

POSCO

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

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

Management's responsibility

Management is responsible for the preparation and fair presentation of these condensed 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 matters

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

KPMG Samjong Accounting Corp.

Seoul, Korea
May 15, 2017

This report is effective as of May 15, 2017, the review report date. Certain subsequent events or circumstances, which may occur between the review report date and the time of reading this report, could have a material impact on the accompanying condensed 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 March 31, 2017 and December 31, 2016 (Unaudited)

(in millions of Won)

	<u>Notes</u>	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Assets			
Cash and cash equivalents	20	₩ 362,747	120,529
Trade accounts and notes receivable, net	4,14,20,31	3,412,438	3,216,209
Other receivables, net	5,20,31	276,331	246,061
Other short-term financial assets	6,20	3,945,259	4,130,963
Inventories	7,28	4,264,618	3,995,291
Assets held for sale	8	392	764
Other current assets	13	60,775	22,859
Total current assets		<u>12,322,560</u>	<u>11,732,676</u>
Long-term trade accounts and notes receivable, net	4,20	11,700	14,040
Other receivables, net	5,20	81,755	87,669
Other long-term financial assets	6,20	2,117,739	2,145,570
Investments in subsidiaries, associates and joint ventures	9	15,263,100	15,031,385
Investment property, net	10	85,102	86,296
Property, plant and equipment, net	11	22,019,758	22,257,409
Intangible assets, net	12	545,202	508,890
Defined benefit assets, net	18	62,165	81,621
Other non-current assets	13	105,786	110,197
Total non-current assets		<u>40,292,307</u>	<u>40,323,077</u>
Total assets		<u>₩ 52,614,867</u>	<u>52,055,753</u>

See accompanying notes to the condensed separate interim financial statements.

POSCO

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

(in millions of Won)

	Notes	March 31, 2017	December 31, 2016
Liabilities			
Trade accounts and notes payable	20,31	₩ 819,632	1,082,927
Short-term borrowings and current installments of long-term borrowings	4,14,20	352,001	364,840
Other payables	15,20,31	1,319,128	866,074
Other short-term financial liabilities	16,20	15,132	16,508
Current income tax liabilities		366,779	315,530
Provisions	17	13,346	14,154
Other current liabilities	19	62,185	37,219
Total current liabilities		2,948,203	2,697,252
Long-term borrowings, excluding current installments	14,20	3,625,874	3,778,014
Other payables	15,20	85,205	117,310
Other long-term financial liabilities	16,20	96,928	72,742
Deferred tax liabilities		1,080,153	1,015,966
Long-term provisions	17,32	27,428	29,506
Other non-current liabilities	19	15,202	15,516
Total non-current liabilities		4,930,790	5,029,054
Total liabilities		7,878,993	7,726,306
Equity			
Share capital	21	482,403	482,403
Capital surplus	21	1,156,304	1,156,303
Hybrid bonds	22	996,919	996,919
Reserves	23	324,267	284,240
Treasury shares	24	(1,533,462)	(1,533,468)
Retained earnings		43,309,443	42,943,050
Total equity		44,735,874	44,329,447
Total liabilities and equity		₩ 52,614,867	52,055,753

See accompanying notes to the condensed separate interim financial statements.

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Condensed Separate Interim Statements of Comprehensive Income For the three-month periods ended March 31, 2017 and 2016 (Unaudited)

(in millions of Won, except per share information)

	Notes	March 31, 2017	March 31, 2016
Revenue	31	₩ 7,067,446	5,767,132
Cost of sales	7,28,31	(5,843,438)	(4,765,402)
Gross profit		1,224,008	1,001,730
Selling and administrative expenses	25,28,31		
Administrative expenses		(216,252)	(195,850)
Selling expenses		(212,329)	(223,766)
Operating profit		795,427	582,114
Finance income and costs	20,26		
Finance income		342,514	282,959
Finance costs		(263,365)	(242,184)
Other non-operating income and expenses	27,31		
Other non-operating income		243,934	18,447
Other non-operating expenses	28	(47,850)	(80,032)
Profit before income tax		1,070,660	561,304
Income tax expense	29	(231,023)	(115,393)
Profit		839,637	445,911
Other comprehensive income (loss)			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurements of defined benefit plans, net of tax	18	(2,148)	4,128
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	40,027	(3,581)
Total comprehensive income		₩ 877,516	446,458
Basic and diluted earnings per share (in Won)	30	10,391	5,469

See accompanying notes to the condensed separate interim financial statements.

POSCO

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

(in millions of Won)

		Share capital	Capital surplus	Hybrid bonds	Reserves	Treasury shares	Retained earnings	Total
Balance as of January 1, 2016	₩	482,403	1,247,581	996,919	(30,018)	(1,533,898)	41,862,570	43,025,557
Comprehensive income:								
Profit		-	-	-	-	-	445,911	445,911
Other comprehensive income (loss)								
Remeasurements of defined benefit plans, net of tax		-	-	-	-	-	4,128	4,128
Net changes in unrealized fair value of available-for-sale investments, net of tax		-	-	-	(3,581)	-	-	(3,581)
Transactions with owners of the Company, recognized directly in equity:								
Year-end dividends		-	-	-	-	-	(479,974)	(479,974)
Business combination		-	(77,487)	-	-	-	-	(77,487)
Interest of hybrid bonds		-	-	-	-	-	(11,082)	(11,082)
Disposal of treasury shares		-	(4)	-	-	23	-	19
Balance as of March 31, 2016	₩	<u>482,403</u>	<u>1,170,090</u>	<u>996,919</u>	<u>(33,599)</u>	<u>(1,533,875)</u>	<u>41,821,553</u>	<u>42,903,491</u>
Balance as of January 1, 2017	₩	482,403	1,156,303	996,919	284,240	(1,533,468)	42,943,050	44,329,447
Comprehensive income:								
Profit		-	-	-	-	-	839,637	839,637
Other comprehensive income (loss)								
Remeasurements of defined benefit plans, net of tax		-	-	-	-	-	(2,148)	(2,148)
Net changes in unrealized fair value of available-for-sale investments, net of tax		-	-	-	40,027	-	-	40,027
Transactions with owners of the Company, recognized directly in equity:								
Year-end dividends		-	-	-	-	-	(459,987)	(459,987)
Interest of hybrid bonds		-	-	-	-	-	(11,109)	(11,109)
Disposal of treasury shares		-	1	-	-	6	-	7
Balance as of March 31, 2017	₩	<u>482,403</u>	<u>1,156,304</u>	<u>996,919</u>	<u>324,267</u>	<u>(1,533,462)</u>	<u>43,309,443</u>	<u>44,735,874</u>

See accompanying notes to the condensed separate interim financial statements.

