-	(22,816)	(165,721)
Loans and receivables	25,010	-	70,450	-	-	(198)	95,262	-
Financial liabilities at fair value through profit or loss	-	-	-	-	-	1,093	1,093	-
Financial liabilities at amortized cost	(61,204)	-	(241,604)	-	-	2,072	(300,736)	-
₩	(36,180)	364	(171,154)	71	(23,265)	5,753	(224,411)	(165,721)

(\*1) Finance income in the statement of comprehensive income includes the dividends from subsidiaries, associates and joint ventures of ₩8,873 million for the three-month period ended September 30, 2015.

# POSCO

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

### (b) Fair value

#### 1) Fair value and book value

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

(in millions of Won)

	September 30, 2016		December 31, 2015	
	Book value	Fair value	Book value	Fair value
Assets measured at fair value				
Available-for-sale financial assets(*1)	₩ 1,709,543	1,709,543	1,622,911	1,622,911
Derivatives assets(*2)	30,040	30,040	90,883	90,883
	<u>1,739,583</u>	<u>1,739,583</u>	<u>1,713,794</u>	<u>1,713,794</u>
Assets measured at amortized cost(*3)				
Cash and cash equivalents	1,098,318	1,098,318	1,634,106	1,634,106
Trade accounts and note receivable, net	2,714,282	2,714,282	2,759,999	2,759,999
Loans and other receivables	4,075,518	4,075,518	3,560,117	3,560,117
	<u>7,888,118</u>	<u>7,888,118</u>	<u>7,954,222</u>	<u>7,954,222</u>
Liabilities measured at fair value				
Derivatives liabilities(*2)	39,016	39,016	8,118	8,118
Liabilities measured at amortized cost(*3)				
Trade accounts and notes payable	755,734	755,734	577,856	577,856
Borrowings	4,137,324	4,262,431	5,288,827	5,573,931
Financial guarantee liabilities	85,168	85,168	99,054	99,054
Others	860,121	860,121	978,648	978,648
	<u>₩ 5,838,347</u>	<u>5,963,454</u>	<u>6,944,385</u>	<u>7,229,489</u>

- (\*1) The fair value of available-for-sale financial assets publicly traded is measured at the closing bid price quoted at the end of the reporting period. Meanwhile, the fair value of unquoted available-for-sale financial assets is calculated using the valuation results from an external pricing service in which weighted average cost of capital of evaluated companies are used as a discount rates. Available-for-sale financial assets which are not measured at fair value are not included.
- (\*2) The fair value of derivatives is measured using valuation models such as Black-Scholes model and others in which the market yields on government bonds are used as discount rates.
- (\*3) The fair value of financial assets and liabilities measured at amortized cost is determined at the present value of estimated future cash flows discounted at the current market interest rate. The fair value is calculated for the disclosures in the notes. On the other hand, the Company has not performed fair value measurement for the financial assets and liabilities measured at amortized cost except borrowings since their carrying amounts approximate fair value.



# POSCO

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

### 2) The fair value hierarchy

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

#### ① September 30, 2016

(in millions of Won)

		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial assets					
Available-for-sale financial assets	₩	1,530,228	-	179,315	1,709,543
Derivatives assets		-	14,178	15,862	30,040
	₩	<u>1,530,228</u>	<u>14,178</u>	<u>195,177</u>	<u>1,739,583</u>
Financial liabilities					
Derivatives liabilities	₩	-	39,016	-	39,016

#### ② December 31, 2015

(in millions of Won)

		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Financial assets					
Available-for-sale financial assets	₩	1,394,480	-	228,431	1,622,911
Derivatives assets		-	12,591	78,292	90,883
	₩	<u>1,394,480</u>	<u>12,591</u>	<u>306,723</u>	<u>1,713,794</u>
Financial liabilities					
Derivatives liabilities	₩	-	-	8,118	8,118

### 3) Financial risk management

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

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

### 21. Share Capital and Capital Surplus

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

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

(\*1) As of September 30, 2016, total shares of ADRs of 51,622,460, outstanding in overseas stock market, are equivalent to 12,905,615 shares of common stock.

