

POSCO
Form 20-F
April 27, 2018
Table of Contents

As filed with the Securities and Exchange Commission on April 27, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934
OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Date of event requiring this shell company report _____

For the transition period from _____ to _____

Commission file number 1-13368

POSCO

(Exact name of Registrant as specified in its charter)

POSCO
(Translation of Registrant's name into English)

The Republic of Korea
(Jurisdiction of incorporation or organization)
POSCO Center, 440 Teheran-ro, Gangnam-gu

Seoul, Korea 06194

(Address of principal executive offices)

Lim, Sung-Su

POSCO Center, 440 Teheran-ro, Gangnam-gu

Edgar Filing: POSCO - Form 20-F

Seoul, Korea 06194

Telephone: +82-2-3457-1098; E-mail: s2blue@posco.com; Facsimile: +82-2-3457-1997

(Name, telephone, e-mail and/or facsimile number and address of company contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
American Depositary Shares, each representing one-fourth of one share of common stock	New York Stock Exchange, Inc.
Common Stock, par value Won 5,000 per share *	New York Stock Exchange, Inc. *
Securities registered or to be registered pursuant to Section 12(g) of the Act.	

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

As of December 31, 2017, there were 79,999,604 shares of common stock, par value Won 5,000 per share, outstanding
(not including 7,187,231 shares of common stock held by the company as treasury shares)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. **Yes** **No**

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. **Yes** **No**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **Yes** **No**

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). **Yes** **No**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or an emerging growth company. See definition of large accelerated filer, accelerated filer and emerging growth company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer **Accelerated filer** **Non-accelerated filer** **Emerging growth company**

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing. **U.S.**
GAAP **IFRS** **Other**

If **Other** has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. **Item 17** **Item 18**

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). **Yes** **No**

* Not for trading, but only in connection with the registration of the American Depositary Shares.

Table of Contents**TABLE OF CONTENTS**

<u>GLOSSARY</u>	1
<u>PART I</u>	2
ITEM 1. <u>IDENTITY OF DIRECTORS, SENIOR MANAGERS AND ADVISERS</u>	2
Item 1.A. <u>Directors and Senior Management</u>	2
Item 1.B. <u>Advisers</u>	2
Item 1.C. <u>Auditor</u>	2
ITEM 2. <u>OFFER STATISTICS AND EXPECTED TIMETABLE</u>	2
Item 2.A. <u>Offer Statistics</u>	2
Item 2.B. <u>Method and Expected Timetable</u>	2
ITEM 3. <u>KEY INFORMATION</u>	2
Item 3.A. <u>Selected Financial Data</u>	2
Item 3.B. <u>Capitalization and Indebtedness</u>	4
Item 3.C. <u>Reasons for Offer and Use of Proceeds</u>	4
Item 3.D. <u>Risk Factors</u>	4
ITEM 4. <u>INFORMATION ON THE COMPANY</u>	21
Item 4.A. <u>History and Development of the Company</u>	21
Item 4.B. <u>Business Overview</u>	21
Item 4.C. <u>Organizational Structure</u>	35
Item 4.D. <u>Property, Plants and Equipment</u>	35
Item 4.E. <u>Unresolved Staff Comments</u>	37
ITEM 5. <u>OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>	37
Item 5.A. <u>Operating Results</u>	37
Item 5.B. <u>Liquidity and Capital Resources</u>	71
Item 5.C. <u>Research and Development, Patents and Licenses, Etc.</u>	74
Item 5.D. <u>Trend Information</u>	74
Item 5.E. <u>Off-balance Sheet Arrangements</u>	75
Item 5.F. <u>Tabular Disclosure of Contractual Obligations</u>	75
Item 5.G. <u>Safe Harbor</u>	75
ITEM 6. <u>DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>	75
Item 6.A. <u>Directors and Senior Management</u>	75
Item 6.B. <u>Compensation</u>	78
Item 6.C. <u>Board Practices</u>	79
Item 6.D. <u>Employees</u>	80
Item 6.E. <u>Share Ownership</u>	81
ITEM 7. <u>MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u>	83
Item 7.A. <u>Major Shareholders</u>	83
Item 7.B. <u>Related Party Transactions</u>	83
Item 7.C. <u>Interests of Experts and Counsel</u>	83
ITEM 8. <u>FINANCIAL INFORMATION</u>	83
Item 8.A. <u>Consolidated Statements and Other Financial Information</u>	83
Item 8.B. <u>Significant Changes</u>	85
ITEM 9. <u>THE OFFER AND LISTING</u>	85
Item 9.A. <u>Offer and Listing Details</u>	85

Table of Contents

	Item 9.B.	<u>Plan of Distribution</u>	87
	Item 9.C.	<u>Markets</u>	87
	Item 9.D.	<u>Selling Shareholders</u>	92
	Item 9.E.	<u>Dilution</u>	92
	Item 9.F.	<u>Expenses of the Issuer</u>	92
ITEM 10.		<u>ADDITIONAL INFORMATION</u>	92
	Item 10.A.	<u>Share Capital</u>	92
	Item 10.B.	<u>Memorandum and Articles of Association</u>	92
	Item 10.C.	<u>Material Contracts</u>	97
	Item 10.D.	<u>Exchange Controls</u>	97
	Item 10.E.	<u>Taxation</u>	102
	Item 10.F.	<u>Dividends and Paying Agents</u>	107
	Item 10.G.	<u>Statements by Experts</u>	107
	Item 10.H.	<u>Documents on Display</u>	107
	Item 10.I.	<u>Subsidiary Information</u>	107
ITEM 11.		<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	107
ITEM 12.		<u>DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u>	109
	Item 12.A.	<u>Debt Securities</u>	109
	Item 12.B.	<u>Warrants and Rights</u>	110
	Item 12.C.	<u>Other Securities</u>	110
	Item 12.D.	<u>American Depositary Shares</u>	110
<u>PART II</u>			111
ITEM 13.		<u>DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u>	111
ITEM 14.		<u>MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u>	111
ITEM 15.		<u>CONTROLS AND PROCEDURES</u>	111
ITEM 16.		<u>[RESERVED]</u>	112
	Item 16.A.	<u>Audit Committee Financial Expert</u>	112
	Item 16.B.	<u>Code of Ethics</u>	112
	Item 16.C.	<u>Principal Accountant Fees and Services</u>	113
	Item 16.D.	<u>Exemptions from the Listing Standards for Audit Committees</u>	113
	Item 16.E.	<u>Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	113
	Item 16.F.	<u>Change in Registrant's Certifying Accountant</u>	114
	Item 16.G.	<u>Corporate Governance</u>	114
	Item 16.H.	<u>Mine Safety Disclosure</u>	115
<u>PART III</u>			115
ITEM 17.		<u>FINANCIAL STATEMENTS</u>	115
ITEM 18.		<u>FINANCIAL STATEMENTS</u>	115
ITEM 19.		<u>EXHIBITS</u>	116

Table of Contents

GLOSSARY

ADR	American Depositary Receipt evidencing ADSs.
ADR depositary	Citibank, N.A.
ADS	American Depositary Share representing one-fourth of one share of Common Stock.
Australian Dollar or A\$	The currency of the Commonwealth of Australia.
Commercial Code	Commercial Code of the Republic of Korea.
common stock	Common stock, par value Won 5,000 per share, of POSCO.
deposit agreement	Deposit Agreement, dated as of July 19, 2013, among POSCO, the ADR Depositary and all holders and beneficial owners from time to time of ADRs issued thereunder.
Dollars, \$ or US\$	The currency of the United States of America.
FSCMA	Financial Investment Services and Capital Markets Act of the Republic of Korea.
Government	The government of the Republic of Korea.
IASB	International Accounting Standards Board.
IFRS	International Financial Reporting Standards.
Yen or JPY	The currency of Japan.
Korea	The Republic of Korea.
Gwangyang Works	Gwangyang Steel Works.
We	POSCO and its consolidated subsidiaries.
Pohang Works	Pohang Steel Works.
POSCO Group	POSCO and its consolidated subsidiaries.
Renminbi	The currency of the People's Republic of China.
Securities Act	The United States Securities Act of 1933, as amended.
Securities Exchange Act	The United States Securities Exchange Act of 1934, as amended.
SEC	The United States Securities and Exchange Commission.
tons	Metric tons (1,000 kilograms), equal to 2,204.6 pounds.
U.S. GAAP	Generally accepted accounting principles in the United States of America.
Won or	The currency of the Republic of Korea.
Any discrepancies in any table between totals and the sums of the amounts listed are due to rounding.	

Table of Contents

PART I

Item 1. *Identity of Directors, Senior Managers and Advisers*

Item 1.A. *Directors and Senior Management*

Not applicable

Item 1.B. *Advisers*

Not applicable

Item 1.C. *Auditor*

Not applicable

Item 2. *Offer Statistics and Expected Timetable*

Not applicable

Item 2.A. *Offer Statistics*

Not applicable

Item 2.B. *Method and Expected Timetable*

Not applicable

Item 3. *Key Information*

Item 3.A. *Selected Financial Data*

The selected financial data presented below should be read in conjunction with our Consolidated Financial Statements and related notes thereto and Item 5. Operating and Financial Review and Prospects included elsewhere in this annual report. The selected financial data in Won as of December 31, 2016 and 2017 and for each of the years in the three-year period ended December 31, 2017 were derived from our Consolidated Financial Statements included elsewhere in this annual report. Our Consolidated Financial Statements are prepared in accordance with IFRS as issued by the IASB.

In addition to preparing financial statements in accordance with IFRS as issued by the IASB included in this annual report, we prepare financial statements in accordance with Korean International Financial Reporting Standards (K-IFRS) as adopted by the Korean Accounting Standards Board (the KASB), which we are required to file with the Financial Services Commission and the Korea Exchange under the FSCMA. English translations of such financial statements are furnished to the SEC under Form 6-K. K-IFRS differs in certain respects from IFRS as issued by the IASB in the presentation of operating profit. Additionally, under K-IFRS, revenue from the development and sale of certain real estate is recognized using the percentage of completion method. However, under IFRS as issued by the IASB, revenue from the development and sale of real estate is recognized when an individual unit of residential real estate is delivered to the buyer. As a result, our consolidated statements of comprehensive income and our consolidated statements of financial position prepared in accordance with IFRS as issued by the IASB included in this annual report differ from our consolidated statements of comprehensive income and consolidated statements of financial position prepared in accordance with K-IFRS. See Item 5.A. Operating Results Explanatory Note Regarding Presentation of Certain Financial Information under K-IFRS.

Table of Contents

The information set forth below is not necessarily indicative of the results of future operations and should be read in conjunction with Item 5. Operating and Financial Review and Prospects and our consolidated financial statements and related notes included in this annual report.

Selected consolidated statement of comprehensive income data

	2013	For the Year Ended December 31, 2014 2015 2016 (In billions of Won, except per share data)			2017
Revenue	61,766	64,759	58,522	52,940	60,187
Cost of sales	54,914	57,465	52,018	46,271	51,916
Gross profit	6,852	7,293	6,504	6,668	8,271
Administrative expenses	2,232	2,310	2,395	2,292	2,177
Selling expenses	1,632	1,760	1,729	1,554	1,557
Other operating income	229	269	549	215	451
Other operating expenses	651	980	1,442	756	792
Operating profit	2,566	2,513	1,486	2,282	4,196
Share of profit (loss) of equity-accounted investees, net	(180)	(300)	(506)	(89)	11
Finance income	2,381	2,397	2,557	2,232	2,373
Finance costs	2,829	3,222	3,387	3,014	2,484
Profit before income tax	1,938	1,388	150	1,412	4,095
Income tax expense	589	824	267	380	1,186
Profit (loss)	1,349	564	(116)	1,032	2,909
Total comprehensive income (loss)	1,363	108	(278)	1,486	2,348
Profit (loss) for the period attributable to:					
Owners of the controlling company	1,371	633	171	1,355	2,756
Non-controlling interests	(22)	(69)	(288)	(323)	153
Total comprehensive income (loss) attributable to:					
Owners of the controlling company	1,439	182	24	1,814	2,184
Non-controlling interests	(75)	(73)	(302)	(328)	164
Basic and diluted earnings per share ⁽¹⁾	17,338	7,514	1,731	16,521	34,040
Dividends per share of common stock	8,000	8,000	8,000	8,000	8,000

Selected consolidated statements of financial position data

	2013	2014	As of December 31, 2015 2016 (In billions of Won)		2017
Working capital ⁽²⁾	11,681	10,833	9,148	10,711	12,354
Total current assets	32,039	33,208	29,502	29,655	31,844
Property, plant and equipment, net	35,760	35,241	34,523	33,770	31,884
Total non-current assets	52,802	52,636	51,246	50,483	47,941
Total assets	84,841	85,844	80,748	80,138	79,786
Short-term borrowings and current installments of long-term borrowings	10,714	12,195	12,371	10,195	11,275
Long-term borrowings, excluding current installments	15,533	15,233	12,849	12,510	9,789
Total liabilities	39,060	40,586	35,735	34,372	32,459
Share capital	482	482	482	482	482
Total equity	45,781	45,257	45,013	45,765	47,327

Table of Contents**Selected consolidated statements of cash flows data**

	2013	For the Year Ended December 31,			2017
		2014	2015	2016	
		(In billions of Won)			
Net cash provided by operating activities	4,858	3,412	7,602	5,269	5,607
Net cash used in investing activities	(8,752)	(3,745)	(4,535)	(3,755)	(3,818)
Net cash provided by (used in) financing activities	3,532	135	(2,242)	(3,951)	(1,566)
Net increase (decrease) in cash and cash equivalents	(472)	(186)	849	(2,424)	165
Cash and cash equivalents at beginning of the year	4,681	4,209	4,022	4,871	2,448
Cash and cash equivalents at end of the year	4,209	4,022	4,871	2,448	2,613

- (1) See Note 36 of Notes to Consolidated Financial Statements for method of calculation. The weighted average number of common shares outstanding used to calculate basic and diluted earnings per share was 78,009,654 shares as of December 31, 2013, 79,801,539 shares as of December 31, 2014, 79,993,834 shares as of December 31, 2015, 79,996,389 shares as of December 31, 2016 and 79,998,600 shares as of December 31, 2017.

- (2) Working capital means current assets minus current liabilities.

EXCHANGE RATE INFORMATION

The following table sets out information concerning the market average exchange rate for the periods and dates indicated.

Period	At End of Period	Average Rate ⁽¹⁾	High	Low
2013	1,055.3	1,095.0	1,159.1	1,051.5
2014	1,099.2	1,053.2	1,118.3	1,008.9
2015	1,172.0	1,131.5	1,203.1	1,068.1
2016	1,208.5	1,160.5	1,240.9	1,093.2
2017	1,071.4	1,130.8	1,208.5	1,071.4
October	1,125.0	1,131.6	1,145.7	1,124.7
November	1,082.4	1,105.0	1,121.2	1,082.4
December	1,071.4	1,085.8	1,093.4	1,071.4
2018 (through April 26)	1,078.7	1,071.0	1,094.3	1,057.6
January	1,071.5	1,066.7	1,071.5	1,061.3
February	1,071.0	1,079.6	1,094.3	1,068.0
March	1,066.5	1,071.9	1,081.9	1,064.3
April (through April 26)	1,078.7	1,066.7	1,078.7	1,057.6

Source: Seoul Money Brokerage Services, Ltd.

- (1) The average rate for each year is calculated as the average of the market average exchange rates on the last business day of each month during the relevant year (or portion thereof). The average rate for a month is calculated as the average of the market average exchange rates on each business day during the relevant month (or portion thereof).

Item 3.B. Capitalization and Indebtedness

Not applicable

Item 3.C. Reasons for Offer and Use of Proceeds

Not applicable

Item 3.D. *Risk Factors*

You should carefully consider the risks described below.

Table of Contents

The global economic downturn may adversely affect our business and performance. The global economic outlook for the near future remains uncertain.

Our business is affected by highly cyclical market demand for our steel products from a number of industries, including the construction, automotive, shipbuilding and electrical appliances industries as well as downstream steel processors, which are sensitive to general conditions in the global economy. Macroeconomic factors, such as the economic growth rate, employment levels, interest rates, inflation rates, exchange rates, commodity prices, demographic trends and fiscal policies of governments can have a significant effect on such industries. From time to time, these industries have experienced significant and sometimes prolonged downturns, which in turn have negatively impacted our steel business. While global economic conditions have generally stabilized and improved in recent years, the overall prospects for the global economy remain uncertain. Financial markets have experienced significant volatility in recent years as a result of, among other things, the slowdown of economic growth in China and other major emerging market economies, in addition to adverse economic and political conditions in Europe and Latin America and continuing geopolitical and social instability in North Korea and various parts of the Middle East, including Syria, Iraq and Yemen, as well as the United Kingdom's decision in June 2016 to exit from the European Union (Brexit).

An actual or anticipated further deterioration of global economic conditions may result in a decline in demand for our products that could have a negative impact on the prices at which they can be sold. In such a case, we will likely face pressure to reduce prices and we may need to rationalize our production capacity and reduce fixed costs. In the past, we have adjusted our crude steel production levels and sales prices in response to sluggish demand from our customers in industries adversely impacted by the deteriorating economic conditions. We produced 42.0 million tons of crude steel and stainless steel in 2015, 42.2 million tons in 2016 and 42.2 million tons in 2017. The average unit sales prices for our semi-finished and finished steel products were Won 798 thousand per ton in 2015, Won 745 thousand per ton in 2016 and Won 904 thousand per ton in 2017.

We expect fluctuation in demand for our steel products and trading services to continue to prevail at least in the near future. We may decide to further adjust our future crude steel production or our sales prices on an on-going basis subject to market demand for our products, the production outlook of the global steel industry and global economic conditions in general. In addition, economic downturns in the Korean and global economies could result in market conditions characterized by weaker demand for steel products from a number of industries as well as falling prices for export and import products and reduced trade levels. Deterioration of market conditions may result in changes in assumptions underlying the carrying value of certain assets, which in turn could result in impairment of such assets, including intangible assets such as goodwill. In addition, our ability to reduce expenditures for production facilities and research and development during an industry downturn is limited because of the need to maintain our competitive position. If we are unable to reduce our expenses sufficiently to offset reductions in price and sales volume, our margins will suffer and our business, financial condition and results of operations may be materially and adversely affected.

Korea is our most important market, and our current business and future growth could be materially and adversely affected if economic conditions in Korea deteriorate.

We are incorporated in Korea, and a substantial portion of our operations and assets are located in Korea. Korea is our most important market, accounting for 39.0% of our total revenue from steel products produced and sold by us in 2017. Domestic demand for our products is affected by the condition of major steel consuming industries, such as construction, shipbuilding, automotive, electrical appliances and downstream steel processors, and the Korean economy in general. In addition, the trading operations of POSCO Daewoo Corporation (POSCO Daewoo) are affected by the general level of trade between Korea and other countries, which in turn tends to fluctuate based on general conditions in the Korean and global economies. As a result, we are subject to political, economic, legal and regulatory risks specific to Korea. The economic indicators in Korea in recent years have shown

Table of Contents

mixed signs, and future growth of the Korean economy is subject to many factors beyond our control, including developments in the global economy.

In recent years, adverse conditions and volatility in the worldwide financial markets, fluctuations in oil and commodity prices and the general weakness of the global economy have contributed to the uncertainty of global economic prospects in general and have adversely affected, and may continue to adversely affect, the Korean economy. The value of the Won relative to major foreign currencies has fluctuated significantly and, as a result of adverse global and Korean economic conditions, there has been volatility in the stock prices of Korean companies in recent years. Future declines in the Korea Composite Stock Price Index (the KOSPI) and large amounts of sales of Korean securities by foreign investors and subsequent repatriation of the proceeds of such sales may adversely affect the value of the Won, the foreign currency reserves held by financial institutions in Korea and the ability of Korean companies to raise capital. Any future deterioration of the Korean or global economy could adversely affect our business, financial condition and results of operations.

Developments that could have an adverse impact on Korea's economy include:

declines in consumer confidence and a slowdown in consumer spending in the Korean or global economy;

deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including deterioration resulting from territorial or trade disputes or disagreements in foreign policy (such as the controversy between Korea and China regarding the deployment of a Terminal High Altitude Area Defense system in Korea by the United States commencing in March 2017 and the economic and other retaliatory measures imposed by China against Korea during the remainder of 2017);

adverse conditions in the economies of countries and regions that are important export markets for Korea, such as China, the United States, Europe and Japan, or in emerging market economies in Asia or elsewhere, as well as increased uncertainties in the wake of Brexit;

adverse changes or volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including fluctuation of the U.S. dollar, Euro, Chinese Renminbi or Japanese Yen exchange rates and the overall impact of Brexit on the value of the Won), interest rates, inflation rates or stock markets;

increased sovereign default risk in select countries and the resulting adverse effects on the global financial markets;

investigations of large Korean business groups and their senior management for possible misconduct;

a continuing rise in the level of household debt and increasing delinquencies and credit defaults by retail and small- and medium-sized enterprise borrowers in Korea;

social and labor unrest;

decreases in the market prices of Korean real estate;

the economic impact of any pending or future free trade agreements or changes in existing free trade agreements;

Edgar Filing: POSCO - Form 20-F

a decrease in tax revenue or a substantial increase in the Government's expenditures for fiscal stimulus measures, unemployment compensation and other economic and social programs that would lead to an increased government budget deficit;

Table of Contents

financial problems or lack of progress in the restructuring of Korean business groups, other large troubled companies (including those in the shipbuilding and shipping sectors), their suppliers or the financial sector;

loss of investor confidence arising from corporate accounting irregularities or corporate governance issues at certain Korean companies;

increases in social expenditures to support an aging population in Korea or decreases in economic productivity due to the declining population size in Korea;

geo-political uncertainty and the risk of further attacks by terrorist groups around the world;

the occurrence of severe health epidemics in Korea or other parts of the world (such as the Middle East Respiratory Syndrome outbreak in Korea in 2015);

natural or man-made disasters that have a significant adverse economic or other impact on Korea or its major trading partners;

political uncertainty or increasing strife among or within political parties in Korea;

hostilities or political or social tensions involving oil producing countries in the Middle East and North Africa and any material disruption in the global supply of oil or sudden increase in the price of oil;

increased reliance on exports to service foreign currency debts, which could cause friction with Korea's trading partners;

the continued growth of the Chinese economy, to the extent its benefits (such as increased exports to China) are outweighed by its costs (such as competition in export markets or for foreign investment and the relocation of manufacturing bases from Korea to China);

political or social tensions involving Russia and any resulting adverse effects on the global supply of oil or the global financial markets; and

an increase in the level of tensions or an outbreak of hostilities between North Korea and Korea or the United States.

We rely on export sales for a significant portion of our total sales. Adverse economic and financial developments in Asia in the future may have an adverse effect on demand for our products in Asia and increase our foreign exchange risks.

Our export sales and overseas sales to customers abroad accounted for 61.0% of our total revenue from steel products produced and sold by us in 2017. Our export sales volume to customers in Asia, including China, Japan, Indonesia, Thailand and Malaysia, accounted for 63.1% of our total export sales revenue from steel products produced and exported by us in 2017, and we expect our sales to these countries to remain important in the future. In particular, our export volume to China has increased in recent years and accounted for 28.5% of our total export sales revenue from steel products produced and exported by us in 2017. Accordingly, adverse economic and financial developments in these countries may have an adverse effect on demand for our products. Unfavorable or uncertain economic and market conditions, which can be caused, among others, by difficulties in the financial sector, corporate, political or other scandals that may reduce confidence in the markets, declines in business confidence, increases in inflation, natural disasters or pandemics, outbreaks of hostilities or other geopolitical instability. Deterioration in

Edgar Filing: POSCO - Form 20-F

economic or diplomatic relations between Korea and its trading partners or allies, including deterioration resulting from territorial or trade disputes or disagreements in foreign policy (such as the controversy between Korea and China, which is Korea's largest export market, regarding the deployment of a Terminal High Altitude Area Defense system in Korea by the United States in March 2017 and the economic and other retaliatory actions by

Table of Contents

China during the remainder of 2017), or a combination of these or other factors, have, in the past adversely affected, and may in the future adversely affect, demand for our products.

Economic weakness in Asia may also adversely affect our sales to the Korean companies that export to the region, especially companies in the construction, shipbuilding, automotive, electrical appliances and downstream steel processing industries. Weaker demand in these countries, combined with an increase in global production capacity, may also reduce export prices in Dollar terms of our principal products sold to customers in Asia. For a discussion of production over-capacity in the global steel industry, see . We operate in the highly competitive steel, trading and construction industries, and our failure to successfully compete would adversely affect our market position and business. We attempt to maintain and expand our export sales to generate foreign currency receipts to cover our foreign currency purchases and debt service requirements. Consequently, any decrease in our export sales could also increase our foreign exchange risks.

Depreciation of the value of the Won against the Dollar and other major foreign currencies may have a material adverse effect on the results of our operations and on the price of the ADSs.

Our consolidated financial statements are prepared from our local currency denominated financial results, assets and liabilities and our subsidiaries around the world, which are then translated into Won. A substantial proportion of our consolidated financial results is accounted for in currencies other than the Won. Accordingly, our consolidated financial results and assets and liabilities may be materially affected by changes in the exchange rates of foreign currencies. In 2017, 61.0% of our total revenue from steel products produced and sold by us was in overseas markets outside of Korea. To the extent that we incur costs in one currency and make sales in another, our profit margins may be affected by changes in the exchange rates between the two currencies. Since the currency in which sales are recorded may not be the same as the currency in which expenses are incurred, foreign exchange rate fluctuations may materially affect our results of operations. Depreciation of the Won may materially affect the results of our operations because, among other things, it causes:

an increase in the amount of Won required for us to make interest and principal payments on our foreign currency-denominated debt;

an increase in Won terms in the costs of raw materials and equipment that we purchase from overseas sources and a substantial portion of our freight costs, which are denominated primarily in Dollars; and

foreign exchange translation losses on liabilities, which lower our earnings for accounting purposes.

Appreciation of the Won against major currencies, on the other hand, causes:

our export products to be less competitive by raising our prices in Dollar, Yen and Renminbi terms; and

a reduction in net sales and accounts receivables in Won from export sales, which are primarily denominated in Dollars and to a lesser extent in Yen and Renminbi.

The overall net impact from fluctuations of the Won against major currencies is difficult to estimate and varies from year to year. We strive to naturally offset our foreign exchange risk by matching foreign currency receivables with our foreign currency payables and our overseas subsidiaries have sought to further mitigate the adverse impact of exchange rate fluctuations by conducting business transactions in the local currency of the respective market in which the transactions occur. In particular, POSCO Daewoo's exposure to fluctuations in exchange rates, including the Won/Dollar exchange rate, is limited because trading transactions typically involve matched purchase and sale contracts, which result in limited settlement exposure, and because

Table of Contents

POSCO Daewoo's contracts with domestic suppliers of products for export and with domestic purchasers of imported products are generally denominated in Dollars. Although the impact of exchange rate fluctuations is partially mitigated by such strategies, we and our subsidiaries, particularly POSCO Daewoo and POSCO Engineering & Construction Co., Ltd. (POSCO E&C), also periodically enter into derivative contracts, primarily foreign currency swaps and forward exchange contracts, to further hedge some of our foreign exchange risks. However, our results of operations have historically been affected by exchange rate fluctuations and there can be no assurance that such strategies will be sufficient to reduce or eliminate the adverse impact of such fluctuations in the future.

Fluctuations in the exchange rate between the Won and the Dollar will also affect the Dollar equivalent of the Won price of the shares of our common stock on the KRX KOSPI Market and, as a result, will likely affect the market price of the ADSs. These fluctuations will also affect the Dollar conversion by the depositary for the ADRs of cash dividends, if any, paid in Won on shares of common stock represented by the ADSs.

We are dependent on imported raw materials, and significant increases in market prices of essential raw materials could adversely affect our margins and profits.

We purchase substantially all of the principal raw materials we use from sources outside Korea, including iron ore and coal. POSCO imported approximately 52.9 million dry metric tons of iron ore and 27.4 million wet metric tons of coal in 2017. Iron ore is imported primarily from Australia, Brazil and Canada. Coal is imported primarily from Australia, Canada and Russia. Although we have not experienced significant unanticipated supply disruptions in the past, supply disruptions, which could be caused by political or other events in the countries from which we import these materials, could adversely affect our operations. In addition, we are particularly exposed to increases in the prices of coal, iron ore and nickel, which represent the largest components of our cost of goods sold. The prices of our key raw materials have fluctuated significantly in recent years. For example, the average market price of coal per wet metric ton (benchmark free on board price of Peak Downs Australian premium hard coking coal) was US\$102 in 2015, US\$114 in 2016 and US\$217 in 2017. The average market price of iron ore per dry metric ton (Iron Ore 62% Fe, CFR China index announced by Platts) was US\$51 in 2015, US\$54 in 2016 and US\$64 in 2017.

Our long-term supply contracts generally have terms of three to ten years and provide for periodic price adjustments to the then-market prices. We typically adjust the prices on a quarterly basis and maintain approximately one month of inventory of raw materials. Such price adjustments are driven by various factors, including the global economic outlook, global market prices of raw materials and steel products, supply and demand outlook of raw materials and production costs of raw materials. In the case of coal, globally influential buyers and sellers of coal determine benchmark prices of coal, based on which other buyers and sellers negotiate their prices after taking into consideration the quality of coal and other factors. In the case of iron ore, the supplier and we typically agree on the purchase price primarily based on the spot market price periodically announced by Platts (Iron Ore 62% Fe, CFR China Index). As of December 31, 2017, 116 million tons of iron ore and 18 million tons of coal remained to be purchased under long-term supply contracts. Future increases in prices of our key raw materials and our inability to pass along such increases to our customers could adversely affect our margins and profits. Increased prices may also cause potential customers to defer purchase of steel products, while rapidly falling prices may increase loss on valuation of raw material inventory purchased when prices were higher, either of which could have an adverse effect on our business, financial condition and results of operations.

We operate in the highly competitive steel, trading and construction industries, and our failure to successfully compete would adversely affect our market position and business.

Steel. The markets for our steel products are highly competitive and we face intense global competition. China is the largest steel producing country in the world by a significant margin, with the

Table of Contents

balance between its domestic production and demand being an important factor in the determination of global steel prices. In recent years, a slowdown in domestic demand for steel products in China resulting from slowed economic growth, combined with an expansion in steel production capacity, has led to production over-capacity in the Chinese steel industry, which in turn has led the Chinese government to pursue aggressive consolidation in the Chinese steel industry. In addition, the global steel industry has experienced consolidation in the past, including through the merger of Mittal and Arcelor in 2006. Competition from global steel manufacturers with expanded production capacity such as ArcelorMittal S.A. as well as larger competitors from emerging markets, especially from China and India, has resulted in significant price competition and may result in declining margins and reductions in revenue in the future. Our larger competitors may use their resources, which may be greater than ours, against us in a variety of ways, including by making additional acquisitions, investing more aggressively in product development and capacity and displacing demand for our export products.

In the past, increased production capacity, combined with decreased demand resulting from a slowdown of the global economy, has from time to time resulted in production over-capacity in the global steel industry. Production over-capacity in the global steel industry may intensify if global economic growth slows or demand from developing countries, particularly from China, continues to lag behind the growth in production capacity. Production over-capacity in the global steel industry is likely to:

reduce export prices in Dollar terms of our principal products, which in turn may reduce our sales prices in Korea;

increase competition in the Korean market as foreign producers seek to export steel products to Korea as other markets experience a slowdown;

negatively affect demand for our products abroad and our ability to expand export sales; and

affect our ability to increase steel production in general.

Steel also competes with other natural and synthetic materials that may be used as steel substitutes, such as aluminum, cement, composites, glass, plastic and wood. Government regulatory initiatives mandating the use of such materials instead of steel, whether for environmental or other reasons, as well as the development of attractive alternative substitutes for steel products, may reduce demand for steel products and increase competition in the global steel industry.

As part of our strategy to compete in this challenging landscape, we will continue to invest in developing innovative products that offer the greatest potential returns and enhance the overall quality of our products, as well as make additional investments in the development of new manufacturing technologies. However, there is no assurance that we will be able to continue to compete successfully in this economic environment or that a slowdown of the global economy or production over-capacity will not have a material adverse effect on our business, results of operations or financial condition.

Trading. POSCO Daewoo competes principally with six other Korean general trading companies, each of which is affiliated with a major domestic business group, as well as global trading companies based in other countries. In the domestic market, competition for export transactions on behalf of domestic suppliers and import transactions on behalf of domestic purchasers was limited, as most affiliated general trading companies of large Korean business groups generally relied on affiliate transactions for the bulk of their trading business. However, in recent years, many of these Korean general trading companies have reduced their reliance on their affiliated business group and transactions carried out on behalf of their member companies and instead have generally evolved to focus on segments of the import and export markets in which they have a competitive advantage. As a result, competition among Korean general trading companies in the area of traditional trade has become more intense.

The overseas trading markets in which POSCO Daewoo operates are also highly competitive. POSCO Daewoo's principal competitors in the overseas trading markets include Korean trading

Table of Contents

companies that operate in various international markets, as well as foreign trading companies, particularly those based in Japan. As POSCO Daewoo diversifies into businesses other than traditional trading such as natural resources development, it also increasingly competes with other Korean and international companies involved in these businesses. Some of POSCO Daewoo's competitors may be more experienced and have greater financial resources and pricing flexibility than POSCO Daewoo, as well as more extensive global networks and wider access to customers. There is no assurance that POSCO Daewoo will be able to continue to compete successfully in this economic environment or that the prolonged slowdown of the global economy will not have a material adverse effect on its business, results of operations or financial condition.

Construction. POSCO E&C, our consolidated subsidiary, operates in the highly competitive construction industry. Competition is based primarily on price, reputation for quality, reliability, punctuality and financial strength of contractors. Intense competition among construction companies may result in, among other things, a decrease in the price POSCO E&C can charge for its services, difficulty in winning bids for construction projects, an increase in construction costs and difficulty in obtaining high-quality contractors and qualified employees.

In Korea, POSCO E&C's main competition in the construction of residential and non-residential buildings, EPC (or engineering, procurement and construction) projects, urban planning and development projects and civil works projects consists of approximately ten major domestic construction companies, many of which are member companies of other large business groups in Korea and are capable of undertaking larger-scale, higher-value-added projects that offer greater potential returns. A series of measures introduced by the Government over the past few years to regulate housing prices in Korea, as well as increasing popularity of low-bid contracts in civil works project mandates, have contributed to increased competition in the Korean construction industry in recent years.

Competition for new project awards in overseas markets is also intense. In these markets, POSCO E&C faces competition from local construction companies, as well as international construction companies from other countries, including other major Korean construction companies with overseas operations. Construction companies from other developed countries may be more experienced, have greater financial resources and possess more sophisticated technology than POSCO E&C, while construction companies from developing countries often have the advantage of lower wage costs. Some of these competitors have achieved higher market penetration than POSCO E&C has in specific markets in which it competes, and POSCO E&C may need to accept lower margins in order for it to compete successfully against them. POSCO E&C's failure to successfully compete in the domestic or overseas construction markets could adversely affect its market position and its results of operations and financial condition.

We may not be able to successfully execute our diversification strategy.

In part to prepare for the eventual maturation of the Korean steel market, we have made investments in the past decade to secure new growth engines by diversifying into new businesses related to our steel operations that we believe will offer greater potential returns, such as participation in EPC projects in the steel sector and natural resources development, as well as entering into new businesses not related to our steel operations such as power generation and alternative energy solutions, and production of comprehensive materials such as lithium, magnesium sheet, nickel and cobalt. From time to time, we may selectively acquire or invest in companies to pursue such diversification strategy.

The success of the overall diversification strategy will depend, in part, on our ability to realize the growth opportunities and anticipated synergies. The realization of the anticipated benefits depends on numerous factors, some of which are outside our control, including the availability of qualified personnel, establishment of new relationships and expansion of existing relationships with various

Table of Contents

customers and suppliers, procurement of necessary technology and know-how to engage in such businesses and access to investment capital at reasonable costs. The realization of the anticipated benefits may be impeded, delayed or reduced as a result of numerous factors, some of which are outside our control. These factors include:

difficulties in integrating the operations of the acquired business, including information and accounting systems, personnel, policies and procedures, and in reorganizing or reducing overlapping operations, marketing networks and administrative functions, which may require significant amounts of time, financial resources and management attention;

unforeseen contingent risks or latent liabilities relating to the acquisition that may become apparent in the future;

difficulties in managing a larger business; and

loss of key management personnel or customers.

In addition, in order to finance these acquisitions, we intend to use cash on hand, funds from operations, issuances of equity and debt securities, and, if necessary, financings from banks and other sources as well as entering into consortiums with financial investors. However, no assurance can be given that we will be able to obtain sufficient financing for such acquisitions or investments on terms commercially acceptable to us or at all. We cannot assure you that our diversification strategy can be completed profitably or that the diversification efforts will not adversely affect our combined business, financial condition and results of operations.

Expansion of our production operations abroad is important to our long-term success, and our limited experience in the operation of our business outside Korea increases the risk that our international expansion efforts will not be successful.

We conduct international trading and construction operations abroad, and our business relies on a global trading network comprised of overseas subsidiaries, branches and representative offices. Although many of our subsidiaries and overseas branches are located in developed countries, we also operate in numerous countries with developing economies. In addition, we intend to continue to expand our steel production operations internationally by carefully seeking out promising investment opportunities, particularly in China, India, Southeast Asia and Latin America, in part to prepare for the eventual maturation of the Korean steel market. We may enter into additional joint ventures with foreign steel producers that would enable us to rely on these businesses to conduct our operations, establish local networks and coordinate our sales and marketing efforts abroad. To the extent that we enter into these arrangements, our success will depend in part on the willingness of our partner companies to dedicate sufficient resources to their partnership with us.

In other situations, we may decide to establish manufacturing facilities by ourselves instead of relying on partners. The demand and market acceptance for our products produced abroad are subject to a high level of uncertainty and are substantially dependent upon the market condition of the global steel industry. We cannot assure you that our international expansion plan will be profitable or that we can recoup the costs related to such investments.

Expansion of our trading, construction and production operations abroad requires management attention and resources. In addition, we face additional risks associated with our expansion outside Korea, including:

challenges caused by distance, language and cultural differences;

higher costs associated with doing business internationally;

legal and regulatory restrictions, including foreign exchange controls that might prevent us from repatriating cash earned in countries outside Korea;

Table of Contents

longer payment cycles in some countries;

credit risk and higher levels of payment fraud;

currency exchange risks;

potentially adverse tax consequences;

political and economic instability; and

seasonal reductions in business activity during the summer months in some countries.

We have limited insurance coverage and may incur significant losses resulting from operating hazards, product liability claims from customers or business interruptions.

The normal operation of our manufacturing facilities may be interrupted by accidents caused by operating hazards, power supply disruptions and equipment failures, as well as natural disasters. As with other industrial companies, our operations involve the use, handling, generation, processing, storage, transportation and disposal of hazardous materials, which may result in fires, explosions, spills and other unexpected or dangerous accidents causing property damage as well as personal injuries or death. We are also exposed to risks associated with product liability claims in the event that the use of the products we sell results in injury. We maintain property insurance for our property, plant and equipment that we believe to be consistent with market practice in Korea. However, we may not have adequate resources to satisfy a judgment in excess of our insurance coverage in the event of a successful claim against us. Any occurrence of accidents or other events affecting our operations could result in potentially significant monetary damages, diversion of resources, production disruption and delay in delivery of our products, which may have a material adverse effect on our business, financial condition and results of operations.

Further increases in, or new impositions of, anti-dumping, safeguard or countervailing duty proceedings may have an adverse impact on our export sales.

As a steel producer with global sales and operations, we are involved in trade remedy proceedings in markets worldwide, including in the United States. We proactively participate in and plan for such proceedings to minimize any adverse effects and associated risks. While there has been an increase in the number of trade cases in recent years, and an increased focus on trade issues by government officials, all such cases have been product and market-specific, and thus have been limited in scope relative to our global sales and operations. We continue to carefully monitor developments with respect to trade remedy policy in all markets in which we participate and, where necessary, vigorously defend our rights through litigation before tribunals such as the U.S. Court of International Trade. Our products that are subject to anti-dumping duties, safeguard duties, countervailing duties, quotas or tariffs in the aggregate currently do not account for a material portion of our total sales, and such proceedings have not had a material adverse impact on our business and operations in recent years. However, there can be no assurance that increases in, or new impositions of, anti-dumping duties, safeguard duties, countervailing duties, quotas or tariffs on our exports of products abroad may not have a material adverse impact on our exports in the future.

We participate in overseas natural resources exploration, development and production projects abroad, which expose us to various risks.

As part of consortia or through acquisitions of minority interests, we engage in overseas natural resources exploration, development and production projects in various locations, including a gas field exploration project in Myanmar through POSCO Daewoo. We may also selectively acquire or invest in companies or businesses that engage in such activities. As part of our efforts to diversify our operations, we intend to selectively expand our operations by carefully seeking out promising

Table of Contents

exploration, development and production opportunities abroad. To the extent that we enter into these arrangements, our success in these endeavors will depend in part on the willingness of our partner companies to dedicate sufficient resources to their partnership with us, as well as our ability to finance such investments.

The demand and market acceptance for such activities abroad are subject to a substantially higher level of uncertainty than our traditional steel business and are substantially dependent upon the market condition of the global natural resources industry as well as the political and social environment of the target countries. The performance of projects in which we participate may be adversely affected by the occurrence of military hostility, political unrest or acts of terrorism. In addition, some of our current exploration, development and production projects involve drilling exploratory wells on properties with no proven amount of natural resource reserves. Although all drilling, whether developmental or exploratory, involves risks, exploratory drilling involves greater risks of dry holes or failure to find commercial quantities of natural resources. Other risks to which such activities are subject include obtaining required regulatory approvals and licenses, securing and maintaining adequate property rights to land and natural resources, and managing local opposition to project development. A decrease in the market price of raw materials may also adversely impact the value of our investments related to natural resources projects. For example, in connection with our disposition of a minority interest in Nacional Minerios S.A., an iron ore mining company in Brazil in which we had invested in December 2008, we recognized Won 96 billion of impairment loss on assets held for sale in 2015 as well as an additional loss of Won 189 billion from our disposal of such assets in 2015. We have limited experience in this business, and we cannot assure you that our overseas natural resources exploration, development and production projects will be profitable, that we will be able to meet the financing requirements for such projects, or that we can recoup the costs related to such investments, which in turn could materially and adversely affect our business, financial condition and results of operations.

We may encounter problems with joint overseas natural resources exploration, development and production projects and large-scale infrastructure projects, which may materially and adversely affect our business.

We typically pursue our natural resources exploration, development and production projects jointly with consortium partners or through acquisition of minority interests in such projects, and we expect to be involved in other joint projects in the future. We sometimes hold a majority interest in the projects among the consortium partners, but we often lack a controlling interest in the joint projects. Therefore, we may not be able to require that our joint ventures sell assets or return invested capital, make additional capital contributions or take any other action without the vote of at least a majority of our consortium partners. If there are disagreements between our consortium partners and us regarding the business and operations of the joint projects, we cannot assure you that we will be able to resolve them in a manner that will be in our best interests. Certain major decisions, such as selling a stake in the joint project, may require the consent of all other partners. These limitations may adversely affect our ability to obtain the economic and other benefits we seek from participating in these projects.

In addition, our consortium partners may:

have economic or business interests or goals that are inconsistent with us;

take actions contrary to our instructions, requests, policies or objectives;

be unable or unwilling to fulfill their obligations;

have financial difficulties; or

have disputes with us as to their rights, responsibilities and obligations.

Any of these and other factors may have a material adverse effect on the performance of our joint projects and expose us to a number of risks, including the risk that the partners may be incapable

Table of Contents

of providing the required financial support to the partnerships and the risk that the partners may not be able to fulfill their other obligations, resulting in disputes not only between our partners and us, but also between the joint ventures and their customers. Such a material adverse effect on the performance of our joint projects may in turn materially and adversely affect our business, results of operations and financial condition.

Cyclical fluctuations based on macroeconomic factors may adversely affect POSCO E&C's business and performance.

We engage in engineering and construction activities through POSCO E&C. The Construction Segment is highly cyclical and tends to fluctuate based on macroeconomic factors, such as consumer confidence and income, employment levels, interest rates, inflation rates, demographic trends and policies of the Government. From time to time, the construction industry has experienced significant and sometimes prolonged downturns, and our construction revenues have fluctuated in the past depending on the level of public and private sector construction activities in Korea and abroad. In addition, the performance of POSCO E&C's domestic residential property business is highly dependent on the general condition of the real estate market in Korea. The Government has taken measures to support the Korean construction industry in recent years, including easing of regulations imposed on redevelopment of apartment buildings and resale restrictions in the metropolitan areas, as well as reductions in property taxes. Although the Korean residential real estate market has shown signs of recovery in recent years, the demand for construction activities abroad remains weak and the overall prospects for Korean construction companies in 2018 and beyond remain uncertain. A prolonged general downturn in the construction market resulting in weaker demand may adversely affect our business, results of operations or financial condition.

Many of POSCO E&C's domestic and overseas construction projects are on a fixed-price basis, which could result in losses for us in the event that unforeseen additional expenses arise with respect to the project.

Many of POSCO E&C's domestic and overseas construction projects are carried out on a fixed-price basis according to a predetermined timetable, pursuant to the terms of a fixed-price contract. Under such fixed-price contracts, POSCO E&C retains all cost savings on completed contracts but is also liable for the full amount of all cost overruns and may be required to pay damages for late delivery. The pricing of fixed-price contracts is crucial to POSCO E&C's profitability, as is its ability to quantify risks to be borne by it and to provide for contingencies in the contract accordingly.