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

(in millions of Won)

	<u>Notes</u>	<u>March 31, 2017</u>	<u>March 31, 2016</u>
Cash flows from operating activities			
Profit		₩ 839,637	445,911
Adjustments for :			
Costs for defined benefit plans		26,455	28,027
Depreciation		518,197	505,996
Amortization		21,295	18,339
Finance income		(274,056)	(203,309)
Finance costs		198,551	183,379
Loss on valuation of inventories		3,595	13,250
Gain on disposal of property, plant and equipment		(4,543)	(10,593)
Loss on disposal of property, plant and equipment		23,359	24,485
Impairment loss on property, plant and equipment		5,562	-
Gain on disposal of intangible assets		(6,496)	-
Impairment loss on investments in subsidiaries, associates and joint ventures		-	34,426
Gain on reversal of impairment loss on investments in subsidiaries, associates and joint ventures		(225,860)	-
Income tax expense		231,023	115,393
Others		(421)	2,977
Changes in operating assets and liabilities	33	(751,962)	461,157
Interest received		18,342	26,221
Interest paid		(14,126)	(38,705)
Dividends received		17,535	6,194
Income taxes paid		(127,681)	(75,458)
Net cash provided by operating activities		₩ <u>498,406</u>	<u>1,537,690</u>

See accompanying notes to the condensed separate interim financial statements.

POSCO

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

(in millions of Won)

	<u>Notes</u>	<u>March 31, 2017</u>	<u>March 31, 2016</u>
Cash flows from investing activities			
Proceeds from disposal of short-term financial instruments	₩	4,214,447	4,647,219
Proceeds from disposal of long-term financial instruments		1	-
Proceeds from disposal of available-for-sale investments		7,425	725
Proceeds from disposal of intangible assets		6,498	1,011
Proceeds from disposal of assets held for sale		450	-
Proceeds from business combination		-	316
Acquisition of short-term financial investments		(4,028,743)	(4,789,506)
Acquisition of available-for-sale investments		(3,300)	(7,513)
Acquisition of investments in subsidiaries, associates and joint ventures		(6,285)	(49,165)
Acquisition of property, plant and equipment		(369,505)	(407,904)
Payment for disposal of property, plant and equipment		(12,932)	(3,933)
Acquisition of intangible asstes		(35,777)	(1,778)
Net cash used in investing activities	₩	<u>(227,721)</u>	<u>(610,528)</u>
Cash flows from financing activities			
Proceeds from borrowings		56,050	77,949
Increase in long-term financial liabilities		608	1,513
Repayment of borrowings		(71,752)	(918,124)
Decrease in long-term financial liabilities		(2,671)	(1,473)
Payment of cash dividends		(10)	(20)
Payment of interest of hybrid bonds		(10,751)	(10,870)
Net cash used in financing activities	₩	<u>(28,526)</u>	<u>(851,025)</u>
Changes in cash due to foreign currency translation		59	(20,811)
Net increase in cash and cash equivalents		242,218	55,326
Cash and cash equivalents			
Cash and cash equivalents at beginning of the period		<u>120,529</u>	<u>1,634,106</u>
Cash and cash equivalents at end of the period	₩	<u>362,747</u>	<u>1,689,432</u>

See accompanying notes to the condensed separate interim financial statements.

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

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 March 31, 2017, the shares of the Company are listed on the Korea Exchange, while its depository receipts are listed on the New York Stock Exchange.

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, 2016. 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.

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Notes to the Condensed Separate Interim Financial Statements, Continued

As of March 31, 2017

(Unaudited)

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, 2016.

(b) Measurement of fair value

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

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

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

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

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

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

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

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

3. Summary of Significant Accounting Policies

Except as described in K-IFRS No. 1034 "Interim Financial Reporting" and below, the accounting policies applied by the Company in these condensed 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, 2016.

Changes in Accounting Policies

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

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

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

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

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

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

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

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

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

New standards and interpretations not yet adopted

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

(a) K-IFRS No. 1109 "Financial Instruments"

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

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

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

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

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

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

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

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

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

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

4. Trade Accounts and Notes Receivable

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

<i>(in millions of Won)</i>		<u>March 31, 2017</u>	<u>December 31, 2016</u>
Current			
Trade accounts and notes receivable	₩	3,427,629	3,231,461
Less: Allowance for doubtful accounts		(15,191)	(15,252)
	₩	<u>3,412,438</u>	<u>3,216,209</u>
Non-current			
Trade accounts and notes receivable	₩	17,677	21,671
Less: Present value discount		(5,710)	(7,364)
Less: Allowance for doubtful accounts		(267)	(267)
	₩	<u>11,700</u>	<u>14,040</u>

Trade accounts and notes receivable sold to financial institutions, for which the derecognition conditions were not met, amounted to ₩40,550 million and ₩31,370 million as of March 31, 2017 and December 31, 2016, respectively. The fair value of trade accounts and notes receivable approximates the carrying amounts and recognized as short-term borrowings from financial institutions (Note 14).

5. Other Receivables

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

<i>(in millions of Won)</i>		<u>March 31, 2017</u>	<u>December 31, 2016</u>
Current			
Other accounts receivable	₩	260,419	231,535
Others		21,612	20,235
Less: Allowance for doubtful accounts		(5,700)	(5,709)
	₩	<u>276,331</u>	<u>246,061</u>
Non-current			
Long-term loans	₩	22,044	23,183
Long-term other accounts receivable		56,953	61,728
Others		2,758	2,758
	₩	<u>81,755</u>	<u>87,669</u>

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

6. Other Financial Assets

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

<i>(in millions of Won)</i>	March 31, 2017	December 31, 2016
Current		
Short-term financial assets(*1)	₩ 3,936,363	4,124,150
Cash deposits(*2)	8,896	6,813
	₩ 3,945,259	4,130,963
Non-current		
Long-term derivative assets	₩ 5,988	80,959
Available-for-sale securities (equity instruments)	2,102,081	2,058,240
Available-for-sale securities (others)	9,638	6,338
Cash deposits(*3)	32	33
	₩ 2,117,739	2,145,570

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

(*2) Deposits amounting to ₩8,896 million and ₩6,813 million as of March 31, 2017 and December 31, 2016, 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 March 31, 2017 and December 31, 2016 are as follows:

<i>(in millions of Won)</i>	March 31, 2017							December 31, 2016
	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
Marketable equity securities								
Nippon Steel & Sumitomo Metal Corporation	23,835,200	2.51	₩ 719,622	610,468	82,101	(191,255)	610,468	644,257
KB Financial group Inc.	11,590,550	2.77	536,517	567,937	198,778	(167,358)	567,937	496,076
Woori Bank	20,280,000	3.00	244,447	263,640	19,193	-	263,640	267,787
Hyundai Heavy Industries Co., Ltd.	1,477,000	1.94	343,506	243,705	114,024	(213,825)	243,705	214,904
DONGKUK STEEL MILL CO., LTD	1,786,827	1.87	10,470	22,871	12,401	-	22,871	19,744
SAMWONSTEEL Co., Ltd.	5,700,000	14.25	8,930	20,805	18,278	(6,403)	20,805	20,064
DONGKUK INDUSTRIES COMPANY	2,611,989	4.82	11,910	12,694	784	-	12,694	19,355
Others (10 companies)(*1)			106,639	70,576	24,077	(60,140)	70,576	74,526
			1,982,041	1,812,696	469,636	(638,981)	1,812,696	1,756,713
Non-marketable equity securities								
Congonhas Minerios S.A.(*2)	3,658,394	2.02	221,535	179,588	(41,947)	-	179,588	190,884
Poongsan Special Metal(*3)	315,790	5.00	7,657	7,657	-	-	7,657	7,657
Core-Industry Co., Ltd.(*3)	21,000	4.99	4,599	4,599	-	-	4,599	4,599
AJUSTEEL CO., LTD(*3)	490,000	19.84	4,214	4,214	-	-	4,214	4,214
HANKUM CO., LTD(*3)	17,000	4.36	4,165	4,165	-	-	4,165	4,165
Others (38 companies)(*3)			233,351	89,162	104	(144,293)	89,162	90,008
			475,521	289,385	(41,843)	(144,293)	289,385	301,527
			₩ 2,457,562	2,102,081	427,793	(783,274)	2,102,081	2,058,240

(*1) The Company has recognized ₩720 million of impairment loss on security of Steel Flower Co., Ltd., due to prolonged decline in the fair value of the security during the period ended March 31, 2017.