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

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

<i>(in millions of Won)</i>	<b>September 30, 2016</b>	<b>December 31, 2015</b>
Additional paid-in capital	₩ 463,825	463,825
Gain on disposal of treasury shares	783,762	783,756
Loss from merger	(91,310)	-
	₩ 1,156,277	1,247,581

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

### 22. Hybrid Bonds

Hybrid bonds classified as equity as of September 30, 2016 and December 31, 2015 are as follows:

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

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

<i>(in millions of Won)</i>	<u>Hybrid bond 1-1</u>	<u>Hybrid bond 1-2</u>
Issue price	800,000	200,000
Maturity date	30 years (The Company has a right to extend the maturity date)	30 years (The Company has a right to extend the maturity date)
Interest rate	Issue date ~ 2018-06-12 : 4.30% Reset every 5 years as follows; · After 5 years : return on government bond (5 years) + 1.30% · After 10 years : additionally + 0.25% according to Step-up clauses · After 25 years : additionally + 0.75%	Issue date ~ 2023-06-12 : 4.60% Reset every 10 years as follows; · After 10 years : return on government bond (10 years) + 1.40% · After 10 years : additionally + 0.25% according to Step-up clauses · After 30 years : additionally + 0.75%
Interest payments condition	Quarterly (Optional deferral of interest payment is available to the Company)	Quarterly (Optional deferral of interest payment is available to the Company)
Others	The Company can call the hybrid bond at year 5 and interest payment date afterwards	The Company can call the hybrid bond at year 10 and interest payment date afterwards

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

### 23. Reserves

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

<i>(in millions of Won)</i>		<u>September 30, 2016</u>	<u>December 31, 2015</u>
Accumulated changes in unrealized fair value of available-for-sale investments, net of tax	₩	195,906	(30,018)

### 24. Treasury Shares

As of September 30, 2016, the Company holds 7,190,484 shares of treasury stock for price stabilization and others in accordance with the Board of Director's resolution.

# POSCO

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

### 25. Selling and Administrative Expenses

#### (a) Administrative expenses

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

(in millions of Won)

	For the three-month periods ended September 30		For the nine-month periods ended September 30	
	2016	2015	2016	2015
Wages and salaries	₩ 50,303	56,377	153,954	163,800
Expenses related to post-employment benefits	7,805	8,026	23,893	24,785
Other employee benefits	11,671	12,067	37,645	37,849
Travel	2,768	3,037	8,902	9,730
Depreciation	4,942	4,491	13,103	14,536
Amortization	14,533	13,235	41,408	39,377
Rental	13,943	17,224	43,597	51,859
Repairs	1,706	1,879	5,403	5,965
Advertising	24,841	17,472	56,163	53,488
Research & development	21,665	25,027	59,168	62,936
Service fees	44,264	42,067	119,300	132,221
Supplies expense	241	1,211	4,899	4,049
Vehicles maintenance	1,599	1,748	4,759	5,233
Industry association fee	3,719	955	7,033	6,160
Training	3,955	1,841	12,456	9,335
Conference	910	1,245	2,819	4,057
Bad debt expenses	1,166	3,677	21,835	2,468
Others	6,511	7,110	24,592	26,621
	₩ 216,542	218,689	640,929	654,469

#### (b) Selling expenses

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

(in millions of Won)

	For the three-month periods ended September 30		For the nine-month periods ended September 30	
	2016	2015	2016	2015
Freight and custody expenses	₩ 191,653	239,025	587,264	676,925
Operating expenses for distribution center	2,428	2,446	7,236	7,860
Sales commissions	23,004	17,097	57,555	45,332
Sales advertising	1,184	374	2,187	1,549
Sales promotion	1,290	1,309	3,885	4,054
Sample	154	457	759	1,156
Sales insurance premium	1,534	1,664	3,444	4,342
	₩ 221,247	262,372	662,330	741,218