POSCO E&C attempts to anticipate costs of labor, raw materials, parts and components in its bids on fixed-price contracts. However, the costs incurred and gross profits realized on a fixed-price contract may vary from its estimates due to factors such as:

unanticipated variations in labor and equipment productivity over the term of a contract;

unanticipated increases in labor, raw material, parts and components, subcontracting and overhead costs, including as a result of bad weather;

delivery delays and corrective measures for poor workmanship; and

errors in estimates and bidding.

If unforeseen additional expenses arise over the course of a construction project, such expenses are usually borne by POSCO E&C, and its profit from the project will be correspondingly reduced or eliminated. For example, we incurred losses in recent years in connection with a delay in the construction of CSP-Companhia Siderurgia do Pecem steel plant complex in Brazil. If POSCO E&C experiences significant unforeseen additional expenses with respect to its fixed price projects, it may incur losses on such projects, which could have a material adverse effect on its financial condition and results of operations.

Table of Contents

We are subject to environmental regulations, and our operations could expose us to substantial liabilities.

We are subject to national and local environmental laws and regulations, including increasing pressure to reduce emission of carbon dioxide relating to our manufacturing process, and our steel manufacturing and construction operations could expose us to risk of substantial liability relating to environmental or health and safety issues, such as those resulting from discharge of pollutants and carbon dioxide into the environment, the handling, storage and disposal of solid or hazardous materials or wastes and the investigation and remediation of contaminated sites. We may be responsible for the investigation and remediation of environmental conditions at currently and formerly operated manufacturing or construction sites. For example, we incurred expenses in recent years relating to contamination of land near our magnesium smelting plant located in Gangneung, Korea and gas treatment plant located in our Pohang Works. We may also be subject to associated liabilities, including liabilities for natural resource damage, third party property damage or personal injury resulting from lawsuits brought by the Government or private litigants. In the course of our operations, hazardous wastes may be generated at third party-owned or operated sites, and hazardous wastes may be disposed of or treated at third party-owned or operated disposal sites. If those sites become contaminated, we could also be held responsible for the cost of investigation and remediation of such sites, for any associated natural resource damage, and for civil or criminal fines or penalties.

If our cybersecurity measures are breached, we may incur significant legal and financial exposure, damage to our reputation and a loss of confidence of our customers.

Our business involves the storage and transmission of large amounts of confidential information, and cybersecurity breaches expose us to a risk of loss of this information, which may lead to improper use or disclosure of such information, ensuing potential liability and litigation, any of which could harm our reputation and adversely affect our business. Although there has been no material instance where an unauthorized party was able to obtain access to our data or our customers' data, there can be no assurance that we will not be vulnerable to cyber-attacks in the future. Our cybersecurity measures may also be breached due to employee error, malfeasance or otherwise. Instituting appropriate access controls and safeguards across all our information technology infrastructure is challenging. Furthermore, outside parties may attempt to fraudulently induce employees to disclose sensitive information in order to gain access to our data or our customers' data or accounts, or may otherwise obtain access to such data or accounts. Because the techniques used to obtain unauthorized access, disable or degrade service or sabotage systems change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. If an actual or perceived breach of our cybersecurity occurs or the market perception of the effectiveness of our cybersecurity measures is harmed, we may incur significant legal and financial exposure, including legal claims and regulatory fines and penalties, damage to our reputation and a loss of confidence of our customers, which could have an adverse effect on our business, financial condition and results of operations.

Failure to protect our intellectual property rights could impair our competitiveness and harm our business and future prospects.

We believe that developing new steel manufacturing technologies that can be differentiated from those of our competitors, such as FINEX, strip casting and silicon steel manufacturing technologies, is critical to the success of our business. We take active measures to obtain protection of our intellectual property by obtaining patents and undertaking monitoring activities in our major markets. However, we cannot assure you that the measures we take will effectively deter competitors from improper use of our proprietary technologies. Our competitors may misappropriate our intellectual property, disputes as to ownership of intellectual property may arise and our intellectual property may otherwise become known or independently developed by our competitors. Any failure to protect our intellectual property could impair our competitiveness and harm our business and future prospects.

Table of Contents

We rely on trade secrets and other unpatented proprietary know-how to maintain our competitive position, and unauthorized disclosure of our trade secrets or other unpatented proprietary know-how could negatively affect our business.

We rely on trade secrets and unpatented proprietary know-how and information. We enter into confidentiality agreements with each of our employees and consultants upon the commencement of an employment or consulting relationship. These agreements generally provide that all inventions, ideas, discoveries, improvements and patentable material made or conceived by the individual arising out of the employment or consulting relationship and all confidential information developed or made known to the individual during the term of the relationship is our exclusive property. We cannot assure the enforceability of these types of agreements, or that they will not be breached. We also cannot be certain that we will have adequate remedies for any breach. The disclosure of our trade secrets or other know-how as a result of such a breach could adversely affect our business.

We face the risk of litigation proceedings relating to infringement of intellectual property rights of third parties, which, if determined adversely to us, could cause us to lose significant rights, pay significant damage awards or suspend the sale of certain products.

Our success depends largely on our ability to develop and use our technology and know-how in a proprietary manner without infringing the intellectual property rights of third parties. The validity and scope of claims relating to technology and patents involve complex scientific, legal and factual questions and analysis and, therefore, may be highly uncertain. In addition, because patent applications in many jurisdictions are kept confidential for an extended period before they are published, we may be unaware of other persons' pending patent applications that relate to our products or manufacturing processes. Accordingly, we face the risk of litigation proceedings relating to infringement of intellectual property rights of third parties.

The plaintiffs in actions relating to infringement of intellectual property rights typically seek injunctions and substantial damages. Although patent and other intellectual property disputes are often settled through licensing or similar arrangements, there can be no assurance that such licenses can be obtained on acceptable terms or at all. Accordingly, regardless of the scope or validity of disputed patents or the merits of any patent infringement claims by potential or actual litigants, we may have to engage in protracted litigation. The defense and prosecution of intellectual property suits, patent opposition proceedings and related legal and administrative proceedings can be both costly and time consuming and may significantly divert the efforts and resources of our technical and management personnel. An adverse determination in any such litigation or proceedings could subject us to pay substantial damages to third parties, require us to seek licenses from third parties and pay ongoing royalties or redesign certain products, or subject us to injunctions prohibiting the manufacture and sale of our products or the use of technologies in certain jurisdictions. The occurrence of any of the foregoing could have a material adverse effect on our reputation, business, financial condition and results of operations.

We may be exposed to potential claims for unpaid wages and become subject to additional labor costs arising from the Supreme Court of Korea's interpretation of ordinary wages.

Under the Labor Standards Act, an employee's ordinary wage is used as the basis for calculating various statutory benefits. Prior to the Supreme Court of Korea's decision described below, we and other companies in Korea had interpreted the guidelines issued by the Ministry of Employment and Labor as excluding fixed bonuses that are paid other than on a monthly basis, such as bi monthly, quarterly or biannually paid bonuses, from employees' ordinary wages.

On December 18, 2013, the Supreme Court of Korea ruled that regularly paid bonuses, including those that are paid other than on a monthly basis, are included in the scope of employees' ordinary wages if these bonuses are paid regularly and uniformly on a fixed basis notwithstanding

Table of Contents

differential amounts based on seniority. Under this decision, any provision of a collective bargaining agreement or other agreements that attempt to exclude such regular bonuses from employees' ordinary wages will be deemed void for violation of the mandatory provisions of Korean law.

The Supreme Court of Korea's decision clarified that if payment of a regular bonus is limited only to those working for the employer on a specific date, such bonus is not fixed and thus does not constitute part of an employee's ordinary wage. The Ministry of Employment and Labor subsequently published guidelines on January 23, 2014 (the "Guidelines"). According to the Guidelines, the Government excludes, from ordinary wages, regular bonuses contingent on employment on a specific date. Based on the Supreme Court of Korea's decision and the Guidelines, we believe that regular bonuses we have paid to our employees are likely not required to be included in their ordinary wages because we have paid regular bonuses only to those working for us on the date of payment calculation, the 15th day of each month. However, if we are nonetheless determined to have underpaid employees by under-calculating their ordinary wages over the past three years or in the future, we may be liable for additional payments reflecting the expanded scope of employees' ordinary wages. Any such additional payments may have an adverse effect on our financial condition and results of operations.

Escalations in tensions with North Korea could have an adverse effect on us and the market value of our common shares and ADSs.

Relations between Korea and North Korea have been tense throughout Korea's modern history. The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of current and future events. In particular, there have been heightened security concerns in recent years stemming from North Korea's nuclear weapon and ballistic missile programs as well as its hostile military actions against Korea. Some of the significant incidents in recent years include the following:

North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty in January 2003 and conducted six rounds of nuclear tests since October 2006, including claimed detonations of hydrogen bombs, which are more powerful than plutonium bombs, and warheads that can be mounted on ballistic missiles. Over the years, North Korea has also conducted a series of ballistic missile tests, including missiles launched from submarines and intercontinental ballistic missiles that it claims can reach the United States mainland. In response, the Government has repeatedly condemned the provocations and flagrant violations of relevant United Nations Security Council resolutions. In February 2016, the Government also closed the inter-Korea Gaesong Industrial Complex in response to North Korea's fourth nuclear test in January 2016. Internationally, the United Nations Security Council has passed a series of resolutions condemning North Korea's actions and significantly expanding the scope of sanctions applicable to North Korea, most recently in December 2017 in response to North Korea's intercontinental ballistic missile test in November 2017. Over the years, the United States and the European Union have also expanded their sanctions applicable to North Korea.

In August 2015, two Korean soldiers were injured in a landmine explosion near the Korean demilitarized zone. Claiming the landmines were set by North Koreans, the Korean army reinitiated its propaganda program toward North Korea utilizing loudspeakers near the demilitarized zone. In retaliation, the North Korean army fired artillery rounds on the loudspeakers, resulting in the highest level of military readiness for both Koreas.

In March 2010, a Korean naval vessel was destroyed by an underwater explosion, killing many of the crewmen on board. The Government formally accused North Korea of causing the sinking, while North Korea denied responsibility. Moreover, in November 2010, North Korea fired more than one hundred artillery shells that hit Korea's Yeonpyeong Island near the Northern Limit Line, which acts as the de facto maritime boundary between Korea and

Table of Contents

North Korea on the west coast of the Korean peninsula, causing casualties and significant property damage. The Government condemned North Korea for the attack and vowed stern retaliation should there be further provocation.

North Korea's economy also faces severe challenges, which may further aggravate social and political pressures within North Korea.

Although a bilateral summit between the two Koreas was held on April 27, 2018 and there has been an announcement in March 2018 of a potential summit between the United States and North Korea, there can be no assurance that the level of tensions affecting the Korean peninsula will not escalate in the future. Any further increase in tensions, which may occur, for example, if North Korea experiences a leadership crisis, high-level contacts between Korea and North Korea break down or further military hostilities occur, could have a material adverse effect on the Korean economy and on our business, financial condition and results of operations.

If you surrender your ADRs to withdraw shares of our common stock, you may not be allowed to deposit the shares again to obtain ADRs.

Under the deposit agreement, holders of shares of our common stock may deposit those shares with the ADR depositary's custodian in Korea and obtain ADRs, and holders of ADRs may surrender ADRs to the ADR depositary and receive shares of our common stock. However, under current Korean laws and regulations, the depositary bank is required to obtain our prior consent for the number of shares to be deposited in any given proposed deposit that exceeds the difference between (i) the aggregate number of shares deposited by us for the issuance of ADSs (including deposits in connection with the initial and all subsequent offerings of ADSs and stock dividends or other distributions related to these ADSs) and (ii) the number of shares on deposit with the depositary bank at the time of such proposed deposit. It is possible that we may not give the consent. As a result, if you surrender ADRs and withdraw shares of common stock, you may not be able to deposit the shares again to obtain ADRs. See Item 10. Additional Information—Item 10.D. Exchange Controls.

You may not be able to exercise preemptive rights for additional shares of common stock and may suffer dilution of your equity interest in us.

The Commercial Code and our articles of incorporation require us, with some exceptions, to offer shareholders the right to subscribe for new shares in proportion to their existing ownership percentage whenever new shares are issued. If we issue new shares to persons other than our shareholders (See Item 10.B. Memorandum and Articles of Association—Preemptive Rights and Issuance of Additional Shares), a holder of our ADSs will experience dilution of such holding. If none of these exceptions is available, we will be required to grant preemptive rights when issuing additional common shares under Korean law. Under the deposit agreement governing the ADSs, if we offer any rights to subscribe for additional shares of our common stock or any rights of any other nature, the ADR depositary, after consultation with us, may make the rights available to you or use reasonable efforts to dispose of the rights on your behalf and make the net proceeds available to you. The ADR depositary, however, is not required to make available to you any rights to purchase any additional shares unless it deems that doing so is lawful and feasible and:

a registration statement filed by us under the Securities Act is in effect with respect to those shares; or

the offering and sale of those shares is exempt from or is not subject to the registration requirements of the Securities Act.

We are under no obligation to file any registration statement under the Securities Act to enable you to exercise preemptive rights in respect of the common shares underlying the ADSs, and we cannot assure you that any registration statement would be filed or that an exemption from the

Table of Contents

registration requirement under the Securities Act would be available. Accordingly, if a registration statement is required for you to exercise preemptive rights but is not filed by us, you will not be able to exercise your preemptive rights for additional shares and may suffer dilution of your equity interest in us.

U.S. investors may have difficulty enforcing civil liabilities against us and our directors and senior management.

We are incorporated in Korea with our principal executive offices located in Seoul. The majority of our directors and senior management are residents of jurisdictions outside the United States, and the majority of our assets and the assets of such persons are located outside the United States. As a result, U.S. investors may find it difficult to effect service of process within the United States upon us or such persons or to enforce outside the United States judgments obtained against us or such persons in U.S. courts, including actions predicated upon the civil liability provisions of the U.S. federal securities laws. It may also be difficult for an investor to enforce in U.S. courts judgments obtained against us or such persons in courts in jurisdictions outside the United States, including actions predicated upon the civil liability provisions of the U.S. federal securities laws. It may also be difficult for a U.S. investor to bring an action in a Korean court predicated upon the civil liability provisions of the U.S. federal securities laws against our directors and senior management and non-U.S. experts named in this annual report.

We expect to continue operations and investments relating to countries targeted by United States and European Union economic sanctions.

The U.S. Department of the Treasury's Office of Foreign Assets Control, or OFAC, enforces certain laws and regulations (OFAC Sanctions) that impose restrictions upon U.S. persons and, in some instances, foreign entities owned or controlled by U.S. persons, with respect to activities or transactions with certain countries, governments, entities and individuals that are the subject of OFAC Sanctions (U.S. Sanctions Targets). U.S. persons are also generally strictly prohibited from facilitating such activities or transactions. Similarly, the European Union enforces certain laws and regulations (E.U. Sanctions) that impose restrictions upon nationals of E.U. member states, persons located within E.U. member states, entities incorporated or constituted under the law of an E.U. member state, or business conducted in whole or in part in E.U. member states with respect to activities or transactions with certain countries, governments, entities and individuals that are the subject of E.U. Sanctions (E.U. Sanctions Targets) and together with U.S. Sanctions Targets, Sanctions Targets). E.U. persons are also generally prohibited from activities that promote such activities or transactions.

We engage in limited business activities in countries that are deemed Sanctions Targets, including Iran, Sudan and Cuba. We produce and export, typically through our sales subsidiaries, steel products to such countries, including automotive steel sheets and other steel materials to Iranian entities. Our subsidiaries also engage in limited business activities in countries that are deemed Sanctions Targets. In particular, POSCO Daewoo engages in the trading of steel, raw materials and other items with entities in countries that are deemed Sanctions Targets, including Iran, Sudan and Cuba. We believe that such activities and investments do not involve any U.S. goods or services. Our activities in Iran, Sudan and Cuba accounted for approximately 0.7% of our consolidated revenues in 2015, 0.5% in 2016 and 0.6% in 2017.

We expect to continue to engage in business activities and make investments in countries that are deemed Sanctions Targets over the foreseeable future. Although we believe that OFAC Sanctions under their current terms are not applicable to our current activities, our reputation may be adversely affected, some of our U.S. investors may be required to divest their investments in us under the laws of certain U.S. states or under internal investment policies or may decide for reputational reasons to divest such investments. We are aware of initiatives by U.S. governmental entities and U.S. institutional investors, such as pension funds, to adopt or consider adopting laws, regulations or

Table of Contents

policies prohibiting transactions with or investment in, or requiring divestment from, entities doing business with countries identified as state sponsors of terrorism. We cannot assure you that the foregoing will not occur or that such occurrence will not have a material adverse effect on the value of our securities.

This annual report contains forward-looking statements that are subject to various risks and uncertainties.

This annual report contains forward-looking statements that are based on our current expectations, assumptions, estimates and projections about our company and our industry. The forward-looking statements are subject to various risks and uncertainties. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as anticipate, believe, estimate, expect, intend, project, show, or similar expressions. Those statements include, among other things, the discussions of our business strategy and expectations concerning our market position, future operations, margins, profitability, liquidity and capital resources. We caution you that reliance on any forward-looking statement involves risks and uncertainties, and that although we believe that the assumptions on which our forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and, as a result, the forward-looking statements based on those assumptions could be incorrect. The uncertainties in this regard include, but are not limited to, those identified in the risk factors discussed above. In light of these and other uncertainties, you should not conclude that we will necessarily achieve any plans and objectives or projected financial results referred to in any of the forward-looking statements. We do not undertake to release the results of any revisions of these forward-looking statements to reflect future events or circumstances.

Item 4. Information on the Company

Item 4.A. History and Development of the Company

We were established by the Government on April 1, 1968, under the Commercial Code, to manufacture and distribute steel rolled products and plates in the domestic and overseas markets. The Government owned more than 70% of our equity until 1988, when the Government reduced its ownership of our common stock to 35% through a public offering and listing our shares on the KRX KOSPI Market. In December 1998, the Government sold all of our common stock it owned directly, and The Korea Development Bank completed the sale of our shares that it owned in September 2000. The Government no longer holds any direct interest in us, and our outstanding common stock is currently held by individuals and institutions. See Item 7. Major Shareholders and Related Party Transactions Item 7A. Major Stockholders.

Our legal and commercial name is POSCO. Our principal executive offices are located at POSCO Center, 440 Teheran-ro, Gangnam-gu, Seoul, Korea 06194, and our telephone number is (822) 3457-0114.

Item 4.B. Business Overview

The Company

We are the largest fully integrated steel producer in Korea, and one of the largest steel producers in the world, based on annual crude steel production. We produced approximately 42.2 million tons of crude steel and stainless steel in 2017, a substantial portion of which was produced at Pohang Works and Gwangyang Works. As of December 31, 2017, we had approximately 47.6 million tons of annual crude steel and stainless steel production capacity, including 17.6 million tons of production capacity Pohang Works and 24.8 million tons of production capacity of Gwangyang

Table of Contents

Works. We believe Pohang Works and Gwangyang Works are two of the most technologically advanced integrated steel facilities in the world. We manufacture and sell a diversified line of steel products, including cold rolled and hot rolled products, stainless steel products, plates, wire rods and silicon steel sheets, and we are able to meet a broad range of customer needs from manufacturing industries that consume steel, including automotive, shipbuilding, home appliance, engineering and machinery industries.

Korea is our most important market. Domestic sales accounted for 39.0% of our total revenue from steel products produced and sold by us in 2017 and 39.4% in 2016. On a non-consolidated basis, we believe that we had an overall market share of approximately 43% of the total sales volume of steel products sold in Korea in 2017 and approximately 41% in 2016. Our export sales and overseas sales to customers abroad accounted for 61.0% of our total revenue from steel products produced and sold by us in 2017 and 60.6% in 2016. Our major export market is Asia, with China accounting for 28.5%, Asia other than China and Japan accounting for 23.3%, and Japan accounting for 11.3% of our total steel export revenue from steel products produced and exported by us in 2017 and China accounting for 29.0%, Asia other than China and Japan accounting for 23.9%, and Japan accounting for 10.4% of our total steel export revenue from steel products produced and exported by us in 2016.

We also engage in businesses that complement our steel manufacturing operations as well as carefully seek out promising investment opportunities to diversify our businesses both vertically and horizontally, in part to prepare for the eventual maturation of the Korean steel market. POSCO E&C is one of the leading engineering and construction companies in Korea that primarily engages in the planning, design and construction of industrial plants and architectural works and civil engineering. POSCO Daewoo is a global trading company that primarily engages in trading of steel and raw materials as well as investing in energy and mineral development projects throughout the world. POSCO Energy Corporation is the largest private power generation company in Korea.

We generated revenue of Won 52,940 billion and profit of Won 1,032 billion in 2016, compared to revenue of Won 60,187 billion and profit of Won 2,909 billion in 2017. We had total assets of Won 80,138 billion and total equity of Won 45,765 billion as of December 31, 2016, compared to total assets of Won 79,786 billion and total equity of Won 47,327 billion as of December 31, 2017.

Major Products

We manufacture and sell a broad line of steel products, including the following:

cold rolled products;

hot rolled products;

stainless steel products;

plates;

wire rods; and

silicon steel sheets.

The table below sets out our revenue of steel products produced by us and directly sold to external customers (either by us or through POSCO Processing & Service Co., Ltd. (POSCO P&S), our former sales subsidiary that primarily engaged in sale of steel products produced by us, prior to its merger into POSCO Daewoo in March 2017), which are recognized as external revenue of the Steel Segment, by major steel product categories for the periods indicated. Such amounts do not include steel products produced by us and sold to our consolidated subsidiaries other than POSCO P&S (including POSCO Daewoo). Although our external revenue of the Steel Segment increased in 2017 compared to 2016, they were negatively impacted in 2017 by the recognition of the external revenue of

Table of Contents

POSCO P&S under the Trading Segment commencing March 2017 following its merger into POSCO Daewoo.

	2015		For the Year Ended December 31, 2016		2017	
	Billions of Won	%	Billions of Won	%	Billions of Won	%
Steel Products						
Cold rolled products	8,373	29.6%	8,467	31.5%	9,441	31.2%
Hot rolled products	4,685	16.6	4,377	16.3	5,101	16.9
Stainless steel products	6,085	21.5	6,064	22.6	6,624	21.9
Plates	2,809	9.9	2,762	10.3	3,087	10.2
Wire rods	1,932	6.8	1,747	6.5	1,880	6.2
Silicon steel sheets	1,323	4.7	1,100	4.1	1,025	3.4
Sub-total	25,208	89.1	24,517	91.3	27,159	89.8
Others	3,085	10.9	2,327	8.7	3,072	10.2
Total	28,293	100.0%	26,844	100.0%	30,230	100.0%

The table below sets out our sales volume of the principal categories of steel products produced by us and directly sold to external customers (either by us or through POSCO P&S prior to its merger into POSCO Daewoo in March 2017), which are recognized as external sales volume of the Steel Segment, by major steel product categories for the periods indicated. Such amounts do not include steel products produced by us and sold to our consolidated subsidiaries other than POSCO P&S (including POSCO Daewoo). In 2017, our external sales volume of the Steel Segment was negatively impacted by the recognition of the external sales volume of POSCO P&S under the Trading Segment commencing March 2017 following its merger into POSCO Daewoo.

	2015		For the Year Ended December 31, 2016		2017	
	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%
Steel Products						
Cold rolled products	11,995	38.0%	12,713	38.7%	11,279	37.5%
Hot rolled products	8,541	27.0	8,632	26.2	7,786	25.9
Stainless steel products	2,758	8.7	3,027	9.2	2,874	9.6
Plates	4,588	14.5	4,748	14.4	4,896	16.3
Wire rods	2,667	8.4	2,737	8.3	2,333	7.8
Silicon steel sheets	1,031	3.3	1,032	3.1	877	2.9
Total ⁽¹⁾	31,580	100.0%	32,888	100.0%	30,046	100.0%

(1) Not including sales volume of steel products categorized under others.

In addition to steel products produced by us and directly sold to external customers (either by us or through POSCO P&S prior to its merger into POSCO Daewoo in March 2017), we engage our consolidated sales subsidiaries (including POSCO Daewoo) to sell our steel products produced by us. Our revenue from steel products produced by us and sold to our consolidated sales subsidiaries that in turn sold them to their external customers amounted to Won 8,365 billion in 2015, Won 6,403 billion in 2016 and Won 7,385 billion in 2017. Sales of such steel products by our consolidated sales subsidiaries to external customers are recognized as external revenue of the Trading Segment.

Cold Rolled Products

Edgar Filing: POSCO - Form 20-F

Cold rolled coils and further refined galvanized cold rolled products are used mainly in the automotive industry to produce car body panels. Other users include the household goods, electrical appliances, engineering and metal goods industries.

Our deliveries of cold rolled products produced by us and directly sold to external customers amounted to 11.3 million tons in 2017, representing 37.5% of our total sales volume of principal steel products produced by us and directly sold to external customers.

Table of Contents

Cold rolled products constitute our largest product category in terms of sales volume and revenue from steel products produced by us and directly sold to external customers. In 2017, our sales volume of cold rolled products produced by us and directly sold to external customers decreased by 11.3% compared to our sales volume in 2016 primarily due to the impact of the merger of POSCO P&S into POSCO Daewoo described above as well as rationalization of our production facilities in 2017 that reduced production of cold rolled products.

Including sales of cold rolled products produced by us and sold through our consolidated sales subsidiaries in addition to cold rolled products produced by us and directly sold to external customers, we had a domestic market share for cold rolled products of approximately 40% on a non-consolidated basis in 2017.

Hot Rolled Products

Hot rolled coils and sheets have many different industrial applications. They are used to manufacture structural steel used in the construction of buildings, industrial pipes and tanks, and automobile chassis. Hot rolled coil is also manufactured in a wide range of widths and thicknesses as the feedstock for higher value-added products such as cold rolled products and silicon steel sheets.

Our deliveries of hot rolled products produced by us and directly sold to external customers amounted to 7.8 million tons in 2017, representing 25.9% of our total sales volume of principal steel products produced by us and directly sold to external customers. The largest customers of our hot rolled products are downstream steelmakers in Korea which use the products to manufacture pipes and cold rolled products.

Hot rolled products constitute our second largest product category in terms of sales volume and third largest product category in terms of revenue from steel products produced by us and directly sold to external customers. In 2017, our sales volume of hot rolled products produced by us and directly sold to external customers decreased by 9.8% compared to our sales volume in 2016 primarily due to the impact of the merger of POSCO P&S into POSCO Daewoo described above as well as rationalization of our production facilities in 2017 that reduced production of hot rolled products.

Including sales of hot rolled products produced by us and sold through our consolidated sales subsidiaries in addition to hot rolled products produced by us and directly sold to external customers, we had a domestic market share for hot rolled products of approximately 39% on a non-consolidated basis in 2017.

Stainless Steel Products

Stainless steel products are used to manufacture household goods and are also used by the chemical industry, paper mills, the aviation industry, the automotive industry, the construction industry and the food processing industry.

Our deliveries of stainless steel products produced by us and directly sold to external customers amounted to 2.9 million tons in 2017, representing 9.6% of our total sales volume of principal steel products produced by us and directly sold to external customers.

Stainless steel products constitute our second largest product category in terms of revenue from steel products produced by us and directly sold to external customers. Although sales of stainless steel products accounted for only 9.6% of total sales volume of the principal steel products produced by us and directly sold to external customers in 2017, they represented 21.9% of our total revenue from steel products in 2017. In 2017, our sales volume of stainless steel products produced by us and directly sold to external customers decreased by 5.1% compared to our sales volume in 2016.

Including sales of stainless steel products produced by us and sold through our consolidated sales subsidiaries in addition to stainless steel products produced by us and directly sold to external

Table of Contents

customers, we had a domestic market share for stainless steel products of approximately 43% on a non-consolidated basis in 2017.

Plates

Plates are used in shipbuilding, structural steelwork, offshore oil and gas production, power generation, mining, and the manufacture of earth-moving and mechanical handling equipment, boiler and pressure vessels and other industrial machinery.

Our deliveries of plates produced by us and directly sold to external customers amounted to 4.9 million tons in 2017, representing 16.3% of our total sales volume of principal steel products produced by us and directly sold to external customers. The Korean shipbuilding industry, which uses plates to manufacture chemical tankers, rigs, bulk carriers and containers, and the construction industry are our largest customers of plates.

In 2017, our sales volume of plates produced by us and directly sold to external customers increased by 3.1% compared to our sales volume in 2016 primarily due to an increase in sales of plates from PT. Krakatau POSCO.

Including sales of plates produced by us and sold through our consolidated sales subsidiaries in addition to plates produced by us and directly sold to external customers, we had a domestic market share for plates of approximately 48% on a non-consolidated basis in 2017.

Wire Rods

Wire rods are used mainly by manufacturers of wire, fasteners, nails, bolts, nuts and welding rods. Wire rods are also used in the manufacture of coil springs, tension bars and tire cords in the automotive industry.

Our deliveries of wire rods produced by us and directly sold to external customers amounted to 2.3 million tons in 2017, representing 7.8% of our total sales volume of principal steel products produced by us and directly sold to external customers. The largest customers for our wire rods are manufacturers of wire ropes and fasteners.

In 2017, our sales volume of wire rods produced by us and directly sold to external customers decreased by 14.7% compared to 2016 primarily due to the impact of the merger of POSCO P&S into POSCO Daewoo described above.

Including sales of wire rods produced by us and sold through our consolidated sales subsidiaries in addition to wire rods produced by us and directly sold to external customers, we had a domestic market share for wire rods of approximately 57% on a non-consolidated basis in 2017.

Silicon Steel Sheets

Silicon steel sheets are used mainly in the manufacture of power transformers and generators and rotating machines.

Our deliveries of silicon steel sheets produced by us and directly sold to external customers amounted to 0.9 million tons in 2017, representing 2.9% of our total sales volume of principal steel products produced by us and directly sold to external customers.

In 2017, our sales volume of silicon steel sheets produced by us and directly sold to external customers decreased by 15.1% compared to 2016 primarily due to a decrease in sales of silicon steel sheets in China.

Including sales of silicon steel sheets produced by us and sold through our consolidated sales subsidiaries in addition to silicon steel sheets produced by us and directly sold to external customers,

Table of Contents

we had a domestic market share for silicon steel sheets of approximately 81% on a non-consolidated basis in 2017.

Others

Other products include lower value-added semi-finished products such as pig iron, billets, blooms and slab.

Markets

Korea is our most important market. Domestic sales represented 39.0% of our total revenue from steel products produced and sold by us in 2017. Our export sales and overseas sales to customers abroad represented 61.0% of our total revenue from steel products in 2017. Our sales strategy has been to devote our production primarily to satisfy domestic demand, while seeking export sales to utilize capacity to the fullest extent and to expand our international market presence.

Domestic Market

We primarily sell in Korea higher value-added and other finished products to end-users and semi-finished products to other steel manufacturers for further processing. Local distribution companies and sales affiliates sell finished steel products to low-volume customers. We provide service technicians for large customers and distributors in each important product area.

The table below sets out our estimate of the market share of steel products sold in Korea for the periods indicated based on sales volume.

Source	For the Year Ended December 31,		
	2015	2016	2017
POSCO's sales ⁽¹⁾	40.8%	40.6%	43.4%
Other domestic steel companies' sales	27.7	27.6	28.2
Imports	31.5	31.8	28.4
Total	100.0%	100.0%	100.0%

(1) POSCO's sales volume includes steel products produced by us (but not by our subsidiaries) and sold through our consolidated sales subsidiaries in addition to steel products produced by us (but not by our subsidiaries) and directly sold to external customers.

Exports

Our export sales and overseas sales to customers abroad represented 61.0% of our total revenue from steel products produced and sold by us in 2017, 63.1% of which was generated from exports sales and overseas sales to customers in Asian countries. Our export sales and overseas sales to customers abroad in terms of revenue from such products increased by 13.9% from Won 20,163 billion in 2016 to Won 22,963 billion in 2017.

Table of Contents

The tables below set out our export sales and overseas sales to customers abroad in terms of revenue from steel products produced and sold by us (including our consolidated sales subsidiaries), by geographical market and by product for the periods indicated.

Region	For the Year Ended December 31,					
	2015		2016		2017	
	Billions of Won	%	Billions of Won	%	Billions of Won	%
China	5,541	25.3%	5,840	29.0%	6,542	28.5%
Asia (other than China and Japan)	6,174	28.2	4,821	23.9	5,354	23.3
Japan	2,075	9.5	2,089	10.4	2,601	11.3
Europe	1,751	8.0	1,914	9.5	2,181	9.5
Middle East	372	1.7	187	0.9	163	0.7
North America	2,162	9.9	2,019	10.0	1,947	8.5
Others	3,826	17.5	3,292	16.3	4,176	18.2
Total	21,901	100.0%	20,163	100.0%	22,963	100.0%

Steel Products	For the Year Ended December 31,					
	2015		2016		2017	
	Billions of Won	%	Billions of Won	%	Billions of Won	%
Cold rolled products	6,373	29.1%	6,852	34.0%	9,224	40.2%
Hot rolled products	4,032	18.4	2,999	14.9	2,604	11.3
Stainless steel products	5,265	24.0	5,227	25.9	5,345	23.3
Plates	1,465	6.7	1,486	7.4	2,000	8.7
Wire rods	674	3.1	585	2.9	606	2.6
Silicon steel sheets	807	3.7	821	4.1	950	4.1
Others	3,284	15.0	2,194	10.9	2,235	9.7
Total	21,901	100.0%	20,163	100.0%	22,963	100.0%

We distribute our export products mostly through Korean trading companies, including POSCO Daewoo, and our overseas sales subsidiaries. Our largest export market in 2017 was China, which accounted for 28.5% of our export revenue from steel products produced and sold by us. The principal products exported to China were cold rolled products, including continuous galvanized products. Our exports to China amounted to Won 5,840 billion in 2016 and Won 6,542 billion in 2017. Our exports to China increased by 12.0% in 2017 primarily due to an increase in sales of automotive steel sheets.

Our second largest export market in 2017 was Asia (other than China and Japan), which accounted for 23.3% of our export revenue from steel products produced and sold by us. The principal products exported to Asia (other than China and Japan) were cold rolled products, including continuous galvanized products. Our exports to Asia (other than China and Japan) increased by 11.1% from Won 4,821 billion in 2016 to Won 5,354 billion in 2017 primarily due to an increase in sales of automotive steel sheets in Southeast Asia.

Anti-Dumping, Safeguard and Countervailing Duty Proceedings

From time to time, our exporting activities have become subject to anti-dumping, safeguard and countervailing proceedings. As a steel producer with global sales and operations, we are involved in trade remedy proceedings in markets worldwide, including in the United States. We proactively participate in and plan for such proceedings to minimize any adverse effects and associated risks. While there has been an increase in the number of trade cases in recent years, and an increased focus on trade issues by government officials, all such cases have been product and market-specific, and thus have been limited in scope relative to our global sales and operations. We continue to carefully monitor developments with respect to trade remedy policy in all markets in which we participate and,

Table of Contents

where necessary, vigorously defend our rights through litigation before tribunals such as the U.S. Court of International Trade. Our products that are subject to anti-dumping duties, safeguard duties, countervailing duties, quotas or tariffs in the aggregate currently do not account for a material portion of our total sales, and such proceedings have not had a material adverse impact on our business and operations in recent years.

Pricing Policy

We determine the sales price of our products based on market conditions. In setting prices, we take into account our costs, including those of raw materials, supply and demand in the Korean market, exchange rates, and conditions in the international steel market. Our prices can fluctuate considerably over time, depending on market conditions and other factors. The prices of our higher value-added steel products in the largest markets are determined considering the prices of similar products charged by our competitors.

Both our export prices and domestic sales prices decreased from 2014 to 2016, reflecting production over-capacity in the global steel industry. In 2017, our export prices and domestic sales prices increased, as consolidation of the steel industry in China led to a decrease in export volume from China, which in turn had a positive impact on global steel prices. We may decide to adjust our sales prices in the future subject to market demand for our products, prices of raw materials, the production outlook of the global steel industry and global economic conditions in general.

Raw Materials

Steel Production

The principal raw materials used in producing steel through the basic oxygen steelmaking method are iron ore and coal. We require approximately 1.7 tons of iron ore and 0.8 tons of coal to produce one ton of steel. We import all of the coal and virtually all of the iron ore that we use. In 2017, POSCO imported approximately 52.9 million dry metric tons of iron ore and 27.4 million wet metric tons of coal. Iron ore is imported primarily from Australia, Brazil and Canada. Coal is imported primarily from Australia, Canada and Russia.

We purchase a substantial portion of our iron ore and coal imports pursuant to long-term contracts. Our long-term supply contracts generally have terms of three to ten years and provide for periodic price adjustments to the then-market prices. We typically adjust the prices on a quarterly basis and maintain approximately one month of inventory of raw materials. Such price adjustments are driven by various factors, including the global economic outlook, global market prices of raw materials and steel products, supply and demand outlook of raw materials and production costs of raw materials. In the case of coal, globally influential buyers and sellers of coal determine benchmark prices of coal, based on which other buyers and sellers negotiate their prices after taking into consideration the quality of coal and other factors. In the case of iron ore, the supplier and we typically agree on the purchase price primarily based on the spot market price periodically announced by Platts (Iron Ore 62% Fe, CFR China Index). We or the suppliers may cancel the long-term contracts only if performance under the contracts is prevented by causes beyond our or their control and these causes continue for a specified period.

We also make investments in exploration and production projects abroad to enhance our ability to meet the requirements for high-quality raw materials, either as part of a consortium or through an acquisition of a minority interest. In 2017, we purchased approximately 37% of our iron ore imports and 21% of our coal imports from foreign mines in which we have made investments. Our major investments to procure supplies of coal, iron ore and nickel are primarily located in Australia, Brazil, New Caledonia and Canada. We will continue to selectively seek opportunities to enter into additional strategic relationships that would enhance our ability to meet the requirements for principal raw materials.

Table of Contents

The average market price of coal per wet metric ton (benchmark free on board price of Peak Downs Australian premium hard coking coal) was US\$102 in 2015, US\$114 in 2016 and US\$217 in 2017. The average market price of iron ore per dry metric ton (Iron Ore 62% Fe, CFR China index announced by Platts) was US\$51 in 2015, US\$54 in 2016 and US\$64 in 2017. We currently do not depend on any single country or supplier for our coal or iron ore.

Stainless Steel Production

The principal raw materials for the production of stainless steel are ferronickel, ferrochrome and stainless steel scrap. We purchase a majority of our ferronickel primarily from suppliers in Korea that procure nickel ore from New Caledonia, and the remainder primarily from leading suppliers in Indonesia, Japan and Ukraine. Our primary suppliers of ferrochrome are located in South Africa, India and Kazakhstan. Our stainless steel scraps are primarily supplied by domestic and overseas suppliers in Japan and Southeast Asia. Revert scraps from the Pohang Steelworks are also used for our stainless steel production. The average market price of nickel per ton on the London Metal Exchange was US\$11,836 in 2015, US\$9,599 in 2016 and US\$10,402 in 2017.

Transportation

In order to meet our transportation needs for iron ore and coal, we have entered into long-term contracts with shipping companies in Korea to retain a fleet of dedicated vessels. These dedicated vessels transported approximately 82% of the total requirements in 2017, and the remaining approximately 18% was transported by vessels retained through short to medium term contracts, depending on market conditions. We plan to continue to optimize the fleet of dedicated vessels that we use by 2020 in order to cope with changes in the global shipping environment, as well as upgrade some of the existing vessels with others that utilize more energy-efficient technologies.

The Steelmaking Process

Our major production facilities, Pohang Works and Gwangyang Works, produce steel by the basic oxygen steelmaking method. The stainless steel plant at Pohang Works produces stainless steel by the electric arc furnace method. Continuous casting improves product quality by imparting a homogenous structure to the steel. Pohang Works and Gwangyang Works produce all of their products through the continuous casting.

Steel Basic Oxygen Steelmaking Method

First, molten pig iron is produced in a blast furnace from iron ore, which is the basic raw material used in steelmaking. Molten pig iron is then refined into molten steel in converters by blowing pure oxygen at high pressure to remove impurities. Different desired steel properties may also be obtained by regulating the chemical contents.

At this point, molten steel is made into semi-finished products such as slabs, blooms or billets at the continuous casting machine. Slabs, blooms and billets are produced at different standardized sizes and shapes. Slabs, blooms and billets are semi-finished lower margin products that we either use to produce our further processed products or sell to other steelmakers that produce further processed steel products.

Slabs are processed to produce hot rolled coil products at hot strip mills or to produce plates at plate mills. Hot rolled coils are an intermediate stage product that may either be sold to our customers as various finished products or be further processed by us or our customers into higher value-added products, such as cold rolled sheets and silicon steel sheets. Blooms and billets are processed into wire rods at wire rod mills.

Table of Contents

Stainless Steel Electric Arc Furnace Method

Stainless steel is produced from stainless steel scrap, chrome, nickel and steel scrap using an electric arc furnace. Stainless steel is then processed into higher value-added products by methods similar to those used for steel production. Stainless steel slabs are produced at a continuous casting mill. The slabs are processed at hot rolling mills into stainless steel hot coil, which can be further processed at cold strip mills to produce stainless cold rolled steel products.

Competition

Domestic Market

We are the largest fully integrated steel producer in Korea. In hot rolled products, where we had a market share of approximately 39% on a non-consolidated basis in 2017, we face competition from a Korean steel producer that operates mini-mills and produces hot rolled coil products from slabs and from various foreign producers, primarily from China and Japan. In cold rolled products and stainless steel products, where we had a market share of approximately 40% and 43%, respectively, on a non-consolidated basis in 2017, we compete with smaller specialized domestic manufacturers and various foreign producers, primarily from China and Japan. For a discussion of domestic market shares, see **Markets Domestic Market**.

We may face increased competition in the future from new specialized or integrated domestic manufacturers of steel products in the Korean market. Our biggest competitor in Korea is Hyundai Steel Co., Ltd. with an annual crude steel production of approximately 21 million tons.

The Korean Government does not impose quotas on or provide subsidies to local steel producers. As a World Trade Organization signatory, Korea has also removed all steel tariffs.

Export Markets

The competitors in our export markets include all the leading steel manufacturers of the world. In the past decade, there has been a trend toward industry consolidation among our competitors, and smaller competitors in the global steel market today may become larger competitors in the future. In recent years, a slowdown in domestic demand for steel products in China resulting from slowed economic growth, combined with an expansion in steel production capacity, has led to production over-capacity in the Chinese steel industry, which in turn has led the Chinese government to pursue aggressive consolidation in the Chinese steel industry. Competition from global steel manufacturers with significant production capacity such as ArcelorMittal S.A., as well as larger competitors from emerging markets, especially from China and India, could result in a significant increase in competition. Major competitive factors include range of products offered, quality, price, delivery performance and customer service. Our larger competitors may use their resources, which may be greater than ours, against us in a variety of ways, including by making additional acquisitions, investing more aggressively in product development and capacity and displacing demand for our export products.

Various export markets currently impose tariffs on different types of steel products. However, we do not believe that tariffs significantly affect our ability to compete in these markets.

Subsidiaries and Global Joint Ventures

Steel Production

In order to effectively implement our strategic initiatives and to solidify our leadership position in the global steel industry, we have established various subsidiaries and joint ventures in Korea and elsewhere around the world that engage in steel production activities.

Table of Contents

China. We entered into an agreement with Sagang Group Co. to establish Zhangjiagang Pohang Stainless Steel Co., Ltd., a joint venture company in China for the manufacture and sale of stainless cold rolled steel products. We have an 82.5% interest in the joint venture (including 23.9% interest held by POSCO China Holding Corporation), which commenced production of stainless cold rolled steel products in December 1998. Zhangjiagang Pohang Stainless Steel produced 1,159 thousand tons of stainless steel products in 2017. See Production Facilities Abroad Zhangjiagang Pohang Stainless Steel.

Indonesia. We entered into an agreement with PT. Krakatau Steel (Persero) Tbk. to establish PT. Krakatau POSCO Co., Ltd. (PT. Krakatau POSCO), a joint venture company in Indonesia for the manufacture and sale of plates and slabs. We hold a 70.0% interest in the joint venture. We completed the construction of a steel manufacturing plant in December 2013 with an annual production capacity of 3.0 million tons of plates and slabs. PT. Krakatau POSCO produced 2.9 million tons of plates and slabs in 2017. See Production Facilities Abroad PT. Krakatau POSCO.

Vietnam. We established POSCO SS VINA Co., Ltd., a wholly owned subsidiary engaged in the manufacture and sale of shape steel and steel reinforcement products. The plant became operational in June 2015, with an annual production capacity of 1.1 million tons of shape steel and steel reinforcement products. POSCO SS VINA Co., Ltd. produced 905 thousand tons of shape steel and steel reinforcement products in 2017. See Production Facilities Abroad POSCO SS VINA.

Trading

Our trading activities consist primarily of trading activities of POSCO Daewoo. Our consolidated subsidiaries that also engage in trading activities include POSCO Asia Company Limited located in Hong Kong, POSCO Japan Co., Ltd. located in Tokyo, Japan, POSCO America Corporation located in Georgia, U.S.A. and POSCO South Asia Co., Ltd. located in Bangkok, Thailand. In March 2017, POSCO P&S, which primarily engaged in sale of steel products produced by us, merged into POSCO Daewoo.

POSCO Daewoo is a global trading company that primarily engages in trading of steel and raw materials as well as investing in energy and mineral development projects. It also manufactures and sells textiles. POSCO Daewoo was established in December 2000 when the international trading and construction businesses of Daewoo Corporation were spun off into three separate companies as part of a debt workout program of Daewoo Corporation.