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

(*2) Fair value is based on an analysis performed by an external professional evaluation agency.

(*3) Non-marketable equity securities whose fair values cannot be reliably measured are recorded at cost.

7. Inventories

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

<i>(in millions of Won)</i>		March 31, 2017	December 31, 2016
Finished goods	₩	724,135	696,192
Semi-finished goods		1,180,901	1,092,864
By-products		4,651	4,303
Raw materials		1,072,336	814,993
Fuel and materials		557,762	535,036
Materials-in-transit		727,943	863,226
Others		485	520
		<u>4,268,213</u>	<u>4,007,134</u>
Less: Allowance for inventories valuation		<u>(3,595)</u>	<u>(11,843)</u>
	₩	<u><u>4,264,618</u></u>	<u><u>3,995,291</u></u>

The amounts of loss valuation on inventories recognized within cost of sales during the three-month period ended March 31, 2017 and the year ended December 31, 2016 were ₩3,595 million and ₩11,843 million, respectively.

8. Assets Held for Sale

Assets held for sale as of March 31, 2017 and December 31, 2016 are as follows:

<i>(in millions of Won)</i>		March 31, 2017	December 31, 2016
Property, plant and equipment	₩	392	764

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

9. Investments in Subsidiaries, Associates and Joint ventures

(a) Details of subsidiaries and carrying values as of March 31, 2017 and December 31, 2016 are as follows:

(in millions of Won)

	Country	Principal operations	March 31, 2017		December 31,
			Ownership (%)	Book value	2016
					Book value
[Domestic]					
POSCO DAEWOO Corporation(*1)	Korea	Trading	62.90	₩ 3,610,164	3,371,481
POSCO ENGINEERING & CONSTRUCTION CO.,LTD.	Korea	Engineering and construction	52.80	1,014,314	1,014,314
POSCO ENERGY CO., LTD.	Korea	Power generation	89.02	658,176	658,176
POSCO Processing&Service(*1)	Korea	Steel sales and trading	93.95	385,995	624,678
POSCO COATED & COLOR STEEL Co., Ltd.	Korea	Coated steel manufacturing and	56.87	108,421	108,421
POSCO Venture 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
POSCO ES MATERIALS CO., LTD.	Korea	Secondary battery active material manufacturing and sales	75.32	83,309	83,000
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(*2)	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.(*3)	Korea	Municipal solid waste fuel and power generation	70.00	30,148	30,148
Others (9 companies)				159,755	159,755
				<u>6,497,885</u>	<u>6,497,576</u>
[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	627,763	626,996
POSCO Maharashtra Steel Private Limited(*5)	India	Steel manufacturing and sales	100.00	722,569	665,450
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(*4)	Thailand	Stainless steel manufacturing and sales	84.93	472,846	246,986
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.	Mexico	Plate steel manufacturing and sales	84.84	180,072	180,072
POSCO America Corporation	USA	Steel trading	99.45	192,156	192,156
POSCO-VIETNAM Co., Ltd.	Vietnam	Steel manufacturing and sales	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.	Hong Kong	Steel and raw material trading	100.00	117,710	117,710
POSCO ASSAN TST STEEL INDUSTRY	Turkey	Steel manufacturing and sales	60.00	92,800	92,800
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(*5)	India	Electrical steel processing and sales	-	-	57,119
POSCO AFRICA (PROPRIETARY) LIMITED	South Africa	Mine development	100.00	50,297	50,297
POSCO-Malaysia SDN. BHD.	Malaysia	Steel manufacturing and sales	81.79	45,479	45,479
POSCO(Guangdong) coated Steel Co., Ltd.	China	Plate steel sheet manufacturing and sales	87.04	31,299	31,299
Others (34 companies)(*6)				395,424	390,215
				<u>5,777,385</u>	<u>5,545,549</u>
				<u>₩ 12,275,270</u>	<u>12,043,125</u>

(*1) During the three-month period ended March 31, 2017, POSCO Processing&Service spun-off its Steel distribution business and other businesses and the businesses were merged with POSCO DAEWOO Corporation.

(*2) POSCO M-Tech Co., Ltd. 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.

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

- (*3) As of March 31, 2017, and December 31, 2016 the investment in a subsidiary amounting to ₩30,148 million was provided as collateral in relation to the loan agreements of Busan E&E Co., Ltd.
- (*4) As of March 31, 2017, the fair value of POSCO Thainox Public Company was increased significantly and the recoverable amount is estimated since there is an objective evidence of a decrease in impairment loss recognized in prior periods. Recoverable amount was determined based on fair value less cost to sell, which was calculated by the stock price as of March 31, 2017. As a result, the Company recognized ₩225,860 million as gain on reversal of impairment loss.
- (*5) During the three-month period ended March 31, 2017, POSCO Maharashtra Steel Private Ltd. merged with POSCO Electrical Steel India Private Limited.
- (*6) During the three-month period ended March 31, 2017, POSCO MPPC S.A. de C.V. merged with POSCO MAPC S.A. de C.V.

(b) Details of associates and carrying values as of March 31, 2017 and December 31, 2016 are as follows:

(in millions of Won)

	Country	Principal operations	March 31, 2017		December 31,
			Ownership (%)	Book value	2016
					Book value
[Domestic]					
EQP POSCO Global NO1 Natural Resources PEF SNNC	Korea	Mine investment	28.26	₩ 169,316	169,316
	Korea	STS material manufacturing and sales	49.00	100,655	100,655
Others (6 companies)				23,771	23,771
				293,742	293,742
[Foreign]					
Nickel Mining Company SAS	New Caledonia	Raw material manufacturing and sales	49.00	189,197	189,197
7623704 Canada Inc.(*1)	Canada	Mine investment	10.40	124,341	124,341
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd	China	Tinplate manufacturing and sales	24.00	11,003	11,003
Others (5 companies)				38,376	38,387
				362,917	362,928
				₩ 656,659	656,670

- (*1) As of March 31, 2017, 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.