# POSCO

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

### 26. Finance Income and Costs

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

(in millions of Won)

	For the three-month periods ended September 30		For the nine-month periods ended September 30	
	2016	2015	2016	2015
<b>Finance income</b>				
Interest income	₩ 24,844	25,024	68,510	66,938
Dividend income	11,464	9,237	144,001	317,405
Gain on foreign currency transactions	66,120	75,669	188,340	156,480
Gain on foreign currency translations	85,622	14,567	123,855	38,074
Gain on valuation of derivatives	(14,712)	4,230	10,575	15,925
Gain on derivative transactions	117	-	117	67
Gain on disposals of available-for-sale investment	-	71	2,171	137
Financial guarantee income	2,552	2,090	7,687	2,090
	<u>₩ 176,007</u>	<u>130,888</u>	<u>545,256</u>	<u>597,116</u>
<b>Finance costs</b>				
Interest expenses	₩ 35,135	61,204	114,874	183,653
Loss on foreign currency transactions	77,621	53,454	208,342	129,989
Loss on foreign currency translations	(1,403)	207,936	135,509	268,117
Loss on valuation of derivatives	35,765	352	102,317	1,613
Loss on derivative transactions	17,034	-	17,034	505
Impairment loss on available-for-sale investment	2,724	23,265	221,561	75,221
Others	2,346	215	2,696	567
	<u>₩ 169,222</u>	<u>346,426</u>	<u>802,333</u>	<u>659,665</u>

# POSCO

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

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

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

(in millions of Won)

	For the three-month periods ended September 30		For the nine-month periods ended September 30	
	2016	2015	2016	2015
<b>Other non-operating income</b>				
Gain on disposals of property, plant and equipment ₩	1,321	2,479	17,601	8,543
Reversal of impairment loss on intangible assets	-	-	1,838	-
Gain on disposals of investment in subsidiaries, associates and joint ventures	50	-	50	2,046
Gain on disposals of assets held for sale	6,814	357,008	6,814	409,173
Premium income	3,888	2,138	5,863	8,887
Gain on exemption of debt	-	-	9,665	-
Others	1,339	3,347	16,339	9,460
₩	<u>13,412</u>	<u>364,972</u>	<u>58,170</u>	<u>438,109</u>
<b>Other non-operating expenses</b>				
Loss on disposals of property, plant and equipment ₩	14,128	12,964	69,774	57,201
Impairment loss on property, plant and equipment	34,056	22,284	34,056	68,720
Donations	4,641	10,120	19,842	30,770
Idle tangible asset expenses	852	1,216	2,753	5,951
Impairment loss on investment in subsidiaries, associates and joint ventures	39,404	45,157	75,347	260,833
Loss on disposals of assets held for sale	-	-	-	20,133
Impairment loss on assets held for sale	-	83,741	-	95,737
Others(*1)	14,135	301,551	24,511	331,063
₩	<u>107,216</u>	<u>477,033</u>	<u>226,283</u>	<u>870,408</u>

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

# POSCO

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

### 28. Expenses by Nature

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

(in millions of Won)