Table of Contents

The following table sets forth a breakdown of POSCO Daewoo's total consolidated sales by export sales, domestic sales and third-country trades as well as product category for the periods indicated:

Product Category	For the Year Ended December 31,					
	2015	2016			2017	
		(in billions of Won, except percentages)				
Export trading sales:						
Steel and metal	4,648	26.5%	4,185	25.4%	5,059	22.4%
Chemical and commodities	1,445	8.2	1,277	7.7	1,429	6.3
Automobile and machinery parts	2,003	11.4	1,986	12.0	2,224	9.9
Electronics and miscellaneous items	42	0.2	3	0.0		
Natural resources items			2	0.0		
Sub-total	8,138	46.4	7,453	45.2	8,712	38.6
Domestic trading sales:						
Steel and metal	506	2.9%	473	2.9%	2,322	10.3%
Chemical and commodities	92	0.5	90	0.5	23	0.1
Automobile and machinery parts	62	0.4	40	0.2	59	0.2
Electronics and miscellaneous items						
Other goods	23	0.1			17	0.1
Sub-total	683	3.9	603	3.7	2,421	10.7
Manufactured product sales	6	0.0	13	0.1	502	2.2
Third-Country Trades:						
Trading ⁽¹⁾	11,569	66.0%	10,376	62.9%	14,969	66.3%
Natural resources development ⁽¹⁾	714	4.1	1,504	9.1	573	2.5
Manufactured product trading	242	1.4	192	1.2	221	1.0
Total third-country trades	12,525	71.5	12,072	73.2	15,763	69.8
Consolidation adjustments	(3,910)	(22.3)	(3,649)	(22.1)	(4,826)	(21.4)
Total sales	17,527	100.0%	16,492	100.0%	22,572	100.0%

(1) In 2015 and 2017, revenues from trading of raw materials were included as trading revenues. However, in 2016, revenues from trading of raw materials were included as natural resources development revenues.

Trading Activities. POSCO Daewoo's trading activities consist of exporting and importing a wide variety of products and commodities, including iron and steel, raw materials for steel production, non-ferrous metals, chemicals, automotive parts, machinery and plant equipment, electronics products, agricultural commodities and textiles. POSCO Daewoo is also engaged in third-country trade that does not involve exports from or imports to Korea. The products are obtained from and supplied to numerous suppliers and purchasers in Korea and overseas, which are procured through a global trading network comprised of overseas trading subsidiaries, branches and representative offices. Such subsidiaries and offices support POSCO Daewoo's trading activities by locating suitable local suppliers and purchasers on behalf of customers, identifying business opportunities and providing information regarding local market conditions.

In most cases, POSCO Daewoo enters into trading transactions after the underlying sale and purchase contracts have been matched, which mitigates inventory and price risks to POSCO Daewoo. POSCO Daewoo typically enters into trading transactions as a principal, and in limited cases as an import or export agent. When acting as a principal or an agent, POSCO Daewoo derives its gross trading profit from the margin between the selling price of the products and the purchase price it pays for such products. In the case of principal transactions, the selling price is recorded as sales and the purchase price is recorded as cost of sales, while only the margin is recorded as sales in the case of agency transactions in which POSCO Daewoo does not assume the risks and rewards of ownership of the goods. In the instances in which it acts as an arranger for a

Edgar Filing: POSCO - Form 20-F

third country transaction, POSCO Daewoo derives its gross trading profit from, and records as sales, the commission paid to it by the customer. The sizes of margins and commissions for POSCO Daewoo's trading activities vary

Table of Contents

depending on a number of factors, including prevailing supply and demand conditions for the product involved, the cost of financing, insurance, storage and transport and the creditworthiness of the customer, and tends to decline as the product or market matures.

In connection with its export and import transactions, POSCO Daewoo has accounts receivable and payable in a number of currencies, but principally in Dollars. POSCO Daewoo's exposure to fluctuations in exchange rates, including the Won/Dollar exchange rate, is limited because trading transactions typically involve matched purchase and sale contracts, which result in limited settlement exposure, and because POSCO Daewoo's contracts with domestic suppliers of products for export and with domestic purchasers of imported products are generally denominated in Dollars. Although the impact of exchange rate fluctuations is substantially mitigated by such strategies, POSCO Daewoo also periodically enters into derivative contracts, primarily currency forward contracts, to further hedge its foreign exchange risks.

In connection with its trading activities, POSCO Daewoo arranges insurance and product transport at the request of customers, the costs of which generally become reflected in the sales price of the relevant products, and also provides financing services to its purchasers and suppliers as necessary. In the case of trading transactions involving large-scale industrial or construction projects, POSCO Daewoo also provides necessary project planning and organizing services to its customers.

Natural Resources Development Activities. POSCO Daewoo also invests in energy and mineral development projects throughout the world. In particular, POSCO Daewoo holds interests in several gas field projects in Myanmar, where production of gas commenced in July 2013. POSCO Daewoo recognized revenues of approximately Won 652 billion in 2015, Won 530 billion in 2016 and Won 498 billion in 2017 from the Myanmar gas field projects. Such natural resources development projects, while entailing higher risks than the traditional trading business, offer higher potential returns. POSCO Daewoo intends to continue to expand its operations by carefully seeking out promising energy development projects abroad.

Competition. POSCO Daewoo competes principally with six other Korean general trading companies, each of which is affiliated with a major domestic business group, as well as global trading companies based in other countries. In the domestic market, competition for export transactions on behalf of domestic suppliers and import transactions on behalf of domestic purchasers was limited, as most affiliated general trading companies of large Korean business groups generally relied on affiliate transactions for the bulk of their trading business. However, in recent years, many of these Korean general trading companies have reduced their reliance on their affiliated business group and transactions carried out on behalf of their member companies and instead have generally evolved to focus on segments of the import and export markets in which they have a competitive advantage. As a result, competition among Korean general trading companies in the area of traditional trade has become more intense. POSCO Daewoo's principal competitors in the overseas trading markets include Korean trading companies that operate in various international markets, as well as foreign trading companies, particularly those based in Japan. As POSCO Daewoo diversifies into businesses other than traditional trading such as natural resources development, it also increasingly competes with other Korean and international companies involved in these businesses.

Construction

POSCO E&C is one of the leading engineering and construction companies in Korea, primarily engaged in the planning, design and construction of industrial plants and architectural works and civil engineering projects. In particular, POSCO E&C has established itself as one of the premier engineering and construction companies in Korea through:

its strong and stable customer base; and

Table of Contents

its cutting-edge technological expertise obtained from construction of advanced integrated steel plants, as well as participation in numerous modernization and rationalization projects at our Pohang Works and Gwangyang Works.

Leveraging its technical know-how and track record of building some of the leading industrial complexes in Korea, POSCO E&C has also focused on diversifying its operations into construction of high-end apartment complexes and participating in a wider range of architectural works and civil engineering projects, as well as engaging in urban planning and development projects and expanding its operations abroad. One of its landmark urban planning and development projects includes the development of a 5.7 million-square meter area of Songdo International City in Incheon, which POSCO E&C is co-developing with Gale International, a respected real estate developer based in the United States. In September 2015, we completed the sale of our 38.0% interest in POSCO E&C to PIF, the sovereign wealth fund of Saudi Arabia, for US\$1.05 billion. In connection with the sale, POSCO E&C and PIF agreed to jointly explore additional business opportunities in Saudi Arabia, including participating in various infrastructure projects sponsored by the Saudi Arabian government.

POSCO E&C also has substantial experience in the energy field obtained from the construction of various power plants for member companies of the POSCO Group, specializing primarily in engineering and construction of liquefied natural gas (LNG) and coal-fired thermal power plants. In recent years, POSCO E&C has obtained various orders for such power plants, including LNG-fired power plants in Incheon, Korea and coal-fired thermal power plants in Ventanas and Angamos, Chile. In response to increasing demand from the energy industry, POSCO E&C plans to continue to target opportunities in power plant construction, which it believes offers significant growth potential. In order to further promote efficiency among the member companies of the POSCO Group as well as to enhance the engineering expertise of POSCO E&C, POSCO Engineering Co., Ltd. merged into POSCO E&C in February 2017.

Competition. Competition in the construction industry is based primarily on price, reputation for quality, reliability, punctuality and financial strength of contractors. In Korea, POSCO E&C's main competition in the construction of residential and non-residential buildings, EPC projects, urban planning and development projects and civil works projects consists of approximately ten major domestic construction companies, all of which are member companies of other large business groups in Korea and are capable of undertaking larger-scale, higher-value-added projects that offer greater potential returns. A series of measures introduced by the Government over the past few years to regulate housing prices in Korea, as well as an increasing popularity of low-bid contracts in civil works project mandates, have contributed to increased competition in the Korean construction industry in recent years. In the overseas markets, POSCO E&C faces competition from local construction companies, as well as international construction companies from other countries, including other major Korean construction companies with overseas operations. Construction companies from developed countries may be more experienced, have greater financial resources and possess more sophisticated technology than POSCO E&C, while construction companies from developing countries often have the advantage of lower wage costs.

Others

As part of our diversification efforts, we strive to identify business opportunities that supplement our steel, trading and construction segments, including power generation, LNG logistics and network and system integration.

POSCO Energy Corporation. In 2006, we acquired the largest domestic private power utility company that operates LNG combined cycle power generation facilities with total power generation capacity of 1,800 megawatts and renamed it POSCO Energy Corporation. Since our acquisition, POSCO Energy Corporation has expanded its power generation capacity by constructing additional power plants in Korea and Southeast Asia. POSCO Energy Corporation's total power generation

Table of Contents

capacity was approximately 4,526 megawatts as of December 31, 2017. POSCO Energy Corporation is also selectively seeking opportunities to expand into solar, wind and other renewable energy businesses in order to become an integrated provider of energy solutions.

LNG Logistics. We operate an LNG receiving terminal with an aggregate capacity to process up to 2.4 million tons of LNG annually in Gwangyang. In order to achieve maximum operational efficiency of our LNG terminal, we participate in the LNG trading and LNG ship gas trial businesses. We also operate a synthetic natural gas production plant with an annual capacity of 500,000 tons in Gwangyang.

Others. We acquired or established several subsidiaries that address specific services to support the operations of Pohang Works and Gwangyang Works. POSCO ICT Co., Ltd. provides information and technology consulting and system network integration and outsourcing services. POSCO Chemtech Company Ltd. specializes in the manufacturing of refractories and lime used in steel manufacturing processes as well as a wide range of chemical products.

Insurance

We maintain property insurance for our property, plant and equipment that we believe to be consistent with market practice in Korea.

Item 4.C. Organizational Structure

The following table sets out the jurisdiction of incorporation and our ownership interests of our significant subsidiaries:

Name	Jurisdiction of Incorporation	Percentage of Ownership
POSCO Daewoo Corporation	Korea	62.9%
POSCO Engineering & Construction Co., Ltd	Korea	52.8%
POSCO Energy Corporation	Korea	89.0%
Zhangjiagang Pohang Stainless Steel Co., Ltd.	China	82.5% ⁽¹⁾
POSCO ICT Co., Ltd.	Korea	65.4%

(1) POSCO holds a 58.6% interest and POSCO-China holds a 23.9% interest.

Item 4.D. Property, Plants and Equipment

Our principal properties are Pohang Works, which is located at Youngil Bay on the southeastern coast of Korea, and Gwangyang Works, which is located in Gwangyang City in the southwestern region of Korea. We also maintain and operate production properties abroad, including plants operated by Zhangjiagang Pohang Stainless Steel in China, PT. Krakatau POSCO in Indonesia and POSCO SS Vina in Vietnam. We may increase our production capacity in the future when we increase our capacity as part of our facilities expansion or as a result of continued modernization and rationalization of our existing facilities. For a discussion of major items of our capital expenditures currently in progress, see

Item 5. Operating and Financial Review and Prospects Item 5.B. Liquidity and Capital Resources Liquidity Capital Expenditures and Capital Expansion.

We are vigorous in our efforts to engage in environmentally responsible management of, and to protect the environment from damage resulting from, our operations. Our levels of pollution control are higher than those mandated by Government standards. We established an on-line environmental monitoring system with real-time feedback on pollutant levels and a forecast system of pollutant concentration in surrounding areas. We also undergo periodic environmental inspection by both internal and external inspectors in accordance with ISO 14001 standards to monitor execution and maintenance of our environmental management plan. We also operate a certification program targeting our suppliers and outsourcing partners, pursuant to which they are encouraged to establish environmental management systems of their own.

Table of Contents

Production Facilities in Korea

Pohang Works

Construction of Pohang Works began in 1970 and ended in 1983. Pohang Works currently has an annual crude steel and stainless steel production capacity of 17.6 million tons. Pohang Works produces a wide variety of steel products. Products produced at Pohang Works include hot rolled sheets, plates, wire rods and cold rolled sheets, as well as specialty steel products such as stainless steel sheets and silicon steel sheets. These products can also be customized to meet the specifications of our customers.

Situated on a site of 8.9 million square meters at Youngil Bay on the southeastern coast of Korea, Pohang Works consists of iron-making, crude steelmaking and continuous casting and other rolling facilities. Pohang Works also has docking facilities capable of accommodating large ships for unloading raw materials, storage areas for raw materials and separate docking facilities for ships carrying products for export. Pohang Works is equipped with a highly advanced computerized production-management system allowing constant monitoring and control of the production process.

Gwangyang Works

Construction of Gwangyang Works began in 1985 on a site of 13.7 million square meters reclaimed from the sea in Gwangyang City in the southwestern region of Korea. Gwangyang Works currently has an annual crude steel production capacity of 24.8 million tons. Gwangyang Works specializes in high volume production of a limited number of steel products. Products manufactured at Gwangyang Works include both hot and cold rolled types.

Gwangyang Works is comprised of iron-making plants, steelmaking plants, continuous casting plants, hot strip mills and thin-slab hot rolling plants. The site also features docking and unloading facilities for raw materials capable of accommodating large ships for unloading raw materials, storage areas for raw materials and separate docking facilities for ships carrying products for export.

We believe Gwangyang Works is one of the most technologically advanced integrated steel facilities in the world. Gwangyang Works has a completely automated, linear production system that enables the whole production process, from iron-making to finished products, to take place without interruption. This advanced system reduces the production time for hot rolled products to only four hours. Like Pohang Works, Gwangyang Works is equipped with a highly advanced computerized production-management system allowing constant monitoring and control of the production process.

Capacity Utilization Rates

The following table sets out the capacity utilization rates of our production facilities in Korea for the periods indicated.

	As of or for the Year Ended December 31,		
	2015	2016	2017
Crude steel and stainless steel production capacity as of end of the year (million tons per year)	42.41	42.39	42.39
Actual crude steel and stainless steel output (million tons)	37.97	37.50	37.21
Capacity utilization rate (%) ⁽¹⁾	89.5%	88.5%	87.8%

(1) Calculated by dividing actual crude steel and stainless steel output by the actual crude steel and stainless steel production capacity for the relevant period as determined by us.

Production Facilities Abroad

Our various subsidiaries and joint ventures around the world, including Zhangjiagang Pohang Stainless Steel Co., Ltd. in China, PT. Krakatau POSCO in Indonesia and POSCO SS Vina Co., Ltd. in

Table of Contents

Vietnam, engage in steel production activities. For a discussion of such operations, see Item 4. Information on the Company Item 4.B. Business Overview Subsidiaries and Joint Ventures.

Zhangjiagang Pohang Stainless Steel

The following table sets out Zhangjiagang's capacity utilization rates for the periods indicated.

	As of or for the Year Ended December 31,		
	2015	2016	2017
Crude steel and stainless steel production capacity as of end of the year (million tons per year)	1.10	1.10	1.10
Actual crude steel and stainless steel output (million tons)	1.17	1.16	1.16
Capacity utilization rate (%) ⁽¹⁾	106.1%	105.2%	105.4%

(1) Calculated by dividing actual crude steel and stainless steel output by the actual crude steel and stainless steel production capacity for the relevant period as determined by us.

PT. Krakatau POSCO

The following table sets out PT. Krakatau POSCO's capacity utilization rates for the periods indicated.

	As of or for the Year Ended December 31,		
	2015	2016	2017
Crude steel production capacity as of end of the year (million tons per year)	3.00	3.00	3.00
Actual crude steel output (million tons)	2.72	2.91	2.92
Capacity utilization rate (%) ⁽¹⁾	90.7%	97.0%	97.4%

(1) Calculated by dividing actual crude steel output by the actual crude steel capacity for the relevant period as determined by us.

POSCO SS VINA Co., Ltd.

The following table sets out POSCO SS VINA's capacity utilization rates for the periods indicated.

	As of or for the Year Ended December 31,	
	2016	2017
Crude steel production capacity as of end of the year (million tons per year)	1.10	1.10
Actual crude steel output (million tons)	0.64	0.91
Capacity utilization rate (%) ⁽¹⁾	58.0%	82.3%

(1) Calculated by dividing actual crude steel output by the actual crude steel production capacity for the relevant period as determined by us.

Item 4.E. Unresolved Staff Comments

Edgar Filing: POSCO - Form 20-F

We do not have any unresolved comments from the Securities and Exchange Commission staff regarding our periodic reports under the Exchange Act of 1934.

Item 5. *Operating and Financial Review and Prospects*

Item 5.A. *Operating Results*

The following discussion and analysis is based on our consolidated financial statements, which have been prepared in accordance with IFRS, as issued by the IASB. Unless otherwise noted, the amounts included in Item 5.A. are presented on a consolidated basis.

Table of Contents

Overview

We are the largest fully integrated steel producer in Korea. We have four reportable operating segments – a steel segment, a trading segment, an engineering and construction segment and a segment that contains operations of all other entities which fall below the reporting thresholds. The steel segment includes production of steel products and sale of such products. The trading segment consists primarily of global trading activities and natural resources development activities of POSCO Daewoo. POSCO Daewoo exports and imports a wide range of steel products that are both obtained from and supplied to POSCO, as well as between other suppliers and purchasers in Korea and overseas. The construction segment includes planning, designing and construction of industrial plants, civil engineering projects and commercial and residential buildings, both in Korea and overseas. The others segment includes power generation, LNG logistics, and network and system integration. See Note 40 of Notes to Consolidated Financial Statements.

One of the major factors contributing to our historical performance has been the growth of the Korean economy, and our future performance will depend at least in part on Korea's general economic growth and prospects. For a description of recent developments that have had and may continue to have an adverse effect on our results of operations and financial condition, see Item 3. Key Information Item 3.D. Risk Factors. Korea is our most important market, and our current business and future growth could be materially and adversely affected if economic conditions in Korea deteriorate. A number of other factors have had or are expected to have a material impact on our results of operations, financial condition and capital expenditures. These factors include:

our sales volume, unit prices and product mix;

costs and production efficiency; and

exchange rate fluctuations.

As a result of these factors, our financial results in the past may not be indicative of future results or trends in those results.

Sales Volume, Prices and Product Mix

In recent years, our net sales have been affected by the following factors:

the demand for our products in the Korean market and our capacity to meet that demand;

our ability to compete for sales in the export market;

price levels; and

our ability to improve our product mix.

Domestic demand for our products is affected by the condition of major steel consuming industries, such as construction, shipbuilding, automotive, electrical appliances and downstream steel processors, and the Korean economy in general.

In 2016, unit sales prices in Won for each of our principal product lines of steel products produced by us and directly sold to external customers decreased. The weighted average unit price for such products decreased by 6.6% from 2015 to 2016, despite a depreciation in the average value of the Won against the Dollar in 2016 that increased our export prices in Won terms. The average exchange rate of the Won against the Dollar depreciated from Won 1,131.5 to US\$1.00 in 2015 to Won 1,160.5 to US\$1.00 in 2016.

Edgar Filing: POSCO - Form 20-F

The unit sales price of silicon steel products, which accounted for 3.1% of total sales volume of the principal steel products produced by us and directly sold to external customers, decreased by 17.0% in 2016. The unit sales price of wire rods, which accounted for 8.3% of total sales volume of such products, decreased by 11.9% in 2016. The unit sales price of stainless steel products, which

Table of Contents

accounted for 9.2% of total sales volume of such products, decreased by 9.2% in 2016. The unit sales price of hot rolled products, which accounted for 26.2% of total sales volume of such products, decreased by 7.6% in 2016. The unit sales price of plates, which accounted for 14.4% of total sales volume of such products, decreased by 5.0% in 2016. The unit sales price of cold rolled products, which accounted for 38.7% of total sales volume of such products, decreased by 4.6% in 2016.

In 2017, unit sales prices in Won for each of our principal product lines of steel products produced by us and directly sold to external customers increased. The weighted average unit price for such products increased by 21.3% from 2016 to 2017, despite an appreciation in the average value of the Won against the Dollar in 2017 that decreased our export prices in Won terms. The average exchange rate of the Won against the Dollar appreciated from Won 1,160.5 to US\$1.00 in 2016 to Won 1,130.8 to US\$1.00 in 2017.

The unit sales price of hot rolled products, which accounted for 25.9% of total sales volume of the principal steel products produced by us and directly sold to external customers, increased by 29.2% in 2017. The unit sales price of wire rods, which accounted for 7.8% of total sales volume of such products, increased by 26.2% in 2017. The unit sales price of cold rolled products, which accounted for 37.5% of total sales volume of such products, increased by 25.7% in 2017. The unit sales price of stainless steel products, which accounted for 9.6% of total sales volume of such products, increased by 15.0% in 2017. The unit sales price of silicon steel products, which accounted for 2.9% of total sales volume of such products, increased by 9.7% in 2017. The unit sales price of plates, which accounted for 16.3% of total sales volume of such products, increased by 8.4% in 2017.

The table below sets out the average unit sales prices for our semi-finished and finished steel products for the periods indicated.

Products	2015	For the Year Ended December 31,	
		2016	2017
		(In thousands of Won per ton)	
Cold rolled products	698	666	837
Hot rolled products	549	507	655
Stainless steel products	2,207	2,003	2,304
Plates	612	582	631
Wire rods	724	638	806
Silicon steel sheets	1,284	1,065	1,169
Average ⁽¹⁾	798	745	904

(1) Average prices are based on the weighted average, by sales volume, of our sales for the listed principal products produced by us and directly sold to external customers. See Item 4. Information on the Company Item 4.B. Business Overview Major Products. The average unit sales price calculation does not include sales results of steel products categorized as others.

Costs and Production Efficiency

Our major costs and operating expenses are raw material purchases, depreciation, labor and other purchases. The table below sets out our cost of sales and selling and administrative expenses as a percentage of our revenue as well as gross profit margin and operating profit margin for the periods indicated.

	2015	For the Year Ended December 31,	
		2016	2017
		(Percentage of net sales)	
Cost of sales	88.9%	87.4%	86.3%
Selling and administrative expenses	7.0	7.3	6.2
Gross margin	11.1	12.6	13.7
Operating profit margin	2.5	4.3	7.0

Table of Contents

Our operating profit margin increased from 2.5% in 2015 to 4.3% in 2016 and increased further to 7.0% in 2017, as discussed below.

We are closely monitoring changes in market conditions and we implemented the following measures in recent years to improve our profit margins:

pursuing cost reduction through enhancing product designs, improving productivity and reducing fixed costs;

focusing on marketing activities to increase the sales of higher margin, higher value-added products and to strengthen our domestic market position;

pursuing synergies among member companies of the POSCO Group through corporate restructurings; and

establishing a special sales committee to more effectively respond to changes in market trends and preparing responses to various scenarios of future sales.

Production capacity represents our maximum production capacity that can be achieved with an optimal level of operations of our facilities. The table below sets out certain information regarding our production capacity and efficiency in the production of steel products for the periods indicated.

	For the Year Ended December 31,		
	2015	2016	2017
Crude steel and stainless steel production capacity (million tons per year)	47.6	47.6	47.6
POSCO	42.4	42.4	42.4
Zhangjiagang Pohang Stainless Steel Co., Ltd.	1.1	1.1	1.1
PT. Krakatau POSCO	3.0	3.0	3.0
POSCO SS VINA Co., Ltd.	1.1	1.1	1.1
Actual crude steel and stainless steel output (million tons)	42.0	42.2	42.2
POSCO	38.0	37.5	37.2
Zhangjiagang Pohang Stainless Steel Co., Ltd.	1.2	1.2	1.2
PT. Krakatau POSCO	2.7	2.9	2.9
POSCO SS VINA Co., Ltd.	0.2	0.6	0.9
Capacity utilization rate (%)	88.3%	88.7%	88.7%
POSCO	89.5%	88.5%	87.8%
Zhangjiagang Pohang Stainless Steel Co., Ltd.	106.1%	105.2%	105.4%
PT. Krakatau POSCO	90.7%	97.0%	97.4%
POSCO SS VINA Co., Ltd.	15.8%	58.0%	82.3%

Exchange Rate Fluctuations

Our consolidated financial statements are prepared from our local currency denominated financial results, assets and liabilities and our subsidiaries around the world, which are then translated into Won. A substantial proportion of our consolidated financial results is accounted for in currencies other than the Won. Accordingly, our consolidated financial results and assets and liabilities may be materially affected by changes in the exchange rates of foreign currencies. In 2017, 61.0% of our total revenue from steel products produced and sold by us was in overseas markets outside of Korea. To the extent that we incur costs in one currency and make sales in another, our profit margins may be affected by changes in the exchange rates between the two currencies. Since the currency in which sales are recorded may not be the same as the currency in which expenses are incurred, foreign exchange rate fluctuations may materially affect our results of operations. Depreciation of the Won may materially affect the results of our operations because, among other things, it causes:

Edgar Filing: POSCO - Form 20-F

an increase in the amount of Won required for us to make interest and principal payments on our foreign currency-denominated debt;

Table of Contents

an increase in Won terms in the costs of raw materials and equipment that we purchase from overseas sources and a substantial portion of our freight costs, which are denominated primarily in Dollars; and

foreign exchange translation losses on liabilities, which lower our earnings for accounting purposes.
Appreciation of the Won against major currencies, on the other hand, causes:

our export products to be less competitive by raising our prices in Dollar terms; and

a reduction in net sales and accounts receivables in Won from export sales, which are primarily denominated in Dollars.
We strive to naturally offset our foreign exchange risk by matching foreign currency receivables with our foreign currency payables and our overseas subsidiaries have sought to further mitigate the adverse impact of exchange rate fluctuations by conducting business transactions in the local currency of the respective market in which the transactions occur. In particular, POSCO Daewoo's exposure to fluctuations in exchange rates, including the Won/Dollar exchange rate, is limited because trading transactions typically involve matched purchase and sale contracts, which result in limited settlement exposure, and because POSCO Daewoo's contracts with domestic suppliers of products for export and with domestic purchasers of imported products are generally denominated in Dollars. Although the impact of exchange rate fluctuations is partially mitigated by such strategies, we and our subsidiaries, particularly POSCO Daewoo and POSCO E&C, also periodically enter into derivative contracts, primarily foreign currency swaps and forward exchange contracts, to further hedge our foreign exchange risks. However, our results of operations have historically been affected by exchange rate fluctuations and there can be no assurance that such strategies will be sufficient to reduce or eliminate the adverse impact of such fluctuations in the future. Because of the larger positive effects of the appreciation of the Won (i.e., the reverse of the negative effects caused by the depreciation of the Won, as discussed above), depreciation of the Won generally has a negative impact on our results of operations.

Inflation

Inflation in Korea, which was 0.7% in 2015, 1.0% in 2016 and 1.9% in 2017, has not had a material impact on our results of operations in recent years.

Critical Accounting Estimates

We have prepared our consolidated financial statements in accordance with IFRS as issued by the IASB. These accounting principles require us to make certain estimates and judgments that affect the reported amounts in our consolidated financial statements. Our estimates and judgments are based on historical experience, forecasted future events and various other assumptions that we believe to be reasonable under the circumstances. Estimates and judgments may differ under different assumptions or conditions. We evaluate our estimates and judgments on an ongoing basis. We believe the critical accounting policies discussed below are the most important to the portrayal of our financial condition and results of operations. Each of them is dependent on projections of future market conditions, and they require us to make the most difficult, subjective or complex judgments.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts for exposures in our receivable balances that represent our estimate of probable losses in our short-term and long-term receivable balances from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate and negatively impact their ability to make payments, additional allowances may be

Table of Contents

required. Determining the allowance for doubtful accounts requires significant management judgment and estimates including, among others, the credit worthiness of our customers, experience of historical collection patterns, potential events and circumstances affecting future collections and the ongoing risk assessment of our customer's ability to pay.

Trade account receivables are analyzed on a regular basis and, upon our becoming aware of a customer's inability to meet its financial commitments to us, the value of the receivable is reduced through a charge to the allowance for doubtful accounts. In addition, we record a charge to the allowance for doubtful accounts upon receipt of customer claims in connection with sales that management estimates are unlikely to be collected in full. As of December 31, 2017, the percentage of allowance for doubtful accounts to trade accounts and notes receivable and other receivables was 8.23%. Our allowance for doubtful accounts increased by 11.9%, or Won 117 billion, from Won 978 billion as of December 31, 2016 to Won 1,094 billion as of December 31, 2017. See Note 23 of Notes to Consolidated Financial Statements. Assumptions and judgments related to the allowance for doubtful accounts did not change in 2017.

Specifically, allowances for doubtful accounts are recorded when any of the following loss events occur: (i) there is objective evidence as to the uncollectability of the account observed through bankruptcy, default or involuntary dissolution of the customer; (ii) we lose a lawsuit against the customer or our right of claim gets extinguished; (iii) our costs to collect the account exceed the payments to be received; or (iv) a dispute with the customer over the collection of the account persists for more than three years.

The actual average annual uncollected percentage rate of accounts receivables resulting in write-offs for the three years in the period ended December 31, 2017 was 1.02%. These historical results, as well as current known conditions impacting the collectability of our accounts receivable balances, are significant factors for us when we estimate the amount of the necessary allowance for doubtful accounts. Historically, losses from uncollectible accounts receivables have been within expectations and in line with the allowances established. However, unforeseen circumstances such as adverse market conditions that deviate significantly from our estimates may require us to change the timing of, and make additional allowances to, our receivable balances. In this case, our results of operations, financial condition and net worth could be materially and adversely affected.

Valuation of Financial Instruments including Debt and Equity Securities and Derivatives

We invest in various financial instruments including debt and equity securities and derivatives. Depending on the accounting treatment specific to each type of financial instrument, an estimate of fair value is required to determine the instrument's effect on our consolidated financial statements.

If available, quoted market prices provide the best indication of fair value. We determine the fair value of our financial instruments using quoted market prices when available, including quotes from dealers trading those securities. If quoted market prices are not available, we determine the fair value based on pricing or valuation models, quoted prices of instruments with similar characteristics, or discounted cash flows. Determining the fair value of unlisted financial instruments involves a significant degree of management resources and judgment as no quoted prices exist and such securities are generally very thinly traded. Derivatives for which quoted market prices are not available are valued using valuation models such as the discounted cash flow method. The key inputs used in the valuation of such derivatives depend upon the type of derivative and the nature of the underlying instrument and include interest rate yield curves, foreign exchange rates, the spot price of the underlying instrument, volatility and correlation. The fair values based on pricing and valuation models and discounted cash flow analysis are subject to various assumptions used that, if changed, could significantly affect the fair value of the investments.

We assess at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as

Table of Contents

available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the asset is impaired. As part of this impairment review, the investee's operating results, net asset value and future performance forecasts as well as general market conditions are taken into consideration in order to assess whether there is any objective evidence such as significant financial difficulty of the issuer.

We have estimated fair values of material non-marketable securities. We estimated these fair values based on pricing or valuation models, quoted prices of instruments with similar characteristics, or discounted cash flow models. The discounted cash flow model valuation technique is based on the estimated cash flow projections of the underlying investee. Key assumptions and estimates include market conditions, revenue growth rates, operating margin rates, income tax rates, depreciation and amortization rates, the level of capital expenditures, working capital amounts and the discount rates. These estimates are based on historical results of the investee and other market data. In these cash flows projections, the two most significant estimates are the discount rates and revenue growth rates. If the discount rates used in these valuations were increased by 1%, then the estimated fair values would have decreased by 12% in total. In addition, if the revenue growth rate assumptions were decreased by 1% in the cash flow models, then the estimated fair values would have decreased by 13% in total.

We recognized impairment losses on available-for-sale financial assets of Won 143 billion in 2015, Won 248 billion in 2016 and Won 123 billion in 2017. See Note 8 of Notes to Consolidated Financial Statements.

Our estimates and assumptions used to evaluate impairment of investments are made taking into consideration our assessment of the latest information available. However, unforeseen circumstances such as adverse market conditions that deviate significantly from our estimates may require us to recognize additional losses on impairment of investments. We base our fair value estimates on assumptions we believe to be reasonable, but which are unpredictable and inherently uncertain. The use of alternative estimates and assumptions could increase or decrease the estimated fair values of our investments and potentially result in different impacts on our results of operations.

Long-lived Assets

At each reporting date, we review the carrying amounts of our tangible and intangible assets (excluding goodwill) to determine whether there is any indication that the carrying amount of those assets may not be recoverable through continuing use. If any such indication exists, the recoverable amount of the asset (or cash generating unit) is reviewed in order to determine the amount of the impairment, if any. The recoverable amount is the higher of the asset's net selling price (fair value less costs to sell) and its value in use. When the book value of long-lived asset exceeds the recoverable amount of the asset due to obsolescence, physical damage or a decline in market value and such amount is material, the impairment of the asset is recognized and the asset's carrying value is reduced to its recoverable amount and the resulting impairment loss is charged to current operations. Such recoverable amount is based on our estimates of the future use of assets and is subject to changes in market conditions. Based on an impairment test as of December 31, 2017, we recognized impairment loss on property, plant and equipment amounting to Won 117 billion in 2017, which related primarily to impairment of long-lived assets of Suncheon Eco Trans Co., Ltd.

The depreciable lives and salvage values of our long-lived assets are estimated and reviewed each year based on industry practices and prior experience to reflect economic lives of long-lived assets. Our estimates of the useful lives and recoverable amount of long-lived assets are based on historical trends adjusted to reflect our best estimate of future market and operating conditions. Also, our estimates include the expected future period in which the future cash flows are expected to be generated from continuing use of the assets that we review for impairment and cash outflows to prepare the assets for use that can be directly attributed or allocated on a reasonable and consistent basis. If applicable, estimates also include net cash flows to be received or paid for the disposal of the

Table of Contents

assets at the end of their useful lives. As a result of the impairment review, when the sum of the discounted future cash flows expected to be generated by the assets is less than the book value of the assets, we recognize impairment losses based on the recoverable amount of those assets. We make a number of significant assumptions and estimates in the application of the discounted cash flow model to forecast cash flows, including business prospects, market conditions, selling prices and sales volume of products, costs of production and funding sources. The estimated cash flow forecast amounts are derived from the most recent financial budgets for the next three to five years. Beyond the specifically forecasted period, we extrapolate the cash flows for the remaining years based on an estimated growth rate. This estimated growth rate does not exceed the long-term average growth rate of our industry. As of December 31, 2017, for the applicable cash generating units, we estimated a discount rate of 7.6% to 14.0% and a revenue growth rate of 1.0%. Further impairment charges may be required if triggering events occur, such as adverse market conditions, that suggest deterioration in an asset's recoverability or fair value. Results in actual transactions could differ from those estimates used to evaluate the impairment of such long-lived assets. If our future cash flow projections are not realized, either because of an extended recessionary period or other unforeseen events, impairment charges may be required in future periods.

If the estimated discount rates used in these valuations were increased by 1%, then the estimated recoverable amount would have decreased by 5.0% to 6.1% in total. If the estimated revenue growth rate were decreased by 1%, then the estimated recoverable amount would have decreased by 0.6% to 2.5% in total. We believe that any reasonably possible negative change in the key assumptions on which the recoverable amount is based would result in impairment loss of long-lived assets.

Goodwill

Goodwill is tested for impairment annually at the level of the groups of cash generating units or whenever changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts of the groups of cash-generating units are determined from the higher of their fair value less cost to sell or their value-in-use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period.

Our management estimates discount rates using post-tax rates that reflect current market rates for investments of similar risk. Growth rates are based on industry growth forecasts, and changes in selling prices and direct costs are based on historical experience and expectations of future changes in the market. Cash flow forecasts are derived from the most recent financial budgets for the next five years. Beyond the specifically forecasted period, we extrapolate cash flows for the remaining years based on an estimated growth rate. This rate does not exceed the average long-term growth rate for the relevant markets. Once recognized, impairment losses recognized for goodwill are not reversed.

In validating the value in use determined for the cash generating units, the sensitivity of key assumptions used in the discounted cash-flow model such as discount rates and the terminal growth rate was evaluated. If the estimated average discount rates used in these valuations were increased by 0.25%, the estimated value-in-use for the respective cash generating units would have decreased by 3.02% to 3.45% in total. If the estimated terminal growth rates were decreased by 0.25%, the estimated value-in-use for the respective cash generating units would have decreased by 1.78% to 2.06% in total. Based on an impairment test as of December 31, 2017, we recognized impairment loss on goodwill of Won 21 billion in 2017, which related primarily to impairment of goodwill of POSCO E&C. We believe that determining the existence and impairment of goodwill is a critical accounting estimate because significant management judgment is involved in the evaluation of the value of the cash-generating groups, and any reasonably possible changes in the key assumptions on which the recoverable amount is based would cause a change in impairment loss on goodwill. See Note 15 of Notes to Consolidated Financial Statements.

Table of Contents***Inventories***

Inventories are stated at the lower of cost or net realizable value. Costs of inventories are determined using the moving-weighted average or weighted average method. Materials-in-transit are determined using the specific identification method. Amounts of inventory are written down to net realizable value due to losses occurring in the normal course of business and the allowance is reported as a contra inventory account, while the related charge is recognized in cost of goods sold.

The net realizable value is determined based on the latest selling price available at the end of each quarter taking into account the directly attributable selling costs. The latest selling price is the base price which is the negotiated selling price based upon the recent transactions entered into with major customers. Considering that our inventory turnover is approximately two months and inventories at the balance sheet date would be sold during the following two months, we perform valuation of inventories using the base price as of the balance sheet date and adjust for significant changes in selling price occurring subsequent to the reporting date. The selling price range used for determining the net realizable value of our inventories ranged from 94.2% to 116.0% of the inventory cost amount. For inventories in which expected selling prices are less than the cost amount, the necessary adjustment to write-down the inventories to net realizable value is made. There was no recovery in 2015, 2016 and 2017. The valuation losses of inventories recognized within cost of goods sold were Won 153 billion in 2015, Won 152 billion in 2016 and Won 79 billion in 2017.

Investments in Associates and Joint Ventures

We hold a significant amount of investments in associates and joint ventures, which interests are accounted for using the equity method. As of December 31, 2017, the book value of our investments in associates and joint ventures was Won 3,558 billion. The carrying amounts of our investments in associates and joint ventures are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

We estimate the recoverable amount of an individual asset. If it is impossible to measure the individual recoverable amount of an asset, then we estimate the recoverable amount of cash-generating unit (CGU), which is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use is estimated by applying a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU. We treat individual operating entities as CGUs, and an impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

As part of our impairment review, the operating results, net asset value and future performance forecasts of our associates and joint ventures as well as general market conditions are taken into consideration in order to assess whether there is any objective evidence of impairment, such as significant financial difficulty of the associate or joint venture. Unforeseen circumstances such as adverse market conditions that deviate significantly from our estimates may require us to recognize additional losses on impairment of our interest in our associates and joint ventures. We base our value in use estimates on assumptions we believe to be reasonable, but which are unpredictable and inherently uncertain. The use of alternative estimates and assumptions could increase or decrease the estimated fair values used to evaluate impairment of our interest in our associates and joint ventures and potentially have different impacts on our results of operations.

Table of Contents***Revenue Recognition for Construction Contracts***

POSCO E&C, our consolidated subsidiary, engages in various construction activities, including construction of industrial plants and commercial and residential buildings, and revenue recognition are different based on types of contracts. When the outcome of a construction contract can be estimated reliably, contract revenue is recognized in profit or loss in proportion to the stage of completion of the project. Contract revenue includes the initial amount agreed in the contract plus any variation in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. The stage of completion of a contract is determined based on the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. On the other hand, when the outcome of a construction contract cannot be estimated reliably, the revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on the construction contract is recognized as an expense immediately.

Our contract revenue recognition policy requires our management to exercise judgment in estimating the outcome of our contracts and measuring the percentage of completion and actual costs incurred in respect of our projects, which affects the amount and timing of recognition of revenues and cost of sales, provisions for estimated losses, charges against current earnings, trade account receivables and advances. For example, due to factors causing variation in costs for 2017, the estimated total contract costs were changed. Details of changes in estimated total contract costs and the impact on profit before income taxes for 2017 and future periods are as follows:

	Amount (In millions of Won)
Changes in estimated total contract costs	164,812
Changes in profit before income taxes of construction contracts:	
Current period	(69,656)
Future periods	(6,041)

The effect on current and future profit is estimated based on circumstances that have occurred from the commencement date of the contract to the end of 2017. The estimation is evaluated for total contract costs and expected total contract revenue as of the end of the period. Such estimate may change in future periods.

Our ability to measure reliably the estimated total cost of a project has a significant effect on the amount and timing of recognizing our sales and cost of sales. The timing of recognition of sales we report may differ materially from the timing of actual contract payments received. In addition, to the extent that sales recognized by us exceed the amount of payments to be received by us, such amount is reflected as trade account receivables on our balance sheet. To the extent payments received by us exceed the sales recognized, such amount is reflected under advances from customers on our balance sheet. Thus our ability to measure reliably the estimated total costs and the percentage of completion also affects the amount of our trade account receivables and advances from customers. For a discussion of uncertainty of estimates related to contract revenues and costs, see Note 29(d) of Notes to Consolidated Financial Statements.

Deferred Income Taxes

Our deferred income tax assets and liabilities reflect the tax consequences that would follow from the manner in which we expect, at the end of the reporting period, to recover or settle the carrying amount of our assets and liabilities. We recognize deferred income tax liability for all taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, except to the extent that we are able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. We recognize deferred income tax asset for deductible temporary differences to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against

Table of Contents

which they can be utilized. However, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill or the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit or loss nor taxable income. The carrying amount of a deferred income tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

We believe that recognition of deferred tax assets and liabilities is a significant accounting policy that requires our management's estimates and assumptions regarding, among other things, the level of future taxable income, interpretation of the tax laws and tax planning. Changes in tax laws, projected levels of taxable income and tax planning could affect the effective tax rate and tax balances recorded by us in the future.

Employee Benefits

Our accounting of employee benefits for defined benefit plans involves judgments about uncertain events including, but not limited to, discount rates, life expectancy, future pay inflation and expected rate of return on plan assets. The discount rates are determined by reference to the yield at the reporting date on high quality corporate bonds that have maturity dates approximating the terms of our benefits obligations and that are denominated in the same currency in which the benefits are expected to be paid. We determine the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments, net interest expense, and other expenses related to defined benefit plans that are recognized in profit or loss. Due to changing market and economic conditions, the underlying key assumptions may differ from actual developments and may lead to significant changes in our defined benefit plan. We immediately recognize all actuarial gains and losses arising from defined benefit plans in retained earnings. If the estimated average discount rates by actuarial assumptions used in these valuations were increased by 1%, then the estimated provision for severance benefits would have decreased by Won 124 billion, or 6.7% in total. If the estimated future pay inflation rates were decreased by 1%, then the estimated provision for severance benefits would have decreased by Won 124 billion, or 6.7% in total.

Recent Accounting Changes

For a discussion of new standards, interpretations and amendments to existing standards that have been published, see Note 3 of Notes to Consolidated Financial Statements.

IFRS No. 9 Financial Instruments

IFRS No. 9 Financial Instruments regulates requirements for measurement and recognition of certain contracts in relation to trading financial assets and liabilities or non-financial items. It replaces existing guidance in IAS No. 39 Financial Instruments: Recognition and Measurement. We will apply IFRS No. 9 Financial Instruments for the year beginning on January 1, 2018.

The standard will generally be applied retrospectively with some exemptions allowing an entity not to restate the comparative information for prior periods in relation to classification and measurement (including impairment) changes. We will apply such exemptions. We will recognize the accumulated effect resulting from initial application of IFRS No. 9 as reserves, retained earnings and non-controlling interests of the company at the date of initial application.

IFRS No. 15 Revenue from Contracts with Customers

IFRS No. 15 Revenue from Contracts with Customers provides a unified five-step model for determining the timing, measurement and recognition of revenue. It replaces existing revenue

Table of Contents

recognition guidance, including IAS No. 18 Revenue, IAS No. 11 Construction Contracts, SIC No. 31 Revenue-Barter transactions involving advertising services, IFRIC No. 13 Customer Loyalty Programs, IFRIC No. 15 Agreements for the construction of real estate, and IFRIC No. 18 Transfers of assets from customers. We will apply IFRS No. 15 Revenue from Contracts with Customers for the year beginning on January 1, 2018.

We intend to apply the modified retrospective approach by recognizing the cumulative impact of applying the revenue standard as of January 1, 2018, the date of initial application. We also decided to apply the practical expedients as allowed by IFRS No. 15 by applying the new standard only to those contracts that are not considered as completed contracts at the date of initial application. Accordingly, we will not restate the financial statements for comparative periods.

Existing IFRS standards and interpretations including IAS No. 18 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 of IFRS No. 15, 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 under the contract; step 5: recognize revenue when the entity satisfies a performance obligation) is applied for all types of contracts or agreements.

IFRS No. 16 Leases

IFRS No. 16 Leases will replace IAS No. 17 Leases and IFRIC No. 4 Determining whether an Arrangement contains a Lease. It is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted for companies that have adopted IFRS No. 15.

As a lessee, we plan to adopt IFRS No. 16 using one of the two following methods: (a) retrospectively to each prior reporting period presented in accordance with IAS No. 8 Accounting Policies, Changes in Accounting Estimates and Errors but using the practical expedients for completed contracts (i.e. completed contracts as of the beginning of 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.

We have not yet initiated the preparation for the application of IFRS No. 16 and have not performed an assessment of the impact resulting from the application of IFRS No. 16. We will complete the analysis of financial impacts arising from applying this standard in 2018.