(c) Details of joint ventures and carrying values as of March 31, 2017 and December 31, 2016 are as follows:

(in millions of Won)

	Country	Principal operations	March 31, 2017		December 31,
			Ownership (%)	Book value	2016
					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	575,132	575,551
POSCO-NPS Niobium LLC	USA	Mine development	50.00	364,609	364,609
KOBRASCO	Brazil	Steel materials manufacturing and sales	50.00	98,962	98,962
Others (3 companies)				67,004	67,004
				₩ 2,331,171	2,331,590

- (*1) As of March 31, 2017 and December 31, 2016, 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.

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

10. Investment Property, Net

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

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

<i>(in millions of Won)</i>		Beginning	Depreciation(*1)	Transfer(*2)	Ending
Land	₩	34,213	-	(116)	34,097
Buildings		46,437	(794)	(173)	45,470
Structures		5,646	(99)	(12)	5,535
	₩	<u>86,296</u>	<u>(893)</u>	<u>(301)</u>	<u>85,102</u>

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

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

(b) For the year ended December 31, 2016

<i>(in millions of Won)</i>		Beginning	Depreciation(*1)	Transfer(*2)	Ending
Land	₩	35,557	-	(1,344)	34,213
Buildings		47,399	(2,961)	1,999	46,437
Structures		3,796	(283)	2,133	5,646
	₩	<u>86,752</u>	<u>(3,244)</u>	<u>2,788</u>	<u>86,296</u>

(*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.

11. Property, Plant and Equipment, Net

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

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

<i>(in millions of Won)</i>		Beginning	Acquisitions	Disposals	Depreciation	Impairment(*1)	Others(*2)	Ending
Land	₩	1,472,419	-	(859)	-	-	116	1,471,676
Buildings		2,451,009	454	(957)	(55,538)	-	63,091	2,458,059
Structures		2,464,391	1,352	(10)	(47,445)	(29)	20,525	2,438,784
Machinery and equipment		13,577,042	6,753	(2,977)	(405,787)	(5,530)	451,706	13,621,207
Vehicles		11,316	-	-	(1,998)	-	1,039	10,357
Tools		23,244	143	-	(2,794)	(3)	1,375	21,965
Furniture and fixtures		33,890	110	(4)	(2,306)	-	1,139	32,829
Finance lease assets		77,848	-	-	(1,436)	-	-	76,412
Construction-in-progress		2,146,250	328,366	-	-	-	(586,147)	1,888,469
	₩	<u>22,257,409</u>	<u>337,178</u>	<u>(4,807)</u>	<u>(517,304)</u>	<u>(5,562)</u>	<u>(47,156)</u>	<u>22,019,758</u>

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

(*1) The Company has recognized an impairment loss since recoverable amount on Fe powder factory is less than its carrying amount for the three-month period ended March 31, 2017.

(*2) Represents assets transferred from construction-in-progress to intangible assets and other property, plant and equipment, assets transferred from investment properties, and others.

(b) For the year ended December 31, 2016

<i>(in millions of Won)</i>		Beginning	Acquisitions	Business combination	Disposals	Depreciation	Impairment(*1)	Others(*2)	Ending
Land	₩	1,412,715	52	10,273	(248)	-	-	49,627	1,472,419
Buildings		2,566,168	2,100	70,641	(2,074)	(230,235)	(351)	44,760	2,451,009
Structures		2,519,866	3,346	8,630	(1,746)	(189,333)	(916)	124,544	2,464,391
Machinery and equipment		14,014,079	76,671	146,466	(22,768)	(1,607,171)	(57,110)	1,026,875	13,577,042
Vehicles		11,623	1,984	39	(11)	(7,545)	-	5,226	11,316
Tools		23,720	3,329	289	(94)	(10,517)	-	6,517	23,244
Furniture and fixtures		31,820	4,675	237	(32)	(8,897)	(11)	6,098	33,890
Finance lease assets		5,733	76,581	-	-	(4,466)	-	-	77,848
Construction-in-progress		928,426	1,503,749	1,025,516	-	-	-	(1,311,441)	2,146,250
	₩	<u>21,514,150</u>	<u>1,672,487</u>	<u>1,262,091</u>	<u>(26,973)</u>	<u>(2,058,164)</u>	<u>(58,388)</u>	<u>(47,794)</u>	<u>22,257,409</u>

(*1) The Company has recognized an impairment loss since recoverable amounts on production facilities of automotive steel, electric furnace of high mill (2nd) and FINEX 1 plant are less than their carrying amounts for the year ended December 31, 2016.

(*2) Represents assets transferred from construction-in-progress to intangible assets and other property, plant and equipment, assets transferred to investment property, assets transferred from assets held-for-sale, and others.

12. Intangible Assets, Net

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

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

<i>(in millions of Won)</i>		Beginning	Acquisitions	Disposals	Amortization	Transfer(*2)	Ending
Intellectual property rights	₩	22,671	-	(248)	(995)	1,077	22,505
Membership(*1)		48,512	-	-	-	-	48,512
Development expense		102,785	141	-	(14,658)	6,410	94,678
Port facilities usage rights		257,348	-	-	(4,207)	41,310	294,451
Construction-in-progress		52,925	12,411	-	-	(6,013)	59,323
Other intangible assets		24,649	-	(2)	(1,435)	2,521	25,733
	₩	<u>508,890</u>	<u>12,552</u>	<u>(250)</u>	<u>(21,295)</u>	<u>45,305</u>	<u>545,202</u>

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

(*2) Represents assets transferred from construction-in-progress to intangible assets and assets transferred from property, plant and equipment, and others.

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

(b) For the year ended December 31, 2016

(in millions of Won)

	Beginning	Acquisitions	Business combination	Disposals	Amortization	Impairment(*2)	Transfer(*3)	Ending
Intellectual property rights	₩ 19,997	-	-	(752)	(3,609)	-	7,035	22,671
Membership(*1)	52,058	-	-	(2,170)	-	294	(1,670)	48,512
Development expense	98,038	2,793	23,033	(60)	(54,523)	-	33,504	102,785
Port facilities usage rights	265,575	-	-	-	(15,260)	-	7,033	257,348
Construction-in-progress	31,951	32,627	6,390	-	-	-	(18,043)	52,925
Other intangible assets	23,143	3,337	235	(488)	(6,263)	-	4,685	24,649
	₩ 490,762	38,757	29,658	(3,470)	(79,655)	294	32,544	508,890

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

(*2) The Company has recognized an impairment loss on some memberships 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) Represents assets transferred from construction-in-progress to intangible assets and assets transferred from property, plant and equipment, and others.