	For the three-month periods ended September 30		For the nine-month periods ended September 30	
	2016	2015	2016	2015
Changes in inventories(*1)	₩ (190,323)	64,425	126,941	263,422
Raw materials and consumables used	3,191,979	3,327,780	8,993,259	10,639,021
Employee benefits expenses	406,961	381,951	1,193,602	1,126,438
Outsourced processing cost	494,523	540,911	1,498,866	1,624,228
Depreciation(*2)	521,431	517,002	1,540,520	1,539,392
Amortization	21,332	18,020	58,443	52,025
Electricity and water expenses	175,229	197,139	564,143	688,251
Service fees	64,279	56,061	171,513	171,448
Rental	19,482	21,424	58,010	65,588
Advertising	24,841	17,472	56,163	53,488
Freight and custody expenses	191,653	239,025	587,264	676,925
Sales commissions	23,004	17,097	57,555	45,332
Loss on disposals of property, plant and equipment	14,128	12,964	69,774	57,201
Impairment loss on property, plant and equipment	34,056	22,284	34,056	68,720
Impairment loss on investments in subsidiaries, associates and joint ventures	39,404	45,157	75,347	260,833
Loss on disposals of assets held for sale	-	-	-	20,133
Impairment loss on assets held for sale	-	83,741	-	95,737
Contribution to provisions (reversal of contribution to provisions)	36,691	(23)	37,202	2,045
Others	292,644	575,544	839,614	1,215,033
	₩ 5,361,314	6,137,974	15,962,272	18,665,260

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

(\*2) Includes depreciation of investment property.

### 29. Income Taxes

The effective tax rate of the Company for the nine-month periods ended September 30, 2016 and 2015 was 22.5% and 23.0%, respectively.

# POSCO

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

### 30. Earnings per Share

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

(in Won, except per share information)

		For the three-month periods ended September 30		For the nine-month periods ended September 30	
		2016	2015	2016	2015
Profit for the period	₩	578,995,935,125	346,211,467,208	1,335,416,347,414	1,056,421,687,190
Interests of hybrid bonds, net of tax		(8,330,108,492)	(8,347,872,419)	(24,804,509,930)	(24,699,275,257)
Weighted-average number of common shares outstanding(*1)		79,996,318	79,993,620	79,996,052	79,993,350
Basic and diluted earnings per share	₩	7,134	4,224	16,383	12,898

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

(in share)

	For the three-month periods ended September 30		For the nine-month periods ended September 30	
	2016	2015	2016	2015
Total number of common shares issued	87,186,835	87,186,835	87,186,835	87,186,835
Weighted-average number of treasury shares	(7,190,517)	(7,193,215)	(7,190,783)	(7,193,485)
Weighted-average number of common shares outstanding	79,996,318	79,993,620	79,996,052	79,993,350

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



# POSCO

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

### 31. Related Party Transactions

(a) Significant transactions with related companies for the nine-month periods ended September 30, 2016 and 2015 were as follows:

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

(in millions of Won)

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

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

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

(\*3) As of September 30, 2016, the Company provided guarantees to related parties. (Note 20)

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

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

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

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

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

(in millions of Won)

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

# POSCO

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

(b) Significant transactions with related companies for the three-month periods ended September 30, 2016 and 2015 were as follows:

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

(in millions of Won)

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

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

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

(in millions of Won)

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

# POSCO

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

(c) The related account balances of significant transactions with related companies as of September 30, 2016 and December 31, 2015 are as follows:

### 1) September 30, 2016

(in millions of Won)

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

### 2) December 31, 2015

(in millions of Won)

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

# POSCO

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

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

<i>(in millions of Won)</i>	<b>September 30, 2016</b>	<b>September 30, 2015</b>
Short-term benefits	₩ 20,428	26,218
Long-term benefits	8,893	8,683
Retirement benefits	5,594	8,802
	<u>₩ 34,915</u>	<u>43,703</u>

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

### 32. Commitments and Contingencies

#### (a) Commitments

The Company entered into long-term contracts to purchase iron ore, coal, nickel and others. The contracts of iron ore and coal generally have terms of more than three years and the contracts of nickel have terms of more than one year. These contracts provide for periodic price adjustments based on the market price. As of September 30, 2016, 144 million tons of iron ore and 23 million tons of coal remained to be purchased under such long-term contracts.

The Company entered into an agreement with Tangguh Liquefied Natural Gas (LNG) Consortium in Indonesia to purchase 550 thousand tons of LNG annually for 20 years commencing in August 2005. The purchase price is subject to change, based on changes of the monthly standard oil price (JCC) and with a price ceiling.