Explanatory Note Regarding Presentation of Certain Financial Information under K-IFRS

In addition to preparing financial statements in accordance with IFRS as issued by the IASB included in this annual report, we also prepare financial statements in accordance with K-IFRS as adopted by the KASB, which we are required to file with the Financial Services Commission and the Korea Exchange under the FSCMA.

K-IFRS differs in certain respects from IFRS as issued by the IASB in the presentation of operating profit. Additionally, under K-IFRS, revenue from the development and sale of real estate is recognized using the percentage of completion method. However, under IFRS as issued by the IASB, revenue from the development and sale of certain real estate is recognized when an individual unit of residential real estate is delivered to the buyer. As a result, our consolidated statements of comprehensive income and our consolidated statements of financial position prepared in accordance with IFRS as issued by the IASB included in this annual report differ from our consolidated statements of comprehensive income and consolidated statements of financial position prepared in accordance with K-IFRS. The table below sets forth a reconciliation of our operating profit and net income or loss as presented in our consolidated statements of comprehensive income prepared in accordance with IFRS as issued by the IASB for each of the years ended December 31, 2015, 2016 and 2017 to our

Table of Contents

operating profit and net income or loss in our consolidated statements of comprehensive income prepared in accordance with K-IFRS, for each of the corresponding years, taking into account such differences:

	For the Year Ended December 31,		
	2015	2016	2017
	(In millions of Won)		
Operating profit under IFRS as issued by the IASB	1,486,380	2,282,496	4,196,121
Additions:			
Impairment losses on assets held for sale	133,547	24,890	
Loss on disposal of assets held for sale	190,357	254	608
Loss on disposal of investments in subsidiaries, associates and joint ventures	18,996	22,499	19,985
Loss on disposal of property, plant and equipment	101,732	86,622	151,343
Impairment losses on property, plant and equipment	136,269	196,882	117,231
Impairment losses on goodwill and intangible assets	161,412	127,875	167,995
Other bad debt expenses	158,071	50,225	100,920
Loss on valuation of firm commitment			43,164
Idle tangible assets expenses	12,773	6,437	10,490
Increase to provisions	18,396	53,058	33,964
Donations	62,957	43,810	51,424
Others	447,788	143,168	95,172
	1,442,298	755,720	792,296
Deductions:			
Gain on disposal of assets held for sale	(227,956)	(23,112)	(1,180)
Gain on disposal of investments in subsidiaries, associates and joint ventures	(88,718)	(23,305)	(81,794)
Gain on disposal of property, plant and equipment	(22,730)	(23,826)	(32,145)
Gain on disposal of intangible assets	(1,432)	(671)	(23,391)
Recovery of allowance for other doubtful accounts	(10,452)	(12,658)	(2,743)
Gain on valuation of firm commitment			(56,301)
Rental revenues	(1,019)	(1,771)	(1,498)
Gain on insurance proceeds	(14,976)	(22,400)	(5,878)
Others	(181,765)	(107,393)	(246,294)
	(549,048)	(215,136)	(451,224)
Revenue recognition related to development and sale of real estate	(329,923)	143,742	468,233
Cost of sales recognition related to development and sale of real estate	360,336	(122,497)	(383,592)
Operating profit under K-IFRS	2,410,043	2,844,325	4,621,834
Net income (loss) under IFRS as issued by the IASB	(116,215)	1,032,065	2,909,311
Adjustments related to development and sale of real estate:			
Revenue	(329,923)	143,742	468,233
Cost of sales	360,336	(122,497)	(383,592)
Income tax	(10,379)	(5,141)	(20,483)
Net income (loss) under K-IFRS	(96,181)	1,048,169	2,973,469

Table of Contents**Operating Results 2016 Compared to 2017**

The following table presents our income statement information and changes therein for 2016 and 2017.

	For the Year Ended December 31,		Changes 2016 versus 2017	
	2016	2017	Amount	%
	(In billions of Won)			
Revenue	52,940	60,187	7,247	13.7%
Cost of sales	46,271	51,916	5,645	12.2
Gross profit	6,668	8,271	1,603	24.0
Administrative expenses	2,292	2,177	(115)	(5.0)
Selling expenses	1,554	1,557	3	0.2
Other operating income	215	451	236	109.7
Other operating expenses	756	792	36	4.8
Operating profit	2,282	4,196	1,914	83.8
Share of gain (loss) of equity-accounted investees	(89)	11	100	N.A. ⁽¹⁾
Finance income	2,232	2,373	141	6.3
Finance costs	3,014	2,484	(530)	(17.6)
Profit before income tax	1,412	4,096	2,683	190.1
Income tax expense	380	1,186	806	212.4
Profit (loss)	1,032	2,909	1,877	181.9
Profit for the period attributable to owners of the controlling company	1,355	2,756	1,401	103.4
Loss for the period attributable to non-controlling interests	(323)	153	476	N.A. ⁽¹⁾

(1) N.A. means not applicable.

Table of Contents**Revenue**

The following table presents our revenue by segment and changes therein for 2016 and 2017.

	For the Year Ended December 31,		Changes 2016 versus 2017	
	2016	2017 (In billions of Won)	Amount	%
Steel Segment:				
External revenue	26,844	30,230	3,386	12.6%
Internal revenue	16,062	17,381	1,319	8.2
Total revenue from Steel Segment	42,906	47,611	4,705	11.0
Trading Segment:				
External revenue	16,774	20,802	4,028	24.0
Internal revenue	9,646	14,076	4,430	45.9
Total revenue from Trading Segment	26,420	34,878	8,458	32.0
Construction Segment:				
External revenue	6,768	6,887	119	1.7
Internal revenue	714	399	(315)	(44.1)
Total revenue from Construction Segment	7,482	7,286	(196)	(2.6)
Others Segment:				
External revenue	2,697	2,736	39	1.4
Internal revenue	2,380	2,549	169	7.1
Total revenue from Others Segment	5,077	5,285	208	4.1
Total revenue prior to consolidation adjustments and basis difference	81,885	95,060	13,175	16.1
Consolidation adjustments	(28,802)	(34,405)	(5,603)	19.5
Basis difference ⁽¹⁾	(144)	(468)	(324)	225.7
Revenue	52,940	60,187	7,247	13.7%

(1) Basis difference is related to the difference in recognizing revenue and expenses of the Construction Segment in connection with development and sale of certain residential real estate between the report reviewed by the chief executive officer and the consolidated financial statements. See Notes 3 and 40 of Notes to Consolidated Financial Statements.

Our revenue increased by 13.7%, or Won 7,247 billion, from Won 52,940 billion in 2016 to Won 60,187 billion in 2017 due to increases in external revenues from each of our four segments. Specifically:

Steel Segment. External revenue from the Steel Segment, which does not include internal revenue from inter-company transactions that are eliminated during consolidation, increased by 12.6%, or Won 3,386 billion, from Won 26,844 billion in 2016 to Won 30,230 billion in 2017 due to an increase in the average unit sales price per ton of the principal steel products produced by us and directly sold to external customers, which was offset in part by a decrease in our sales volume of the steel products produced by us and directly sold to external customers (including miscellaneous steel products not included in any of our major product categories). The weighted average unit sales price per ton of the principal

Edgar Filing: POSCO - Form 20-F

steel products produced by us and directly sold to external customers increased by 21.3% from Won 745,476 per ton in 2016 to Won 903,897 per ton in 2017, while the overall sales volume of the principal steel products produced by us and directly sold to external customers decreased by 8.6% from 32.9 million tons in 2016 to 30.0 million tons in 2017. Such factors were principally attributable to the following:

The unit sales prices in Won of each of our major product categories increased from 2016 to 2017. Hot rolled products, wire rods, cold rolled products, stainless steel products, silicon steel sheets and plates produced by us and directly sold to external customers increased by 29.2%, 26.2%, 25.7%, 15.0%, 9.7% and 8.4%, respectively, from 2016 to 2017. For a

Table of Contents

discussion of changes in the unit sales prices of each of our principal product lines, see Overview Sales Volume, Prices and Product Mix above.

The sales volume of each of our major product categories, other than plates, decreased from 2016 to 2017, primarily due to the recognition of the sales volume of POSCO P&S, our former sales subsidiary that primarily engaged in sales of steel products produced by us, under the Trading Segment commencing March 2017 following its merger into POSCO Daewoo and, to a lesser extent, a reduction in our production due to facility revamping and rationalization of certain production facilities of Pohang Works and Gwangyang Works. The sales volume of silicon steel sheets, wire rods, cold rolled products, hot rolled products and stainless steel products produced by us and directly sold to external customers decreased by 15.1%, 14.7%, 11.3%, 9.8% and 5.1%, respectively, from 2016 to 2017. On the other hand, the sales volume of plates increased by 3.1% from 2016 to 2017. For a discussion of changes in sales volume of each of our principal product lines, see Item 4.B. Business Overview Major Products.

Total revenue from the Steel Segment, which includes internal revenue from inter-company transactions, increased by 11.0%, or Won 4,705 billion, from Won 42,906 billion in 2016 to Won 47,611 billion in 2017 as internal revenue from inter-company transactions increased by 8.2%, or Won 1,319 billion, from Won 16,062 billion in 2016 to Won 17,381 billion in 2017. Such increase primarily reflected, in addition to factors discussed above, an increase in the average unit sales price of the steel products sold to POSCO Daewoo.

Trading Segment. External revenue from the Trading Segment, which does not include internal revenue from inter-company transactions that are eliminated during consolidation, increased by 24.0%, or Won 4,028 billion, from Won 16,774 billion in 2016 to Won 20,802 billion in 2017 primarily due to the recognition of the sales of POSCO P&S under the Trading Segment commencing from March 2017 following its merger into POSCO Daewoo, as well as an increase in third-country trades by POSCO Daewoo and our other trading subsidiaries from 2016 to 2017, reflecting an increase in sales of slabs produced by CSP (Compania Siderurgica do Pecem) and PT. Krakatau POSCO as well as an increase in trading of petrochemical products.

Total revenue from the Trading Segment, which includes internal revenue from inter-company transactions, increased by 32.0%, or Won 8,458 billion, from Won 26,420 billion in 2016 to Won 34,878 billion in 2017 as internal revenue from inter-company transactions increased by 45.9%, or Won 4,430 billion, from Won 9,646 billion in 2016 to Won 14,076 billion in 2017 primarily due to an increase in our steel sales activities through trading subsidiaries.

Construction Segment. External revenue from the Construction Segment, which does not include internal revenue from inter-company transactions that are eliminated during consolidation, increased by 1.7%, or Won 119 billion, from Won 6,768 billion in 2016 to Won 6,887 billion in 2017 primarily due to a general increase in POSCO E&C's construction activities reflecting favorable market conditions in the domestic construction industry as well as an increase in demand for EPC projects in Korea and abroad.

Total revenue from the Construction Segment, which includes internal revenue from inter-company transactions, decreased by 2.6%, or Won 196 billion, from Won 7,482 billion in 2016 to Won 7,286 billion in 2017 as internal revenue from inter-company transactions decreased by 44.1%, or Won 315 billion, from Won 714 billion in 2016 to Won 399 billion in 2017. Such decrease in internal revenue reflected a decrease in the amount of construction activities for member companies of the POSCO Group in 2017 compared to 2016.

Others Segment. The Others Segment primarily includes power generation, coal chemistry and carbon materials production and information technology service. External revenue from the Others Segment, which does not include internal revenue from inter-company transactions that are eliminated

Table of Contents

during consolidation, increased by 1.4%, or Won 39 billion, from Won 2,697 billion in 2016 to Won 2,736 billion in 2017 primarily due to an increase in the unit price and sales volume of coal chemistry products of POSCO Chemtech Co., Ltd.

Total revenue from the Others Segment, which includes internal revenue from inter-company transactions, increased by 4.1%, or Won 208 billion, from Won 5,077 billion in 2016 to Won 5,285 billion in 2017 as internal revenue from inter-company transactions increased by 7.1% or Won 169 billion, from Won 2,380 billion in 2016 to Won 2,549 billion in 2017. Such increase primarily reflected an increase in inter-company sales related to replacement of control systems at Pohang Works by POSCO ICT Co., Ltd.

Cost of Sales

Our cost of sales increased by 12.2%, or Won 5,644 billion, from Won 46,271 billion in 2016 to Won 51,916 billion in 2017. The increase in cost of sales was primarily due to increases in the average price in Won terms of key raw materials that were used to manufacture our finished goods sold, which were partially offset by a decrease in our sales volume of steel products.

The following table presents a breakdown of our cost of sales by segment, prior to adjusting for inter-company transactions that are eliminated during consolidation and basis difference, and changes therein for 2016 and 2017.

	For the Year Ended December 31,		Changes	
	2016	2017 (In billions of Won)	2016 versus 2017 Amount	%
Steel Segment	37,437	41,479	4,042	10.8%
Trading Segment	25,090	33,388	8,298	33.1
Construction Segment	7,564	6,598	(966)	(12.8)
Others Segment	4,507	4,636	129	2.9
Consolidation adjustments	(28,204)	(33,802)	(5,598)	19.8
Basis difference ⁽¹⁾	(123)	(383)	(261)	211.4
Cost of sales	46,271	51,916	5,644	12.2%

(1) Basis difference is related to the difference in recognizing revenue and expenses of the Construction Segment in connection with development and sale of certain residential real estate between the report reviewed by the chief executive officer and the consolidated financial statements. See Notes 3 and 40 of Notes to Consolidated Financial Statements.

Steel Segment. The cost of sales of our Steel Segment, prior to consolidation adjustments, increased by 10.8%, or Won 4,042 billion, from Won 37,437 billion in 2016 to Won 41,479 billion in 2017 primarily due to increases in the average price in Won terms of key raw materials that were used to manufacture our finished goods sold, the impact of which was partially offset by a decrease in our sales volume of the principal steel products produced by us and sold to external and internal customers.

Trading Segment. The cost of sales of our Trading Segment, prior to consolidation adjustments, increased by 33.1%, or Won 8,298 billion, from Won 25,090 billion in 2016 to Won 33,388 billion in 2017 primarily due to the recognition of the cost of sales of POSCO P&S under the Trading Segment commencing March 2017 following its merger into POSCO Daewoo as well as an increase in cost of export and import products sold.

Construction Segment. The cost of sales of our Construction Segment, prior to consolidation adjustments, decreased by 12.8%, or Won 966 billion, from Won 7,564 billion in 2016 to Won 6,598 billion in 2017, reflecting the recognition of additional costs related to certain EPC projects abroad in 2016 compared to no such costs in 2017.

Table of Contents

Others Segment. The cost of sales of our Others Segment, prior to consolidation adjustments, increased by 2.9%, or Won 129 billion, from Won 4,507 billion in 2016 to Won 4,636 billion in 2017 primarily due to increases in the average price in Won terms of key raw materials used by POSCO Chemtech Co., Ltd. to produce coal chemistry products.

Gross Profit

Our gross profit increased by 24.0%, or Won 1,603 billion, from Won 6,668 billion in 2016 to Won 8,271 billion in 2017 primarily due to increases in gross profit of each of our four segments. Our gross margin increased from 12.6% in 2016 to 13.7% in 2017.

The following table presents our gross profit by segment, prior to adjusting for inter-company transactions that are eliminated during consolidation and basis difference, and changes therein for 2016 and 2017.

	For the Year Ended December 31,		Changes 2016 versus 2017	
	2016	2017 (In billions of Won)	Amount	%
Steel Segment	5,469	6,132	663	12.1%
Trading Segment	1,330	1,490	160	12.0
Construction Segment	(82)	688	770	N.A. ⁽²⁾
Others Segment	570	649	79	13.9
Consolidation adjustments	(598)	(603)	(5)	0.9
Basis difference ⁽¹⁾	(21)	(85)	(64)	298.4
Gross profit	6,668	8,271	1,603	24.0%

(1) Basis difference is related to the difference in recognizing revenue and expenses of the Construction Segment in connection with development and sale of certain residential real estate between the report reviewed by the chief executive officer and the consolidated financial statements. See Notes 3 and 40 of Notes to Consolidated Financial Statements.

(2) N.A. means not applicable.

Steel Segment. The gross profit of our Steel Segment, prior to consolidation adjustments, increased by 12.1%, or Won 663 billion, from Won 5,469 billion in 2016 to Won 6,132 billion in 2017 primarily due to an increase in the average unit sales price per ton of the principal steel products produced by us and sold to external and internal customers, which were partially offset by an increase in the average price in Won terms of coal and other key raw materials that were used to manufacture our finished steel products sold as well as a decrease in the overall sales volume of our principal steel products, as discussed above. The gross margin of our Steel Segment, which is gross profit as a percentage of total revenue prior to consolidation adjustments, increased from 12.7% in 2016 to 12.9% in 2017, as we focused our production and marketing efforts on selling higher margin, higher value added premium products in 2017.

Trading Segment. The gross profit of our Trading Segment, prior to consolidation adjustments, increased by 12.0%, or Won 160 billion, from Won 1,330 billion in 2016 to Won 1,490 billion in 2017, primarily due to the recognition of the cost of sales of POSCO P&S under the Trading Segment commencing March 2017 following its merger into POSCO Daewoo as well as an increase in gross profit of the Myanmar gas fields, which were partially offset by a decrease in trading margins resulting from weaker demand and falling prices for export and import products. The gross margin of our Trading Segment, prior to consolidation adjustments, decreased from 5.0% in 2016 to 4.3% in 2017.

Construction Segment. Our Construction Segment recorded gross loss of Won 82 billion in 2016 compared to gross profit of Won 688 billion in 2017, and the gross margin, prior to consolidation adjustments, improved from (1.1)% in 2016 to 9.4% in 2017, primarily due to our engagement in higher-margin construction activities in 2017 reflecting more favorable market conditions in the

Table of Contents

domestic residential construction industry as well as an increase in demand for EPC projects in Korea and abroad. In comparison, we recognized losses incurred in connection with overseas construction projects in 2016, in particular a loss of Won 157 billion related to delay in construction of the CSP-Companhia Siderurgia do Pecem steel plant complex in Brazil, as well as a decrease in the amount of relatively high-margin construction projects for member companies of the POSCO Group.

Others Segment. The gross profit of our Others Segment, prior to consolidation adjustments, increased by 13.9%, or Won 79 billion, from Won 570 billion in 2016 to Won 649 billion in 2017 primarily due to an increase in gross profits of POSCO Chemtech Co., Ltd. and POSCO Energy Corporation. The gross margin of our Others Segment increased from 11.2% in 2016 to 12.3% in 2017.

Selling and Administrative Expenses

The following table presents a breakdown of our selling and administrative expenses and changes therein for 2016 and 2017.

	For the Year Ended December 31,		Changes 2016 versus 2017	
	2016	2017	Amount	%
	(In billions of Won)			
Freight and custody expenses	1,342	1,337	(5)	(0.4)%
Sales commissions	94	116	22	22.8
Sales promotion	11	12	1	16.3
Sales insurance premium	31	37	6	16.5
Contract cost	49	23	(26)	(53.4)
Others	26	32	6	25.6
Total selling expenses	1,554	1,557	3	0.2
Wages and salaries	770	775	5	0.7%
Expenses related to post-employment benefits	201	79	(122)	(60.9)
Other employee benefits	177	160	(17)	(9.5)
Depreciation	103	97	(6)	(6.0)
Amortization	140	146	6	4.8
Taxes and public dues	79	73	(6)	(7.7)
Rental	82	70	(12)	(14.7)
Advertising	86	120	34	39.0
Research and development	121	126	5	4.3
Service fees	201	193	(8)	(3.8)
Bad debt expenses	165	174	9	5.2
Others	167	164	(3)	(1.7)
Total administrative expenses	2,292	2,177	(115)	(5.0)
Total selling and administrative expenses	3,845	3,734	(111)	(2.9)

Our selling and administrative expenses decreased by 2.9%, or Won 111 billion, from Won 3,845 billion in 2016 to Won 3,734 billion in 2017 primarily due to decreases in expenses related to post-employment benefits, contract cost, other employment benefits and rental expenses, which were partially offset by increases in advertising expenses and sales commissions. Such factors were principally attributable to the following:

Our expenses related to post-employment benefits decreased by 60.9%, or Won 122 billion, from Won 201 billion in 2016 to Won 79 billion in 2017 primarily due to expenses related to the early retirement programs of POSCO E&C and POSCO Engineering Co., Ltd. in 2016 compared to no such programs in 2017.

Our contract cost decreased by 53.4%, or Won 26 billion, from Won 49 billion in 2016 to Won 23 billion in 2017 primarily due to a decrease in cost related to unsuccessful project bids.

Table of Contents

Our other employment benefits decreased by 9.5%, or Won 17 billion, from Won 177 billion in 2016 to Won 160 billion in 2017 primarily due to a decrease in employee incentive bonuses in 2017.

Our rental expenses decreased by 14.7%, or Won 12 billion, from Won 82 billion in 2016 to Won 70 billion in 2017 primarily due to decreases in costs related to vehicle leases and leases related to information technology infrastructure.

Our advertising expenses increased by 39.0%, or Won 34 billion, from Won 86 billion in 2016 to Won 120 billion in 2017 primarily due to an increase in our general advertising activities related to our sponsorship of the 2018 PyeongChang Olympic Games.

Our sales commissions increased by 22.8%, or Won 22 billion, from Won 94 billion in 2016 to Won 116 billion in 2017 primarily reflecting a general increase in commissions related to increased sales revenue.

Other Operating Income and Expenses

The following table presents a breakdown of our other operating income and changes therein for 2016 and 2017.

	For the Year Ended December 31,		Changes 2016 versus 2017	
	2016	2017	Amount	%
	(In billions of Won)			
Gain on disposal of assets held for sale	23	1	(22)	(94.9)%
Gain on disposal of investments in subsidiaries, associates and joint ventures	23	82	59	251.0
Gain on disposal of property, plant and equipment	24	32	8	34.9
Gain on disposal of intangible assets	1	23	22	3,386.0
Recovery of allowance for other doubtful accounts	13	3	(10)	(78.3)
Gain on valuation of firm commitment		56	56	N.A. ⁽¹⁾
Gain on insurance proceeds	22	6	(16)	(73.8)
Others	109	248	138	127.0
Total other operating income	215	451	236	109.7

(1) N.A. means not applicable.

Our other operating income increased by 109.7%, or Won 236 billion, from Won 215 billion in 2016 to Won 451 billion in 2017 primarily due to our recognition of a tax refund of Won 133 billion in 2017 as well as increases in gain on disposal of investments in subsidiaries, associates and joint ventures and gain on valuation of firm commitment, which were partially offset by a decrease in gain on disposal of assets held for sale. Such factors were principally attributable to the following:

In 2017, we recognized a tax refund of Won 133 billion, which we categorized in others, related to a successful appeal of a tax audit, compared to no such refund in 2016.

Our gain on disposal of investments in subsidiaries, associates and joint ventures increased by 251.0%, or Won 59 billion, from Won 23 billion in 2016 to Won 82 billion in 2017 primarily due to an increase in disposition of our interests in some of our

Edgar Filing: POSCO - Form 20-F

subsidiaries and associates as part of our reorganization efforts.

We recognized gain on valuation of firm commitment of Won 56 billion in 2017 compared to no such gain in 2016, reflecting our decision to adopt hedge accounting starting in 2017, pursuant to which gain on valuation of firm commitment contracts is recognized.

Our gain on disposal of assets held for sale decreased by 94.9%, or Won 22 billion, from Won 23 billion in 2016 to Won 1 billion in 2017. We recognized a gain of Won 23 billion on

Table of Contents

disposal of assets held for sale in 2016 primarily from the disposal of our 80.0% interest in POSCO LED Co., Ltd., compared to no gain of such magnitude from our disposal of assets held for sale in 2017.

The following table presents a breakdown of our other operating expenses and changes therein for 2016 and 2017.

	For the Year Ended December 31,		Changes 2016 versus 2017	
	2016	2017	Amount	%
	(In billions of Won)			
Impairment losses on assets held for sale	25		(25)	(100.0)%
Loss on disposal of investments in subsidiaries, associates and joint ventures	22	20	2	(11.2)
Loss on disposal of property, plant and equipment	87	151	64	74.7
Impairment losses on property, plant and equipment	197	117	(80)	(40.5)
Impairment losses on goodwill and intangible assets	128	168	40	31.4
Other bad debt expenses	50	101	51	100.9
Loss on valuation of firm commitment		43	43	N.A. ⁽¹⁾
Idle tangible assets expenses	6	10	4	63.0
Increase to provisions	53	34	(19)	(36.0)
Donations	44	51	7	17.4
Others	144	97	(48)	(33.2)
Total other operating expenses	756	792	36	4.8

(1) N.A. means not applicable.

Our other operating expenses increased by 4.8%, or Won 36 billion, from Won 756 billion in 2016 to Won 792 billion in 2017, primarily due to increases in our loss on disposal of property, plant and equipment, other bad debt expenses, loss on valuation of firm commitment and impairment losses on goodwill and intangible assets, which were partially offset by a decrease in impairment losses on property, plant and equipment and impairment losses on assets held for sale. Such factors were principally attributable to the following:

Our loss on disposal of property, plant and equipment increased by 74.7%, or Won 64 billion, from Won 87 billion in 2016 to Won 151 billion in 2017 primarily due to our blast furnace upgrading project at Pohang Works.

Our other bad debt expenses increased by 100.9%, or Won 51 billion, from Won 50 billion in 2016 to Won 101 billion in 2017. In 2016, our other bad debt expenses related primarily to financing of the Dongtan Metapolis project of POSCO E&C. In 2017, our bad debt expenses related primarily to joint venture projects of POSCO E&C.

We recognized loss on valuation of firm commitment of Won 43 billion in 2017 compared to no such loss in 2016, reflecting our decision to adopt hedge accounting starting in 2017, pursuant to which loss on valuation of firm commitment contracts is recognized.

Our impairment losses on goodwill and intangible assets increased by 31.4%, or Won 40 billion, from Won 128 billion in 2016 to Won 168 billion in 2017. In 2016, our impairment losses on goodwill and intangible assets related primarily to impairment losses on goodwill of Won 83 billion relating to POSCO Engineering Co., Ltd. In addition, we recognized full impairment losses of Won 12 billion relating to SANTOS CMI S.A. In 2017, our impairment losses on goodwill and intangible assets related primarily to losses of POSCO Engineering, which merged into POSCO E&C.

Edgar Filing: POSCO - Form 20-F

Our impairment losses on property, plant and equipment decreased by 40.5%, or Won 80 billion, from Won 197 billion in 2016 to Won 117 billion in 2017. In 2016, we recognized impairment losses on property, plant and equipment of Won 62 billion related to

Table of Contents

continuing operating loss of the fuel cell business of POSCO Energy. In addition, we recorded Won 58 billion of impairment losses in 2016 related to disposal plans of certain assets. In 2017, our impairment losses on property, plant and equipment related primarily to SkyCube operated by Suncheon Eco Trans Co., Ltd. as well as disposal plans regarding certain assets.

We recognized impairment losses on assets held for sale of Won 25 billion in 2016 related primarily to a decrease in value of a building in Songdo, compared to no impairment losses on assets held for sale in 2017.

Operating Profit

Due to the factors described above, our operating profit increased by 83.8%, or Won 1,914 billion, from Won 2,282 billion in 2016 to Won 4,196 billion in 2017. Our operating margin increased from 4.3% in 2016 to 7.0% in 2017.

Share of Profit (Loss) of Equity-Accounted Investees

We recorded a net loss for our proportionate share of equity-accounted investees of Won 89 billion in 2016 compared to a net gain for our proportionate share of equity-accounted investees of Won 11 billion in 2017. In 2016, we recognized a net loss for our proportionate share of equity-accounted investees of Won 89 billion primarily due to our share of losses of POSCO Plantec Co., Ltd. (Won 172 billion) and DMSA/AMSA (Won 60 billion), which were partially offset by our share of profits of CSP-Compania Siderurgica do Pecem (Won 117 billion) and South-East Asia Gas Pipeline Company Ltd. (Won 47 billion). In 2017, we recognized a net gain for our proportionate share of equity-accounted investees of Won 11 billion primarily due to our share of gains of KOBRASCO (Won 56 billion), Roy Hill Holdings Pty Ltd. (Won 46 billion), South-East Asia Gas Pipeline Company Ltd. (Won 43 billion) and POSCO Mitsubishi Carbon Technology Ltd. (Won 28 billion), which were partially offset by our share of loss of CSP-Compania Siderurgica do Pecem (Won 148 billion). See Note 11 of Notes to Consolidated Financial Statements.

Table of Contents**Finance Income and Finance Costs**

The following table presents a breakdown of our finance income and costs and changes therein for 2016 and 2017.

	For the Year Ended December 31,		Changes 2016 versus 2017	
	2016	2017	Amount	%
	(In billions of Won)			
Interest income	182	212	30	16.4%
Dividend income	41	93	52	126.7
Gain on foreign currency transactions	1,033	786	(247)	(23.9)
Gain on foreign currency translations	378	564	186	49.3
Gain on derivatives transactions	317	211	(106)	(33.4)
Gain on valuation of derivatives	147	65	(82)	(56.0)
Gain on disposals of available-for-sale financial assets	131	426	295	225.4
Others	4	16	13	337.6
Total finance income	2,232	2,373	141	6.3
Interest expenses	659	653	(6)	(0.9)%
Loss on foreign currency transactions	1,147	757	(391)	(34.0)
Loss on foreign currency translations	405	423	17	4.3
Loss on derivatives transactions	338	236	(102)	(30.2)
Loss on valuation of derivatives	163	226	64	39.2
Impairment losses on available-for-sale financial assets	248	123	(125)	(50.4)
Others	53	66	12	22.7
Total finance costs	3,014	2,484	(530)	(17.6)

We recognized a net loss on foreign currency translations of Won 28 billion in 2016 compared to a net gain on foreign currency translations of Won 141 billion in 2017, and we recorded a net loss on foreign currency transactions of Won 115 billion in 2016 compared to a net gain on foreign currency transactions of Won 29 billion in 2017, as the Won depreciated against the Dollar in 2016 but appreciated in 2017. In terms of the market average exchange rates announced by Seoul Money Brokerage Services, Ltd., the Won depreciated from Won 1,172.0 to US\$1.00 as of December 31, 2015 to Won 1,208.5 to US\$1.00 as of December 31, 2016 but appreciated to Won 1,071.4 to US\$1.00 as of December 31, 2017. Against such fluctuations, our net loss on valuation of derivatives increased by 939.2%, or Won 146 billion, from Won 16 billion in 2016 to Won 162 billion in 2017, and our net loss on transactions of derivatives increased by 17.2%, or Won 4 billion, from Won 22 billion in 2016 to Won 26 billion in 2017.

Our gain on disposal of available-for-sale financial assets increased by 225.4%, or Won 295 billion, from Won 131 billion in 2016 to Won 426 billion in 2017. In 2016, our gain on disposals of available-for-sale financial assets related primarily to disposals of our interests in Hana Financial Group Inc. and Shinhan Financial Group Co., Ltd. In 2017, our gain on disposal of available-for-sale financial assets related primarily to disposals of our interests in Hyundai Heavy Industries Co., Ltd. and KB Financial Group Inc.

Our impairment losses on available-for-sale financial assets decreased by 50.4%, or Won 125 billion, from Won 248 billion in 2016 to Won 123 billion in 2017. In 2016, our impairment loss related primarily to a significant and prolonged decline in the fair value of shares of Nippon Steel & Sumitomo Metal Corporation below cost. In 2017, our impairment loss related primarily to a significant and prolonged decline in the fair value of shares of Congonhas Minérios S.A. below cost.

Our dividend income increased by 126.7%, or Won 52 billion, from Won 41 billion in 2016 to Won 93 billion in 2017 primarily due to increases in dividends from Nippon Steel & Sumitomo Metal Corporation and KB Financial Group Inc.

Table of Contents

Our interest income increased by 16.4%, or Won 30 billion, from Won 182 billion in 2016 to Won 212 billion in 2017 primarily due to a general increase in interest rates in Korea in 2017.

Profit before Income Taxes

Due to the factors described above, our profit before income taxes increased by 190.1%, or Won 2,683 billion, from Won 1,412 billion in 2016 to Won 4,095 billion in 2017.

The following table presents our profit and loss by segment, prior to adjusting for goodwill and corporate fair-value adjustments, elimination of inter-segment profits, income tax expense and basis difference, and changes therein for 2016 and 2017.

	For the Year Ended December 31,		Changes 2016 versus 2017	
	2016	2017	Amount	%
	(In billions of Won)			
Steel Segment	1,511	2,791	1,279	84.7%
Trading Segment	53	113	59	111.6
Construction Segment	(1,404)	25	1,428	N.A. ⁽¹⁾
Others Segment	(26)	233	259	N.A. ⁽¹⁾
Goodwill and corporate fair value adjustments	(123)	(84)	39	N.A. ⁽¹⁾
Elimination of inter-segment profits	1,036	(103)	(1,139)	N.A. ⁽¹⁾
Income tax expense	385	1,206	822	213.6
Basis difference ⁽²⁾	(21)	(85)	(63)	298.4
Profit before income taxes	1,412	4,095	2,683	190.1

(1) N.A. means not applicable.

(2) Basis difference is related to the difference in recognizing revenue and expenses of the Construction Segment in connection with development and sale of certain residential real estate between the report reviewed by the chief executive officer and the consolidated financial statements. See Notes 3 and 40 of Notes to Consolidated Financial Statements.

Income Tax Expense

Our income tax expense increased by 212.4%, or Won 806 billion, from Won 380 billion in 2016 to Won 1,186 billion in 2017. Our effective tax rate increased from 26.9% in 2016 to 29.0% in 2017 primarily due to the effect of tax rate change of Won 176 billion in 2017 (that resulted in an increase in effective tax rate of 4.3%). In 2017, the Government announced a revision of tax law which includes new highest corporate income tax rate of 25% for taxable income in excess of Won 300 billion from fiscal year 2018 compared to 22% prior to such change. Such impact was offset in part by a decrease in tax related to investments in subsidiaries, associates and joint ventures from Won 77 billion in 2016 to Won 55 billion in 2017 (that resulted in a decrease in effective tax rate of 4.1%). See Note 35 of Notes to Consolidated Financial Statements.

Profit

Due to the factors described above, our profit increased by 181.9%, or Won 1,877 billion, from Won 1,032 billion in 2016 to Won 2,909 billion in 2017.

Table of Contents**Operating Results 2015 Compared to 2016**

The following table presents our income statement information and changes therein for 2015 and 2016.

	For the Year Ended December 31,		Changes 2015 versus 2016	
	2015	2016	Amount	%
	(In billions of Won)			
Revenue	58,522	52,940	(5,582)	(9.5)%
Cost of sales	52,018	46,271	(5,747)	(11.0)
Gross profit	6,504	6,668	164	2.5
Administrative expenses	2,395	2,292	(104)	(4.3)
Selling expenses	1,729	1,554	(175)	(10.1)
Other operating income	549	215	(334)	(60.8)
Other operating expenses	1,442	756	(687)	(47.6)
Operating profit	1,486	2,282	796	53.6
Share of loss of equity-accounted investees	506	89	(417)	(82.5)
Finance income	2,557	2,232	(325)	(12.7)
Finance costs	3,387	3,014	(373)	(11.0)
Profit before income tax	150	1,412	1,261	838.9
Income tax expense	267	380	113	42.4
Profit (loss)	(116)	1,032	1,148	N.A. ⁽¹⁾
Profit for the period attributable to owners of the controlling company	171	1,355	1,183	690.0
Loss for the period attributable to non-controlling interests	(288)	(323)	(35)	12.2

(1) N.A. means not applicable.

Table of Contents**Revenue**

The following table presents our revenue by segment and changes therein for 2015 and 2016.

	For the Year Ended December 31,		Changes 2015 versus 2016	
	2015	2016	Amount	%
	(In billions of Won)			
Steel Segment:				
External revenue	28,293	26,844	(1,449)	(5.1)%
Internal revenue	16,544	16,062	(482)	(2.9)
Total revenue from Steel Segment	44,837	42,906	(1,931)	(4.3)
Trading Segment:				
External revenue	18,315	16,774	(1,541)	(8.4)
Internal revenue	8,692	9,646	954	11.0
Total revenue from Trading Segment	27,008	26,420	(587)	(2.2)
Construction Segment:				
External revenue	8,516	6,768	(1,747)	(20.5)
Internal revenue	1,352	714	(638)	(47.2)
Total revenue from Construction Segment	9,868	7,482	(2,386)	(24.2)
Others Segment:				
External revenue	3,068	2,697	(371)	(12.1)
Internal revenue	2,691	2,380	(311)	(11.6)
Total revenue from Others Segment	5,760	5,077	(683)	(11.9)
Total revenue prior to consolidation adjustments and basis difference	87,472	81,885	(5,589)	(6.4)
Consolidation adjustments	(29,279)	(28,802)	478	(1.6)
Basis difference ⁽¹⁾	330	(144)	(474)	N.A. ⁽²⁾
Revenue	58,522	52,940	(5,582)	(9.5)

(1) Basis difference is related to the difference in recognizing revenue and expenses of the Construction Segment in connection with development and sale of certain residential real estate between the report reviewed by the chief executive officer and the consolidated financial statements. See Notes 3 and 40 of Notes to Consolidated Financial Statements.

(2) N.A. means not applicable.

Our revenue decreased by 9.5%, or Won 5,582 billion, from Won 58,522 billion in 2015 to Won 52,940 billion in 2016 due to decreases in external revenues from each of our four segments. Specifically:

Steel Segment. External revenue from the Steel Segment, which does not include internal revenue from inter-company transactions that are eliminated during consolidation, decreased by 5.1%, or Won 1,449 billion, from Won 28,293 billion in 2015 to Won 26,844 billion primarily due to a decrease in the average unit sales price per ton of the principal steel products produced by us and directly sold to external customers,

Edgar Filing: POSCO - Form 20-F

which was offset in part by an increase in our sales volume of the steel products produced by us and directly sold to external customers (including miscellaneous steel products not included in any of our major product categories). The weighted average unit sales price per ton of the principal steel products produced by us and directly sold to external customers decreased by 6.6% from Won 798,217 per ton in 2015 to Won 745,476 per ton in 2016, while the overall sales volume of the steel products produced by us and directly sold to external customers (including miscellaneous steel products) increased by 4.1% from 31.6 million tons in 2015 to 32.9 million tons in 2016. Such factors were principally attributable to the following:

The unit sales prices in Won of each of our major product categories decreased from 2015 to 2016. Silicon steel sheets, wire rods, stainless steel products, hot rolled products, plates and

Table of Contents

cold rolled products produced by us and directly sold to external customers decreased by 17.0%, 11.9%, 9.2%, 7.6%, 5.0% and 4.6%, respectively, from 2015 to 2016. For a discussion of changes in the unit sales prices of each of our principal product lines, see Overview Sales Volume, Prices and Product Mix above.

The sales volume of each of our major product categories increased from 2015 to 2016. The sales volume of stainless steel products, cold rolled products, plates, wire rods, hot rolled products and silicon steel products produced by us and directly sold to external customers increased by 9.8%, 6.0%, 3.5%, 2.6%, 1.1% and 0.2%, respectively, from 2015 to 2016. For a discussion of changes in sales volume of each of our principal product lines, see Item 4.B. Business Overview Major Products.

Total revenue from the Steel Segment, which includes internal revenue from inter-company transactions, decreased by 4.3%, or Won 1,931 billion, from Won 44,837 billion in 2015 to Won 42,906 billion in 2016 as internal revenue from inter-company transactions decreased by 2.9%, or Won 482 billion, from Won 16,544 billion in 2015 to Won 16,062 billion in 2016. Such decrease primarily reflected, in addition to factors discussed above, a decrease in the average unit sales price of the steel products sold to our sales subsidiaries.

Trading Segment. External revenue from the Trading Segment, which does not include internal revenue from inter-company transactions that are eliminated during consolidation, decreased by 8.4%, or Won 1,541 billion, from Won 18,315 billion in 2015 to Won 16,774 billion in 2016 primarily due to a decrease in third-country trades by POSCO Daewoo and our other trading subsidiaries from 2015 to 2016, reflecting market conditions related to the deterioration of the global economy that has been characterized by weaker demand and falling prices for export and import products, reduced trading volume and intense competition among trading companies.

Total revenue from the Trading Segment, which includes internal revenue from inter-company transactions, decreased by 2.2%, or Won 587 billion, from Won 27,008 billion in 2015 to Won 26,420 billion in 2016 as internal revenue from inter-company transactions increased by 11.0%, or Won 954 billion, from Won 8,692 billion in 2015 to Won 9,646 billion in 2016 primarily due to an increase in our steel sales activities through trading subsidiaries.

Construction Segment. External revenue from the Construction Segment, which does not include internal revenue from inter-company transactions that are eliminated during consolidation, decreased by 20.5%, or Won 1,747 billion, from Won 8,516 billion in 2015 to Won 6,768 billion in 2016 primarily due to a general decrease in POSCO E&C's construction activities reflecting weakening of market conditions in the domestic construction industry as well as a decrease in demand for EPC projects in Korea and abroad.

Total revenue from the Construction Segment, which includes internal revenue from inter-company transactions, decreased by 24.2%, or Won 2,386 billion, from Won 9,868 billion in 2015 to Won 7,482 billion in 2016 as internal revenue from inter-company transactions decreased by 47.2%, or Won 638 billion, from Won 1,352 billion in 2015 to Won 714 billion in 2016. Such decrease in internal revenue reflected a decrease in the amount of construction activities for member companies of the POSCO Group in 2016 compared to 2015.

Others Segment. The Others Segment primarily includes power generation, LNG production, network and system integration, logistics and magnesium coil and sheet production. External revenue from the Others Segment, which does not include internal revenue from inter-company transactions that are eliminated during consolidation, decreased by 12.1%, or Won 371 billion, from Won 3,068 billion in 2015 to Won 2,697 billion in 2016 primarily due to a decrease in revenue of POSCO Energy Corporation reflecting decreases in the unit price as well as volume of electric power sold.

Table of Contents

Total revenue from the Others Segment, which includes internal revenue from inter-company transactions, decreased by 11.9%, or Won 683 billion, from Won 5,760 billion in 2015 to Won 5,077 billion in 2016 as internal revenue from inter-company transactions decreased by 11.6% or Won 311 billion, from Won 2,691 billion in 2015 to Won 2,380 billion in 2016. Such decrease primarily reflected a decrease in inter-company sales related to a general reduction in investments made by the POSCO Group in 2016.

Cost of Sales

Our cost of sales decreased by 11.0%, or Won 5,747 billion, from Won 52,018 billion in 2015 to Won 46,271 billion in 2016. The decrease in cost of sales was primarily due to decreases in the average price in Won terms of key raw materials that were used to manufacture our finished goods sold, as well as a decrease in construction activities as discussed above, which were partially offset by an increase in our sales volume of steel products.

The following table presents a breakdown of our cost of sales by segment, prior to adjusting for inter-company transactions that are eliminated during consolidation and basis difference, and changes therein for 2015 and 2016.

	For the Year Ended December 31,		Changes	
	2015	2016	2015 versus 2016	
	(In billions of Won)		Amount	%
Steel Segment	40,381	37,437	(2,944)	(7.3)%
Trading Segment	25,563	25,090	(473)	(1.8)
Construction Segment	9,248	7,564	(1,685)	(18.2)
Others Segment	5,158	4,507	(651)	(12.6)
Consolidation adjustments	(28,692)	(28,204)	488	(1.7)
Basis difference ⁽¹⁾	360	(123)	(483)	N.A. ⁽²⁾
Cost of sales	52,018	46,271	(5,747)	(11.0)%

(1) Basis difference is related to the difference in recognizing revenue and expenses of the Construction Segment in connection with development and sale of certain residential real estate between the report reviewed by the chief executive officer and the consolidated financial statements. See Notes 3 and 40 of Notes to Consolidated Financial Statements.

(2) N.A. means not applicable.

Steel Segment. The cost of sales of our Steel Segment, prior to consolidation adjustments, decreased by 7.3%, or Won 2,944 billion, from Won 40,381 billion in 2015 to Won 37,437 billion in 2016 primarily due to decreases in the average price in Won terms of key raw materials that were used to manufacture our finished goods sold, the impact of which was partially offset by an increase in our sales volume of the principal steel products produced by us and sold to external and internal customers.

Trading Segment. The cost of sales of our Trading Segment, prior to consolidation adjustments, decreased by 1.8%, or Won 473 billion, from Won 25,563 billion in 2015 to Won 25,090 billion in 2016 primarily due to decreases in cost of export and import products sold as well as our trading volumes, the impact of which was partially offset by an increase in the production costs related to gas produced at the Myanmar gas fields and sold to customers.

Construction Segment. The cost of sales of our Construction Segment, prior to consolidation adjustments, decreased by 18.2%, or Won 1,685 billion, from Won 9,248 billion in 2015 to Won 7,564 billion in 2016 in line with the decrease in the level of construction activities described above.

Others Segment. The cost of sales of our Others Segment, prior to consolidation adjustments, decreased by 12.6%, or Won 651 billion, from Won 5,158 billion in 2015 to Won 4,507 billion in 2016

Table of Contents

primarily due to decreases in the average price in Won terms of key raw materials used to produce electricity as well as the volume of electricity produced and sold by POSCO Energy Corporation.

Gross Profit

Our gross profit increased by 2.5%, or Won 164 billion, from Won 6,504 billion in 2015 to Won 6,668 billion in 2016 primarily due to an increase in gross profit of our Steel Segment, which was partially offset by decreases in gross profit of our Construction Segment, Trading Segment and Others Segment. Our gross margin increased from 11.1% in 2015 to 12.6% in 2016.

The following table presents our gross profit by segment, prior to adjusting for inter-company transactions that are eliminated during consolidation and basis difference, and changes therein for 2015 and 2016.