13. Other Assets

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

(in millions of Won)

		March 31, 2017	December 31, 2016
Current			
Advance payments	₩	8,318	6,692
Prepaid expenses		52,457	16,167
	₩	60,775	22,859
Non-current			
Long-term prepaid expenses	₩	5,517	5,654
Others(*1)		100,269	104,543
	₩	105,786	110,197

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

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

14. Borrowings

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

<i>(in millions of Won)</i>		March 31, 2017	December 31, 2016
Short-term borrowings			
Short-term borrowings	₩	340,550	331,370
Current portion of long-term borrowings		11,451	33,470
	₩	<u>352,001</u>	<u>364,840</u>
Long-term borrowings			
Long-term borrowings	₩	25,756	28,997
Debentures		3,611,726	3,762,146
Less: Discount on debentures issued		(11,608)	(13,129)
	₩	<u>3,625,874</u>	<u>3,778,014</u>

(b) Short-term borrowings as of March 31, 2017 and December 31, 2016 are as follows:

<i>(in millions of Won)</i>	Lenders	Issuance date	Maturity date	Annual interest rate (%)		March 31, 2017	December 31, 2016
Short-term borrowings	Korea Development Bank	2016.04.08~ 2016.10.26	2017.04.10	1.98~2.00	₩	300,000	300,000
Transfers of account receivables that do not qualify for derecognition	-	-	-	-		40,550	31,370
					₩	<u>340,550</u>	<u>331,370</u>

(c) Current portion of long-term borrowings as of March 31, 2017 and December 31, 2016 are as follows:

<i>(in millions of Won)</i>	Lenders	Issuance date	Maturity date	Annual interest rate (%)		March 31, 2017	December 31, 2016
Borrowings	Woori Bank and others	2006.10.31~ 2011.04.28	2018.03.15~ 2024.06.15	0.75~1.75	₩	11,451	12,471
Foreign borrowings	-	-	-	-		-	20,999
					₩	<u>11,451</u>	<u>33,470</u>

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

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

<i>(in millions of Won)</i>						
	Lenders	Issuance date	Maturity date	Annual Interest rate (%)		
					March 31, 2017	December 31, 2016
Borrowings	Woori Bank and others	2006.10.31~ 2011.04.28	2019.03.15~ 2024.06.15	0.75~1.75 ₩	21,188	24,051
Foreign borrowings	Korea National Oil Corporation	2007.12.27~ 2009.12.29	2022.06.25~ 2024.12.29	3 year Government bond	4,568	4,946
Debentures	Domestic debentures 304-1 and others	2011.11.28~ 2016.05.03	2018.10.04~ 2023.10.04	1.76~4.12	1,497,262	1,497,022
Foreign debentures	Samurai Bond 13 and others	2010.10.28~ 2013.12.11	2018.12.10~ 2021.12.22	1.35~5.25	2,102,856	2,251,995
					₩ 3,625,874	3,778,014

15. Other Payables

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

<i>(in millions of Won)</i>			
		March 31, 2017	December 31, 2016
Current			
Accounts payable	₩	490,204	486,294
Accrued expenses		349,475	361,258
Dividend payable		465,128	4,793
Finance lease liabilities		5,867	5,905
Withholdings		8,454	7,824
	₩	1,319,128	866,074
Non-current			
Long-term accounts payable	₩	730	1,119
Long-term accrued expenses		7,824	36,707
Finance lease liabilities		70,064	71,657
Long-term withholdings		6,587	7,827
	₩	85,205	117,310

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

16. Other Financial Liabilities

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

<i>(in millions of Won)</i>		March 31, 2017	December 31, 2016
Current			
Financial guarantee liabilities	₩	15,132	16,508
Non-current			
Derivative liabilities	₩	32,091	-
Financial guarantee liabilities		64,837	72,742
	₩	<u>96,928</u>	<u>72,742</u>

17. Provisions

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

<i>(in millions of Won)</i>		March 31, 2017		December 31, 2016	
		Current	Non-current	Current	Non-current
Provision for bonus payments(*1)	₩	2,925	-	3,985	-
Provision for restoration(*2)		10,421	24,931	10,169	27,009
Provision for litigation(*3)		-	2,497	-	2,497
	₩	<u>13,346</u>	<u>27,428</u>	<u>14,154</u>	<u>29,506</u>

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

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

(*3) The Company has recognized provisions for certain litigations as of March 31, 2017.

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

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

<i>(in millions of Won)</i>		Beginning	Increase	Utilization	Ending
Provision for bonus payments	₩	3,985	13,635	(14,695)	2,925
Provision for restoration		37,178	238	(2,064)	35,352
Provision for litigation		2,497	-	-	2,497
	₩	<u>43,660</u>	<u>13,873</u>	<u>(16,759)</u>	<u>40,774</u>

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

2) For the year ended December 31, 2016

(in millions of Won)

	<u>Beginning</u>	<u>Increase</u>	<u>Reversal</u>	<u>Utilization</u>	<u>Ending</u>
Provision for bonus payments	₩ 7,271	8,365	-	(11,651)	3,985
Provision for restoration	37,112	25,909	(12,475)	(13,368)	37,178
Provision for litigation	411	2,086	-	-	2,497
	₩ <u>44,794</u>	<u>36,360</u>	<u>(12,475)</u>	<u>(25,019)</u>	<u>43,660</u>

18. Employee Benefits

(a) Defined contribution plans

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

(in millions of Won)

	<u>March 31, 2017</u>	<u>March 31, 2016</u>
Expense related to post-employment benefit plans under defined contribution plans	₩ 5,954	5,871

(b) Defined benefit plans

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

(in millions of Won)

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Present value of funded obligations	₩ 1,059,403	1,065,255
Fair value of plan assets	(1,121,568)	(1,146,876)
Net defined benefit liabilities (assets)	₩ <u>(62,165)</u>	<u>(81,621)</u>

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

(in millions of Won)

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
Defined benefit obligation at the beginning of period	₩ 1,065,255	1,023,071
Current service costs	29,512	113,209
Interest costs	4,867	24,136
Remeasurement	1,385	(3,816)
Business combination	-	1,133
Benefits paid	(41,616)	(92,478)
Defined benefit obligation at the end of period	₩ <u>1,059,403</u>	<u>1,065,255</u>

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

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

<i>(in millions of Won)</i>		<u>March 31, 2017</u>	<u>December 31, 2016</u>
Fair value of plan assets at the beginning of period	₩	1,146,876	1,012,599
Interest on plan assets		7,924	26,259
Remeasurement of plan assets		(1,449)	(4,829)
Contributions to plan assets		-	198,439
Business combination		-	244
Benefits paid		<u>(31,783)</u>	<u>(85,836)</u>
Fair value of plan assets at the end of period	₩	<u>1,121,568</u>	<u>1,146,876</u>

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

<i>(in millions of Won)</i>		<u>March 31, 2017</u>	<u>March 31, 2016</u>
Current service costs	₩	29,512	28,557
Net interest costs		<u>(3,057)</u>	<u>(530)</u>
	₩	<u>26,455</u>	<u>28,027</u>

19. Other Liabilities

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

<i>(in millions of Won)</i>		<u>March 31, 2017</u>	<u>December 31, 2016</u>
Current			
Advances received	₩	21,405	6,251
Withholdings		38,495	29,580
Unearned revenue		<u>2,285</u>	<u>1,388</u>
	₩	<u>62,185</u>	<u>37,219</u>
Non-current			
Unearned revenue	₩	15,202	15,516

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

20. Financial Instruments

(a) Classification of financial instruments

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

<i>(in millions of Won)</i>	March 31, 2017	December 31, 2016
Financial assets at fair value through profit or loss		
Derivative assets held for trading	₩ 5,988	80,959
Available-for-sale financial assets	2,111,719	2,064,578
Loans and receivables	8,008,181	7,706,575
	<u>₩ 10,125,888</u>	<u>9,852,112</u>