As of September 30, 2016, the Company entered into commitments with Korea National Oil Corporation for long-term foreign currency borrowings, which are limited up to the amount of USD 6.49 million. The borrowings are related to the exploration of gas hydrates in Western Fergana-Chenavard. The repayment of the borrowings depends on the success of the project. The Company is not liable for the repayment of full or part of the money borrowed if the respective project fail. The Company has agreed to pay a certain portion of its profits under certain conditions, as defined by the borrowing agreements. As of September 30, 2016, the balances of the borrowing are USD 4.09 million.

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

(b) As of September 30, 2016, the Company 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.

(c) Litigation in progress

The Company is involved in 36 litigations for alleged damages aggregating to ₩87.2 billion as of September 30, 2016 which arose in the ordinary course of business. The Company has recognized provisions for 2 of 36 litigations amounting to ₩2.5 billion by estimating the outcome of such litigations reasonably. Except 2 litigations, the Company has not recognized any provisions since the Company believes that it does not have a present obligation on other litigations as of September 30, 2016.

(d) The Company has provided a supplemental funding agreement, as the largest shareholder, as requested from the creditors, including Norddeutsche Landesbank, for seamless funding to the construction of new power plant by POSCO ENERGY CO., LTD.

### 33. Cash Flows from Operating Activities

Changes in operating assets and liabilities for the nine-month periods ended September 30, 2016 and 2015 were as follows:

<i>(in millions of Won)</i>	<b>September 30, 2016</b>	<b>September 30, 2015</b>
Trade accounts and notes receivable, net	₩ (3,837)	305,594
Other accounts receivable	60,236	186,529
Inventories	163,179	643,641
Prepaid expenses	(18,324)	(20,977)
Other current assets	130	(206)
Long-term guarantee deposits	138	(202)
Other non-current assets	(60)	401
Trade accounts and notes payable	181,776	(107,093)
Other accounts payable	15,885	(114,270)
Accrued expenses	(11,459)	(39,682)
Advances received	(1,629)	(10,305)
Withholdings	4,482	31,820
Unearned revenue	(842)	17,357
Other current liabilities	(12,817)	(35,944)
Payment severance benefits	(67,093)	(69,696)
Plan assets	(36,259)	5,461
	<u>₩ 273,506</u>	<u>792,428</u>

# POSCO

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

### 34. Business Combination

- (a) The Company merged with POSHIMETAL Co., Ltd. and POSCO Green Gas Technology during the nine-month period ended September 30, 2016. The purpose of the business combination is to enhance shareholder's value by increasing competence of the Company and maximizing efficiency of integrated operations through the synergy gained from the merger.

	<b>POSHIMETAL Co., Ltd.</b>	<b>POSCO Green Gas Technology</b>
Decision date of Board of Directors	2015.12.11	2016.02.19
Acquisition date	2016.03.01	2016.05.01

- (b) Since the merger between the controlling company and its subsidiaries, the assets acquired and liabilities assumed through the merger are measured at book value in the consolidated financial statements of the Company. The difference between considerations transferred and the book value of net assets recognized is reflected in capital surplus.

(in millions of Won)

	<b>POSHIMETAL Co., Ltd.</b>	<b>POSCO Green Gas Technology</b>
Transfer price		
Book value of existing ownership interest	₩ 2,966	682,600
Identifiable assets, acquired liabilities		
Cash and cash equivalents	316	23,934
Trade accounts and note receivable, net	2,583	-
Inventories	35,113	9,227
Property, plant, equipment and intangible assets	231,848	1,059,901
Other assets	7,002	7,803
Trade accounts and note payable	(1,685)	-
Borrowings	(331,817)	(202,544)
Other payables	(2,931)	(226,602)
Other liabilities	(10,207)	(7,685)
Total identifiable net assets	(69,778)	664,034
Capital surplus arising from business combination		
Decrease in capital surplus	₩ 72,744	18,566