	For the Year Ended December 31,		Changes 2015 versus 2016	
	2015	2016	Amount	%
	(In billions of Won)			
Steel Segment	4,456	5,469	1,013	22.7%
Trading Segment	1,445	1,330	(115)	(7.9)
Construction Segment	619	(82)	(701)	N.A. ⁽²⁾
Others Segment	601	570	(32)	(5.3)
Consolidation adjustments	(587)	(598)	(11)	1.9
Basis difference ⁽¹⁾	(30)	(21)	9	(30.0)
Gross profit	6,504	6,668	164	2.5%

(1) Basis difference is related to the difference in recognizing revenue and expenses of the Construction Segment in connection with development and sale of certain residential real estate between the report reviewed by the chief executive officer and the consolidated financial statements. See Notes 3 and 40 of Notes to Consolidated Financial Statements.

(2) N.A. means not applicable.

Steel Segment. The gross profit of our Steel Segment, prior to consolidation adjustments, increased by 22.7%, or Won 1,013 billion, from Won 4,456 billion in 2015 to Won 5,469 billion in 2016 primarily due to a decrease in the average price in Won terms of coal and other key raw materials that were used to manufacture our finished steel products sold as well as an increase in the overall sales volume of our principal steel products, which were partially offset by a decrease in the average unit sales price per ton of the principal steel products produced by us and sold to external and internal customers, as discussed above. The gross margin of our Steel Segment, which is gross profit as a percentage of total revenue prior to consolidation adjustments, increased from 9.9% in 2015 to 12.7% in 2016, as we focused our production and marketing efforts on selling higher margin, higher value added premium products in 2016.

Trading Segment. The gross profit of our Trading Segment, prior to consolidation adjustments, decreased by 7.9%, or Won 115 billion, from Won 1,445 billion in 2015 to Won 1,330 billion in 2016, reflecting a decrease in trading margins from weaker demand and falling prices for export and import products, which was partially offset by an increase in gross profit of the Myanmar gas fields. The gross margin of our Trading Segment, prior to consolidation adjustments, decreased from 5.3% in 2015 to 5.0% in 2016.

Construction Segment. Our Construction Segment recorded gross profit of Won 619 billion in 2015 compared to gross loss of Won 82 billion in 2016, and the gross margin decreased from 6.3% in 2015 to (1.1)% in 2016, primarily due to losses incurred in connection with overseas construction projects, in particular a loss of Won 157 billion in 2016 related to delay in construction of the CSP-Companhia Siderurgica do Pecem steel plant complex in Brazil, as well as a decrease in the amount of relatively high-margin construction projects for member companies of the POSCO Group.

Table of Contents

Weakening of market conditions in the domestic construction industry in recent years, particularly relating to the public sector, resulted in an increase in competition.

Others Segment. The gross profit of our Others Segment, prior to consolidation adjustments, decreased by 5.3%, or Won 32 billion, from Won 601 billion in 2015 to Won 570 billion in 2016 primarily due to decreases in gross profit of POSCO Energy Corporation. Despite such decreases, gross margin increased from 10.4% in 2015 to 11.2% in 2016 due to the larger decrease in revenue as discussed above.

Selling and Administrative Expenses

The following table presents a breakdown of our selling and administrative expenses and changes therein for 2015 and 2016.

	For the Year Ended December 31,		Changes 2015 versus 2016	
	2015	2016	Amount	%
	(In billions of Won)			
Freight and custody expenses	1,532	1,342	(190)	(12.4)%
Sales commissions	80	94	14	17.7
Sales promotion	22	11	(12)	(52.5)
Sales insurance premium	31	31	1	2.3
Contract cost	38	49	11	28.8
Others	25	26	0	1.7
Total selling expenses	1,729	1,554	(175)	(10.1)
Wages and salaries	811	770	(41)	(5.1)%
Expenses related to post-employment benefits	87	201	114	130.2
Other employee benefits	194	177	(17)	(8.9)
Depreciation and amortization	274	243	(31)	(11.3)
Taxes and public dues	74	79	5	6.2
Rental	120	82	(38)	(31.6)
Advertising	91	86	(5)	(5.0)
Research and development	136	121	(15)	(11.0)
Service fees	219	201	(18)	(8.1)
Bad debt expenses	190	165	(24)	(12.9)
Others	200	167	(33)	(16.5)
Total administrative expenses	2,395	2,292	(104)	(4.3)
Total selling and administrative expenses	4,124	3,845	(279)	(6.8)

Our selling and administrative expenses decreased by 6.8%, or Won 279 billion, from Won 4,124 billion in 2015 to Won 3,845 billion in 2016 primarily due to decreases in freight and custody expenses, wages and salaries and rental expenses, which were partially offset by an increase in expenses related to post-employment benefits. Such factors were principally attributable to the following:

Our freight and custody expenses decreased by 12.4%, or Won 190 billion, from Won 1,532 billion in 2015 to Won 1,342 billion in 2016 primarily due to a decrease in freight rates, which was offset in part by an increase in our export volume.

Our wages and salaries decreased by 5.1%, or Won 41 billion, from Won 811 billion in 2015 to Won 770 billion in 2016 primarily due to a decrease in the number of administrative personnel, including decrease related to the early retirement programs of POSCO E&C and POSCO Engineering in 2016.

Edgar Filing: POSCO - Form 20-F

Our rental expenses decreased by 31.6%, or Won 38 billion, from Won 120 billion in 2015 to Won 82 billion in 2016 primarily due to decreases in payments for data communications lease lines and lease cars.

Table of Contents

Our expenses related to post-employment benefits increased by 130.2%, or Won 114 billion, from Won 87 billion in 2015 to Won 201 billion in 2016 primarily due to expenses related to the early retirement programs of POSCO E&C and POSCO Engineering Co., Ltd.

Other Operating Income and Expenses

The following table presents a breakdown of our other operating income and changes therein for 2015 and 2016.

	For the Year Ended December 31,		Changes 2015 versus 2016	
	2015	2016	Amount	%
	(In billions of Won)			
Gain on disposal of assets held for sale	228	23	(205)	(89.9)%
Gain on disposal of investments in subsidiaries, associates and joint ventures	89	23	(65)	(73.7)
Gain on disposal of property, plant and equipment	23	24	1	4.8
Recovery of allowance for other doubtful accounts	10	13	2	21.1
Gain on insurance proceeds	15	22	7	49.6
Others	184	110	(74)	(40.4)
Total other operating income	549	215	(334)	(60.8)

Our other operating income decreased by 60.8%, or Won 334 billion, from Won 549 billion in 2015 to Won 215 billion in 2016 primarily due to decreases in gain on disposal of assets held for sale and gain on disposal of investments in subsidiaries, associates and joint ventures. Our gain on disposal of assets held for sale decreased by 89.9%, or Won 205 billion, from Won 228 billion in 2015 to Won 23 billion in 2016. In 2015, we recognized a gain of Won 228 billion on disposal of assets held for sale primarily from the disposal of our 52.2% interest in SeAH Changwon Integrated Special Steel (formerly POSCO Specialty Steel Co., Ltd.) and our shares in POSFINE Co., Ltd. In 2016, we recognized a gain of Won 23 billion on disposal of assets held for sale primarily from the disposal of our 80.0% interest in POSCO LED Co., Ltd. Our gain on disposal of investments in subsidiaries, associates and joint ventures decreased by 73.7%, or Won 65 billion, from Won 89 billion in 2015 to Won 23 billion in 2016 primarily due to a decrease in disposition of our interests in some of our subsidiaries and associates as part of our reorganization efforts.

The following table presents a breakdown of our other operating expenses and changes therein for 2015 and 2016.

	For the Year Ended December 31,		Changes 2015 versus 2016	
	2015	2016	Amount	%
	(In billions of Won)			
Impairment losses on assets held for sale	134	25	(109)	(81.4)%
Loss on disposal of assets held for sale	190	0	(190)	(99.9)
Loss on disposal of investments in subsidiaries, associates and joint ventures	19	22	4	18.4
Loss on disposal of property, plant and equipment	102	87	(15)	(14.9)
Impairment losses on property, plant and equipment	136	197	61	44.5
Impairment losses on goodwill and intangible assets	161	128	(34)	(20.8)
Other bad debt expenses	158	50	(108)	(68.2)
Idle tangible assets expenses	13	6	(6)	(49.6)
Impairment losses on other non-current assets	12	10	(2)	(19.3)
Increase to provisions	18	53	35	188.4
Donations	63	44	(19)	(30.4)
Others ⁽¹⁾	436	133	(302)	(69.4)
Total other operating expenses	1,442	756	(687)	(47.6)

(1) Includes lawsuit settlement expenses of Won 299 billion in 2015.

Table of Contents

Our other operating expenses decreased by 47.6%, or Won 687 billion, from Won 1,442 billion in 2015 to Won 756 billion in 2016, primarily due to our recognition of lawsuit settlement expenses related to the litigation with Nippon Steel & Sumitomo Metal Corporation in 2015 as well as decreases in our loss on disposal of assets held for sale, impairment losses on assets held for sale, other bad debt expenses and impairment losses on goodwill and intangible assets, which were partially offset by an increase in impairment losses on property, plant and equipment. Such factors were principally attributable to the following:

We recognized lawsuit settlement expenses of Won 299 billion in 2015 related to the litigation with Nippon Steel & Sumitomo Metal Corporation, compared to no such expenses in 2016.

Our loss on disposal of assets held for sale decreased by 99.9%, or Won 190 billion, from Won 190 billion in 2015 to Won 0.3 billion in 2016 primarily due to the loss related to disposal of our investment in Nacional Minerios S.A. in 2015.

Our impairment losses on assets held for sale decreased by 81.4%, or Won 109 billion, from Won 134 billion in 2015 to Won 25 billion in 2016. In 2015, our impairment losses related primarily to classification of our investment in Nacional Minerios S.A. as assets held for sale and impairment losses from the fair value of such investment less cost to sell being below the carrying amount. In 2016, our impairment losses related primarily to a decrease in value of a building in Songdo.

Our other bad debt expenses decreased by 68.2%, or Won 108 billion, from Won 158 billion in 2015 to Won 50 billion in 2016. In 2015, our other bad debt expenses primarily related to POSCO Plantec's receivables in Iran and POSCO Daewoo's receivables in Kazakhstan. In 2016, our other bad debt expenses related primarily to financing of the Dongtan Metapolis project of POSCO E&C.

Our impairment losses on goodwill and intangible assets decreased by 20.8%, or Won 34 billion, from Won 161 billion in 2015 to Won 128 billion in 2016. In 2015, we recognized impairment losses on goodwill relating to EPC Equities LLP of Won 46 billion, POSCO Plantec Co., Ltd. of Won 38 billion and POSCO Thainox Public Company Limited of Won 16 billion. In 2016, our impairment losses on goodwill and intangible assets related primarily to impairment losses on goodwill of Won 83 billion relating to POSCO Engineering Co., Ltd. In addition, we recognized full impairment losses of Won 12 billion relating to SANTOS CMI S.A.

Our impairment losses on property, plant and equipment increased by 44.5%, or Won 61 billion, from Won 136 billion in 2015 to Won 197 billion in 2016 primarily due to Won 62 billion of impairment losses in 2016 related to continuing operating loss of the fuel cell business of POSCO Energy. In addition, we recorded Won 58 billion of impairment losses in 2016 related to disposal plans of certain assets.

Operating Profit

Due to the factors described above, our operating profit increased by 53.6%, or Won 796 billion, from Won 1,486 billion in 2015 to Won 2,282 billion in 2016. Our operating margin increased from 2.5% in 2015 to 4.3% in 2016.

Share of Loss of Equity-Accounted Investees

Our share of loss of equity-accounted investees decreased by 82.5%, or by Won 417 billion, from Won 506 billion in 2015 to Won 89 billion in 2016. In 2015, we recognized a net loss for our proportionate share of equity-accounted investees of Won 506 billion primarily due to our share of losses of Eureka Moly LLC (Won 147 billion), CSP-Compania Siderurgica do Pecem (Won 145 billion)

Table of Contents

and DMSA/AMSA (Won 138 billion), which were partially offset by our share of profits of South-East Asia Gas Pipeline Company Ltd. (Won 54 billion), KOBRASCO (Won 31 billion) and AES-VCM Mong Duong Power Company Limited (Won 30 billion). In 2016, we recognized a net loss for our proportionate share of equity-accounted investees of Won 89 billion primarily due to our share of losses of POSCO Plantec Co., Ltd. (Won 172 billion) and DMSA/AMSA (Won 60 billion), which were partially offset by our share of profits of CSP-Compania Siderurgica do Pecem (Won 117 billion) and South-East Asia Gas Pipeline Company Ltd. (Won 47 billion). See Note 11 of Notes to Consolidated Financial Statements.

Finance Income and Finance Costs

The following table presents a breakdown of our finance income and costs and changes therein for 2015 and 2016.

	For the Year Ended December 31,		Changes 2015 versus 2016	
	2015	2016 (In billions of Won)	Amount	%
Interest income	210	182	(28)	(13.2)%
Dividend income	184	41	(143)	(77.7)
Gain on foreign currency transactions	1,025	1,033	7	0.7
Gain on foreign currency translations	466	378	(88)	(19.0)
Gain on derivatives transactions	366	317	(50)	(13.6)
Gain on valuation of derivatives	155	147	(8)	(5.3)
Gain on disposals of available-for-sale financial assets	139	131	(8)	(6.0)
Others	11	4	(7)	(65.4)
Total finance income	2,557	2,232	(325)	(12.7)
Interest expenses	789	659	(130)	(16.5)%
Loss on foreign currency transactions	1,157	1,147	(10)	(0.9)
Loss on foreign currency translations	717	405	(311)	(43.4)
Loss on derivatives transactions	343	338	(5)	(1.4)
Loss on valuation of derivatives	72	163	91	125.5
Impairment loss on available-for-sale financial assets	143	248	106	74.0
Others	166	53	(113)	(67.8)
Total finance costs	3,387	3,014	(373)	(11.0)

Our net loss on foreign currency translations decreased by 89.0%, or Won 223 billion, from Won 251 billion in 2015 to Won 28 billion in 2016, and our net loss on foreign currency transactions decreased by 13.1%, or Won 17 billion, from Won 132 billion in 2015 to Won 115 billion in 2016, as the Won depreciated against the Dollar in both 2015 and 2016. Such net losses were also impacted by depreciation of the Won against the Brazilian real and the Australian dollar in 2015 compared to appreciation of the Won against the Brazilian real and the Australian dollar in 2016. In terms of the market average exchange rates announced by Seoul Money Brokerage Services, Ltd., the Won depreciated from Won 1,099.2 to US\$1.00 as of December 31, 2014 to Won 1,172.0 to US\$1.00 as of December 31, 2015 and further depreciated, but to a lesser extent, to Won 1,208.5 to US\$1.00 as of December 31, 2016. Against such fluctuations, we recognized a net gain on valuation of derivatives of Won 83 billion in 2015 compared to a net loss on valuations of derivatives of Won 16 billion in 2016, as well as a net gain on transactions of derivatives of Won 23 billion in 2015 compared to a net loss on transactions of derivatives of Won 22 billion in 2016.

Our interest expenses decreased by 16.5%, or Won 130 billion, from Won 789 billion in 2015 to Won 659 billion in 2016 primarily due to a general decrease in interest rates in Korea as well as a decrease in the level of short-term borrowings.

Table of Contents

Our impairment loss on available-for-sale financial assets increased by 74.0%, or Won 106 billion, from Won 143 billion in 2015 to Won 248 billion in 2016 primarily due to an increase in our impairment related primarily to a significant and prolonged decline in the fair value of shares of Nippon Steel & Sumitomo Metal Corporation below cost.

Our dividend income decreased by 77.7%, or Won 143 billion, from Won 184 billion in 2015 to Won 41 billion in 2016 primarily due to dividends of Won 146 billion in 2015 related to our interest in Nacional Minerios S.A. compared to no such dividends in 2016.

Profit before Income Taxes

Due to the factors described above, our profit before income taxes increased by 838.9%, or Won 1,261 billion, from Won 150 billion in 2015 to Won 1,412 billion in 2016.

The following table presents our profit and loss by segment, prior to adjusting for goodwill and corporate fair-value adjustments, elimination of inter-segment profits, income tax expense and basis difference, and changes therein for 2015 and 2016.

	For the Year Ended		Changes	
	December 31,		2015 versus 2016	
	2015	2016	Amount	%
	(In billions of Won)			
Steel Segment	181	1,511	1,330	732.7%
Trading Segment	39	53	14	37.1
Construction Segment	(276)	(1,404)	(1,128)	409.2
Others Segment	(66)	(26)	40	(60.5)
Goodwill and corporate fair value adjustments	(95)	(123)	(28)	29.4
Elimination of inter-segment profits	120	1,036	916	764.6
Income tax expense	277	385	108	38.9
Basis difference ⁽¹⁾	(30)	(21)	9	(30.1)
Profit before income taxes	150	1,412	1,261	838.9%

- (1) Basis difference is related to the difference in recognizing revenue and expenses of the Construction Segment in connection with development and sale of certain residential real estate between the report reviewed by the chief executive officer and the consolidated financial statements. See Notes 3 and 40 of Notes to Consolidated Financial Statements.

Income Tax Expense

Our income tax expense increased by 42.4%, or Won 113 billion, from Won 267 billion in 2015 to Won 380 billion in 2016. Our effective tax rate decreased from 177.3% in 2015 to 26.9% in 2016 primarily due to the following:

a decrease in tax related to investments in subsidiaries, associates and joint ventures from Won 440 billion in 2015 to Won 77 billion in 2016 (that resulted in a decrease in effective tax rate of 286.9%). In 2015, some of our consolidated subsidiaries incurred losses, which caused Won 212 billion of decrease in unrecognized deferred tax assets for subsidiaries and associates during such year;

a decrease in tax credits from Won 152 billion in 2015 to Won 30 billion in 2016 (that resulted in an increase in effective tax rate of 99.1%). In 2015, there was a large amount of tax credit primarily due to claim for rectification; and

Edgar Filing: POSCO - Form 20-F

a decrease in over provision from prior years from Won 47 billion in 2015 to Won 12 billion in 2016 (that resulted in an increase in effective tax rate of 30.5%). In 2015, there was an increase in over provision from prior years related to a favorable ruling in a tax audit appeal.

Table of Contents

See Note 35 of Notes to Consolidated Financial Statements.

Profit (Loss)

Due to the factors described above, we recorded loss of Won 116 billion in 2015 compared to profit of Won 1,032 billion in 2016.

Item 5.B. Liquidity and Capital Resources

The following table sets forth the summary of our cash flows for the periods indicated.

	For the Year Ended December 31,		
	2015	2016	2017
	(In billions of Won)		
Net cash provided by operating activities	7,602	5,269	5,607
Net cash used in investing activities	(4,535)	(3,755)	(3,818)
Net cash used in financing activities	(2,242)	(3,951)	(1,566)
Effect of exchange rate fluctuations on cash held	23	13	(59)
Cash and cash equivalents at beginning of period	4,022	4,871	2,448
Cash and cash equivalents at end of period	4,871	2,448	2,613
Net increase (decrease) in cash and cash equivalents	849	(2,424)	165

Capital Requirements

Historically, uses of cash consisted principally of purchases of property, plant and equipment and other assets and repayments of outstanding debt and payments of dividends.

Net cash used in investing activities was Won 4,535 billion in 2015, Won 3,755 billion in 2016 and Won 3,818 billion in 2017. These amounts included acquisition of property, plant and equipment of Won 2,560 billion in 2015, Won 2,324 billion in 2016 and Won 2,288 billion in 2017. We plan to spend approximately Won 4.2 trillion in capital expenditures in 2018, which we may adjust on an on-going basis subject to market demand for our products, the production outlook of the global steel industry and global economic conditions in general. We may delay or not implement some of our current capital expenditure plans based on our assessment of such market conditions. We had net acquisitions of short-term financial instruments of Won 2,443 billion in 2015, Won 1,401 billion in 2016 and Won 1,697 billion in 2017. We also had net disposals of available-for-sale investments of Won 220 billion in 2015, net acquisition of available-for-sale investments of Won 48 billion in 2016 and net disposals of available-for-sale investments of Won 941 billion in 2017.

In our financing activities, we used cash of Won 3,510 billion in 2015, Won 4,275 billion in 2016 and Won 3,136 billion in 2017 for repayments of borrowings. We paid dividends on common stock in the amount of Won 823 billion in 2015, Won 709 billion in 2016 and Won 863 billion in 2017.

In recent years, we have also selectively considered various opportunities to acquire or invest in companies that may complement our businesses, as well as invest in overseas resources development projects. We may require additional capital for such acquisitions or entering into other strategic relationships. Other than capital required for such activities, we anticipate that capital expenditures, repayments of outstanding debt and payments of cash dividends will represent the most significant uses of funds for the next several years.

Payments of contractual obligations and commitments will also require considerable resources. In our ordinary course of business, we routinely enter into commercial commitments for various aspects of our operations, as well as issue guarantees for indebtedness of our related parties and others. For our contingent liabilities on outstanding guarantees provided by us, see Note 38(b) of Notes

Table of Contents

to Consolidated Financial Statements. The following table sets forth the amount of long-term debt, capital lease and operating lease obligations as of December 31, 2017.

	Total	Payments Due by Period			
		Less than 1 Year	1 to 3 Years (In billions of Won)	4 to 5 Years	More than 5 Years
Long-term debt obligations ^(a)	12,951	3,003	5,386	3,026	1,536
Interest payments on long-term debt ^(b)	1,378	491	563	226	98
Capital lease obligations	98	18	40	39	1
Operating lease obligations	204	33	41	41	89
Purchase obligations ^(c)	21,075	9,758	6,425	3,324	1,568
Accrued severance benefits ^(d)	2,519	109	280	334	1,796
Total	38,225	13,412	12,735	6,990	5,088

(a) Includes the current portion and premium on bond redemption but excludes amortization of discount on debentures and issuance costs.

(b) As of December 31, 2017, a portion of our long-term debt carried variable interest rates. We used the interest rate in effect as of December 31, 2017 in calculating the interest payments on long-term debt for the periods indicated.

(c) Our purchase obligations include supply contracts to purchase iron ore, coal, nickel, LNG and other raw materials. These contracts generally have terms of one to ten years and the long-term contracts provide for periodic price adjustments according to the market prices. As of December 31, 2017, 116 million tons of iron ore and 18 million tons of coal remained to be purchased under long-term contracts. In addition, we entered into an agreement with Tangguh LNG Consortium in Indonesia to purchase 550 thousand tons of LNG for 20 years commencing in August 2005. The purchase price under the agreement with Tangguh LNG Consortium is variable based on the monthly standard oil price (as represented by the Japan Customs cleared Crude Price), subject to a ceiling. We used the market price and exchange rate in effect as of December 31, 2017 in calculating the iron ore, coal and LNG purchase obligations described above for the periods indicated.

(d) Represents, as of December 31, 2017, the expected amount of severance benefits that we will be required to pay under applicable Korean law to all of our employees when they reach their normal retirement age. The amounts were determined based on the employees' current salary rates and the number of service years that will be accumulated upon their retirement. These amounts do not include amounts that may be paid to employees who cease to work at the company before their normal retirement age.

Capital Resources

We have traditionally met our working capital and other capital requirements principally from cash provided by operations, while raising the remainder of our requirements primarily through long-term debt and short-term borrowings. We expect that these sources will continue to be our principal sources of cash in the future. From time to time, we may also generate cash through issuance of hybrid bonds and sale of treasury shares and our holdings in available-for-sale securities.

Our net cash provided by operating activities decreased by 30.7%, or Won 2,332 billion, from Won 7,602 billion in 2015 to Won 5,269 billion in 2016. Our gross cash flow from our sales activities decreased as discussed above. In addition, the overall inventory turnover was slower in 2016 compared to 2015 as our materials-in-transit increased during the year. However, we continued to actively manage our finished goods inventory level in 2016 in response to the continuing uncertainties in the global economy and overcapacity in the global steel industry. Offsetting such impact from usage of cash, our outstanding trade accounts and notes payable increased in 2016, as we lengthened payment terms of some of our key suppliers, which in turn positively impacted our net cash provided by operating activities.

Edgar Filing: POSCO - Form 20-F

Our net cash provided by operating activities increased by 6.4%, or Won 338 billion, from Won 5,269 billion in 2016 to Won 5,607 billion in 2017. Our gross cash flow from our sales activities increased as discussed above. In addition, our cost of sales decreased as a percentage of sales revenue from 87.4% in 2016 to 86.2% in 2017, further enhancing our net cash provided by operating

Table of Contents

activities. However, our outstanding notes payable and our subsidiaries' outstanding notes payable decreased in 2017, which in turn negatively impacted our net cash provided by operating activities.

We had net repayments of borrowings, after adjusting for proceeds from borrowings, of Won 1,731 billion in 2015, Won 2,286 billion in 2016 and Won 1,410 billion in 2017. We had net repayment of short-term borrowings, after deducting for proceeds of short-term borrowings, of Won 846 billion in 2015 and Won 886 billion in 2016 and net proceeds of short-term borrowings, after deducting for repayment of short-term borrowings, of Won 558 billion in 2017. Long-term borrowings, excluding current installments, were Won 12,849 billion as of December 31, 2015, Won 12,510 billion as of December 31, 2016 and Won 9,789 billion as of December 31, 2017. Total short-term borrowings and current installments of long-term borrowings were Won 12,371 billion as of December 31, 2015, Won 10,195 billion as of December 31, 2016 and Won 11,275 billion as of December 31, 2017. Outstanding hybrid bonds were Won 997 billion as of December 31, 2015, 2016 and 2017. Our net borrowings-to-equity ratio, which is calculated by deducting cash and cash equivalents from total borrowings and dividing the net amount with our total equity, was 45.21% as of December 31, 2015, 44.26% as of December 31, 2016 and 38.99% as of December 31, 2017.

We periodically increase our short-term borrowings and adjust our long-term debt financing levels depending on changes in our capital requirements. From time to time, we also generate cash from the sale of our treasury shares. We believe that we have sufficient working capital for our current requirements and that we have a variety of alternatives available to us to satisfy our liquidity requirements to the extent that they are not met by funds generated by operations, including the issuance of debt and equity securities and bank borrowings denominated in Won and various foreign currencies. However, our ability to rely on some of these alternatives could be affected by factors such as the liquidity of the Korean and the global financial markets, prevailing interest rates, our credit rating and the Government's policies regarding Won currency and foreign currency borrowings.

Liquidity

We had working capital (current assets minus current liabilities) of Won 9,148 billion as of December 31, 2015, Won 10,711 billion as of December 31, 2016 and Won 12,354 billion as of December 31, 2017. Our holdings of cash and cash equivalents (which do not include cash and cash equivalents categorized under "assets held for sale") were Won 4,870 billion as of December 31, 2015, Won 2,448 billion as of December 31, 2016 and Won 2,613 billion as of December 31, 2017. See Notes 5 and 10 of Notes to Consolidated Financial Statements. Our holding of other receivables and other short-term financial assets were Won 5,590 billion as of December 31, 2015, Won 6,765 billion as of December 31, 2016 and Won 8,682 billion as of December 31, 2017. As of December 31, 2017, approximately 18% of our cash and cash equivalents, other receivables and other short-term financial assets were held outside of Korea, which we expect to use in our operations abroad, including capital expenditure activities. In the event that such assets are needed for our operations in Korea, such amounts are typically not restricted under local laws from being used in Korea. In addition, we believe that there are no material tax implications in the event our foreign subsidiaries elect to grant cash dividends to us. POSCO had total available credit lines of Won 1,574 billion as of December 31, 2017, Won 300 billion of which was used as of such date. We have not had, and do not believe that we will have, difficulty gaining access to short-term financing sufficient to meet our current requirements.

Our liquidity is affected by exchange rate fluctuations. See [Overview](#) [Exchange Rate Fluctuations](#).

Capital Expenditures and Capacity Expansion

Cash used for acquisitions of property, plant and equipment was Won 2,560 billion in 2015, Won 2,324 billion in 2016 and Won 2,288 billion in 2017. We plan to spend approximately Won 4.2 trillion in capital expenditures in 2018, which we may adjust on an on-going basis subject to market

Table of Contents

demand for our products, the production outlook of the global steel industry and global economic conditions in general. We may delay or not implement some of our current capital expenditure plans based on our assessment of such market conditions.

Our current plan for capital investment in production facilities emphasizes capacity rationalization, increased production of higher value-added products and improvements in the efficiency of older facilities in order to reduce operating costs. The following table sets out the major items of our capital expenditures as of December 31, 2017:

Project	Expected Completion Date	Total Cost of Project (In billions of Won)	Estimated Remaining Cost of Completion as of December 31, 2017
Reinforcement of hot rolling mill no. 4 at Gwangyang Works and rationalization of no. 2 FINEX plant at Pohang Works	October 2019	1,470	1,054
Construction of synthetic natural gas plant	December 2018	1,194	34
Rationalization and upgrading of raw materials processing facilities at Pohang Works and Gwangyang Works and expansion of facilities at Gwangyang Works	February 2019	433	40

Additional major capital expenditure projects that we plan to start in 2018 include the following:

Project	Expected Spending in 2018	Expected Spending in 2019	Expected Spending in 2020 (In billions of Won)	Total
Rationalization and upgrading of facilities at Gwangyang Works and Pohang Works related to periodic maintenance and expansion of production of premium steel products	205	729	813	1,747
Rationalization and upgrading of facilities at Gwangyang Works and Pohang Works related to promotion of environmental efficiencies and diversification of product offerings	92	585	594	1,270

Item 5.C. Research and Development, Patents and Licenses, Etc.

We maintain a research and development program to carry out basic research and applied technology development activities. As of December 31, 2017, POSCO Technical Research Laboratories employed 934 personnel, including 502 researchers. Our technology development department also works closely with the Pohang University of Science & Technology, Korea's first research-oriented college founded by us in 1986, and the Research Institute of Industrial Science and Technology, Korea's first private comprehensive research institute founded by us in 1987. We also established POSCO Research Institute (POSRI) in 1994, which engages in research activities and consulting services.

We recorded research and development expenses of Won 356 billion as cost of sales in 2015, Won 324 billion in 2016 and Won 361 billion in 2017, as well as research and development expenses of Won 136 billion as administrative expenses in 2015, Won 121 billion in 2016 and Won 126 billion in 2017.

Our research and development program has filed 42,448 industrial rights applications relating to steel-making technology, 15,722 of which were registered as of December 31, 2017, and has successfully applied many of these to the improvement of our manufacturing process.

Item 5.D. Trend Information

These matters are discussed under Item 5.A. and Item 5.B. above where relevant.

Table of Contents

Item 5.E. *Off-balance Sheet Arrangements*

As of December 31, 2016 and 2017, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Item 5.F. *Tabular Disclosure of Contractual Obligations*

These matters are discussed under Item 5.B. above where relevant.

Item 5.G. *Safe Harbor*

See Item 3. Key Information Item 3.D. Risk Factors This annual report contains forward-looking statements that are subject to various risks and uncertainties.

Item 6. *Directors, Senior Management and Employees*

Item 6.A. *Directors and Senior Management*

Board of Directors

Our board of directors has the ultimate responsibility for the management of our business affairs. Our board consists of five directors who are our executive officers (Inside Directors) and seven directors who are outside directors (Outside Directors). Our shareholders elect both the Inside Directors and Outside Directors at a general meeting of shareholders. Candidates for Inside Directors are recommended to shareholders by the board of directors after the board reviews such candidates' qualifications, and candidates for Outside Directors are recommended to the shareholders by a separate board committee consisting of three Outside Directors and one Inside Director (Director Candidate Recommendation and Management Committee) after the committee reviews such candidates' qualifications. Pursuant to the Korean Commercial Act and our articles of incorporation, any shareholder holding our outstanding shares with voting rights may suggest candidates for Outside Directors to the Director Candidate Recommendation and Management Committee.

Our board of directors maintains the following five sub-committees:

the Director Candidate Recommendation and Management Committee;

the Evaluation and Compensation Committee;

the Finance and Related Party Transactions Committee;

the Executive Management Committee; and

the Audit Committee.

Our board committees are described in greater detail below under Item 6.C. Board Practices.

Under the Commercial Code and our articles of incorporation, one Chairman should be elected among the Outside Directors and several Representative Directors may be elected among the Inside Directors by our board of directors' resolution.

Table of Contents**Inside Directors**

Our current Inside Directors are:

Name	Position	Responsibilities and Division	Years as Director	Age	Expiration of Term of Office
Kwon, Oh-Joon	Chief Executive Officer and Representative Director		4	67	March 2020
Oh, In-Hwan	President and Representative Director	Chief Operating Officer I / Head of Steel Business and Operation	3	59	March 2019
Chang, In-Hwa	President and Representative Director	Chief Operating Officer II / Head of Steel Production Division	1	62	March 2019
Yu, Seong	Senior Executive Vice President	Head of Technology and Investment Division	1	61	March 2019
Chon, Jung-Son	Senior Executive Vice President	Head of Corporate Strategy and Finance Center	0	55	March 2019

All Inside Directors are engaged in our business on a full-time basis.

Outside Directors

Our current Outside Directors are set out in the table below. Each of our Outside Directors meets the applicable independence standards set forth under the rules of the Financial Investment Services and Capital Markets of Korea (the "FSCMA").

Name	Position	Principal Occupation	Years as Director	Age	Expiration of Term of Office
Kim, Joo-Hyun	Chairman	President, the Financial News	3	65	March 2021
Lee, Myoung-Woo	Director	President, Dongwon Industries	5	63	March 2019
Bahk, Byong-Won	Director	Former Chairman, Korea Employers Federation	3	65	March 2021
Kim, Shin-Bae	Director	Former Vice Chairman, SK Group	1	63	March 2019
Chung, Moon-Ki	Director	Professor of Accounting, Sungkyunkwan University	1	59	March 2019
Chang, Seung-Wha	Director	Professor of Law, Seoul National University	1	54	March 2020
Kim, Sung-Jin	Director	Former Minister, Ministry of Oceans and Fisheries	0	68	March 2021

The term of office of the Directors elected in March 2018 is up to three (3) years. Each Director's term expires at the close of the ordinary general meeting of shareholders convened in respect of the fiscal year that is the last one to end during such Director's tenure.

Senior Management

In addition to the Inside Directors who are also our executive officers, we have the following executive officers:

Name	Position	Responsibility and Division	Age
Kim, Hag-Dong	Senior Executive Vice President	Head of Gwangyang Works	58
Jeong, Tak	Senior Executive Vice President	Head of Steel Business Division	59
Oh, Hyoung-Soo		Head of Pohang Works	57

Senior Executive Vice
President

Table of Contents

Name	Position	Responsibility and Division	Age
Kim, Jhi-Yong	Senior Executive Vice President	President, PT Krakatau POSCO Co., Ltd.	56
Han, Sung-Hee	Senior Executive Vice President	Head of Management Support Division	57
Hwangbo, Won	Executive Vice President	Head of Human Resources Management Office	54
Lee, Jong-Sub	Executive Vice President	Steel Business Division	61
Lee, Duk-Lak	Executive Vice President	Head of Technology Management Office	57
Kwak, Jeong-Shik	Executive Vice President	Head of External Relations Office	60
Cho, Il-Hyun	Executive Vice President	Head of Investment Planning & Engineering Office	56
Kim, Gyo-Sung	Executive Vice President	Steel Business Division	56
Choi, Joo	Executive Vice President	Head of Technical Research Laboratories	59
Yoo, Byeong-Og	Executive Vice President	Head of Corporate Strategy Office	55
Lee, Sung-Wook	Executive Vice President	Head of Legal Affairs Office	53
Park, Yong-Kyu	Executive Vice President	Steel Production Division	58
Noh, Min-Yong	Executive Vice President	Head of Corporate Audit Office	54
Jung, Kyu-Jin	Executive Vice President	Head of Raw Materials Office II	57
Kim, Dong-Ho	Executive Vice President	CSP-Compania Siderurgica do Pecem	58
Yi, Sang-Ho	Executive Vice President	Steel Production Division	57
Yang, Weon-Jun	Executive Vice President	Head of Human Resources and Innovation Office	52
Bae, Jae-Tak	Executive Vice President	Head of Stainless Steel Marketing Office	53
Lee, Eun-Seok	Executive Vice President	Deputy Head of Works (Stainless Steel Production, Pohang Works)	57
Kim, Sun-Koo	Executive Vice President	Technical Research Laboratories	58
Lee, Si-Woo	Executive Vice President	Head of Steel Production Strategy Office	57
Kim, Gwang-Soo	Executive Vice President	Head of Steel Business Strategy Office	57
Lim, Seung-Kyu	Executive Vice President	Head of Overseas Business Management Office	54
Choo, Se-Don	Executive Vice President	Head of Steel Solution Marketing Office	56
Jung, Duk-Kyoon	Executive Vice President	Head of Information Planning Office	55
Jung, Hae-Seong	Senior Vice President	Head of Raw Materials Office I	54
Yun, Yang-Su	Senior Vice President	Head of Automotive Materials Marketing Office	54
Won, Hyung-Il	Senior Vice President	Legal Affairs Office	49
Kim, Soon-Ki	Senior Vice President	Head of Labor and Outside Services Office	53
Min, Jung-Ki	Senior Vice President	Head of Production Division, PT Krakatau POSCO Co., Ltd.	58
Park, Hyeon	Senior Vice President	Head of New Business Office	51
Lee, Sang-Hyeon	Senior Vice President	Head of Gwangyang Research Lab	57
Yoon, Duk-Il	Senior Vice President	Head of Finance Office	54
Lee, Jeon-Hyeok	Senior Vice President	Head of Domestic Business Management Office	54
Kim, Bok-Tae	Senior Vice President	Head of Global Marketing Coordination Office	56
Chun, Sung-Lae	Senior Vice President	Head of Hot Rolled Steel Marketing Office	54
Lee, Ki-Ho	Senior Vice President	Steel Production Division	59
Kim, Min-Chul	Senior Vice President	Deputy Head of Works (Safety and Maintenance, Gwangyang Works)	55
Kim, Jong-Sang	Senior Vice President	Technical Research Laboratories	57
Chun, Myung-Sik	Senior Vice President	Steel Production Division	58
Kim, Jeoung-Su	Senior Vice President	Deputy Head of Works (Administration, Gwangyang Works)	54

Table of Contents

Name	Position	Responsibility and Division	Age
Choi, Hyeon-Soo	Senior Vice President	Head of Europe Office	58
Lee, Pil-Jong	Senior Vice President	Technical Research Laboratories	53
Lee, Sang-Chun	Senior Vice President	Head of Public Relations Office	52
Kim, Dong-Yeong	Senior Vice President	Deputy Head of Works (Safety and Maintenance, Pohang Works)	56
Kim, Ki-Soo	Senior Vice President	Head of Engineering Solution Office	53
Choi, In-Yong	Senior Vice President	Technology and Investment Division	57
Choi, Yong-Jun	Senior Vice President	Deputy Head of Works (Hot and Cold Rolling, Pohang Works)	53
Ahn, Yoon-Gih	Senior Vice President	Head of Energy and Environment Business Office	51
Song, Yong-Sam	Senior Vice President	Head of Electrical and Electronic Materials Marketing Office	55
Lee, Yu-Kyung	Senior Vice President	Head of Plant, Equipment and Materials Procurement Office	50
Lee, Hee-Geun	Senior Vice President	Deputy Head of Works (Iron and Steel Making, Pohang Works)	55
Bae, Chul-Min	Senior Vice President	Head of Pohang Research Lab	57
An, Geun-Sik	Senior Vice President	Steel Business Division	57
Han, Hyung-Chul	Senior Vice President	Deputy Head of Works (Administration, Pohang Works)	54
Kim, Jin-Ho	Senior Vice President	Head of Construction Steel Materials Marketing Office	56
Nam, Jae-Bok	Senior Vice President	Steel Business Division	56
Hong, Sam-Young	Senior Vice President	Deputy Head of Works (Hot and Cold Rolling, Gwangyang Works)	57
Lee, Sang-Ho	Senior Vice President	Steel Production Division	53
Kim, Sang-Gyun	Senior Vice President	Head of Wire Rod Marketing Office	54
Suh, In-Shik	Senior Vice President	Technical Research Laboratories	55
Lee, Baik-Hee	Senior Vice President	Deputy Head of Works (Iron and Steel Making, Gwangyang Works)	53
Lee, Jae-Young	Senior Vice President	Technology and Investment Division	55

Item 6.B. Compensation**Compensation of Directors and Officers**

Salaries and bonuses for Inside Directors and salaries for Outside Directors are paid in accordance with standards decided by the board of directors within the limitation of directors remuneration approved by the annual general meeting of shareholders. In addition, executive officers compensation is paid in accordance with standards decided by the board of directors. In 2017, the aggregate compensation paid and accrued to all Directors and executive officers was approximately Won 66 billion and the aggregate amount set aside or accrued by us to provide pension and retirement benefits to such persons was Won 15 billion.

The compensation of our directors and executive officers who received total annual compensation exceeding Won 500 million in 2017 were as follows:

Name	Position	Total Compensation in 2017	Long-term Incentive Compensation for Payment Subsequent to 2017 (In millions of Won)
Kwon, Oh-Joon	Chief Executive Officer and Representative Director	2,473	759
Oh, In-Hwan	President and Representative Director	1,461	343
Choi, Jeong-Woo	Former President and Representative Director	1,291	179

Table of Contents

Name	Position	Total Compensation in 2017	Long-term Incentive Compensation for Payment Subsequent to 2017 (In millions of Won)
Chang, In-Hwa	President and Representative Director	868	
Yu, Seong	Senior Executive Vice President	862	
Kim, Jin-Il	Former President and Representative Director	1,453	₩ 627

We have also granted stock options to some of our Directors and executive officers. See Item 6.E. Share Ownership for a list of stock options granted to our Directors and executive officers. At the annual shareholders meeting held in February 2006 our shareholders elected to terminate the stock option program. Stock options granted prior to this meeting remain valid and outstanding pursuant to the articles of incorporation in effect at the time of the issuance of the stock option.

Item 6.C. Board Practices**Director Candidate Recommendation and Management Committee**

The Director Candidate Recommendation and Management Committee is composed of three Outside Directors, Bahk, Byong-Won, Kim, Joo-Hyun, and Chang, Seung-Wha, and one Inside Director, Chon, Jung-Son. The Director Candidate Recommendation and Management Committee reviews the qualifications of potential candidates and proposes nominees to serve on our board of directors as an Outside Director. It also reviews operational matters of our board of directors. Any shareholder holding our outstanding shares with voting rights may suggest candidates for Outside Directors to the Director Candidate Recommendation and Management Committee.

Evaluation and Compensation Committee

The Evaluation and Compensation Committee is composed of four Outside Directors, Lee, Moung-Woo, Kim, Shin-Bae, Chung, Moon-Ki and Kim, Sung-Jin. The Evaluation and Compensation Committee's primary responsibilities include establishing evaluation procedures and compensation plans for executive officers and taking necessary measures to execute such plans.

Finance and Related Party Transactions Committee

The Finance and Related Party Transactions Committee is composed of three Outside Directors, Lee, Myoung-Woo, Kim, Shin-Bae, Kim, Sung-Jin and one Inside Director, Oh, In-Hwan. This committee is an operational committee that oversees decisions with respect to finance and operational matters, including making assessments with respect to potential capital investments and evaluating prospective capital-raising activities. It also reviews related party and other internal transactions and ensures compliance with the Monopoly Regulation and Fair Trade Act.

Executive Management Committee

The Executive Management Committee is composed of five Inside Directors, Kwon, Oh-Joon, Oh, In-Hwan, Chang, In-Hwa Yu, Seong and Chon, Jung-Son. This committee oversees decisions with respect to our operational and management matters, including review of management's proposals of new strategic initiatives, as well as deliberation over critical internal matters related to organization structure and development of personnel.

Audit Committee

Under Korean law and our articles of incorporation, we are required to have an Audit Committee. The Audit Committee may be composed of three or more directors; all members of the

Table of Contents

Audit Committee must be Outside Directors. Audit Committee members must also meet the applicable independence criteria set forth under the rules and regulations of the Sarbanes-Oxley Act of 2002. Members of the Audit Committee are elected by the shareholders at the ordinary general meeting of shareholders. We currently have an Audit Committee composed of three Outside Directors. Members of our Audit Committee are Bahk, Byong-Won, Chang, Seung-Wha and Chung, Moon-Ki.

The duties of the Audit Committee include:

engaging independent auditors;

approving independent audit fees;

approving audit and non-audit services;

reviewing annual financial statements;

reviewing audit results and reports, including management comments and recommendations;

reviewing our system of controls and policies, including those covering conflicts of interest and business ethics; and

examining improprieties or suspected improprieties.

In addition, in connection with general meetings of stockholders, the committee examines the agenda for, and financial statements and other reports to be submitted by, the board of directors at each general meeting of stockholders. Our internal and external auditors report directly to the Audit Committee. The committee holds regular meetings at least once each quarter, and more frequently as needed.

Item 6.D. Employees

As of December 31, 2017, we had 32,287 employees, including 15,232 persons employed by our subsidiaries. Of the total number of employees, approximately 80% are technicians and skilled laborers and 20% are administrative staff. We use subcontractors for maintenance, cleaning and transport activities. We had 31,768 employees, including 15,184 persons employed by our subsidiaries, as of December 31, 2016, and 37,327 employees, including 17,282 persons employed by our subsidiaries, as of December 31, 2015.

We consider our relations with our work force to be good. We have never experienced a work stoppage or strike. Wages of our employees are among the highest of manufacturing companies in Korea. In addition to a base monthly wage, employees receive periodic bonuses and allowances. Base wages are determined annually following consultation between the management and employee representatives, who are currently elected outside the framework of the POSCO labor union. A labor union was formed by our employees in June 1988. As of December 31, 2017, 10 of our employees were members of the POSCO labor union.