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

<i>(in millions of Won)</i>	March 31, 2017	December 31, 2016
Financial liabilities at fair value through profit or loss		
Derivative liabilities held for trading	₩ 32,091	-
Financial liabilities measured at amortized cost		
Trade accounts and notes payable	819,632	1,082,927
Borrowings	3,977,875	4,142,854
Financial guarantee liabilities(*1)	79,969	89,250
Others	1,400,531	976,574
	<u>₩ 6,310,098</u>	<u>6,291,605</u>

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

(*1) Financial liabilities were recognized in connection with financial guarantee contracts as of March 31, 2017. The details of the amount of guarantees provided are as follows:

		Guarantee limit		Guarantee amount	
		Foreign currency	Won equivalent	Foreign currency	Won equivalent
<i>(in millions of Won)</i>					
Guarantee beneficiary	Financial institution				
Zhangjiagang Pohang Stainless Steel Co., Ltd.	BTMU	CNY 260,500,000	42,271	260,500,000	42,271
	Credit Agricole	CNY 305,000,000	49,492	305,000,000	49,492
	Korea Development Bank	CNY 324,455,000	52,649	324,455,000	52,649
	SMBC	CNY 195,000,000	31,643	195,000,000	31,643
POSCO Maharashtra Steel Private Limited	Export-Import Bank of Korea	USD 193,000,000	215,407	129,900,000	144,981
	HSBC	USD 110,000,000	122,771	65,000,000	72,547
	DBS	USD 100,000,000	111,610	70,000,000	78,127
	SCB	USD 106,853,000	119,258	68,932,300	76,935
	Citi	USD 60,000,000	66,966	30,000,000	33,483
	ING	USD 80,000,000	89,288	59,000,000	65,850
POSCO ASSAN TST STEEL INDUSTRY	SMBC	USD 62,527,500	69,787	56,274,750	62,808
	ING	USD 60,000,000	66,966	54,000,000	60,269
	BNP	USD 24,000,000	26,786	21,600,000	24,108
POSCO Asia Co., Ltd.	NAB	USD 50,000,000	55,805	50,000,000	55,805
POSCO MEXICO S.A. DE C.V.	BOA	USD 70,000,000	78,127	46,180,757	51,542
	BTMU	USD 30,000,000	33,483	30,000,000	33,483
	CITI BANAMEX	USD 40,000,000	44,644	40,000,000	44,644
	ING	USD 20,000,000	22,322	20,000,000	22,322
	Korea Development Bank	USD 50,000,000	55,805	20,226,916	22,575
	MIZUHO	USD 45,000,000	50,225	18,203,004	20,316
	SMBC	USD 89,725,000	100,142	60,114,323	67,094
POSCO SS VINA Co., Ltd.	Export-Import Bank of Korea	USD 249,951,050	278,970	242,957,174	271,165
	BOA	USD 40,000,000	44,644	38,872,000	43,385
	BTMU	USD 40,000,000	44,644	38,872,000	43,385
	DBS	USD 24,400,000	27,233	23,711,920	26,465
POSCO-VIETNAM Co., Ltd.	Export-Import Bank of Korea	USD 196,000,000	218,756	196,000,000	218,756
POSCO VST CO., LTD.	ANZ	USD 25,000,000	27,903	9,375,000	10,463
	HSBC	USD 20,000,000	22,322	7,500,000	8,371
	MIZUHO	USD 20,000,000	22,322	7,500,000	8,371
PT. KRAKATAU POSCO	Export-Import Bank of Korea	USD 567,000,000	632,829	510,222,696	569,460
	SMBC	USD 140,000,000	156,254	126,169,826	140,818
	BTMU	USD 119,000,000	132,816	105,547,826	117,802
	SCB	USD 107,800,000	120,316	97,609,826	108,942
	MIZUHO	USD 105,000,000	117,191	93,130,435	103,943
	Credit Suisse AG	USD 91,000,000	101,565	80,713,043	90,084
	HSBC	USD 91,000,000	101,565	80,713,043	90,084
	ANZ	USD 73,500,000	82,033	67,187,217	74,988
	BOA	USD 35,000,000	39,064	31,043,478	34,648
	The Tokyo Star Bank, Ltd	USD 21,000,000	23,438	18,626,087	20,789
POSCO COATED STEEL (THAILAND) CO., LTD.	The Great & Co.	THB 5,501,000,000	178,067	5,501,000,000	178,067
LLP POSUK Titanium	Kookmin Bank	USD 15,000,000	16,742	15,000,000	16,742
CSP - Compania Siderurgica do Pecem	Export-Import Bank of Korea	USD 182,000,000	203,130	182,000,000	203,130
	Santander	USD 47,600,000	53,126	47,600,000	53,126
	BNP	USD 47,600,000	53,126	47,600,000	53,126
	MIZUHO	USD 47,600,000	53,126	47,600,000	53,126
	Credit Agricole	USD 20,000,000	22,322	20,000,000	22,322
	SOCIETE GENERALE	USD 20,000,000	22,322	20,000,000	22,322
	KfW	USD 20,000,000	22,322	20,000,000	22,322
	BBVA Seoul	USD 17,600,000	19,643	17,600,000	19,643
	ING	USD 17,600,000	19,643	17,600,000	19,643
	BNDES	BRL 464,060,000	164,486	464,060,000	164,486
		USD 3,591,756,550	4,008,759	3,050,183,621	3,404,310
		CNY 1,084,955,000	176,055	1,084,955,000	176,055
		THB 5,501,000,000	178,067	5,501,000,000	178,067
		BRL 464,060,000	164,486	464,060,000	164,486

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

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

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

(in millions of Won)

	Finance income and costs						Total	Other comprehensive income (loss)
	Interest income (expense)	Dividend income(*1)	Gain and loss on foreign currency	Gain and loss on disposal	Impairment loss	Others		
Financial assets at fair value through profit or loss	₩ -	-	-	-	-	(74,971)	(74,971)	-
Available-for-sale financial assets	14	16,748	-	(819)	(720)	-	15,223	40,027
Loans and receivables	19,571	-	(106,939)	-	-	(205)	(87,573)	-
Financial liabilities at fair value through profit or loss	-	-	-	-	-	(32,091)	(32,091)	-
Financial liabilities at amortized cost	(27,981)	-	212,719	-	-	2,362	187,100	-
	₩ (8,396)	16,748	105,780	(819)	(720)	(104,905)	7,688	40,027

(*1) Finance income in the statement of comprehensive income includes the dividends from subsidiaries, associates and joint ventures of ₩71,462 million for the three-month period ended March 31, 2017.

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

(in millions of Won)

	Finance income and costs					Total	Other comprehensive income (loss)
	Interest income (expense)	Dividend income(*1)	Gain and loss on foreign currency	Impairment loss	Others		
Financial assets at fair value through profit or loss	₩ -	-	-	-	21,966	21,966	-
Available-for-sale financial assets	177	18,787	-	(26,862)	-	(7,898)	(3,581)
Loans and receivables	24,975	-	(28,820)	-	(183)	(4,028)	-
Financial liabilities at fair value through profit or loss	-	-	-	-	1,869	1,869	-
Financial liabilities at amortized cost	(44,472)	-	(4,289)	-	2,551	(46,210)	-
	₩ (19,320)	18,787	(33,109)	(26,862)	26,203	(34,301)	(3,581)

(*1) Finance income in the statement of comprehensive income includes the dividends from subsidiaries, associates and joint ventures of ₩75,076 million for the three-month period ended March 31, 2016.