In accordance with the National Pension Act of Korea, we contribute an amount equal to 4.5% of an employee's standard monthly wages, and each employee contributes 4.5% of his or her standard monthly wages, into his or her personal pension account. Our employees, including executive officers as well as non-executive employees, are subject to a pension insurance system, under which we make monthly contributions to the pension accounts of the employees, and upon retirement, such employees are paid from their pension accounts. Prior to 2011, our executive and non-executive employees were subject to a lump-sum severance payment system, under which they were entitled to receive a lump-sum severance payment upon termination of their employment, based on their length of service and salary level at the time of termination. Starting in 2011, in accordance with the Korean Employee Retirement Income Security Act, we replaced such lump-sum severance payment system with our

Table of Contents

current pension insurance system in the form of either a defined benefit plan or a defined contribution plan. Our employees have the option of choosing either the defined benefit plan or the defined contribution plan. See Note 21 of Notes to Consolidated Financial Statements. Lump-sum severance amounts previously accrued prior to our adoption of the current pension insurance system continue to remain payable. We also provide a wide range of fringe benefits to our employees, including housing, housing loans, company-provided hospitals and schools, a company-sponsored pension program, an employee welfare fund, industrial disaster insurance, and cultural and athletic facilities.

As of December 31, 2017, our employees owned, through our employee stock ownership association, approximately 1.72% of our common stock in their employee accounts.

Item 6.E. Share Ownership**Common Stock**

The persons who are currently our Directors or executive officers held, as a group, 18,593 common shares as of March 31, 2018, the most recent practicable date for which this information is available. The table below shows the ownership of our common shares by our Directors and executive officers.

Name	Number of Common Shares
Kwon, Oh-Joon	2,448
Noh, Min-Yong	768
Kim, Hag-Dong	697
Oh, In-Hwan	690
Yu, Seong	666
Park, Yong-Kyu	611
Kim, Sun-Koo	595
Lee, Ki-Ho	574
Chang, In-Hwa	531
Kwak Jeong-Shik	530
Kim, Soon-Ki	528
Choi, Joo	527
Jung, Hae-Seong	450
Jeong, Tak	403
Yoo, Byeong-Og	401
Kim, Jhi-Yong	385
Lee, Yu-Kyung	337
Kim, Gyo-Sung	321
Lee, Pil-Jong	315
Yi, Sang-Ho	312
Lee, Jong-Sub	303
Lee, Eun-Seok	301
Kim, Min-Chul	297
Won, Hyung-Il	288
Kim, Dong-Ho	287
Lee, Duk-Lak	275
Oh, Hyoung-Soo	273
Chon, Jung-Son	262
Cho, Il-Hyun	236
Kim, Gwang-Soo	235
Min, Jung-Ki	226
Park, Hyeon	225
Lee, Sang-Hyeon	220
Lim, Seung-Kyu	220
Choo, Se-Don	217
Bae, Chul-Min	210
Yang, Weon-Jun	204
An, Geun-Sik	190
Kim, Jong-Sang	176

Table of Contents

Name	Number of Common Shares
Kim, Jeoung-Su	158
Lee, Si-Woo	156
Kim, Bok-Tae	149
Suh, In-Shik	140
Chun, Sung-Lae	138
Chun, Myung-Sik	128
Bae, Jae-Tak	126
Han, Sung-Hee	124
Yun, Yang-Su	112
Hwangbo, Won	107
Lee, Jeon-Hyeok	89
Kim, Ki-Soo	77
Kim, Sang-Gyun	76
Song, Yong-Sam	60
Lee, Jae-Young	36
Choi, Yong-Jun	27
Choi, Hyeon-Soo	25
Choi, In-Yong	25
Lee, Sang-Chun	25
Han, Hyung-Chul	18
Jung, Kyu-Jin	18
Yoon, Duk-Il	16
Lee, Baik-Hee	14
Kim, Dong-Yeong	11
Lee, Sang-Ho	4
Total	18,593

Stock Options

With respect to the options granted, we may elect either to issue shares of common stock, distribute treasury stock or to pay in cash the difference between the exercise and the market price at the date of exercise. The options may be exercised by a person who has continued employment with POSCO for two or more years from the date on which the options are granted. Expiration date of options is seven years from the date on which the options are granted. All of the stock options below relate to our common stock.

At the annual shareholders' meeting held in February 2006, our shareholders elected to terminate the stock option program. Stock options granted prior to this meeting remain valid and outstanding pursuant to the articles of incorporation in effect at the time of the issuance of the stock option. Currently, there are no outstanding exercisable stock options. The following table sets forth information regarding the stock options we have granted to our current Directors and executive officers.

Director	Grant Date	Exercise Period		Exercise Price	Granted Options	Exercised Options	Exercisable Options
		From	To				
Kwon, Oh-Joon	April 26, 2003	4/27/2005	4/26/2010	102,900	9,604	9,604	0
Kim, Jin-II	April 25, 2003	4/27/2005	4/26/2010	102,900	9,604	9,604	0

Table of Contents**Item 7. Major Shareholders and Related Party Transactions****Item 7.A. Major Shareholders**

The following table sets forth certain information relating to the shareholders of our common stock issued as of December 31, 2017.

Shareholders	Number of Shares Owned	Percentage
National Pension Service	9,660,885	11.08%
Nippon Steel & Sumitomo Metal Corporation ⁽¹⁾	2,894,712	3.32
BlackRock Institutional Trust Company, N.A.	2,483,875	2.85
Government of Singapore Investment Corp. Private Limited	1,934,312	2.22
KB Financial Group Inc. and subsidiaries	1,919,361	2.20
Directors and executive officers as a group	18,593	0.02
Public ⁽²⁾	61,087,866	70.07
POSCO (held in the form of treasury stock)	7,187,231	8.24
Total issued shares of common stock	87,186,835	100.00%

(1) Held in the form of ADRs.

(2) Includes ADRs.

As of December 31, 2017, there were 9,210,073 shares of common stock outstanding in the form of ADRs, representing 10.6% of the total issued shares of common stock.

Item 7.B. Related Party Transactions

We have issued guarantees in favor of affiliated and related companies, and we have also engaged in various transactions with our subsidiaries and affiliated companies. See Notes 37 and 38 of Notes to Consolidated Financial Statements.

As of December 31, 2015, 2016 and 2017, we had no loans outstanding to our executive officers and Directors.

Item 7.C. Interests of Experts and Counsel

Not applicable

Item 8. Financial Information**Item 8.A. Consolidated Statements and Other Financial Information**

See Item 18. Financial Statements and pages F-1 through F-125.

Legal Proceedings

As a steel producer with global sales and operations, we are involved in trade remedy proceedings in markets worldwide, including in the United States. We proactively participate in and plan for such proceedings to minimize any adverse effects and associated risks. While there has been an increase in the number of trade cases in recent years, and an increased focus on trade issues by government officials, all such cases have been product and market-specific, and thus have been limited in scope relative to our global sales and operations. We continue to carefully monitor

Edgar Filing: POSCO - Form 20-F

developments with respect to trade remedy policy in all markets in which we participate and, where necessary, vigorously defend our rights through litigation before tribunals such as the U.S. Court of International Trade. Our products that are subject to anti-dumping, safeguard or countervailing duty

Table of Contents

proceedings in the aggregate currently do not account for a material portion of our total sales, and such proceedings have not had a material adverse impact on our business and operations in recent years. However, there can be no assurance that increases in, or new impositions of, anti-dumping duties, safeguard duties, countervailing duties, quotas or tariffs on our exports of products abroad may not have a material adverse impact on our exports in the future. See Item 4. Information on the Company Item 4.B. Business Overview Markets Exports.

In 2012, the Korea Fair Trade Commission imposed a total fine of Won 108.6 billion on us and POSCO Coated & Color Steel Co., Ltd. (POSCO Coated & Color Steel), our consolidated subsidiary, for alleged antitrust violations in Korea relating to galvanized steel sheets and color sheets. Subsequent to paying such fines, we and POSCO Coated & Color Steel each filed for judicial review of such fines in the Seoul High Court in February 2013. In July 2015, the Seoul High Court ruled in our favor for reimbursement of the fine of Won 89.3 billion imposed on us, which was subsequently appealed by the Korea Fair Trade Commission to the Supreme Court of Korea. The Supreme Court of Korea subsequently remanded the proceeding to the Seoul High Court in November 2016, which outcome is currently pending. We intend to continue to vigorously defend against such administrative action. In January 2016, the Seoul High Court ruled against POSCO Coated & Color Steel with respect to the fine of Won 19.3 billion imposed against it. POSCO Coated & Color Steel appealed with respect to Won 3.0 billion of such fine, which it lost in November 2016.

In May 2002, Industrial Development Bank of India brought a suit against Daewoo International Corporation (currently, POSCO Daewoo), Daewoo Motors India Ltd., Daewoo Corporation and Daewoo Construction & Engineering Co., Ltd. in the India Delhi Mumbai Court, regarding its loans to Daewoo Motors India Ltd. guaranteed by Daewoo Co., Ltd. (predecessor of POSCO Daewoo). The total claim amount is Won 77 billion, and POSCO Daewoo recorded provision of Won 20 billion relating to its portion of the guarantee alleged by Industrial Development bank of India. Daewoo International Corporation challenged the jurisdiction of the court in 2003. The outcome of such lawsuits remains uncertain and POSCO Daewoo's provision is classified as a non-current liability as of December 31, 2017.

Except as described above, we are not involved in any pending or threatened legal or arbitration proceedings that may have, or have had during the last 12 months, a material adverse effect on our results of operations or financial position.

Dividends

The amount of dividends paid on our common stock is subject to approval at the annual general meeting of shareholders, which is typically held in February or March of the following year. In addition to our annual dividends, our board of directors is authorized to declare and distribute quarterly dividends under our articles of incorporation. If we decide to pay quarterly dividends, our articles of incorporation authorize us to pay them in cash to the shareholders of record as of the end of March, June and September of the relevant fiscal year. We may pay cash dividends out of retained earnings that have not been appropriated to statutory reserves.

Table of Contents

The table below sets out the annual dividends declared on the outstanding common stock to shareholders of record on December 31 of the years indicated and the interim dividends (including quarterly dividends starting in the second half of 2016), declared on the outstanding common stock to applicable shareholders of record of the years indicated. A total of 87,186,835 shares of common stock were issued as of December 31, 2017. Of these shares and as of such date, 79,999,604 shares were outstanding and 7,187,231 shares were held by us in treasury. The annual dividends set out for each of the years below were paid in the immediately following year.

Year	Annual Dividend per Common Stock to Public	Interim Dividend per Common Stock (In Won)	Average Total Dividend per Common Stock
2013	6,000	2,000	8,000
2014	6,000	2,000	8,000
2015	6,000	2,000	8,000
2016	5,750	2,250	8,000
2017	3,500	4,500	8,000

Owners of the ADSs are entitled to receive any dividends payable in respect of the underlying shares of common stock.

Historically, we have paid to holders of record of our common stock an annual dividend. However, we can give no assurance that we will continue to declare and pay any dividends in the future.

Item 8.B. Significant Changes

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our Consolidated Financial Statements included in this annual report.

Item 9. The Offer and Listing***Item 9.A. Offer and Listing Details*****Market Price Information*****Notes***

Not applicable

Table of Contents**Common Stock**

The principal trading market for our common stock is the KRX KOSPI Market. Our common stock, which is in registered form and has a par value of Won 5,000 per share, has been listed on the KRX KOSPI Market since June 1988 under the identifying code 005490. The table below shows the high and low trading prices and the average daily volume of trading activity on the KRX KOSPI Market for our common stock.

	High (In Won)	Price Low	Average Daily Trading Volume (Number of Shares)
2013			
First Quarter	371,000	321,500	169,232
Second Quarter	326,000	292,500	182,277
Third Quarter	340,000	292,500	225,474
Fourth Quarter	338,000	307,500	183,055
2014			
First Quarter	322,000	272,500	222,494
Second Quarter	317,000	285,500	170,778
Third Quarter	361,000	291,500	201,548
Fourth Quarter	321,500	275,500	191,916
2015			
First Quarter	290,500	242,500	211,737
Second Quarter	269,000	214,500	256,415
Third Quarter	229,000	168,500	285,052
Fourth Quarter	193,000	162,000	380,436
2016			
First Quarter	222,000	156,000	394,379
Second Quarter	249,000	194,000	403,338
Third Quarter	238,500	200,500	288,876
Fourth Quarter	282,500	226,000	371,851
2017			
First Quarter	296,500	244,000	321,295
Second Quarter	287,500	261,500	271,203
Third Quarter	345,000	291,000	233,349
Fourth Quarter	345,000	307,500	243,542
October	344,000	313,000	249,145
November	335,000	307,500	253,629
December	345,000	326,000	227,144
2018			
First Quarter	395,000	321,500	241,496
January	395,000	339,000	236,977
February	395,000	352,000	217,743
March	358,000	321,500	266,589
Second Quarter (through April 26)	359,000	313,000	238,002
April (through April 26)	359,000	313,000	238,002

ADSs

Our common stock is also listed on the New York Stock Exchange in the form of ADSs. The ADSs have been issued by Citibank, N.A. as ADR depositary and are listed on the New York Stock Exchange under the symbol PKX. One ADS represents one-fourth of one share of common stock. As of December 31, 2017, 36,840,292 ADSs representing 9,210,073 common shares were outstanding, representing 10.6% of total issued shares of common stock.

Table of Contents

The table below shows the high and low trading prices and the average daily volume of trading activity on the New York Stock Exchange for our ADSs.

	Price High Low (In US\$)	Average Daily Trading Volume (Number of ADSs)
2013		
First Quarter	86.69 72.41	258,130
Second Quarter	74.82 63.23	252,261
Third Quarter	78.75 64.29	186,347
Fourth Quarter	80.40 72.19	177,415
2014		
First Quarter	75.88 64.03	298,320
Second Quarter	76.56 69.60	223,292
Third Quarter	86.37 71.97	232,861
Fourth Quarter	75.11 63.61	361,829
2015		
First Quarter	66.00 54.66	305,147
Second Quarter	61.95 48.17	279,028
Third Quarter	51.03 34.48	475,594
Fourth Quarter	42.62 33.73	455,010
2016		
First Quarter	47.61 32.26	388,580
Second Quarter	54.85 41.06	412,522
Third Quarter	53.97 42.98	297,820
Fourth Quarter	59.54 49.95	326,351
2017		
First Quarter	66.45 50.60	328,362
Second Quarter	63.44 56.58	279,798
Third Quarter	77.62 64.12	220,556
Fourth Quarter	79.20 69.47	164,596
October	75.41 69.47	177,025
November	75.69 70.14	157,742
December	79.20 75.59	158,122
2018		
First Quarter	92.78 74.27	247,054
January	92.78 82.35	289,208
February	90.69 79.77	245,073
March	82.72 74.27	206,693
Second Quarter (through April 26)	83.12 73.05	191,012
April (through April 26)	83.12 73.05	191,012

Item 9.B. Plan of Distribution

Not applicable

Item 9.C. Markets**The Korean Securities Market**

On January 27, 2005, the Korea Exchange was established pursuant to the Korea Securities and Futures Exchange Act by consolidating the Korea Stock Exchange, the Korea Futures Exchange, the KOSDAQ Stock Market, Inc., or the KOSDAQ, and the KOSDAQ Committee of the Korea Securities Dealers Association, which had formerly managed the KOSDAQ. There are three different markets operated by the Korea Exchange: the KRX KOSPI Market, the KRX KOSDAQ Market, and the KRX Derivatives Market. The Korea Exchange has two trading floors located in Seoul, one for the KRX KOSPI Market and one for the KRX KOSDAQ Market, and one trading floor in Busan for the KRX Derivatives Market. The Korea Exchange is a limited liability company, the shares of which are held by (i) investment brokers and investment dealers that were formerly members of the Korea Futures

Table of Contents

Exchange or the Korea Stock Exchange and (ii) the stockholders of the KOSDAQ. Currently, the Korea Exchange is the only stock exchange in Korea and is operated by membership, having as its members most of the Korean investment brokers and investment dealers and some Korean branches of foreign investment brokers and investment dealers.

According to data published by the Korea Exchange, as of December 31, 2017, the aggregate market value of equity securities listed on the KRX KOSPI Market and the KRX KOSDAQ Market was approximately Won 1,889 trillion, and the average daily trading volume of equity securities for 2017 was approximately 1,076 million shares with an average transaction value of Won 9,014 billion. The Korea Exchange has the power in some circumstances to suspend trading in the shares of a given company or to de-list a security pursuant to the Regulation on Listing on the Korea Exchange. The Korea Exchange also restricts share price movements. All listed companies are required to file accounting reports annually, semi-annually and quarterly and to release immediately all information that may affect trading in a security.

The Government has in the past exerted, and continues to exert, substantial influence over many aspects of the private sector business community that can have the intention or effect of depressing or boosting the market. In the past, the Government has informally both encouraged and restricted the declaration and payment of dividends, induced mergers to reduce what it considers excess capacity in a particular industry and induced private companies to offer publicly their securities.

The Korea Exchange publishes the Korea Composite Stock Price Index, or KOSPI, every ten seconds, which is an index of all equity securities listed on the Korea Exchange. On January 1, 1983, the method of computing KOSPI was changed from the Dow Jones method to the aggregate value method. In the new method, the market capitalizations of all listed companies are aggregated, subject to certain adjustments, and this aggregate is expressed as a percentage of the aggregate market capitalization of all listed companies as of the base date, January 4, 1980.

Table of Contents

Movements in KOSPI are set out in the following table.

Year	Opening	High	Low	Closing
1986	161.40	279.67	153.85	272.61
1987	264.82	525.11	264.82	525.11
1988	532.04	922.56	527.89	907.20
1989	919.61	1,007.77	844.75	909.72
1990	908.59	928.82	566.27	696.11
1991	679.75	763.10	586.51	610.92
1992	624.23	691.48	459.07	678.44
1993	697.41	874.10	605.93	866.18
1994	879.32	1,138.75	855.37	1,027.37
1995	1,027.45	1,016.77	847.09	882.94
1996	882.29	986.84	651.22	651.22
1997	647.67	792.29	350.68	376.31
1998	374.41	579.86	280.00	562.46
1999	565.10	1,028.07	498.42	1,028.07
2000	1,028.33	1,059.04	500.60	504.62
2001	503.31	704.50	468.76	693.70
2002	698.00	937.61	584.04	627.55
2003	633.03	822.16	515.24	810.71
2004	821.26	936.06	719.59	895.92
2005	896.00	1,379.37	870.84	1,379.37
2006	1,383.32	1,464.70	1,203.86	1,434.46
2007	1,438.89	2,015.48	1,345.08	1,897.13
2008	1,891.45	1,888.88	938.75	1,124.47
2009	1,132.87	1,718.88	1,018.81	1,682.77
2010	1,681.71	2,052.97	1,552.79	2,051.00
2011	2,063.69	2,231.47	1,644.11	1,825.12
2012	1,831.69	2,057.28	1,758.99	1,997.05
2013	2,031.10	2,059.58	1,780.63	2,011.34
2014	2,013.11	2,093.08	1,881.73	1,915.19
2015	1,926.44	2,173.41	1,829.81	1,961.31
2016	1,918.76	2,068.72	1,835.28	2,026.46
2017	2,026.16	2,557.97	2,026.16	2,467.49
2018 (through April 26)	2,479.65	2,598.19	2,363.77	2,475.64

Source: The KRX KOSPI Market

Shares are quoted ex-dividend on the first trading day of the relevant company's accounting period. Since the calendar year is the accounting period for the majority of listed companies, this may account for the drop in KOSPI between its closing level at the end of one calendar year and its opening level at the beginning of the following calendar year.

With certain exceptions, principally to take account of a share being quoted ex-dividend and ex-rights, permitted upward and downward movements in share prices of any category of shares on any day are limited under the rules of the Korea Exchange to 30% of the previous day's closing price of the shares, rounded down as set out below:

Previous Day's Closing Price (Won)	Rounded Down to (Won)
Less than 1,000	1
1,000 to less than 5,000	5
5,000 to less than 10,000	10
10,000 to less than 50,000	50
50,000 to less than 100,000	100
100,000 to less than 500,000	500
500,000 or more	1,000

Edgar Filing: POSCO - Form 20-F

As a consequence, if a particular closing price is the same as the price set by the fluctuation limit, the closing price may not reflect the price at which persons would have been prepared, or would

Table of Contents

be prepared to continue, if so permitted, to buy and sell shares. Orders are executed on an auction system with priority rules to deal with competing bids and offers.

Due to deregulation of restrictions on brokerage commission rates, the brokerage commission rate on equity securities transactions may be determined by the parties, subject to commission schedules being filed with the Korea Exchange by the financial investment companies with a brokerage license. In addition, a securities transaction tax of 0.5% of the sales price will generally be imposed on the transfer of shares or certain securities representing rights to subscribe for shares if traded on the KRX KOSPI Market. An agricultural and fishery special surtax of 0.15% of the sales prices will also be imposed on transfer of these shares and securities on the Korea Exchange. See Item 10. Additional Information Item 10.E. Taxation Korean Taxation.

The number of companies listed on the KRX KOSPI Market, the corresponding total market capitalization at the end of the periods indicated and the average daily trading volume for those periods are set forth in the following table:

Year	Market Capitalization on the Last Day of Each Period		Average Daily Trading Volume, Value	
	Number of Listed Companies	(Billions of Won)	Thousands of Shares	(Millions of Won)
1986	355	11,994	31,755	32,870
1987	389	26,172	20,353	70,185
1988	502	64,544	10,367	198,364
1989	626	95,477	11,757	280,967
1990	669	79,020	10,866	183,692
1991	686	73,118	14,022	214,263
1992	688	84,712	24,028	308,246
1993	693	112,665	35,130	574,048
1994	699	151,217	36,862	776,257
1995	721	141,151	26,130	487,762
1996	760	117,370	26,571	486,834
1997	776	70,989	41,525	555,759
1998	748	137,799	97,716	660,429
1999	725	349,504	278,551	3,481,620
2000	704	188,042	306,163	2,602,211
2001	689	255,850	473,241	1,997,420
2002	683	258,681	857,245	3,041,598
2003	684	355,363	542,010	2,216,636
2004	683	412,588	372,895	2,232,109
2005	702	655,075	467,629	3,157,662
2006	731	704,588	279,096	3,435,180
2007	745	951,900	363,741	5,539,653
2008	763	576,888	352,599	3,211,039
2009	770	887,935	485,657	5,595,552
2010	777	1,141,885	380,859	5,619,768
2011	791	1,041,999	353,760	6,836,146
2012	930	1,154,294	486,479	4,823,642
2013	777	1,185,974	328,425	3,993,422
2014	773	1,192,253	278,081	3,983,580
2015	770	1,242,832	455,256	5,351,734
2016	779	1,308,440	376,773	4,523,044
2017	774	1,605,821	340,457	5,325,760
2018 (through April 26)	777	1,653,074	410,528	7,149,356

Source: The Korea Exchange

The Korean securities markets are principally regulated by the Financial Services Commission and under the regulations set forth in the FSCMA. In August 2007, the National Assembly of Korea enacted the FSCMA. The FSCMA, which came into effect on February 4, 2009, comprehensively

Table of Contents

regulates the Korean capital markets, the financial investment business (including collective investment businesses and trust businesses) and financial investment products (such as securities and derivatives). The FSCMA imposes restrictions on insider trading and price manipulation, requires specified information to be made available by listed companies to investors and establishes rules regarding margin trading, proxy solicitation, takeover bids, acquisition of treasury shares and reporting requirements for shareholders holding substantial interests. The FSCMA regulates the operation and monitoring of the securities and derivatives markets.

Protection of Customer's Interest in Case of Insolvency of Investment Brokers or Investment Dealers

Under Korean law, the relationship between a customer and an investment broker or an investment dealer in connection with a securities sell or buy order is deemed to be a consignment and the securities acquired by a consignment agent (i.e., the investment broker or the investment dealer) through such sell or buy order are regarded as belonging to the customer in so far as the customer and the consignment agent's creditors are concerned. Therefore, in the event of a bankruptcy or reorganization procedure involving an investment broker or an investment dealer, the customer of the investment broker or the investment dealer is entitled to the proceeds of the securities sold by the investment broker or the investment dealer.

When a customer places a sell order with an investment broker or an investment dealer that is not a member of the KRX KOSPI Market or the KRX KOSDAQ Market and this investment broker or investment dealer places a sell order with another investment broker or investment dealer that is a member of the KRX KOSPI Market or the KRX KOSDAQ Market, the customer is still entitled to the proceeds of the securities sold and received by the non-member company from the member company regardless of the bankruptcy or reorganization of the non-member company.

Under the FSCMA, the Korea Exchange is obliged to indemnify any loss or damage incurred by a counterparty as a result of a breach by members of the KRX KOSPI Market or the KRX KOSDAQ Market. If an investment broker or an investment dealer that is a member of the KRX KOSPI Market or the KRX KOSDAQ Market breaches its obligation in connection with a buy order, the Korea Exchange is obliged to pay the purchase price on behalf of the breaching member. Therefore, the customer can acquire the securities that have been ordered to be purchased by the breaching member.

When a customer places a buy order with a non-member company and the non-member company places a buy order with a member company, the customer has the legal right to the securities received by the non-member company from the member company because the purchased securities are regarded as belonging to the customer in so far as the customer and the non-member company's creditors are concerned.

As the cash deposited with an investment broker or an investment dealer is regarded as belonging to the investment broker or investment dealer, which is liable to return the same at the request of its customer, the customer cannot take back deposited cash from the investment broker or the investment dealer if a bankruptcy or rehabilitation procedure is instituted against the investment broker or the investment dealer and, therefore, can suffer from loss or damage as a result. However, in case of the investment broker or the investment dealer's bankruptcy, liquidation, cancellation of investment broker or investment dealer license or other insolvency events, the Depositor Protection Act provides that the Korea Deposit Insurance Corporation will, upon the request of the investors, pay each investor up to a total of Won 50 million, which shall represent both actual cash deposited and any interest accrued thereon. Pursuant to the FSCMA, as amended, investment brokers or investment dealers are required to deposit the cash received from its customers at the securities finance company established pursuant to the FSCMA. Set-off or attachment of cash deposits by investment brokers or investment dealers is prohibited. The premiums related to this insurance are paid by investment brokers or investment dealers.

Table of Contents**Clearance and Settlement**

The settlement of trades on the Korea Exchange is required to be handled by a settlement agency of the Korea Exchange. The Korea Securities Depository is the institution commissioned by the Korea Exchange to handle all such settlement of trades. The settlement of trades on the Korea Exchange takes place through a clearance and settlement procedure. The Korea Exchange has adopted the multilateral netting system and carries out the clearance of the trades by netting the sales and purchases of each Korea Securities Depository participant. The Korea Exchange is required to provide the daily net settlement results of the trades to the Korea Securities Depository one business day after the day of the sale and purchase contract. The Korea Securities Depository then handles settlement of the securities and the funds based on the information received from the Korea Exchange. The securities are settled through book-entry changes in the accounts of Korea Securities Depository participants and the funds are settled by transfer to an account at a bank designated by the Korea Securities Depository. Settlement of trades is generally required to take place on the third day following the day of the sale and purchase contract.

Item 9.D. *Selling Shareholders*

Not applicable

Item 9.E. *Dilution*

Not applicable

Item 9.F. *Expenses of the Issuer*

Not applicable

Item 10. *Additional Information***Item 10.A. *Share Capital***

Currently, our authorized share capital is 200,000,000 shares, which consists of shares of common stock, par value Won 5,000 per share (Common Shares) and shares of non-voting stock, par value Won 5,000 per share (Non-Voting Preferred Shares). Our Non-Voting Preferred Shares have a preferential right to dividend payments. Common Shares and Non-Voting Preferred Shares together are referred to as Shares. Under our articles of incorporation, we are authorized to issue Non-Voting Preferred Shares up to the limit prescribed by applicable law, the aggregate of which currently is one-quarter of our total issued and outstanding capital stock. As of December 31, 2017, 87,186,835 Common Shares were issued, of which 7,187,231 shares were held by us in treasury. We have never issued any Non-Voting Preferred Shares. All of the issued and outstanding Common Shares are fully-paid and non-assessable and are in registered form. We issue share certificates in denominations of 1, 5, 10, 50, 100, 500, 1,000 and 10,000 shares.

Item 10.B. *Memorandum and Articles of Association*

This section provides information relating to our capital stock, including brief summaries of material provisions of our articles of incorporation, the FSCMA, the Commercial Code and related laws, all as currently in effect. The following summaries are subject to, and are qualified in their entirety by reference to, our articles of incorporation and the applicable provisions of the FSCMA and the Commercial Code. We have filed copies of our articles of incorporation and these laws (except for the newly enacted the FSCMA) as exhibits to registration statements under the Securities Act or the Securities Exchange Act previously filed by us.

Table of Contents

Dividends

We distribute dividends to our shareholders in proportion to the number of shares owned by each shareholder. The Common Shares represented by the ADSs have the same dividend rights as other outstanding Common Shares.

Holders of Non-Voting Preferred Shares are entitled to receive dividends in priority to the holders of Common Shares in an amount not less than 9% of the par value of the Non-Voting Preferred Shares as determined by the board of directors at the time of their issuance. If the amount available for dividends is less than the aggregate amount of such minimum dividend, we do not have to declare dividends on the Non-Voting Preferred Shares.

We may declare dividends annually at the annual general meeting of shareholders which is held within three months after the end of the fiscal year. We pay the annual dividend shortly after the annual general meeting to the shareholders of record as of the end of the preceding fiscal year. We may distribute the annual dividend in cash, Shares or other form of property. However, a dividend of Shares must be distributed at par value. Dividends in Shares may not exceed one-half of the annual dividend. In addition, we may declare, and distribute in cash, interim dividends pursuant to a board resolution once a fiscal year to the eligible shareholders recorded as of the end of March, June and September of the relevant fiscal year. We have no obligation to pay any annual dividend unclaimed for five years from the payment date.

Under the Commercial Code, we may pay an annual dividend only to the extent the net asset amount in our balance sheets exceeds the sum of the following: (i) our stated capital, (ii) the total amount of our capital surplus reserve and earned surplus reserve accumulated up to the end of the relevant dividend period, (iii) the legal reserve to be set aside for annual dividend, and (iv) unrealized profits determined in the Presidential Decree to the Commercial Code. We may not pay an annual dividend unless we have set aside as earned surplus reserve an amount equal to at least 10% of the cash portion of the annual dividend or unless we have accumulated earned surplus reserve of not less than one-half of our stated capital. We may not use legal reserve to pay cash dividends but may transfer amounts from legal reserve to capital stock or use legal reserve to reduce an accumulated deficit.

Distribution of Free Shares

In addition to paying dividends in Shares out of our retained or current earnings, we may also distribute to our shareholders an amount transferred from our capital surplus or legal reserve to our stated capital in the form of free shares. We must distribute such free shares to all our shareholders in proportion to their existing shareholdings.

Preemptive Rights and Issuance of Additional Shares

We may issue authorized but unissued shares at the times and, unless otherwise provided in the Commercial Code, on the terms our board of directors may determine. All our shareholders are generally entitled to subscribe for any newly issued Shares in proportion to their existing shareholdings. We must offer new Shares on uniform terms to all shareholders who have preemptive rights and are listed on our shareholders register as of the relevant record date. Under the Commercial Code, we may vary, without shareholders' approval, the terms of these preemptive rights for different classes of shares. We must give public notice of the preemptive rights regarding new Shares and their transferability at least two weeks before the relevant record date. Our board of directors may determine how to distribute Shares for which preemptive rights have not been exercised or where fractions of Shares occur.

Table of Contents

Under our articles of incorporation, we may issue new Shares pursuant to a board resolution to persons other than existing shareholders, who in these circumstances will not have preemptive rights, if the new Shares are:

offered publicly or to underwriters for underwriting pursuant to the FSCMA;

issued to members of our employee stock ownership association pursuant to the FSCMA;

represented by depositary receipts pursuant to the FSCMA;

issued in a general public offering pursuant to a board resolution in accordance with the FSCMA, the amount of which is no more than 10% of the outstanding Shares;

issued to our creditors pursuant to a debt-equity swap;

issued to domestic or foreign corporations pursuant to a joint venture agreement, strategic coalition or technology inducement agreement when deemed necessary for management purposes; or

issued to domestic or foreign financial institutions when necessary for raising funds in emergency cases.

In addition, we may issue convertible bonds or bonds with warrants, each up to an aggregate principal amount of Won 2 trillion, to persons other than existing shareholders.

Members of our employee stock ownership association, whether or not they are our shareholders, generally have a preemptive right to subscribe for up to 20% of the Shares publicly offered pursuant to the FSCMA. This right is exercisable only to the extent that the total number of Shares so acquired and held by members of our employee stock ownership association does not exceed 20% of the total number of Shares then issued. As of December 31, 2017, our employees owned, through our employee stock ownership association, approximately 1.72% of our common stock in their employee accounts.

General Meeting of Shareholders

We hold the annual general meeting of shareholders within three months after the end of each fiscal year. The record date of the register of shareholders is December 31 of each year, and such shareholders listed on the register of shareholder as of the record date are entitled to exercise their right at the general meeting of shareholders. Subject to a board resolution or court approval, we may hold an extraordinary general meeting of shareholders:

as necessary;

at the request of holders of an aggregate of 3% or more of our outstanding Shares;

at the request of shareholders holding an aggregate of 1.5% or more of our outstanding Shares for at least six months; or

Edgar Filing: POSCO - Form 20-F

at the request of our audit committee.

Holders of Non-Voting Preferred Shares may request a general meeting of shareholders only after the Non-Voting Preferred Shares become entitled to vote or enfranchised, as described under Voting Rights below.

We must give shareholders written notice or electronic document setting out the date, place and agenda of the meeting at least two weeks before the date of the general meeting of shareholders. However, for holders of 1% or less of the total number of issued and outstanding voting Shares, we may give notice by placing at least two public notices in at least two daily newspapers or by notices to

Table of Contents

be posted on the electronic disclosure database system maintained by the Financial Supervisory Service or the Korea Exchange at least two weeks in advance of the meeting. Currently, we use *The Seoul Shinmun* published in Seoul, *The Maeil Shinmun* published in Taegu and *The Kwangju Ilbo* published in Kwangju for this purpose. Shareholders not on the shareholders' register as of the record date are not entitled to receive notice of the general meeting of shareholders or attend or vote at the meeting. Holders of Non-Voting Preferred Shares, unless enfranchised, are not entitled to receive notice of general meetings of shareholders, but may attend such meetings. Our general meetings of shareholders are held either in Pohang or Seoul.

Voting Rights

Holders of our Common Shares are entitled to one vote for each Common Share, except that voting rights of Common Shares held by us, or by a corporate shareholder that is more than 10% owned by us either directly or indirectly, may not be exercised. The Commercial Code permitted cumulative voting, under which voting method each shareholder would have multiple voting rights corresponding to the number of directors to be appointed in the voting and may exercise all voting rights cumulatively to elect one director.

Our shareholders may adopt resolutions at a general meeting by an affirmative majority vote of the voting Shares present or represented at the meeting, where the affirmative votes also represent at least one-fourth of our total voting Shares then issued and outstanding. However, under the Commercial Code and our articles of incorporation, the following matters, among others, require approval by the holders of at least two-thirds of the voting Shares present or represented at a meeting, where the affirmative votes also represent at least one-third of our total voting Shares then issued and outstanding:

amending our articles of incorporation;

removing a director;

effecting any dissolution, merger or consolidation of us;

transferring the whole or any significant part of our business;

acquisition of all or a part of the business of any other company that may have a material impact on our business;

issuing any new Shares at a price lower than their par value; or

approving matters required to be approved at a general meeting of shareholders, which have material effects on our assets, as determined by the Board of Directors.

In general, holders of Non-Voting Preferred Shares are not entitled to vote on any resolution or receive notice of any general meeting of shareholders. However, in the case of amendments to our articles of incorporation, or any merger or consolidation of us, or in some other cases that affect the rights or interests of the Non-Voting Preferred Shares, approval of the holders of Non-Voting Preferred Shares is required. We may obtain the approval by a resolution of holders of at least two-thirds of the Non-Voting Preferred Shares present or represented at a class meeting of the holders of Non-Voting Preferred Shares, where the affirmative votes also represent at least one-third of our total issued and outstanding Non-Voting Preferred Shares.

Shareholders may exercise their voting rights by proxy. When a shareholder is a corporate entity, such shareholder may give proxies to its officers or directors.

Holders of ADRs exercise their voting rights through the ADR depositary, an agent of which is the record holder of the underlying Common Shares. Subject to the provisions of the deposit agreement, ADR holders are entitled to instruct the ADR depositary how to vote the Common

Shares underlying their ADSs.

Table of Contents

Rights of Dissenting Shareholders

In some limited circumstances, including the transfer of the whole or any significant part of our business and our merger or consolidation with another company, dissenting shareholders have the right to require us to purchase their Shares. Only the shareholders who have executed a share purchase agreement evidencing their acquisition of the relevant Shares on or prior to the day immediately following the public disclosure of the board resolutions approving any of the aforementioned transactions have the rights to require us to purchase their Shares. To exercise this right, shareholders, including holders of Non-Voting Preferred Shares, must submit to us a written notice of their intention to dissent before the general meeting of shareholders. Within 20 days after the relevant resolution is passed at a meeting, the dissenting shareholders must request us in writing to purchase their Shares. We are obligated to purchase the Shares of dissenting shareholders within one month after the expiration of the 20-day period. The purchase price for the Shares is required to be determined through negotiation between the dissenting shareholders and us. If we cannot agree on a price through negotiation, the purchase price will be the average of (1) the weighted average of the daily Share prices on the Korea Exchange for the two-month period before the date of the adoption of the relevant board resolution, (2) the weighted average of the daily Share price on the Korea Exchange for the one month period before the date of the adoption of the relevant resolution and (3) the weighted average of the daily Share price on the Korea Exchange for the one week period before such date of the adoption of the relevant resolution. However, the court may determine this price if we or dissenting shareholders do not accept the purchase price. Holders of ADSs will not be able to exercise dissenters' rights unless they have withdrawn the underlying common stock and become our direct shareholders.

Register of Shareholders and Record Dates

Our transfer agent, Kookmin Bank, maintains the register of our shareholders at its office in Seoul, Korea. It registers transfers of Shares on the register of shareholders on presentation of the Share certificates.

The record date for annual dividends is December 31. For the purpose of determining the shareholders entitled to annual dividends, the register of shareholders may be closed for the period from January 1 to January 15 of each year. Further, for the purpose of determining the shareholders entitled to some other rights pertaining to the Shares, we may, on at least two weeks' public notice, set a record date and/or close the register of shareholders for not more than three months. The trading of Shares and the delivery of share certificates may continue while the register of shareholders is closed.

Annual Report

At least one week before the annual general meeting of shareholders, we must make our annual report and audited financial statements available for inspection at our principal office and at all of our branch offices. In addition, copies of annual reports, the audited financial statements and any resolutions adopted at the general meeting of shareholders will be available to our shareholders.

Under the FSCMA, we must file with the Financial Services Commission and the Korea Exchange (1) an annual business report within 90 days after the end of our fiscal year, (2) a half-year report within 45 days after the end of the first six months of our fiscal year, and (3) quarterly reports within 45 days after the end of the third month and the ninth month of our fiscal year. Copies of these reports are or will be available for public inspection at the Financial Services Commission and the Korea Exchange.

Transfer of Shares

Under the Commercial Code, the transfer of Shares is effected by delivery of share certificates. However, to assert shareholders' rights against us, the transferee must have his name and address

Table of Contents

registered on our register of shareholders. For this purpose, a shareholder is required to file his name, address and seal with our transfer agent. A non-Korean shareholder may file a specimen signature in place of a seal, unless he is a citizen of a country with a sealing system similar to that of Korea. In addition, a non-resident shareholder must appoint an agent authorized to receive notices on his behalf in Korea and file a mailing address in Korea. The above requirements do not apply to the holders of ADSs.

Under current Korean regulations, the Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks), financial investment companies with a brokerage, dealing or collective investment license and internationally recognized custodians may act as agents and provide related services for foreign shareholders. Certain foreign exchange controls and securities regulations apply to the transfer of Shares by non-residents or non-Koreans. See Item 10. Additional Information Item 10.D. Exchange Controls.

Our transfer agent is Kookmin Bank, located at 26, Gukjegeumyung-ro 8-gil, Yeongdeungpo-gu, Seoul, Korea.

Acquisition of Shares by Us

We may acquire our own Shares, subject to the approval by the general meeting of shareholders. In addition, we may acquire Shares through purchases on the Korea Exchange or through a tender offer or by acquiring the interests in a trust account holding our own Shares through agreements with trust companies and asset management companies. The aggregate purchase price for the Shares may not exceed the total amount available for distribution of dividends available at the end of the preceding fiscal year less the amount of dividends and mandatory reserves required to be set aside for that fiscal year, subject to certain procedural requirements.

In accordance with the Commercial Code, we may resell or transfer any Shares acquired by us to a third party, subject to the approval by the Board of Directors. In general, corporate entities in which we own more than 50% equity interest may not acquire our Shares. Under the FSCMA, we are subject to certain selling restrictions for the Shares acquired by us.

Liquidation Rights

In the event of our liquidation, after payment of all debts, liquidation expenses and taxes, our remaining assets will be distributed among shareholders in proportion to their shareholdings. Holders of Non-Voting Preferred Shares have no preference in liquidation.

Item 10.C. Material Contracts

None.

Item 10.D. Exchange Controls

Shares and ADSs

The Foreign Exchange Transaction Act and the Presidential Decree and regulations under that Act and Decree (collectively, Foreign Exchange Transaction Laws) and the Foreign Investment Promotion Law regulate investment in Korean securities by non-residents and issuance of securities outside Korea by Korean companies. Under the Foreign Exchange Transaction Laws, non-residents may invest in Korean securities subject to procedural requirements in accordance with these laws. The Financial Services Commission has also adopted, pursuant to its authority under the FSCMA, regulations that restrict investment by foreigners in Korean securities.

Table of Contents

Subject to certain limitations, the Ministry of Strategy and Finance has the authority to take the following actions under the Foreign Exchange Transaction Laws:

if the Government deems it necessary on account of war, armed conflict, natural disaster or grave and sudden and significant changes in domestic or foreign economic circumstances or similar events or circumstances, the Ministry of Strategy and Finance may temporarily suspend performance under any or all foreign exchange transactions, in whole or in part, to which the Foreign Exchange Transaction Laws apply (including suspension of payment and receipt of foreign exchange) or impose an obligation to deposit, safe-keep or sell any means of payment to The Bank of Korea, a foreign exchange stabilization fund, certain other governmental agencies or financial companies; and

if the Government concludes that the international balance of payments and international financial markets are experiencing or are likely to experience significant disruption or that the movement of capital between Korea and other countries is likely to adversely affect the Won, exchange rates or other macroeconomic policies, the Ministry of Strategy and Finance may take action to require any person who intends to effect a capital transaction to obtain permission or to require any person who effects a capital transaction to deposit a portion of the means of payment acquired in such transactions with The Bank of Korea, a foreign exchange stabilization fund, certain other governmental agencies or financial companies.

Government Review of Issuance of ADSs

In order for us to issue shares represented by ADSs, we are required to file a prior report of the issuance with our designated foreign exchange bank or the Ministry of Strategy and Finance, depending on the issuance amount. No further Korean governmental approval is necessary for the initial offering and issuance of the ADSs.

Under current Korean laws and regulations, the depositary bank is required to obtain our prior consent for the number of shares to be deposited in any given proposed deposit which exceeds the difference between (1) the aggregate number of shares deposited by us for the issuance of ADSs (including deposits in connection with the initial and all subsequent offerings of ADSs and stock dividends or other distributions related to these ADSs) and (2) the number of shares on deposit with the depositary bank at the time of such proposed deposit. We can give no assurance that we would grant our consent, if our consent is required.

Reporting Requirements for Holders of Substantial Interests

Under the FSCMA, any person whose direct or beneficial ownership of shares with voting rights, whether in the form of shares or ADSs, certificates representing the rights to subscribe for Shares and equity-related debt securities including convertible bonds and bonds with warrants (collectively, "Equity Securities") together with the Equity Securities beneficially owned by certain related persons or by any person acting in concert with the person accounts for 5% or more of the total outstanding Equity Securities is required to report the status and the purpose (whether or not to exert an influence on management control over the issuer) of the holdings to the Financial Services Commission and the Korea Exchange within five business days after reaching the 5% ownership interest. In addition, any change in the purpose of holding such ownership interest or a change in the ownership interest subsequent to the report which equals or exceeds 1% of the total outstanding Equity Securities is required to be reported to the Financial Services Commission and the Korea Exchange within five business days from the date of the change. However, the reporting deadline of such reporting requirement is extended to the tenth day of the month immediately following the month of such change in their shareholding for (1) certain professional investors, as specified under the FSCMA, or (2) persons who hold shares for purposes other than management control. Those who report the purpose of shareholding as management control of the issuer are prohibited from exercising their voting rights and acquiring additional shares for five days subsequent to their report under the FSCMA.

Table of Contents

Violation of these reporting requirements may subject a person to criminal sanctions such as fines or imprisonment and may result in a loss of voting rights with respect to the ownership of Equity Securities exceeding 5%. Furthermore, the Financial Services Commission may issue an order to dispose of non-reported Equity Securities.

In addition to the reporting requirements described above, any person whose direct or beneficial ownership of a company's shares accounts for 10% or more of the total issued and outstanding shares with voting rights (a major stockholder) must report the status of his or her shareholding to the Securities and Futures Commission and the Korea Exchange within five business days after he or she becomes a major stockholder. In addition, any change in the ownership interest subsequent to the report must be reported to the Securities and Futures Commission and the Korea Exchange by the fifth business day of any changes in his or her shareholding. Violation of these reporting requirements may subject a person to criminal sanctions such as fines or imprisonment.

Under the KRX regulations, if a company listed on the KRX KOSPI Market has submitted public disclosure of material matters to a foreign financial investment supervisory authority pursuant to the laws of the foreign jurisdiction, then it must submit a copy of the public disclosure and a Korean translation thereof to the Korea Exchange. In addition, if a company listed on the KRX KOSPI Market is approved for listing on a foreign stock exchange or determined to be de-listed from the foreign stock exchange or actually lists on, or de-lists from, a foreign stock exchange, then it must submit to the Korea Exchange a copy, together with a Korean translation thereof, of all documents submitted to, or received from, the relevant foreign government, supervisory authority or stock exchange.