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

(b) Fair value

1) Fair value and book value

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

(in millions of Won)

	March 31, 2017		December 31, 2016	
	Book value	Fair value	Book value	Fair value
Assets measured at fair value				
Available-for-sale financial assets(*1)	₩ 1,995,134	1,995,134	1,950,447	1,950,447
Derivative assets(*1,2)	5,988	5,988	80,959	80,959
	<u>2,001,122</u>	<u>2,001,122</u>	<u>2,031,406</u>	<u>2,031,406</u>
Assets measured at amortized cost(*3)				
Cash and cash equivalents	362,747	362,747	120,529	120,529
Trade accounts and note receivable, net	3,424,138	3,424,138	3,230,249	3,230,249
Loans and other receivables, net	4,221,296	4,221,296	4,355,797	4,355,797
	<u>8,008,181</u>	<u>8,008,181</u>	<u>7,706,575</u>	<u>7,706,575</u>
Liabilities measured at fair value				
Derivative liabilities(*2)	32,091	32,091	-	-
Liabilities measured at amortized cost(*3)				
Trade accounts and notes payable	819,632	819,632	1,082,927	1,082,927
Borrowings	3,977,875	4,205,251	4,142,854	4,354,129
Financial guarantee liabilities	79,969	79,969	89,250	89,250
Others	1,400,531	1,400,531	976,574	976,574
	<u>₩ 6,278,007</u>	<u>6,505,383</u>	<u>6,291,605</u>	<u>6,502,880</u>

- (*1) The fair value of available-for-sale financial assets publicly traded is measured at the closing bid price quoted at the end of the reporting period. Meanwhile, the fair value of unquoted available-for-sale financial assets and derivatives which are classified as fair value hierarchy level 3 is calculated using valuation model such as a discounted cash flow model and others in which weighted average cost of capital of evaluated companies are used as a discount rates. Available-for-sale financial assets which are not measured at fair value are not included.
- (*2) The fair value of derivatives which are classified as fair value hierarchy level 2 is measured using derivatives' valuation models such as market approach and others. Principal input variables of derivatives' valuation model are interest rate, spot price of underlying asset and others.
- (*3) The fair value of financial assets and liabilities measured at amortized cost is measured using a present value calculated by market interest rate as of the end of reporting period. The fair value is mainly calculated for the disclosures in the note. On the other hand, the Company has not performed fair value measurement for the financial assets and liabilities measured at amortized cost except borrowings which are classified as fair value hierarchy level 2 since their carrying amounts approximate fair value.

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

2) The fair value hierarchy

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

① March 31, 2017

<i>(in millions of Won)</i>		Level 1	Level 2	Level 3	Total
Financial assets					
Available-for-sale financial assets	₩	1,812,696	-	182,438	1,995,134
Derivative assets		-	-	5,988	5,988
	₩	<u>1,812,696</u>	<u>-</u>	<u>188,426</u>	<u>2,001,122</u>
Financial liabilities					
Derivative liabilities	₩	-	32,091	-	32,091

② December 31, 2016

<i>(in millions of Won)</i>		Level 1	Level 2	Level 3	Total
Financial assets					
Available-for-sale financial assets	₩	1,756,713	-	193,734	1,950,447
Derivative assets		-	70,613	10,346	80,959
	₩	<u>1,756,713</u>	<u>70,613</u>	<u>204,080</u>	<u>2,031,406</u>

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, 2016.

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

21. Share Capital and Capital Surplus

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

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

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

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

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

<i>(in millions of Won)</i>	March 31, 2017	December 31, 2016
Share premium	₩ 463,825	463,825
Gain on disposal of treasury shares	783,789	783,788
Loss from merger	(91,310)	(91,310)
	₩ 1,156,304	1,156,303

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

22. Hybrid Bonds

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

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

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

<i>(in millions of Won)</i>	<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)	
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)	
Others	The Company can call the hybrid bond at year 5 and interest payment date afterwards	The Company can call the hybrid bond at year 10 and interest payment date afterwards

The hybrid bond holders' preference in the event of liquidation is higher than the common stock holders, but lower than other creditors. The interest accumulated but not paid on the hybrid bonds as of March 31, 2017 amounts to ₩2,747 million.

23. Reserves

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

<i>(in millions of Won)</i>		<u>March 31, 2017</u>	<u>December 31, 2016</u>
Accumulated changes in unrealized fair value of available-for-sale investments, net of tax	₩	324,267	284,240

24. Treasury Shares

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

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

25. Selling and Administrative Expenses

(a) Administrative expenses

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

<i>(in millions of Won)</i>	March 31, 2017	March 31, 2016
Wages and salaries	₩ 64,707	52,900
Expenses related to post-employment benefits	10,245	8,560
Other employee benefits	11,418	12,953
Travel	2,789	2,672
Depreciation	4,484	4,025
Amortization	14,089	13,209
Rental	11,675	15,894
Repairs	1,502	1,634
Advertising	21,164	14,652
Research & development	21,957	12,697
Service fees	36,542	36,301
Supplies expense	985	4,311
Vehicles maintenance	1,480	1,610
Industry association fee	1,733	1,613
Training	4,512	3,361
Conference	1,082	987
Bad debt expenses (reversal of bad debt expenses)	(827)	1,952
Others	6,715	6,519
	<u>₩ 216,252</u>	<u>195,850</u>

(b) Selling expenses

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

<i>(in millions of Won)</i>	March 31, 2017	March 31, 2016
Freight and custody expenses	₩ 195,277	202,558
Operating expenses for distribution center	2,412	2,427
Sales commissions	11,120	15,863
Sales advertising	272	568
Sales promotion	1,124	1,259
Sample	127	349
Sales insurance premium	1,997	742
	<u>₩ 212,329</u>	<u>223,766</u>

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

26. Finance Income and Costs

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

(in millions of Won)

	<u>March 31, 2017</u>	<u>March 31, 2016</u>
Finance income		
Interest income	₩ 19,585	25,152
Dividend income	88,210	93,863
Gain on foreign currency transactions	68,458	79,650
Gain on foreign currency translations	163,884	40,671
Gain on valuation of derivatives	-	41,057
Gain on financial guarantee	2,377	2,566
	<u>₩ 342,514</u>	<u>282,959</u>
Finance costs		
Interest expenses	₩ 27,981	44,472
Loss on foreign currency transactions	64,594	58,607
Loss on foreign currency translations	61,968	94,823
Loss on valuation of derivatives	107,063	17,222
Loss on disposal of available-for-sale investments	819	-
Impairment loss on available-for-sale investments	720	26,862
Others	220	198
	<u>₩ 263,365</u>	<u>242,184</u>

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

27. Other Non-Operating Income and Expenses

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

(in millions of Won)