Restrictions Applicable to ADSs

No Korean governmental approval is necessary for the sale and purchase of ADSs in the secondary market outside Korea or for the withdrawal of shares underlying ADSs and the delivery inside Korea of shares in connection with the withdrawal, provided that a foreigner who intends to acquire the shares must obtain an investment registration card from the Financial Supervisory Service as described below. The acquisition of the shares by a foreigner must be immediately reported by the foreigner or his standing proxy in Korea to the Governor of the Financial Supervisory Service (Governor).

Persons who have acquired shares as a result of the withdrawal of shares underlying the ADSs may exercise their preemptive rights for new shares, participate in free distributions and receive dividends on shares without any further governmental approval.

In addition, under the Financial Services Commission regulations, effective as of November 30, 2006, we are required to file a securities registration statement with the Financial Services Commission and such securities registration statement has to become effective pursuant to the FSCMA in order for us to issue shares represented by ADSs, except in certain limited circumstances.

Restrictions Applicable to Shares

Under the Foreign Exchange Transaction Laws and the Financial Services Commission regulations (together, the Investment Rules), foreigners may invest, with limited exceptions and subject to procedural requirements, in all shares of Korean companies, whether listed on the KRX KOSPI Market or the KRX KOSDAQ Market, unless prohibited by specific laws. Foreign investors may trade shares listed on the KRX KOSPI Market or the KRX KOSDAQ Market only through the KRX KOSPI Market or the KRX KOSDAQ Market, except in limited circumstances, including, among others:

odd-lot trading of shares;

acquisition of shares (Converted Shares) by exercise of warrant, conversion right under convertible bonds or withdrawal right under depositary receipts issued outside of Korea by a Korean company;

Table of Contents

acquisition of shares as a result of inheritance, donation, bequest or exercise of shareholders' rights, including preemptive rights or rights to participate in free distributions and receive dividends;

over-the-counter transactions between foreigners of a class of shares for which the ceiling on aggregate acquisition by foreigners, as explained below, has been reached or exceeded with certain exceptions;

shares acquired by direct investment as defined in the Foreign Investment Promotion Law;

disposal of shares pursuant to the exercise of appraisal rights of dissenting shareholders;

disposal of shares in connection with a tender offer;

acquisition of shares by a foreign depository in connection with the issuance of depository receipts;

acquisition and disposal of shares through overseas stock exchange market if such shares are simultaneously listed on the KRX KOSPI Market or the KRX KOSDAQ Market and such overseas stock exchange; and

arm's length transactions between foreigners, if all of such foreigners belong to an investment group managed by the same person. The Investment Rules require a foreign investor who wishes to invest in shares for the first time on the Korea Exchange (including Converted Shares) to register its identity with the Financial Supervisory Service prior to making any such investment; however, the registration requirement does not apply to foreign investors who acquire Converted Shares with the intention of selling such Converted Shares within three months from the date of acquisition of the Converted Shares or who acquire the shares in an over-the-counter transaction or dispose of shares where such acquisition or disposal is deemed to be a foreign direct investment pursuant to the Foreign Investment Promotion Law. Upon registration, the Financial Supervisory Service will issue to the foreign investor an investment registration card which must be presented each time the foreign investor opens a brokerage account with a financial investment company with a brokerage license or dealing license in Korea. Foreigners eligible to obtain an investment registration card include foreign nationals who are individuals residing abroad for more than six months, foreign governments, foreign municipal authorities, foreign public institutions, international financial institutions or similar international organizations, corporations incorporated under foreign laws and any person in any additional category designated by the Enforcement Decree to the FSCMA. All Korean offices of a foreign corporation as a group are treated as a separate foreigner from the offices of the corporation outside Korea. However, a foreign corporation or depository issuing depository receipts may obtain one or more investment registration cards in its name in certain circumstances as described in the relevant regulations.

Upon a foreign investor's purchase of shares through the Korea Exchange, no separate report by the investor is required because the investment registration card system is designed to control and oversee foreign investment through a computer system. However, a foreign investor's acquisition or sale of shares outside the Korea Exchange (as discussed above) must be reported by the foreign investor or his standing proxy to the Governor at the time of each such acquisition or sale; provided, however, that a foreign investor must ensure that any acquisition or sale by it of shares outside the Korea Exchange in the case of trades in connection with a tender offer, odd-lot trading of shares or trades of a class of shares for which the aggregate foreign ownership limit has been reached or exceeded, is reported to the Governor by the Korea Securities Depository, financial investment companies with a dealing or brokerage license or securities finance companies engaged to facilitate such transaction. A foreign investor must appoint one or more standing proxies from among the Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks) financial investment companies with a dealing, brokerage or collective investment license and internationally

Table of Contents

recognized custodians which will act as a standing proxy to exercise shareholders' rights or perform any matters related to the foregoing activities if the foreign investor does not perform these activities himself. However, a foreign investor may be exempted from complying with these standing proxy rules with the approval of the Governor in cases deemed inevitable by reason of conflict between laws of Korea and those of the home country of the foreign investor.

Certificates evidencing shares of Korean companies must be kept in custody with an eligible custodian in Korea. Only foreign exchange banks (including domestic branches of foreign banks), financial investment companies with a dealing, brokerage or collective investment license, the Korea Securities Depository and internationally recognized custodians are eligible to act as a custodian of shares for a non-resident or foreign investor. A foreign investor must ensure that his custodian deposits its shares with the Korea Securities Depository. However, a foreign investor may be exempted from complying with this deposit requirement with the approval of the Governor in circumstances where compliance with that requirement is made impracticable, including cases where compliance would contravene the laws of the home country of such foreign investor.

Under the Investment Rules, with certain exceptions, foreign investors may acquire shares of a Korean company without being subject to any foreign investment ceiling. As one such exception, designated public corporations are subject to a 40% ceiling on the acquisition of shares by foreigners in the aggregate. Designated public corporations may set a ceiling on the acquisition of shares by a single person according to its articles of incorporation. We set this ceiling at 3% until the discontinuation of our designation as a public corporation on September 28, 2000. As a result, we currently do not have any ceiling on the acquisition of shares by a single person or by foreigners in the aggregate. Furthermore, an investment by a foreign investor of not less than 10% of the outstanding shares with voting rights of a Korean company is defined as a direct foreign investment under the Foreign Investment Promotion Law, which is, in general, subject to the report to, and acceptance by, the Ministry of Trade, Industry & Energy. The acquisition of shares of a Korean company by a foreign investor may also be subject to certain foreign shareholding restrictions in the event that the restrictions are prescribed in each specific law which regulates the business of the Korean company.

Under the Foreign Exchange Transaction Laws, a foreign investor who intends to acquire shares must designate a foreign exchange bank at which he must open a foreign currency account and a Won account exclusively for stock investments. No approval is required for remittance into Korea and deposit of foreign currency funds in the foreign currency account. Foreign currency funds may be transferred from the foreign currency account at the time required to place a deposit for, or settle the purchase price of, a stock purchase transaction to a Won account opened in the name of a financial investment company with a dealing, brokerage or collective investment license. Funds in the foreign currency account may be remitted abroad without any governmental approval.

Dividends on Shares are paid in Won. No governmental approval is required for foreign investors to receive dividends on, or the Won proceeds of the sale of, any shares to be paid, received and retained in Korea. Dividends paid on, and the Won proceeds of the sale of, any shares held by a non-resident of Korea must be deposited either in a Won account with the investor's financial investment company with a dealing, brokerage or collective investment license or his Won Account. Funds in the investor's Won Account may be transferred to his foreign currency account or withdrawn for local living expenses up to certain limitations. Funds in the Won Account may also be used for future investment in shares or for payment of the subscription price of new shares obtained through the exercise of preemptive rights.

Financial investment companies with a dealing, brokerage or collective investment license are allowed to open foreign currency accounts with foreign exchange banks exclusively for accommodating foreign investors' stock investments in Korea. Through these accounts, these financial investment companies and asset management companies may enter into foreign exchange transactions on a limited basis, such as conversion of foreign currency funds and Won funds, as counterparty to foreign investors, without the investors having to open their own accounts with foreign exchange banks.

Table of Contents

Item 10.E. Taxation

The following summary is based upon tax laws of the United States and Korea as in effect on the date of this annual report on Form 20-F, and is subject to any change in United States or Korean law that may come into effect after such date. Investors in the shares of common stock or ADSs are advised to consult their own tax advisers as to the United States, Korean or other tax consequences of the purchase, ownership and disposition of such securities, including the effect of any foreign, state or local tax laws.

Korean Taxation

The following is a summary of the principal Korean tax consequences to owners of the common shares or ADSs, as the case may be, who are non-resident individuals or non-Korean corporations without a permanent establishment in Korea to which the relevant income is attributable or with which the relevant income is effectively connected (Non-resident Holders). The statements regarding Korean tax laws set forth below are based on the laws in force and as interpreted by the Korean taxation authorities as of the date hereof. This summary is not exhaustive of all possible tax considerations which may apply to a particular investor and potential investors are advised to satisfy themselves as to the overall tax consequences of the acquisition, ownership and disposition of the common shares or ADSs, including specifically the tax consequences under Korean law, the laws of the jurisdiction of which they are resident, and any tax treaty between Korea and their country of residence, by consulting their own tax advisers.

Tax on Dividends

Dividends on the common shares or ADSs paid (whether in cash or in shares) to a Non-resident Holder will be subject to Korean withholding taxes at the rate of 22% (including local income tax) or such lower rate as is applicable under a treaty between Korea and such Non-resident Holder's country of tax residence. Free distributions of shares representing a capitalization of certain capital surplus reserves may be subject to Korean withholding taxes.

The tax is withheld by the payer of the dividend. While it is the payer which is required to withhold the tax, Korean law generally entitles the person who was subject to the withholding of Korean tax to recover from the Government any part of the Korean tax withheld, upon providing evidence that it was entitled to have tax withheld at a lower rate, if certain conditions are met.

Tax on Capital Gains

As a general rule, capital gains earned by Non-resident Holders upon transfer of the common shares or ADSs are subject to Korean withholding tax at the lower of (i) 11% (including local income tax) of the gross proceeds realized or (ii) 22% (including local income tax) of the net realized gains (subject to the production of satisfactory evidence of the acquisition costs and certain direct transaction costs), unless exempt from Korean income taxation under the effective Korean tax treaty with the Non-resident Holder's country of tax residence or Korean tax law.

However, a Non-resident Holder will not be subject to Korean income taxation on capital gains realized upon the sale of the common shares through the KRX KOSPI Market if the Non-resident Holder (i) has no permanent establishment in Korea and (ii) did not or has not owned (together with any shares owned by any entity with a specified special relationship with such Non-resident Holder) 25% or more of the total issued and outstanding shares of us at any time during the calendar year in which the sale occurs and during the five calendar years prior to the calendar year in which the sale occurs.

It should be noted that capital gains earned by you (regardless of whether you have a permanent establishment in Korea) from a transfer of ADSs outside Korea will generally be exempt

Table of Contents

from Korean income taxation, provided that the ADSs are deemed to have been issued overseas. If and when an owner of the underlying common shares transfers the ADSs following the conversion of the underlying shares for ADSs, such person will not be exempt from Korean income taxation.

Inheritance Tax and Gift Tax

Korean inheritance tax is imposed upon (1) all assets (wherever located) of the deceased if at the time of his death he was a tax resident of Korea and (2) all property located in Korea which passes on death (irrespective of the domicile of the deceased). Gift tax is imposed in similar circumstances to the above. The taxes are imposed if the value of the relevant property is above a certain limit and the rate varies from 10% to 50% depending on the value of the property.

Under Korean inheritance and gift tax laws, securities issued by a Korean corporation are deemed to be located in Korea irrespective of where they are physically located or by whom they are owned and consequently, the Korea inheritance and gift taxes will be imposed on transfers of the securities by inheritance or gift.

Securities Transaction Tax

Securities transaction tax is imposed on the transfer of shares issued by a Korean corporation or the right to subscribe for such shares generally at the rate of 0.5% of the sales price. In the case of the transfer of shares listed on the KRX KOSPI Market (such as the common shares), the securities transaction tax is imposed generally at the rate of (i) 0.3% of the sales price of such shares (including agricultural and fishery special surtax thereon) if traded on the KRX KOSPI Market or (ii) subject to certain exceptions, 0.5% of the sales price of such shares if traded outside the KRX KOSPI Market.

Securities transaction tax or the agricultural and fishery special surtax is not applicable if (i) the shares or rights to subscribe for shares are listed on a designated foreign stock exchange and (ii) the sale of the shares takes place on such exchange.

Securities transaction tax, if applicable, must be paid by the transferor of the shares or rights, in principle. When the transfer is effected through a securities settlement company, such settlement company is generally required to withhold and pay (to the tax authority) the tax, and when such transfer is made through a financial investment company with a brokerage license only, such company is required to withhold and pay the tax. Where the transfer is effected by a Non-resident Holder without a permanent establishment in Korea, other than through a securities settlement company or a financial investment company with a brokerage license, the transferee is required to withhold the securities transaction tax. Failure to do so will result in the imposition of penalties equal to the sum of (i) between 10% to 40% of the tax amount due, depending on the nature of the improper reporting, and (ii) 10.95% per annum on the tax amount due for the default period.

Tax Treaties

Currently, Korea has income tax treaties with a number of countries, including, inter alia, Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, Luxembourg, Ireland, the Netherlands, New Zealand, Norway, Singapore, Sweden, Switzerland, the United Kingdom and the United States of America, under which the rate of withholding tax on dividend and interest is reduced, generally to between 5% and 16.5% (including local income tax), and the tax on capital gains derived by a non-resident from the transfer of securities issued by a Korean company is often eliminated.

Each Non-resident Holder of common shares should inquire for itself whether it is entitled to the benefits of a tax treaty with Korea. It is the responsibility of the party claiming the benefits of a tax treaty in respect of interest, dividend, capital gains or other income to submit to us (or our agent), the

Table of Contents

purchaser or the financial investment company with a brokerage license, as the case may be, prior to or at the time of payment, such evidence of tax residence of the party claiming the treaty benefit as the Korean tax authorities may require in support of its claim for treaty protection. In the absence of sufficient proof, we (or our agent), the purchaser or the financial investment company with a brokerage license, as the case may be, must withhold tax at the normal rates.

For a non-resident of Korea to obtain the benefits of treaty-reduced tax rates on certain Korean source income (e.g., capital gains and interest) under an applicable tax treaty, Korean tax law requires such non-resident (or its agents) to submit to the payer of such Korean source income an application for treaty-reduced tax rates prior to receipt of such Korean source income; provided, however, that an owner of ADSs who is a non-resident of Korea is not required to submit such application, if the Korean source income on the ADSs is paid through an account opened at the Korea Securities Depository by a foreign depository. The payer of such Korean source income, in turn, is required to submit such application to the relevant district tax office by the ninth day of the month following the date of the first payment of such income.

If Korean source income is paid to a non-resident through an overseas investment vehicle, such investment vehicle must obtain an application for tax exemption or reduced tax rates from each non-resident, who is the beneficial owner of such investment vehicle and submit to the payer of such Korean source incomes an overseas investment vehicle report, together with the applications for tax exemptions or reduced tax rates prepared by the non-resident beneficial owner. An overseas investment vehicle means an organization established outside of Korea that manages funds collected through investment solicitation by way of acquiring, disposing, or otherwise investing in investment targets and then distributes the outcome of such management to investors. An application for tax exemption or reduced tax rates submitted by the non-resident remains effective for three years from submission, and if any material changes occur with respect to information provided in the application, an application reflecting such change must be newly submitted.

At present, Korea has not entered into any tax treaty relating to inheritance or gift tax.

United States Taxation

This summary describes the material U.S. federal income tax consequences for a U.S. holder (as defined below) of owning our shares of common stock or ADSs. This summary applies to you only if you hold shares of common stock or ADSs as capital assets for tax purposes. This summary does not apply to you if you are a member of a class of holders subject to special rules, such as:

a dealer in securities or currencies;

a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings;

a bank;

a life insurance company;

a tax-exempt organization;

a person that holds shares of common stock or ADSs that are a hedge or that are hedged against interest rate or currency risks;

a person that holds shares of common stock or ADSs as part of a straddle or conversion transaction for tax purposes;

a person whose functional currency for tax purposes is not the Dollar;

a person that owns or is deemed to own 10% or more of any class of our stock or 10% or more of the combined voting power or value of all of our classes of stock; or

Table of Contents

an entity treated as a partnership for U.S. federal income tax purposes that holds shares of common stock or ADSs, or an investor therein.

This summary is based on laws, treaties and regulatory interpretations in effect on the date hereof, all of which are subject to change, possibly on a retroactive basis.

Please consult your own tax advisers concerning the U.S. federal, state, local and other foreign tax consequences of purchasing, owning and disposing of shares of common stock or ADSs in your particular circumstances.

For purposes of this summary, you are a U.S. holder if you are a beneficial owner of a share of common stock or ADS that is:

a citizen or resident of the United States;

a U.S. domestic corporation; or

otherwise subject to U.S. federal income tax on a net income basis with respect to income from the shares of common stock or ADS.

Shares of Common Stock and ADSs

In general, if you are the beneficial owner of ADSs, you will be treated as the beneficial owner of the shares of common stock represented by those ADSs for U.S. federal income tax purposes, and no gain or loss will be recognized if you exchange an ADS for the shares of common stock represented by that ADS.

Dividends

The gross amount of cash dividends that you receive (prior to deduction of Korean taxes) generally will be subject to U.S. federal income taxation as foreign source dividend income. Dividends paid in Won will be included in your income in a Dollar amount calculated by reference to the exchange rate in effect on the date of your (or, in the case of ADSs, the depositary's) receipt of the dividend, regardless of whether the payment is in fact converted into Dollars. If such a dividend is converted into Dollars on the date of receipt, you generally should not be required to recognize foreign currency gain or loss in respect of the dividend income. U.S. holders should consult their own tax advisers regarding the treatment of any foreign currency gain or loss on any Won received by U.S. holders that are converted into Dollars on a date subsequent to receipt.

Subject to certain exceptions for short-term and hedged positions, the Dollar amount of dividends received by an individual U.S. holder with respect to the ADSs and common stock will be subject to taxation at a preferential rate applicable to long-term capital gains if the dividends are qualified dividends. Dividends paid on the ADSs and common stock will be treated as qualified dividends if (i) we are eligible for the benefits of a comprehensive income tax treaty with the United States that the Internal Revenue Service has approved for the purposes of the qualified dividend rules and (ii) we were not, in the year prior to the year in which the dividend is paid, and are not, in the year in which the dividend is paid, a passive foreign investment company (PFIC). The income tax treaty between Korea and the United States (Treaty) has been approved for the purposes of the qualified dividend rules, and we believe we are eligible for benefits under the Treaty. Based on our audited financial statements and relevant market and shareholder data, we believe that we were not treated as a PFIC for U.S. federal income tax purposes with respect to our 2016 or 2017 taxable year. In addition, based on our current expectations regarding the value and nature of our assets, the sources and nature of our income, and relevant market and shareholder data, we do not anticipate becoming a PFIC for our 2018 taxable year. You should consult your own tax advisers regarding the availability of the reduced dividend tax rate in the light of your own particular circumstances.

Table of Contents

Distributions of additional shares in respect of shares of common stock or ADSs that are made as part of a pro-rata distribution to all of our shareholders generally will not be subject to U.S. federal income tax.

Sales and Other Dispositions

For U.S. federal income tax purposes, you will recognize taxable gain or loss on any sale, exchange or other taxable disposition of common stock or ADSs equal to the difference, if any, between the amount realized on the sale or exchange and your adjusted tax basis in the common stock or ADSs. Any gain realized by a U.S. holder on the sale or other disposition of common stock or ADSs generally will be treated as U.S. source income for U.S. foreign tax credit purposes. This gain or loss will be capital gain or loss, and will be long-term capital gain or loss to the extent that the shares of common stock or ADSs sold or disposed of were held for more than one year. Your ability to offset capital losses against ordinary income is limited. Long-term capital gain recognized by an individual U.S. holder generally is subject to taxation at a reduced rate.

Foreign Tax Credit Considerations

You should consult your own tax advisers to determine whether you are subject to any special rules that limit your ability to make effective use of foreign tax credits, including the possible adverse impact of failing to take advantage of benefits under the income tax treaty between the United States and Korea. If no such rules apply, you generally may claim a credit, up to any applicable reduced rates provided under the Treaty, against your U.S. federal income tax liability for Korean taxes withheld from dividends on shares of common stock or ADSs, so long as you have owned the shares of common stock or ADSs (and not entered into specified kinds of hedging transactions) for at least a 16-day period that includes the ex-dividend date. Instead of claiming a credit, you may, at your election, deduct such Korean taxes in computing your taxable income, provided that you do not elect to claim a foreign tax credit for any foreign income taxes paid or accrued for the relevant tax year and subject to generally applicable limitations under U.S. tax law. Foreign tax credits will not be allowed for withholding taxes imposed in respect of certain short-term or hedged positions in securities and may not be allowed in respect of arrangements in which your expected economic profit is insubstantial. You may not be able to use the foreign tax credit associated with any Korean withholding tax imposed on a distribution of additional shares that is not subject to U.S. federal income tax unless you can use the credit against U.S. federal income tax due on other foreign-source income.

Any Korean securities transaction tax or agriculture and fishery special tax that you pay will not be creditable for foreign tax credit purposes.

The calculation of foreign tax credits and, in the case of a U.S. holder that elects to deduct foreign taxes, the availability of deductions, involves the application of complex rules that depend on a U.S. holder's particular circumstances. You should consult your own tax advisers regarding the creditability or deductibility of such taxes.

Specified Foreign Financial Assets

Certain U.S. holders that own specified foreign financial assets with an aggregate value in excess of US\$50,000 are generally required to file an information statement along with their tax returns, currently on Form 8938, with respect to such assets. Specified foreign financial assets include any financial accounts held at a non-U.S. financial institution, as well as securities issued by a non-U.S. issuer (which would include the common stock or ADSs) that are not held in accounts maintained by financial institutions. Higher reporting thresholds apply to certain individuals living abroad and to certain married individuals. Regulations extend this reporting requirement to certain entities that are treated as formed or availed of to hold direct or indirect interests in specified foreign financial assets based on certain objective criteria. U.S. holders who fail to report the required

Table of Contents

information could be subject to substantial penalties. In addition, the statute of limitations for assessment of tax would be suspended, in whole or part. Prospective investors should consult their own tax advisors concerning the application of these rules to their investment in the common stock or ADSs, including the application of the rules to their particular circumstances.

U.S. Information Reporting and Backup Withholding Rules

Payments in respect of shares of common stock or ADSs that are made within the United States or through certain U.S.-related financial intermediaries are subject to information reporting and may be subject to backup withholding unless the holder (1) is a corporation or other exempt recipient and demonstrates this when required or (2) provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. Holders that are not U.S. persons generally are not subject to information reporting or backup withholding. However, such a holder may be required to provide a certification of its non-U.S. status in connection with payments received within the United States or through a U.S.-related financial intermediary.

Item 10.F. Dividends and Paying Agents

See Item 8.A. Consolidated Statements and Other Financial Information Dividends above for information concerning our dividend policies and our payment of dividends. See Item 10.B. Memorandum and Articles of Association Dividends for a discussion of the process by which dividends are paid on shares of our common stock. The paying agent for payment of our dividends on ADSs in the United States is the Citibank, N.A.

Item 10.G. Statements by Experts

Not applicable

Item 10.H. Documents on Display

We file reports, including annual reports on Form 20-F, and other information with the SEC pursuant to the rules and regulations of the SEC that apply to foreign private issuers. You may read and copy any materials filed with the SEC at the Public Reference Rooms in Washington, D.C., New York, New York and Chicago, Illinois. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Any filings we make electronically will be available to the public over the Internet at the SEC's web site at <http://www.sec.gov>.

Item 10.I. Subsidiary Information

Not applicable

Item 11. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to foreign exchange rate and interest rate risk primarily associated with underlying liabilities, and to changes in the commodity prices of principal raw materials. Following evaluation of these positions, we selectively enter into derivative financial instruments to manage the related risk exposures, primarily with respect to foreign exchange rate and interest rate risks, which are entered into with major financial institutions in order to minimize the risk of credit loss. Our market risk management policy determines the market risk tolerance level, measuring period, controlling responsibilities, management procedures, hedging period and hedging ratio very specifically. We also prohibit all speculative hedging transactions and evaluate and manage foreign exchange exposures to receivables and payables.

Table of Contents

None of our loss exposures related to derivative contracts are unlimited, and we do not believe that our net derivative positions could result in a material loss to our profit before income tax or total equity due to significant fluctuations of major currencies against the Korean Won. Due to the nature of our derivative contracts primarily as hedging instruments that manage foreign exchange risks, net gain or net loss on derivatives transactions and valuation of derivatives are typically offset by net loss or net gain on foreign currency transaction and translation. We recorded net gain on valuation of derivatives of Won 83 billion and net gain on derivatives transactions of Won 23 billion in 2015, net loss on derivatives transactions of Won 22 billion and net loss on valuation of derivatives of Won 16 billion in 2016, and net loss on valuation of derivatives of Won 162 billion and net loss on derivatives transactions of Won 26 billion in 2017.

Exchange Rate Risk

Korea is our most important market and, therefore, a substantial portion of our cash flow is denominated in Won. Most of our exports are denominated in Dollars. Japan is also an important market for us, and we derive significant cash flow denominated in Yen. We are exposed to foreign exchange risk related to foreign currency denominated liabilities and anticipated foreign exchange payments. Anticipated foreign exchange payments, which represent a substantial sum and are mostly denominated in Dollars, relate primarily to imported raw material costs and freight costs. Foreign currency denominated liabilities relate primarily to foreign currency denominated debt.

We strive to naturally offset our foreign exchange risk by matching foreign currency receivables with our foreign currency payables and our overseas subsidiaries have sought to further mitigate the adverse impact of exchange rate fluctuations by conducting business transactions in the local currency of the respective market in which the transactions occur. In particular, POSCO Daewoo's exposure to fluctuations in exchange rates, including the Won/Dollar exchange rate, is limited because trading transactions typically involve matched purchase and sale contracts, which result in limited settlement exposure, and because POSCO Daewoo's contracts with domestic suppliers of products for export and with domestic purchasers of imported products are generally denominated in Dollars. Although the impact of exchange rate fluctuations is partially mitigated by such strategies, we and our subsidiaries, particularly POSCO Daewoo and POSCO E&C, also periodically enter into derivative contracts, primarily foreign currency swaps and forward exchange contracts, to further hedge some of our foreign exchange risks.

Our foreign currency exposure and changes in gain or loss resulting from a 10% foreign exchange rate change against the Korean Won are as follows:

	For the Years Ended December 31,					
	2015		2016		2017	
	Increase	Decrease	Increase	Decrease	Increase	Decrease
	(In billions of Won)					
US Dollars	(166)	166	(163)	163	(173)	173
Japanese Yen	(97)	97	(78)	78	(54)	54
Euro	(22)	22	(9)	9	(10)	10

Table of Contents**Interest Rate Risk**

We are also subject to market risk exposure arising from changing interest rates. In particular, we are exposed to interest rate risk on our existing floating rate borrowings and on additional debt financings that we may periodically undertake for various reasons, including capital expenditures and refinancing of our existing borrowings. A rise in interest rates will increase the cost of our existing variable rate borrowings. If interest rates on borrowings with floating rates had been 1% higher or lower with all other variables held constant, the impact on the gain or loss of the applicable period would be as follows:

	2015	For the Years Ended December 31, 2016 (In billions of Won)	2017
Increase or decrease in annual profit and net equity	118	120	100

A reduction of interest rates also increases the fair value of our debt portfolio, which is primarily of a fixed interest nature. From time to time, we use, to a limited extent, interest rate swaps to reduce interest rate volatility on some of our debt and manage our interest expense by achieving a balanced mixture of floating and fixed rate debt.

The following table summarizes the carrying amounts, fair values, principal cash flows by maturity date and weighted average interest rates of our short-term and long-term liabilities as of December 31, 2017 which are sensitive to exchange rates and/or interest rates. The information is presented in Won, which is our reporting currency.

	Maturities						December 31, 2017	Fair Value	December 31, 2016	Fair Value
	2018	2019	2020	2021	2022	Thereafter	Total		Total	
	(In billions of Won except rates)									
Local currency:										
Fixed rate	3,350	1,281	554	288	244	266	5,983	5,882	6,064	5,943
Average weighted rate ⁽¹⁾	3.09%	3.36%	2.75%	3.54%	2.66%	3.00%	3.12%		2.45%	
Variable rate	699	180	134	22	15	12	1,062	1,062	1,039	1,034
Average weighted rate ⁽¹⁾	3.08%	2.58%	2.94%	3.33%	2.99%	2.51%	2.98%		2.84%	
Sub-total	4,049	1,461	688	310	259	278	7,045	6,944	7,103	6,977
Foreign currency, principally Dollars and Yen:										
Fixed rate	3,009	88	966	889	0	205	5,157	5,016	5,775	5,639
Average weighted rate ⁽¹⁾	2.23%	4.13%	3.87%	4.86%	8.40%	3.16%	3.05%		3.15%	
Variable rate	4,824	309	767	29	7	2,925	8,861	8,871	9,827	9,837
Average weighted rate ⁽¹⁾	3.17%	2.20%	3.20%	3.59%	3.24%	6.77%	4.33%		2.92%	
Sub-total	7,833	397	1,733	918	7	3,130	14,018	13,887	15,602	15,476
Total	11,882	1,858	2,421	1,228	266	3,408	21,063	20,831	22,705	22,453

(1) Weighted average rates of the portfolio at the period end.

Item 12. Description of Securities Other than Equity Securities

Not applicable

Item 12.A. Debt Securities

Not applicable

Table of Contents

Item 12.B. Warrants and Rights

Not applicable

Item 12.C. Other Securities

Not applicable

Item 12.D. American Depositary Shares

Fees and Charges

We switched our depositary from The Bank of New York Mellon to Citibank, N.A. in July 2013. Holders of our ADSs are required to pay the following service fees to the depositary:

Services	Fees
Issuance of ADSs upon deposit of shares	Up to \$5.00 per 100 ADSs issued
Delivery of deposited shares against surrender of ADSs	Up to \$5.00 per 100 ADSs surrendered
Distributions of cash dividends or other cash distributions	Up to \$5.00 per 100 ADSs held
Distribution of ADSs pursuant to (i) stock dividends or other free stock distributions, or (ii) exercise of rights to purchase additional ADSs	Up to \$5.00 per 100 ADSs held
Distribution of securities other than ADSs or rights to purchase additional ADSs	Up to \$5.00 per 100 ADSs held
General depositary services	Up to \$5.00 per 100 ADSs held

Holders of our ADSs are also responsible for paying certain fees and expenses incurred by the depositary such as:

fees for the transfer and registration of shares charged by the registrar and transfer agent for the shares in Korea (i.e., upon deposit and withdrawal of shares);

expenses incurred for converting foreign currency into Dollars;

expenses for cable, telex and fax transmissions and for delivery of securities;

taxes (including applicable interest and penalties) and other governmental charges;

fees and expenses incurred in connection with compliance with exchange control regulations and other regulatory requirements; and

fees and expenses incurred in connection with the delivery or servicing of shares on deposit.

Depositary fees payable upon the issuance and surrender of ADSs are typically paid to the depositary by the brokers (on behalf of their clients) receiving the newly issued ADSs from the depositary and by the brokers (on behalf of their clients) delivering the ADSs to the depositary for surrender. The brokers in turn charge these fees to their clients. Depositary fees payable in connection with distributions of cash or securities to ADS holders and the depositary services fee are charged by the depositary to the holders of record of ADSs as of the applicable ADS record date.

Edgar Filing: POSCO - Form 20-F

The depositary fees payable for cash distributions are generally deducted from the cash being distributed. In the case of distributions other than cash (i.e., stock dividend, rights), the depositary charges the applicable fee to the ADS record date holders concurrent with the distribution. In the case of ADSs registered in the name of the investor (whether certificated or uncertificated in direct registration), the depositary sends invoices to the applicable record date ADS holders. In the case of ADSs held in brokerage and custodian accounts (via the Korea Securities Depositary, or KSD), the depositary generally collects its fees through the systems provided by KSD (whose nominee is the registered holder of the ADSs held in KSD) from the brokers and custodians holding ADSs in their KSD accounts. The brokers and custodians who hold their clients ADSs in KSD accounts in turn charge their clients' accounts the amount of the fees paid to the depositary.

Table of Contents

In the event of refusal to pay the depositary fees, the depositary may, under the terms of the deposit agreement, refuse the requested service until payment is received or may set off the amount of the depositary fees from any distribution to be made to such holder of ADSs.

The fees and charges that holders of our ADSs may be required to pay may vary over time and may be changed by us and by the depositary. Holders of our ADSs will receive prior notice of such changes.

Fees and Payments from the Depositary to Us

In 2017, we received \$770,000 from the depositary for reimbursement of various costs, including preparation of SEC filing and submission, listing fees, proxy process expenses (printing, postage and distribution), legal fees and contributions for our investor relations activities.

In addition, as part of its service to us, the depositary waives its fees for the standard costs associated with the administration of the ADS facility, associated operating expenses, investor relations advice and access to an internet-based tool used in our investor relations activities.

PART II

Item 13. *Defaults, Dividend Arrearages and Delinquencies*

Not applicable

Item 14. *Material Modifications to the Rights of Security Holders and Use of Proceeds*

Not applicable

Item 15. *Controls and Procedures*

a. Disclosure Controls and Procedures

Our management has evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of December 31, 2017. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report. Our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms, and that it is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

b. Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed by, and under the supervision of, our principal executive, principal operating and principal financial officers, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Table of Contents

Our internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management has completed an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2017 based on criteria in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that our internal control over financial reporting was effective as of December 31, 2017.

c. Report of the Independent Registered Public Accounting Firm

The report of our independent registered public accounting firm, KPMG Samjong Accounting Corp. (KPMG Samjong), on the effectiveness of our internal control over financial reporting as of December 31, 2017 is included in Item 18 of this Form 20-F.

d. Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting that occurred during the year covered by this annual report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Our adoption of Internal Control Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission did not have, and is not reasonably likely to have, any material effect on our internal control over financial reporting.

Item 16. *[Reserved]*

Item 16.A. *Audit Committee Financial Expert*

The board of directors has approved the members of our audit committee. Chung, Moon-Ki is an audit committee financial expert and is independent within the meaning of applicable SEC rules.

Item 16.B. *Code of Ethics*

We have adopted a code of business conduct and ethics, as defined in Item 16B. of Form 20-F under the Securities Exchange Act of 1934, as amended. Our code of business conduct and ethics, called Code of Conduct, applies to our chief executive officer and chief financial officer, as well as to our directors, other officers and employees. Our Code of Conduct is available on our web site at www.posco.com. If we amend the provisions of our Code of Conduct that apply to our chief executive officer or chief financial officer and persons performing similar functions, or if we grant any waiver of such provisions, we will disclose such amendment or waiver on our web site at the same address.

Table of Contents**Item 16.C. Principal Accountant Fees and Services****Audit and Non-Audit Fees**

The following table sets forth the fees billed to us by our independent auditor, KPMG, in 2016 and 2017:

	For the Year Ended December 31,	
	2016	2017
	(In millions of Won)	
Audit fees	5,159	6,164
Tax fees	1,267	805
Total fees	6,426	6,969

Audit fees in 2016 and 2017 as set forth in the above table are the aggregate fees billed by KPMG in connection with the audit of our annual financial statements and the annual financial statements of other related companies and review of interim financial statements.

Tax fees in 2016 and 2017 as set forth in the above table are fees billed by KPMG for our tax compliance and tax planning, as well as compliance related to transfer pricing.

Audit Committee Pre-Approval Policies and Procedures

Our audit committee has not established pre-approval policies and procedures for the engagement of our independent auditors for services. Our audit committee expressly approves on a case-by-case basis any engagement of our independent auditors for audit and non-audit services provided to our subsidiaries or us.

Item 16.D. Exemptions from the Listing Standards for Audit Committees

Not applicable

Item 16.E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table sets forth the repurchases of common shares by us or any affiliated purchasers during the fiscal year ended December 31, 2017:

Period	Total Number of Shares Purchased	Average Price Paid Per Share (In Won)	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares that May Yet Be Purchased Under the Plans
January 1 to January 31				
February 1 to February 29				
March 1 to March 31				
April 1 to April 30				
May 1 to May 31				
June 1 to June 30				

Edgar Filing: POSCO - Form 20-F

July 1 to July 31

August 1 to August 31

September 1 to September 30

October 1 to October 31

November 1 to November 30

December 1 to December 31

Total

Table of Contents

Item 16.F. Change in Registrant's Certifying Accountant

Not applicable

Item 16.G. Corporate Governance

Pursuant to the rules of the New York Stock Exchange applicable to foreign private issuers like us that are listed on the New York Stock Exchange, we are required to disclose significant differences between the New York Stock Exchange's corporate governance standards and those that we follow under Korean law and in accordance with our own internal procedures. The following is a summary of such significant differences.

NYSE Corporate Governance Standards Director Independence

Listed companies must have a majority of independent directors

POSCO's Corporate Governance Practice

Our articles of incorporation provide that our board of directors must comprise no less than a majority of Outside Directors. Our Outside Directors must meet the criteria for outside directorship set forth under the Korean Securities and Exchange Act.

The majority of our board of directors is independent (as defined in accordance with the New York Stock Exchange's standards), and seven out of 12 directors are Outside Directors. Under our articles of incorporation, we may have up to five Inside Directors and eight Outside Directors.

Nomination/Corporate Governance Committee

A nomination/corporate governance committee of independent directors is required. The committee must have a charter that addresses the purpose, responsibilities (including development of corporate governance guidelines) and annual performance evaluation of the committee.

We have not established a separate nomination corporate governance committee. However, we maintain a Director Candidate Recommendation and Management Committee composed of three Outside Directors and one Inside Director.

Compensation Committee

A compensation committee of independent directors is required. The committee must have a charter that addresses the purpose, responsibilities and annual performance evaluation of the committee. The charter must be made available on the company's website. In addition, in accordance with the U.S. Securities and Exchange Commission rules adopted pursuant to Section 952 of the Dodd-Frank Act, the New York Stock Exchange listing standards were amended to expand the factors relevant in determining whether a committee member has a relationship with the company that will materially affect that member's duties to the compensation committee.

We maintain an Evaluation and Compensation Committee composed of four Outside Directors.

Additionally, the committee may obtain or retain the advice of a compensation adviser only after taking into consideration all factors relevant to determining that adviser's independence from management.

Executive Session

Non-management directors must meet in regularly scheduled executive sessions without management. Independent directors should meet alone in an executive session at least once a year.

Our Outside Directors hold meetings solely attended by Outside Directors in accordance with operation guidelines of our board of directors.

Audit Committee

Listed companies must have an audit committee that satisfies the independence and other requirements of Rule 10A-3 under the Exchange Act. All members must be independent. The committee must have a charter addressing the committee's purpose, an annual performance evaluation of the committee, and the duties and responsibilities of the committee. The charter must be made available

We maintain an Audit Committee comprised of three Outside Directors who meet the applicable independence criteria set forth under Rule 10A-3 under the Exchange Act.

on the company's website.

Table of Contents

NYSE Corporate Governance Standards	POSCO's Corporate Governance Practice
Audit Committee Additional Requirements	
Listed companies must have an audit committee that is composed of at least three directors.	Our Audit Committee has three members, as described above.
Shareholder Approval of Equity Compensation Plan	
Listed companies must allow their shareholders to exercise their voting rights with respect to any material revision to the company's equity compensation plan.	We currently have an Employee Stock Ownership Program. We previously provided a stock options program for officers and directors, as another equity compensation plan. However, during our annual shareholders' meeting in February 2006, our shareholders resolved to terminate the stock option program and amended our articles of incorporation to delete the provision allowing grant of stock options to officers and directors. Consequently, since February 24, 2006, we have not granted stock options to officers and directors. Matters related to the Employee Stock Ownership Program are not subject to shareholders' approval under Korean law.
Corporate Governance Guidelines	
Listed companies must adopt and disclose corporate governance guidelines.	We have adopted a Corporate Governance Charter setting forth our practices with respect to relevant corporate governance matters. Our Corporate Governance Charter is in compliance with Korean law but does not meet all requirements established by the New York Stock Exchange for U.S. companies listed on the exchange. A copy of our Corporate Governance Charter is available on our website at www.posco.com .
Code of Business Conduct and Ethics	
Listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers.	We have adopted a Code of Conduct for all directors, officers and employees. A copy of our Code of Conduct is available on our website at www.posco.com .
Item 16.H. Mine Safety Disclosure	
Not applicable	

PART III

Item 17. Financial Statements

Not applicable

Item 18. Financial Statements

	Page
<u>Report of Independent Registered Public Accounting Firm, KPMG Samjong Accounting Corp., on Consolidated Financial Statements</u>	F-2
<u>Report of Independent Registered Public Accounting Firm, KPMG Samjong Accounting Corp., on Internal Control over Financial Reporting</u>	F-3
<u>Consolidated Statements of Financial Position as of December 31, 2016 and 2017</u>	F-5
<u>Consolidated Statements of Comprehensive Income (Loss) for the Years Ended December 31, 2015, 2016 and 2017</u>	F-7
<u>Consolidated Statements of Changes in Equity for the Years Ended December 31, 2015, 2016 and 2017</u>	F-8
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2015, 2016 and 2017</u>	F-11
<u>Notes to Consolidated Financial Statements</u>	F-13

Table of Contents

Item 19. Exhibits

- 1.1 Articles of Incorporation of POSCO (English translation)
- 2.1 Form of Common Stock Certificate (including English translation) (incorporated by reference to Exhibit 4.3 to the Registrant's Registration Statement No. 33-81554)* (P)
- 2.2 Form of Deposit Agreement (including Form of American Depositary Receipts) (incorporated by reference to the Registrant's Registration Statement (File No. 333-189473) on Form F-6)*
- 8.1 List of consolidated subsidiaries
- 12.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 12.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 13.1 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Filed previously

Table of Contents

Table of Contents

<u>Report of Independent Registered Public Accounting Firm</u>	Page F-2
<u>Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting</u>	F-3
Consolidated Financial Statements	
<u>Consolidated Statements of Financial Position</u>	F-5
<u>Consolidated Statements of Comprehensive Income (Loss)</u>	F-7
<u>Consolidated Statements of Changes in Equity</u>	F-8
<u>Consolidated Statements of Cash Flows</u>	F-11
<u>Notes to the Consolidated Financial Statements</u>	F-13

F-1

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors

POSCO:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of financial position of POSCO and subsidiaries (the Company) as of December 31, 2016 and 2017 and the related consolidated statements of comprehensive income (loss), changes in equity and cash flows for each of the years in the three-year period ended December 31, 2017 and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2016 and 2017 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2017, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated April 26, 2018 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG Samjong Accounting Corp.

We have served as the Company's auditor since 2008.

Seoul, Korea

April 26, 2018

F-2

Table of Contents

**Report of Independent Registered Public Accounting Firm
on Internal Control over Financial Reporting**

To the Shareholders and Board of Directors

POSCO:

Opinion on Internal Control over Financial Reporting

We have audited POSCO and subsidiaries (the Company) s internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statements of financial position of the Company as of December 31, 2016 and 2017, the related consolidated statements of comprehensive income (loss), changes in equity and cash flows for each of the years in the three-year period ended December 31, 2017 and the related notes (collectively, the consolidated financial statements), and our report dated April 26, 2018 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly

reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are

F-3

Table of Contents

being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG Samjong Accounting Corp.

Seoul, Korea

April 26, 2018

F-4

Table of Contents**POSCO and Subsidiaries****Consolidated Statements of Financial Position****As of December 31, 2016 and 2017**

	Notes	December 31, 2016 (in millions of Won)	December 31, 2017
Assets			
Cash and cash equivalents	4,5,23	2,447,619	2,612,530
Trade accounts and notes receivable, net	6,17,23,29,37	9,674,026	8,824,563
Other receivables, net	7,23,37	1,539,742	1,636,006
Other short-term financial assets	8,23	5,224,911	7,045,880
Inventories	9	9,515,895	10,793,781
Current income tax assets	35	46,473	38,489
Assets held for sale	10	311,958	71,768
Other current assets	16	894,484	821,242
Total current assets		29,655,108	31,844,259
Long-term trade accounts and notes receivable, net	6,23	51,124	731,570
Other receivables, net	7,23,37	762,912	879,176
Other long-term financial assets	8,23	2,657,692	1,911,684
Investments in associates and joint ventures	11	3,882,389	3,557,932
Investment property, net	13	1,117,720	1,064,914
Property, plant and equipment, net	14	33,770,339	31,883,535
Intangible assets, net	15	6,088,729	5,952,269
Defined benefit assets, net	21	83,702	8,224
Deferred tax assets	35	1,500,219	1,463,055
Other non-current assets	16	567,680	489,011
Total non-current assets		50,482,506	47,941,370
Total assets		80,137,614	79,785,629

See accompanying notes to the consolidated financial statements.