	<u>March 31, 2017</u>	<u>March 31, 2016</u>
Other non-operating income		
Gain on disposals of property, plant and equipment	₩ 4,543	10,593
Gain on disposals of intangible assets	6,496	-
Gain on reversal of impairment loss on investment in subsidiaries, associates and joint ventures	225,860	-
Others	7,035	7,854
	<u>₩ 243,934</u>	<u>18,447</u>
Other non-operating expenses		
Loss on disposals of property, plant and equipment	₩ 23,359	24,485
Impairment loss on property, plant and equipment	5,562	-
Donations	15,320	13,300
Impairment loss on investment in subsidiaries, associates and joint ventures	-	34,426
Others	3,609	7,821
	<u>₩ 47,850</u>	<u>80,032</u>

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Notes to the Condensed Separate Interim Financial Statements, Continued As of March 31, 2017 (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 periods ended March 31, 2017 and 2016 were as follows (excluding finance costs and income tax expense):

<i>(in millions of Won)</i>	March 31, 2017	March 31, 2016
Changes in inventories(*1)	₩ (124,576)	116,708
Raw materials and consumables used	4,038,041	2,932,553
Employee benefits expenses	415,778	396,880
Outsourced processing cost	513,197	504,880
Depreciation(*2)	518,197	505,996
Amortization	21,295	18,339
Electricity and water expenses	168,754	202,618
Service fees	54,651	50,730
Rental	17,802	20,612
Advertising	21,164	14,652
Freight and custody expenses	195,277	202,558
Sales commissions	11,120	15,863
Loss on disposals of property, plant and equipment	23,359	24,485
Impairment loss on investments in subsidiaries, associates and joint ventures	-	34,426
Other expenses	445,810	223,750
	₩ <u>6,319,869</u>	<u>5,265,050</u>

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

(*2) Includes depreciation of investment property.

29. Income Taxes

The effective tax rates of the Company for the three-month periods ended March 31, 2017 and 2016 were 21.6% and 20.6%, respectively.

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

30. Earnings per Share

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

<i>(in Won, except share information)</i>	March 31, 2017	March 31, 2016
Profit for the period	₩ 839,636,930,840	445,910,570,550
Interests of hybrid bonds, net of tax	(8,420,653,151)	(8,400,426,066)
Weighted-average number of common shares outstanding(*1)	79,997,687	79,995,736
Basic and diluted earnings per share	₩ 10,391	5,469

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

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

Since there were no potential shares of common stock which had dilutive effects as of March 31, 2017 and 2016, diluted earnings per share is equal to basic earnings per share.

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

31. Related Party Transactions

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

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

(in millions of Won)

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

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

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

(*3) As of March 31, 2017, the Company provided guarantees to related companies (Note 20).

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

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

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

(in millions of Won)

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

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

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

1) March 31, 2017

(in millions of Won)

	Receivables			Payables			
	Trade accounts and notes receivable	Others	Total	Trade accounts and notes payable	Accounts payable	Others	Total
Subsidiaries							
POSCO ENGINEERING & CONSTRUCTION CO., LTD. ₩	24	690	714	-	8,453	537	8,990
POSCO COATED & COLOR STEEL Co., Ltd.	56,201	80	56,281	-	5	1,520	1,525
POSCO ICT	1	4,995	4,996	787	42,369	1,569	44,725
eNtoB Corporation	-	30	30	13,000	22,654	20	35,674
POSCO CHEMTECH	28,286	13,822	42,108	60,502	9,015	17,917	87,434
POSCO ENERGY CO., LTD.	13,218	585	13,803	-	-	1,425	1,425
POSCO DAEWOO Corporation	401,348	34,341	435,689	985	4,316	5,057	10,358
POSCO Thainox Public Company Limited	52,167	-	52,167	-	-	-	-
POSCO America Corporation	11,363	-	11,363	-	-	-	-
POSCO Asia Co., Ltd.	411,184	185	411,369	16,436	4	-	16,440
Qingdao Pohang Stainless Steel Co., Ltd.	23,220	-	23,220	-	-	-	-
POSCO MEXICO S.A. DE C.V.	116,717	-	116,717	-	-	-	-
POSCO Maharashtra Steel Private Limited	330,895	86	330,981	-	-	-	-
Others	319,551	7,770	327,321	6,941	19,426	27,305	53,672
	<u>1,764,175</u>	<u>62,584</u>	<u>1,826,759</u>	<u>98,651</u>	<u>106,242</u>	<u>55,350</u>	<u>260,243</u>
Associates and joint ventures							
POSCO PLANTEC Co., Ltd.	-	5	5	3,052	26,589	-	29,641
SNNC	247	39	286	33,370	-	-	33,370
Others	884	-	884	35,663	1,293	-	36,956
	<u>1,131</u>	<u>44</u>	<u>1,175</u>	<u>72,085</u>	<u>27,882</u>	<u>-</u>	<u>99,967</u>
₩	<u>1,765,306</u>	<u>62,628</u>	<u>1,827,934</u>	<u>170,736</u>	<u>134,124</u>	<u>55,350</u>	<u>360,210</u>

2) December 31, 2016

(in millions of Won)

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

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

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

<i>(in millions of Won)</i>		March 31, 2017	March 31, 2016
Short-term benefits	₩	18,092	8,333
Long-term benefits		2,632	2,768
Retirement benefits		4,382	1,988
	₩	<u>25,106</u>	<u>13,089</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 March 31, 2017, 137 million tons of iron ore and 21 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 on 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 March 31, 2017, the Company entered into commitment with Korea National Oil Corporation for long-term foreign currency borrowing, which is limited up to the amount of USD 6.49 million. The borrowing is related to the exploration of gas hydrates in Western Fergana-Chinabad. The repayment of the borrowings depends on the success of the project. The Company is not liable for the repayment of full or part of the money borrowed if the respective projects fail. The Company has agreed to pay a certain portion of its profits under certain conditions, as defined by the borrowing agreements. As of March 31, 2017, the balances of the borrowing are USD 4.09 million.

(b) As of March 31, 2017, 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.

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

(c) Litigation in progress

The Company is involved in 10 litigations for alleged damages aggregating to ₩52.9 billion as of March 31, 2017 which arose in the ordinary course of business. The Company has recognized provisions for 2 of 10 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 March 31, 2017.

(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 three-month periods ended March 31, 2017 and 2016 were as follows:

<i>(in millions of Won)</i>	March 31, 2017	March 31, 2016
Trade accounts and notes receivable, net	₩ (243,694)	156,007
Other accounts receivable	42,847	54,659
Inventories	(271,804)	303,721
Prepaid expenses	(36,154)	(16,924)
Other current assets	(2,312)	(478)
Long-term guarantee deposits	(14)	49
Other non-current assets	-	(60)
Trade accounts and notes payable	(258,242)	18,815
Other accounts payable	65,546	(1,622)
Accrued expenses	(59,829)	(42,002)
Advances received	15,154	(1,590)
Withholdings	8,915	1,993
Unearned revenue	583	983
Other current liabilities	(3,125)	(6,495)
Payments of severance benefits	(41,616)	(30,016)
Plan assets	31,783	24,117
	<u>₩ (751,962)</u>	<u>461,157</u>