Table of Contents**POSCO and Subsidiaries****Consolidated Statements of Financial Position, Continued****As of December 31, 2016 and 2017**

	Notes	December 31, 2016 (in millions of Won)	December 31, 2017
Liabilities			
Trade accounts and notes payable	23,37	4,073,286	3,465,146
Short-term borrowings and current installments of long-term borrowings	4,17,23	10,194,807	11,274,516
Other payables	18,23	1,851,659	1,753,461
Other short-term financial liabilities	19,23,37	149,748	129,812
Current income tax liabilities	35	446,071	515,538
Provisions	20	114,865	110,946
Other current liabilities	22,29	2,113,873	2,240,919
Total current liabilities		18,944,309	19,490,338
Long-term trade accounts and notes payable	23,37	44,512	12,532
Long-term borrowings, excluding current installments	4,17,23	12,510,191	9,789,141
Other payables	18,23	208,559	147,750
Other long-term financial liabilities	19,23	81,309	114,105
Defined benefit liabilities, net	21	123,604	137,193
Deferred tax liabilities	35	1,642,939	1,904,242
Long-term provisions	20	337,739	477,172
Other non-current liabilities	22	479,183	386,431
Total non-current liabilities		15,428,036	12,968,566
Total liabilities		34,372,345	32,458,904
Equity			
Share capital	24	482,403	482,403
Capital surplus	24	1,407,247	1,422,021
Hybrid bonds	25	996,919	996,919
Reserves	26	(143,985)	(682,556)
Treasury shares	27	(1,533,468)	(1,533,054)
Retained earnings		41,125,712	42,974,658

Equity attributable to owners of the controlling company		42,334,828	43,660,391
Non-controlling interests	25	3,430,441	3,666,334
Total equity		45,765,269	47,326,725
Total liabilities and equity		80,137,614	79,785,629

See accompanying notes to the consolidated financial statements.

Table of Contents**POSCO and Subsidiaries****Consolidated Statements of Comprehensive Income (Loss)****For the years ended December 31, 2015, 2016 and 2017**

	Notes	2015	2016	2017
	(in millions of Won, except per share information)			
Revenue	28,29,37	58,522,268	52,939,771	60,186,867
Cost of sales	29,31,34,37	(52,018,434)	(46,271,465)	(51,915,597)
Gross profit		6,503,834	6,668,306	8,271,270
Selling and administrative expenses	30,34			
Administrative expenses	31	(2,395,248)	(2,291,540)	(2,176,800)
Selling expenses		(1,728,956)	(1,553,686)	(1,557,277)
Other operating income and expenses	32,37			
Other operating income		549,048	215,136	451,224
Other operating expenses	34	(1,442,298)	(755,720)	(792,296)
Operating profit		1,486,380	2,282,496	4,196,121
Share of profit (loss) of equity-accounted investees, net	11	(506,054)	(88,677)	10,540
Finance income and costs	23,33			
Finance income		2,557,073	2,231,980	2,372,667
Finance costs		(3,387,054)	(3,014,190)	(2,484,277)
Profit before income taxes		150,345	1,411,609	4,095,051
Income tax expense	35	(266,560)	(379,544)	(1,185,740)
Profit (loss)		(116,215)	1,032,065	2,909,311
Other comprehensive income (loss)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurements of defined benefit plans	21	41,954	20,540	(47,543)
Items that are or may be reclassified subsequently to profit or loss:				
Capital adjustment arising from investments in equity-method investees		(82,509)	134,590	(217,388)
Net changes in unrealized fair value of available-for-sale investments	23	(187,854)	310,608	(31,389)

Edgar Filing: POSCO - Form 20-F

Foreign currency translation differences		66,280	(11,491)	(264,695)
Gain or losses on valuation of derivatives	23			(143)
Other comprehensive income (loss), net of tax		(162,129)	454,247	(561,158)
Total comprehensive income (loss)		(278,344)	1,486,312	2,348,153
Profit (loss) attributable to:				
Owners of the controlling company		171,494	1,354,807	2,756,230
Non-controlling interests		(287,709)	(322,742)	153,081
Profit (loss)		(116,215)	1,032,065	2,909,311
Total comprehensive income (loss) attributable to:				
Owners of the controlling company		23,864	1,814,030	2,184,402
Non-controlling interests		(302,208)	(327,718)	163,751
Total comprehensive income (loss)		(278,344)	1,486,312	2,348,153
Basic and diluted earnings per share (in Won)	36	1,731	16,521	34,040
<i>See accompanying notes to the consolidated financial statements.</i>				

F-7

Table of Contents**POSCO and Subsidiaries****Consolidated Statements of Changes in Equity****For the years ended December 31, 2015, 2016 and 2017**

	Share capital	Attributable to owners of the controlling company Capital surplus	Hybrid bonds	Reserves	Treasury shares (in millions of Won)	Retained earnings	Subtotal	Non-controlling interests	Total
Balance as of January 1, 2015	482,403	1,083,718	996,919	(408,773)	(1,534,457)	40,937,148	41,556,958	3,700,438	45,257,396
Comprehensive income (loss):									
Net income (loss)						171,494	171,494	(287,709)	(116,215)
Other comprehensive income (loss)									
Revaluations of defined benefit pensions, net of tax						38,771	38,771	3,183	41,954
Capital losses from investments									
Equity-accounted investments, net of tax				(81,418)			(81,418)	(1,091)	(82,516)
Changes in unrealized value of available-for-sale investments, net of tax				(183,077)			(183,077)	(4,777)	(187,854)
Foreign currency translation differences, net of tax				78,094			78,094	(11,814)	66,280
Total comprehensive income (loss)				(186,401)		210,265	23,864	(302,208)	(278,343)

Income (loss)										
Transactions with owners of controlling interest, company, and subsidiaries, including transactions with related parties:										
Dividends							(479,958)	(479,958)	(32,410)	(512,368)
Interim dividends							(159,987)	(159,987)	(67,700)	(227,687)
Changes in equity of subsidiaries									(311,548)	(311,548)
Changes in ownership interest in subsidiaries	310,485							310,485	844,769	1,155,254
Interest of hybrid instruments							(43,574)	(43,574)	(24,187)	(67,761)
Disposal of treasury shares	(35)				559			524		559
Other	(1,089)		418				(2,398)	(3,069)	804	(2,249)
Total										
Transactions with owners of controlling interest, company, and subsidiaries	309,361		418		559	(685,917)	(375,579)	409,728		34,102
Income as of December 31, 2015	₩ 482,403	1,393,079	996,919	(594,756)	(1,533,898)	40,461,496	41,205,243	3,807,958		45,013,205

See accompanying notes to the consolidated financial statements.

Table of Contents**POSCO and Subsidiaries****Consolidated Statements of Changes in Equity, Continued****For the years ended December 31, 2015, 2016 and 2017**

	Attributable to owners of the controlling company							Non-controlling	
	Share capital	Capital surplus	Hybrid bonds	Reserves	Treasury shares (in millions of Won)	Retained earnings	Subtotal	interests	Total
Balance as of January 1, 2016	482,403	1,393,079	996,919	(594,756)	(1,533,898)	40,461,496	41,205,243	3,807,958	45,013,201
Comprehensive income (loss):									
Profit (loss)						1,354,807	1,354,807	(322,742)	1,032,065
Other									
Comprehensive income (loss)									
remeasurements of defined benefit plans, net of tax						9,787	9,787	10,753	20,540
Capital adjustment arising from investments in equity-accounted investees, net of tax				124,626			124,626	9,964	134,590
Net changes in the unrealized fair value of available-for-sale investments, net of tax				314,428			314,428	(3,820)	310,608
foreign currency translation differences, net of tax				10,382			10,382	(21,873)	(11,491)
Total comprehensive income (loss)				449,436		1,364,594	1,814,030	(327,718)	1,486,312

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

Year-end dividends						(479,974)	(479,974)	(50,333)	(530,307)
Interim dividends						(179,992)	(179,992)		(179,992)
Changes in subsidiaries								49,250	49,250
Changes in ownership interests in subsidiaries	8,650						8,650	(16,544)	(7,894)
Interest of hybrid bonds						(43,832)	(43,832)	(24,253)	(68,085)
Disposal of treasury shares	32			430			462		462
Others	5,486		1,335			3,420	10,241	(7,919)	2,322
Total transactions with owners of the controlling company	14,168		1,335	430		(700,378)	(684,445)	(49,799)	(734,244)
Balance as of December 31, 2016	482,403	1,407,247	996,919	(143,985)	(1,533,468)	41,125,712	42,334,828	3,430,441	45,765,269

See accompanying notes to the consolidated financial statements.

Table of Contents**POSCO and Subsidiaries****Consolidated Statements of Changes in Equity, Continued****For the years ended December 31, 2015, 2016 and 2017**

	Attributable to owners of the controlling company							Non-controlling	
	Share capital	Capital surplus	Hybrid bonds	Reserves	Treasury shares (in millions of Won)	Retained earnings	Subtotal	interests	Total
Balance as of January 1, 2017	482,403	1,407,247	996,919	(143,985)	(1,533,468)	41,125,712	42,334,828	3,430,441	45,765,269
Comprehensive income:									
Profit						2,756,230	2,756,230	153,081	2,909,311
Other									
Comprehensive income (loss)									
remeasurements									
of defined benefit									
plans, net of tax						(38,043)	(38,043)	(9,500)	(47,543)
Capital									
adjustment									
arising from									
investments in									
equity-accounted									
investees, net of									
tax				(214,794)			(214,794)	(2,594)	(217,388)
Net changes in									
the unrealized									
fair value of									
available-for-sale									
investments, net									
of tax				(45,953)			(45,953)	14,564	(31,389)
foreign currency									
translation									
differences, net									
of tax				(272,902)			(272,902)	8,207	(264,695)
Gain or losses on									
valuation of									
derivatives, net of									
tax				(136)			(136)	(7)	(143)

Total comprehensive income				(533,785)		2,718,187	2,184,402	163,751	2,348,153
Transactions with owners of the controlling company, recognized directly in equity:									
Year-end dividends						(459,987)	(459,987)	(42,909)	(502,896)
Interim dividends						(359,993)	(359,993)		(359,993)
Changes in subsidiaries								(7,151)	(7,151)
Changes in ownership interests in subsidiaries	16,287						16,287	147,420	163,707
Interest of hybrid bonds						(43,600)	(43,600)	(24,187)	(67,787)
Disposal of treasury shares	126				414		540		540
Others	(1,639)			(4,786)		(5,661)	(12,086)	(1,031)	(13,117)
Total transactions with owners of the controlling company	14,774			(4,786)	414	(869,241)	(858,839)	72,142	(786,697)
Balance as of December 31, 2017	482,403	1,422,021	996,919	(682,556)	(1,533,054)	42,974,658	43,660,391	3,666,334	47,326,725

See accompanying notes to the consolidated financial statements.

Table of Contents**POSCO and Subsidiaries****Consolidated Statements of Cash Flows****For the years ended December 31, 2015, 2016 and 2017**

	Notes	2015	2016 (in millions of Won)	2017
Cash flows from operating activities				
Profit (loss)		(116,215)	1,032,065	2,909,311
Adjustments for:				
Depreciation		2,836,663	2,835,843	2,887,646
Amortization		381,583	378,004	409,774
Finance income		(1,165,340)	(882,905)	(1,376,324)
Finance costs		1,852,862	1,501,953	1,440,282
Income tax expense		266,560	379,544	1,185,740
Gain on disposal of property, plant and equipment		(22,730)	(23,826)	(32,145)
Loss on disposal of property, plant and equipment		101,732	86,622	151,343
Impairment losses on property, plant and equipment		136,269	196,882	117,231
Gain on disposal of investments in subsidiaries, associates and joint ventures		(88,718)	(23,305)	(81,794)
Loss on disposal of investments in subsidiaries, associates and joint ventures		18,996	22,499	19,985
Share of loss (profit) of equity-accounted investees		506,054	88,677	(10,540)
Expenses related to post-employment benefits		245,402	333,139	199,926
Increase to provisions		86,903	189,914	215,383
Bad debt expenses		337,235	202,717	271,871
Loss on valuation of inventories		152,952	152,249	78,560
Impairment losses on goodwill and intangible assets		161,412	127,875	167,995
Gain on disposal of assets held for sale		(227,956)	(23,112)	(1,180)
Loss on disposal of assets held for sale		190,357	254	608
Impairment losses on assets held for sale		133,547	24,890	
Others, net		48,079	7,879	(33,092)
		5,951,862	5,575,793	5,611,269
Changes in operating assets and liabilities	39	2,784,452	(404,570)	(1,841,633)
Interest received		198,193	206,839	244,980
Interest paid		(831,566)	(691,264)	(735,735)
Dividends received		237,715	152,559	225,514
Income taxes paid		(622,612)	(602,004)	(806,396)

Net cash provided by operating activities	7,601,829	5,269,418	5,607,310
---	-----------	-----------	-----------

See accompanying notes to the consolidated financial statements.

F-11

Table of Contents**POSCO and Subsidiaries****Consolidated Statements of Cash Flows, Continued****For the years ended December 31, 2015, 2016 and 2017**

	Notes	2015	2016	2017
		(in millions of Won)		
Cash flows from investing activities				
Acquisitions of short-term financial instruments		(13,037,990)	(18,578,809)	(20,843,530)
Proceeds from disposal of short-term financial instruments		10,595,379	17,177,409	19,146,634
Acquisitions of long-term financial instruments		(34,733)	(8,249)	(22,532)
Increase in loans		(295,689)	(603,332)	(1,055,895)
Collection of loans		308,906	557,064	667,045
Acquisitions of available-for-sale investments		(87,824)	(328,151)	(66,278)
Proceeds from disposal of available-for-sale investments		308,161	280,066	1,006,856
Acquisitions of investments in associates and joint ventures		(77,155)	(173,769)	(60,277)
Proceeds from disposal of investments in associates and joint ventures		11,813	7,914	74,881
Acquisitions of property, plant and equipment		(2,560,244)	(2,324,112)	(2,287,580)
Proceeds from disposal of property, plant and equipment		59,031	44,330	39,183
Acquisitions of investment property		(61,478)	(45,735)	(69,169)
Proceeds from disposal of investment property		1,120	11,624	5,771
Acquisitions of intangible assets		(289,148)	(138,181)	(343,423)
Proceeds from disposal of intangible assets		12,832	8,672	28,502
Proceeds from disposal of assets held for sale		127,133	305,813	203,958
Increase in cash from (payment for) acquisition of business, net of cash acquired			4,503	(174,165)
Cash received (decrease in cash) from disposal of business, net of cash transferred		469,576	21,223	(53,008)
Others, net		15,634	27,093	(14,847)
Net cash used in investing activities		(4,534,676)	(3,754,627)	(3,817,874)
Cash flows from financing activities				
Proceeds from borrowings		1,779,097	1,988,665	1,725,983
Repayment of borrowings		(3,509,970)	(4,274,895)	(3,136,016)
		(846,230)	(885,861)	558,083

Proceeds from (repayment of) short-term borrowings, net				
Payment of cash dividends		(822,570)	(708,970)	(863,450)
Payment of interest of hybrid bonds		(67,725)	(68,097)	(67,783)
Capital contribution from non-controlling interests and proceeds from disposal of subsidiary while maintaining control		1,260,053	24,704	266,219
Capital deduction from non-controlling interests and additional acquisition of interests in subsidiaries		(10,810)	(11,301)	(26,288)
Others, net		(23,446)	(15,212)	(22,276)
Net cash used in financing activities	39	(2,241,601)	(3,950,967)	(1,565,528)
Effect of exchange rate fluctuation on cash held		23,496	12,611	(58,997)
Net increase (decrease) in cash and cash equivalents		849,048	(2,423,565)	164,911
Cash and cash equivalents at beginning of the period	5	4,022,136	4,871,184	2,447,619
Cash and cash equivalents at end of the period	5	4,871,184	2,447,619	2,612,530

See accompanying notes to the consolidated financial statements.

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements****As of December 31, 2015, 2016 and 2017****1. General Information**

General information about POSCO, its 40 domestic subsidiaries including POSCO ENGINEERING & CONSTRUCTION CO., LTD., 139 foreign subsidiaries including POSCO America Corporation (collectively the Company) and its 111 associates and joint ventures are as follows:

(a) The controlling company

POSCO, the controlling company, was incorporated on April 1, 1968, under the Commercial Code of the Republic of Korea to manufacture and sell steel rolled products and plates in the domestic and foreign markets.

The shares of POSCO have been listed on the Korea Exchange on June 10, 1988. POSCO owns and operates two steel plants (Pohang and Gwangyang) and one office in Korea and it also operates internationally through six of its overseas liaison offices.

As of December 31, 2017, POSCO's shareholders are as follows:

Shareholder's name	Number of shares	Ownership (%)
National Pension Service	9,660,885	11.08
Nippon Steel & Sumitomo Metal Corporation ^(*1)	2,894,712	3.32
BlackRock Institutional Trust Company, N.A. ^(*1)	2,483,875	2.85
Government of Singapore Investment Corp Private Limited	1,934,312	2.22
KB Financial Group Inc. and subsidiaries ^(*2)	1,919,361	2.20
Others	68,293,690	78.33
	87,186,835	100.00

(*1) Includes American Depositary Receipts (ADRs) of POSCO, each of which represents 0.25 share of POSCO's common share which has par value of ₩5,000 per share.

(*2)Includes shares held by subsidiaries pursuant to Articles of Incorporation.

As of December 31, 2017, the shares of POSCO are listed on the Korea Exchange, while its ADRs are listed on the New York Stock Exchange.

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017****(b) Consolidated subsidiaries**

Details of consolidated subsidiaries as of December 31, 2016 and 2017 are as follows:

		Ownership (%)						
		December 31, 2016			December 31, 2017			
	Principal operations	POSCO	Subsidiaries	Total	POSCO	Subsidiaries	Total	Region
[Domestic]								
POSCO								
ENGINEERING & CONSTRUCTION CO., LTD.	Engineering and construction	52.80		52.80	52.80		52.80	Pohang
POSCO Processing & Service	Steel sales and trading	93.95	0.45	94.40	93.95	0.45	94.40	Seoul
POSCO COATED & COLOR STEEL Co., Ltd.	Coated steel manufacturing	56.87		56.87	56.87		56.87	Pohang
POSCO ICT	Computer hardware and software distribution	65.38		65.38	65.38		65.38	Pohang
POSCO Research Institute	Economic research and consulting	100.00		100.00	100.00		100.00	Seoul
POSMATE	Business facility maintenance	57.25	11.05	68.30	83.83	16.17	100.00	Seoul
POSCO A&C	Architecture and consulting	100.00		100.00	100.00		100.00	Seoul
POSCO Venture Capital Co., Ltd.	Investment in venture companies	95.00		95.00	95.00		95.00	Pohang
eNtoB Corporation	Electronic commerce	7.50	53.63	61.13	7.50	53.63	61.13	Seoul
POSCO CHEMTECH	Refractories manufacturing and sales	60.00		60.00	60.00		60.00	Pohang
POSCO-Terminal Co., Ltd.	Transporting and warehousing	51.00		51.00	51.00		51.00	Gwangyang

Edgar Filing: POSCO - Form 20-F

POSCO M-TECH	Packing materials manufacturing and sales	48.85	48.85	48.85	48.85	Pohang
POSCO ENERGY CO., LTD.	Generation of electricity	89.02	89.02	89.02	89.02	Seoul
POSCO NIPPON STEEL RHF JOINT VENTURE.CO.,Ltd.	Steel byproduct manufacturing and sales	70.00	70.00	70.00	70.00	Pohang
MegaAsset Co.,Ltd.	Real estate rental and sales	100.00	100.00	100.00	100.00	Incheon
Future Creation Fund						
Postech Early Stage account	Investment in venture companies	40.00	40.00	40.00	40.00	Seoul
POSCO WOMAN S FUND	Investment in venture companies	40.00	40.00	40.00	40.00	Seoul
POSPOWER Co., Ltd.	Generation of electricity	100.00	100.00	100.00	100.00	Samcheok
Songdo Posco Family housing	House manufacturing and management	100.00	100.00	100.00	100.00	Incheon
Posco Group University	Education service and real estate business	100.00	100.00	100.00	100.00	Incheon
HOTEL LAONZENA	Hotel business	100.00	100.00	100.00	100.00	Daegu
Growth Ladder						
POSCO K-Growth Global Fund	Investment in venture companies	50.00	50.00	50.00	50.00	Pohang
2015 POSCO New technology II Fund	Investment in venture companies	25.00	25.00	25.00	25.00	Pohang

F-14

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

		Ownership (%)						
		December 31, 2016		December 31, 2017				
	Principal operations	POSCOSubsidiaries	Total	POSCOSubsidiaries	Total	Region		
POCA STEM Co., Ltd	Stem cell medicine development	100.00	100.00	100.00	100.00	Seoul		
Posco e&c Songdo International Building	Non-residential building rental	100.00	100.00	100.00	100.00	Seoul		
POSCO ES MATERIALS CO., Ltd.	Secondary and storage battery manufacturing	75.32	75.32	75.32	75.32	Gumi		
Poscoene	Refuse derived fuel and power generation	100.00	100.00	100.00	100.00	Seoul		
POSCO Humans Mapo Hibroad Parking co., Ltd.	Construction	90.30	90.30	90.30	90.30	Pohang		
BLUE O&M Co.,Ltd.	Construction	70.99	70.99	71.00	71.00	Seoul		
Busan E&E Co., Ltd.	Engineering service	100.00	100.00	100.00	100.00	Pohang		
POSCO Family Strategy Fund	Refuse derived fuel and power generation	70.00	70.00	70.00	70.00	Busan		
POSCO DAEWOO Corporation	Investment in venture companies	69.91	30.09	100.00	69.91	30.09	100.00	Pohang
Pohang Scrap Recycling Distribution Center Co., Ltd.	Trading, energy & resource development and others	60.31	60.31	62.90	0.04	62.94	Seoul	
PSC Energy Global Co., Ltd.	Steel processing and sales	51.00	51.00	51.00	51.00	Pohang		
Suncheon Eco Trans Co., Ltd	Investment in energy industry	100.00	100.00	100.00	100.00	Pohang		
POSCO Research &	Train manufacturing and management	100.00	100.00	100.00	100.00	Suncheon		
	Intellectual Property Services and			100.00	100.00	Seoul		

Technology consulting									
Kyobo Securities Bond Plus 6M Professional Private Equity Trust W-2	Private equity trust	97.47				97.47		Seoul	
Kyobo Securities Bond Plus 6M Professional Private Equity Trust W-5	Private equity trust					99.67	99.67	Seoul	
Mirae Asset Smart Q Sigma 2.0 Professional Private Equity Trust	Private equity trust	99.01				99.01		Seoul	
IT Engineering CO. Ltd	Automotive engineering service	17.00	17.00					Seoul	
POSCO Engineering CO.,Ltd	Construction and engineering service	95.56	95.56					Incheon	
[Foreign]									
POSCO America Corporation	Steel trading	99.45	0.55	100.00	99.45	0.55	100.00	USA	
POSCO AUSTRALIA PTY LTD	Raw material sales & mine development	100.00		100.00	100.00		100.00	Australia	
POSCO Canada Ltd.	Coal sales		100.00	100.00		100.00	100.00	Canada	
POSCO Asia Co., Ltd.	Steel and raw material trading	100.00		100.00	100.00		100.00	China	
POSCO-CTPC Co., Ltd.	Steel manufacturing and sales	56.60	43.40	100.00	56.60	43.40	100.00	China	

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

		Ownership (%)						Region
		December 31, 2016			December 31, 2017			
	Principal operations	POSCO	Subsidiaries	Total	POSCO	Subsidiaries	Total	
POSCO E&C Vietnam Co., Ltd.	Steel structure manufacturing and sales		100.00	100.00		100.00	100.00	Vietnam
Zhangjiagang Pohang Stainless Steel Co., Ltd.	Stainless steel manufacturing and sales	58.60	23.88	82.48	58.60	23.88	82.48	China
POSCO(Guangdong) Coated Steel Co., Ltd.	Plating steel sheet manufacturing and sales	87.04	10.04	97.08	87.04	10.04	97.08	China
POSCO (Thailand) Company Limited	Steel manufacturing and sales	85.62	14.38	100.00	88.58	11.42	100.00	Thailand
Myanmar POSCO Steel Co., Ltd	Zinc relief manufacturing and sales	70.00		70.00	70.00		70.00	Myanmar
POSCO-MKPC SDN BHD	Steel manufacturing and sales	44.69	25.31	70.00	44.69	25.31	70.00	Malaysia
Qingdao Pohang Stainless Steel Co., Ltd.	Stainless steel manufacturing and sales	70.00	30.00	100.00	70.00	30.00	100.00	China
POSCO(Suzhou) Automotive Processing Center Co., Ltd.	Steel manufacturing and sales	90.00	10.00	100.00	90.00	10.00	100.00	China
POSCO-China Qingdao Processing Center Co., Ltd.	Steel manufacturing and sales		100.00	100.00		100.00	100.00	China
POS-ORE PTY LTD	Iron ore sales and sales		100.00	100.00		100.00	100.00	Australia
POSCO-China Holding Corp.	Holding company	100.00		100.00	100.00		100.00	China
POSCO JAPAN Co., Ltd.	Steel trading	100.00		100.00	100.00		100.00	Japan
POS-CD PTY LTD	Coal sales		100.00	100.00		100.00	100.00	Australia

Edgar Filing: POSCO - Form 20-F

POS-GC PTY LTD	Coal sales	100.00	100.00		100.00	100.00	Australia
POSCO-India Private Limited	Steel manufacturing and sales	99.99		99.99	99.99		India
POSCO-India Pune Processing Center. Pvt. Ltd.	Steel manufacturing and sales	65.00		65.00	65.00		India
POSCO Japan PC CO., LTD	Steel manufacturing and sales		86.12	86.12		86.12	Japan
POSCO-CFPC Co., Ltd.	Steel manufacturing and sales	39.60	60.40	100.00	39.60	60.40	China
POSCO E&C CHINA Co., Ltd.	Civil engineering and construction		100.00	100.00		100.00	China
POSCO MPPC S.A. de C.V.	Steel manufacturing and sales		95.00	95.00	21.02	75.29	Mexico
Zhangjigang Pohang Port Co., Ltd.	Loading and unloading service		100.00	100.00		100.00	China
POSCO-VIETNAM Co., Ltd.	Steel manufacturing and sales	100.00		100.00	100.00		Vietnam
POSCO MEXICO S.A. DE C.V.	Automotive steel sheet manufacturing and sales	84.84	15.16	100.00	84.84	15.16	Mexico
POSCAN Elkview	Coal sales		100.00	100.00		100.00	Canada
POSCO-Poland Wroclaw Processing Center Sp. z o. o.	Steel manufacturing and sales	60.00		60.00	60.00		Poland
POS-NP PTY LTD	Coal sales		100.00	100.00		100.00	Australia
POSCO RUS LLC	Trading and business development	90.00	10.00	100.00	90.00	10.00	Russia

F-16

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

	Principal operations	Ownership (%)						Region
		December 31, 2016			December 31, 2017			
		POSCO	Subsidiaries	Total	POSCO	Subsidiaries	Total	
POSCO DAEWOO WAIGAIQIAO SHANGHAI CO., LTD	Intermediary trade & bonded warehouse operation		100.00	100.00		100.00	100.00	China
PT. Bio Inti Agrindo	Forest resources development		85.00	85.00		85.00	85.00	Indonesia
POSCO ENGINEERING AND CONSTRUCTION AUSTRALIA PTY LTD	Iron ore development and sales		100.00	100.00		100.00	100.00	Australia
POSCO-TISCO (JILIN) PROCESSING CENTER Co., Ltd.	Steel manufacturing and sales	50.00	10.00	60.00	50.00	10.00	60.00	China
POSCO Thainox Public Company Limited	STS cold-rolled steel manufacturing and sales	84.93		84.93	84.88		84.88	Thailand
Hunchun Posco Hyundai Logistics	Logistics		80.00	80.00		80.00	80.00	China
POSCO DAEWOO VIETNAM CO., LTD	Trading business		100.00	100.00		100.00	100.00	Vietnam
POSCO(Chongqing) Automotive Processing Center Co., Ltd.	Steel manufacturing and sales	90.00	10.00	100.00	90.00	10.00	100.00	China
SUZHOU POSCO-CORE TECHNOLOGY CO., LTD.	Component manufacturing and sales		100.00	100.00		100.00	100.00	China
PT.Krakatau Posco Chemtech Calcination	Quicklime manufacturing and sales		80.00	80.00		80.00	80.00	Indonesia
POSCO AFRICA (PROPRIETARY) LIMITED	Mine development	100.00		100.00	100.00		100.00	South Africa
POSCO ICT BRASIL			100.00	100.00		100.00	100.00	Brazil

	IT service and engineering							
LA-SRDC	Scrap manufacturing	100.00	100.00		100.00	100.00	USA	
DONG FANG JIN HONG	Real estate development, rental and management	100.00	100.00		100.00	100.00	China	
POSCO AMERICA COMERCIALIZADORA S DE RL DE CV	Human resource service	100.00	100.00		100.00	100.00	Mexico	
POSCO(Guangdong) Automotive Steel Co., Ltd.	Steel manufacturing and sales	83.64	10.00	93.64	83.64	10.00	93.64	China
POSCO-Malaysia SDN. BHD.	Steel manufacturing and sales	81.79	13.63	95.42	81.79	13.63	95.42	Malaysia
PT KRAKATAU BLUE WATER	Wastewater treatment facilities operation and maintenance	67.00	67.00		67.00	67.00	Indonesia	
POSCO DAEWOO MYANMAR CORPORATION LIMITED	Trading business	100.00	100.00		100.00	100.00	Myanmar	

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

	Principal operations	Ownership (%)						Region
		December 31, 2016			December 31, 2017			
		POSCO	Subsidiaries	Total	POSCO	Subsidiaries	Total	
POSCO-Italy Processing Center	Stainless steel sheet manufacturing and sales	80.00	10.00	90.00	80.00	10.00	90.00	Italy
POSCO DAEWOO E&P CANADA CORPORATION	Crude oil and natural gas mining		100.00	100.00		100.00	100.00	Canada
Myanmar POSCO C&C Company, Limited.	Steel manufacturing and sales		70.00	70.00		70.00	70.00	Myanmar
POSCO ICT VIETNAM	IT service and electric control engineering		100.00	100.00		100.00	100.00	Vietnam
Daewoo Global Development. Pte., Ltd	Real estate development		51.00	51.00		81.51	81.51	Myanmar
Myanmar POSCO Engineering & Construction Company, Limited.	Construction and engineering service		100.00	100.00		100.00	100.00	Myanmar
POS-Minerals Corporation	Mine development management and sales		100.00	100.00		100.00	100.00	USA
POSCO(Wuhu) Automotive Processing Center Co., Ltd.	Steel manufacturing and sales	68.57	31.43	100.00	68.57	31.43	100.00	China
POSCO Engineering and Construction India Private Limited	Civil engineering and construction		100.00	100.00		100.00	100.00	India
POSCO COATED STEEL (THAILAND) CO., LTD.	Automotive steel sheet manufacturing and sales	100.00		100.00	100.00		100.00	Thailand
Daewoo Amara Company Limited	Real estate development		98.54	98.54		85.00	85.00	Myanmar

Edgar Filing: POSCO - Form 20-F

Daewoo Power and Infra (PTY) Limited	Electricity	100.00	100.00		100.00	100.00	South Africa	
POSMATE-CHINA CO., LTD	Business facility maintenance	100.00	100.00		100.00	100.00	China	
Daewoo Precious Resources Co., Ltd.	Resources development	70.00	70.00		70.00	70.00	Myanmar	
POSCO-Mexico Villagran Wire-rod Processing Center	Steel manufacturing and sales	56.75	10.00	66.75	56.75	10.00	66.75	Mexico
POSCO-CDSFC	Steel structure manufacturing	50.20	49.80	100.00	50.20	49.80	100.00	China
POSCO ChengDu Processing Center	Steel manufacturing and sales	33.00	10.00	43.00	33.00	10.00	43.00	China
POSCO SUZHOU Processing Center Co., Ltd.	Steel manufacturing and sales	30.00	70.00	100.00	30.00	70.00	100.00	China
POSCO E&C SMART S DE RL DE CV	Civil engineering and construction	100.00	100.00		100.00	100.00	Mexico	
POSCO Philippine Manila Processing Center, Inc.	Steel manufacturing and sales	100.00	100.00		100.00	100.00	Philippines	
POSCO E&C HOLDINGS CO., Ltd.	Holding company	100.00	100.00		100.00	100.00	Thailand	
POSCO E&C (THAILAND) CO., Ltd.	Construction and engineering	100.00	100.00		100.00	100.00	Thailand	

F-18

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

	Principal operations	Ownership (%)					
		December 31, 2016		December 31, 2017		Region	
		POSCO	Subsidiaries Total	POSCO	Subsidiaries Total		
Daewoo Power PNG Ltd.	Electricity production		100.00	100.00		100.00	Papua New Guinea
PT.Krakatau Posco Social Enterprise	Social enterprise		100.00	100.00		100.00	Indonesia
Ventanas Philippines Construction Inc	Construction		100.00	100.00		100.00	Philippines
POSCO E&C Mongolia	Construction and engineering service		100.00	100.00		100.00	Mongolia
POSCO Gulf SFC LLC	Steel manufacturing and sales		81.93	81.93		97.76	United Arab Emirates
SANPU TRADING Co., Ltd.	Raw material trading		70.00	70.00		70.00	China
Zhangjiagang BLZ Pohang International Trading	Steel Intermediate trade		100.00	100.00		100.00	China
POSCO MESDC S.A. DE C.V.	Logistics & Steel sales		56.80	56.80		56.80	Mexico
POSCO ICT-China	IT service and DVR business		100.00	100.00		100.00	China
Pos-Sea Pte Ltd	Steel Intermediate trade		67.54	67.54		100.00	Singapore
POSCO Europe Steel Distribution Center	Logistics & Steel sales	50.00	20.00	70.00	50.00	20.00	Slovenia
POSCO ENGINEERING (THAILAND) CO., LTD.	Construction and engineering service		100.00	100.00		100.00	Thailand
POSCO VST CO., LTD.	Stainless steel sheet manufacturing and sales	95.65		95.65	95.65		Vietnam
		100.00		100.00	100.00		India

Edgar Filing: POSCO - Form 20-F

POSCO Maharashtra Steel Private Limited	Steel manufacturing and sales							
POSCO India Chennai Steel Processing Center Pvt. Ltd.	Steel manufacturing and sales	100.00		100.00	93.34	1.98	95.32	India
POSCO TNPC Otomotiv Celik San. Ve Tic. A.S	Steel manufacturing and sales	100.00		100.00	100.00		100.00	Turkey
POSCO VIETNAM HOLDINGS CO., LTD (formerly, POSCO VNPC Co., Ltd.)	Steel manufacturing and sales	70.00		70.00	83.54	5.29	88.83	Vietnam
POSCO(Liaoning) Automotive Processing Center Co., Ltd.	Steel manufacturing and sales	90.00	10.00	100.00	90.00	10.00	100.00	China
POSCO-Indonesia Jakarta Processing Center	Steel manufacturing and sales	65.00	20.00	85.00	65.00	20.00	85.00	Indonesia
POSCO E&C VENEZUELA C.A.	Civil engineering and construction		100.00	100.00		100.00	100.00	Venezuela
PT.MRI	Mine development	65.00		65.00	65.00		65.00	Indonesia
POSCO TMC INDIA PRIVATE LIMITED	Steel manufacturing and sales		100.00	100.00		100.00	100.00	India
POSCO-AAPC	Steel manufacturing and sales		97.80	97.80		97.80	97.80	USA

F-19

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

	Principal operations	Ownership (%)						Region
		December 31, 2016			December 31, 2017			
		POSCO	Subsidiaries	Total	POSCO	Subsidiaries	Total	
PT PEN INDONESIA	Construction		100.00	100.00		100.00	100.00	Indonesia
POSCO(Yantai) Automotive Processing Center Co., Ltd.	Steel manufacturing and sales	90.00	10.00	100.00	90.00	10.00	100.00	China
POSCO India Steel Distribution Center Private Ltd.	Steel logistics		100.00	100.00		100.00	100.00	India
POSCO China Dalian Plate Processing Center Co., Ltd.	Plate manufacturing and sales	80.00	10.00	90.00	80.00	10.00	90.00	China
POSCO-South Asia Company Limited	Steel sales	100.00		100.00	100.00		100.00	Thailand
POSCO SS-VINA Co., Ltd	Steel manufacturing and sales	100.00		100.00	100.00		100.00	Vietnam
PT.POSCO ICT INDONESIA	IT service and electric control engineering		66.99	66.99		66.99	66.99	Indonesia
POSCO NCR Coal Ltd.	Coal sales		100.00	100.00		100.00	100.00	Canada
POSCO WA PTY LTD	Iron ore sales & mine development	100.00		100.00	100.00		100.00	Australia
POSCO Engineering and Construction - UZ	Civil engineering and construction		100.00	100.00		100.00	100.00	Uzbekistan
POSCO AUSTRALIA GP PTY LIMITED	Resource development		100.00	100.00		100.00	100.00	Australia
POSCO DAEWOO POWER (PNGPOM) LTD.	Electricity production		100.00	100.00		100.00	100.00	Papua New Guinea
			90.00	90.00		90.00	90.00	Indonesia

PT. KRAKATAU POSCO ENERGY	Electricity production construction and operation						
POSCO DAEWOO AMERICA CORP.	Trading business	100.00	100.00		100.00	100.00	USA
POSCO DAEWOO DEUTSCHLAND GMBH	Trading business	100.00	100.00		100.00	100.00	Germany
POSCO DAEWOO JAPAN Corp	Trading business	100.00	100.00		100.00	100.00	Japan
POSCO DAEWOO SINGAPORE PTE LTD.	Trading business	100.00	100.00		100.00	100.00	Singapore
POSCO DAEWOO ITALIA S.R.L.	Trading business	100.00	100.00		100.00	100.00	Italy
POSCO DAEWOO CHINA CO., LTD	Trading business	100.00	100.00		100.00	100.00	China
Daewoo Textile LLC	Textile manufacturing	100.00	100.00		100.00	100.00	Uzbekistan
POSCO DAEWOO AUSTRALIA HOLDINGS PTY. LTD.	Resource development	100.00	100.00		100.00	100.00	Australia
POSCO MAURITIUS LIMITED	Coal development and sales	100.00	100.00		100.00	100.00	Mauritius
PT. KRAKATAU POSCO	Steel manufacturing and sales	70.00	70.00	70.00		70.00	Indonesia
POSCO DAEWOO MEXICO S.A. de C.V.	Trading business	100.00	100.00		100.00	100.00	Mexico
Daewoo International Guangzhou Corp.	Trading business	100.00	100.00		100.00	100.00	China

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

	Principal operations	Ownership (%)						
		December 31, 2016			December 31, 2017			
		POSCO	Subsidiaries	Total	POSCO	Subsidiaries	Total	Region
POSCO DAEWOO MALAYSIA SDN BHD	Trading business		100.00	100.00		100.00	100.00	Malaysia
PT.POSCO INDONESIA INTI	Mine development	99.99		99.99	99.99		99.99	Indonesia
POSCO DAEWOO SHANGHAI CO., LTD.	Trading business		100.00	100.00		100.00	100.00	China
PGSF, L.P.	Investment in bio tech Industry		100.00	100.00		100.00	100.00	USA
POSCO DAEWOO INDIA PVT., LTD.	Trading business		100.00	100.00		100.00	100.00	India
POSCO(Dalian) IT Center Development Co., Ltd.	Real estate development and investment		100.00	100.00		100.00	100.00	China
PT. POSCO E&C INDONESIA	Civil engineering and construction		100.00	100.00		100.00	100.00	Indonesia
HUME COAL PTY LTD	Raw material manufacturing		100.00	100.00		100.00	100.00	Australia
Brazil Sao Paulo Steel Processing Center	Steel manufacturing and sales		76.00	76.00		76.00	76.00	Brazil
DAESAN (CAMBODIA) Co., Ltd.	Real estate development and investment		100.00	100.00		100.00	100.00	Cambodia
POSCO ENGINEERING & CONSTRUCTION DO BRAZIL LTDA.	Construction		100.00	100.00		100.00	100.00	Brazil
POSCO ASSAN TST STEEL INDUSTRY	Steel manufacturing and sales	60.00	10.00	70.00	60.00	10.00	70.00	Turkey

HONG KONG POSCO E&C (CHINA) INVESTMENT Co., Ltd.	Real estate development and investment	100.00	100.00	100.00	100.00	Hong Kong
Zhangjiagang Pohang Refractories Co., Ltd. (*1)	Refractory materials sales & furnace maintenance			51.00	51.00	China
Golden Lace DAEWOO Company Limited	Rice processing			60.00	60.00	Myanmar
POSCO RU Limited Liability Company	Trade and business development		100.00		100.00	Russia
POSCO DAEWOO UKRAINE LLC	Grain sales			100.00	100.00	Ukraine
KIS Devonian Canada Corporation	Petroleum gas extraction			100.00	100.00	Canada
POSEC Hawaii, Inc. POSCO India Delhi Steel Processing Center Private Limited	Real estate Industry	100.00	100.00			USA
USA-SRDC	Steel manufacturing and sales	66.40	10.00	76.40		India
POSCO-Vietnam Processing Center Co., Ltd.	Scrap sales	100.00	100.00			USA
POSCO MAPC SA DE CV	Steel manufacturing and sales	87.07	4.98	92.05		Vietnam
	Automotive steel sheet manufacturing and sales	80.00	20.00	100.00		Mexico
Yingkou Puxiang Trade Co.,Ltd.	Refractory quality test & import and export	100.00	100.00			China
SANTOS CMI Guatemala S.A.	Construction and engineering service	100.00	100.00			Guatemala

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

		Ownership (%)			Region
		December 31, 2016	December 31, 2017	December 31, 2017	
Principal operations	POSCO Subsidiaries	Total POSCO	Subsidiaries	Total	
POSCO India Ahmedabad Steel Processing Center Pvt.Ltd.	Steel manufacturing and sales	100.00	100.00		India
COINSA INGENIERIA Y PETROQUIMICA S.R.L	Construction	50.00	50.00		Bolivia
POSCO VIETNAM HOLDINGS CO., LTD	Holding company	79.28	20.72	100.00	Vietnam
Kwanika Copper Corporation (formerly, Daewoo Minerals Canada Corporation) (*2)	Resources development	100.00	100.00		Canada
Chongqing POSCO CISL Automotive Steel Co., Ltd.	Automotive steel sheet manufacturing and sales	51.00	51.00		China
POSCO YongXin Rare Earth Metal Co., Ltd.	Magnet material manufacturing and sales	51.60	51.60		China
PT. POSCO MTECH INDONESIA	Steelmaking materials manufacturing and sales	99.98	99.98		Indonesia
POSCO (Zhangjiagang) STS Processing Center Co., Ltd	Steel manufacturing and sales	100.00	100.00		China
EPC EQUITIES LLP	Engineering, procurement and construction	80.00	80.00		England
SANTOS CMI CONSTRUCTION TRADING LLP	Engineering, procurement and construction	99.90	99.90		England
SANTOS CMI INC. USA	Engineering, procurement and construction	100.00	100.00		USA
		99.98	99.98		Brazil

SANTOS CMI ENGENHARIA E CONSTRUÇOES LTDA	Engineering, procurement and construction			
SANTOS CMI PERU S.A.	Engineering, procurement and construction	99.99	99.99	Peru
SANTOS CMI CONSTRUCCIONES S.A.	Engineering, procurement and construction	100.00	100.00	Uruguay
GENTECH INTERNATIONAL INC.	Engineering, procurement and construction	90.00	90.00	Panama
SANTOS CMI S.A.	Engineering, procurement and construction	80.00	80.00	Ecuador
SANTOS CMI CONSTRUCCIONES DE CHILE S.A.	Engineering, procurement and construction	99.00	99.00	Chile
COMPANIA DE AUTOMATIZACION &CONTROL, GENESYS S.A.	Engineering, procurement and construction	90.00	90.00	Ecuador
POSCO Electrical Steel India Private Limited	Electrical steel manufacturing and sales	100.00	100.00	India

(*1) Reclassified to subsidiary from associate during the year ended December 31, 2017.

(*2) Reclassified to joint venture from subsidiary during the year ended December 31, 2017.

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

The equity of controlling company increased by 8,650 million (POSCO Processing & Service and others) and 16,288 million (POSCO DAEWOO Corporation, POSMATE and others) in 2016 and 2017, respectively, as a result of changes in the Company's ownership interests in subsidiaries that did not result in a loss of control.

Cash dividends paid to POSCO by subsidiaries in 2015, 2016 and 2017 amounted to 437,194 million, 75,830 million and 70,087 million, respectively.

As of December 31, 2017, there are no restrictions on the ability of subsidiaries to transfer funds to the controlling company, such as in the form of cash dividends, repayment of loans or payment of advances.

(c) Details of non-controlling interest as of and for the years ended December 31, 2015, 2016 and 2017 are as follows:

1) December 31, 2015

	POSCO DAEWOO Corporation	PT. KRAKATAU POSCO	POSCO ENGINEERING & POSCO CONSTRUCTION ENERGY CHEMTECH CO., LTD. CO., LTD.			Others	Total
	(in millions of Won)						
Current assets	3,930,857	441,999	360,812	5,115,325	590,460	9,648,917	20,088,370
Non-current assets	4,777,482	3,363,935	248,549	1,756,367	3,333,351	7,776,264	21,255,948
Current liabilities	(3,568,714)	(1,004,002)	(106,167)	(3,125,697)	(663,945)	(9,692,004)	(18,160,529)
Non-current liabilities	(1,941,909)	(2,315,554)	(5,405)	(768,529)	(2,420,547)	(2,567,980)	(10,019,924)
Equity	3,197,716	486,378	497,789	2,977,466	839,319	5,165,197	13,163,865
Non-controlling interests	1,269,096	145,913	199,116	1,405,391	535,878	1,182,137	4,737,531
Sales	16,890,723	1,227,266	1,175,272	6,866,802	1,909,919	25,784,254	53,854,236
Profit (loss) for the period	79,092	(398,438)	35,516	108,895	15,831	(835,389)	(994,493)
Profit (loss) attributable to	31,390	(119,531)	14,206	51,399	1,738	(247,106)	(267,904)

non-controlling interests							
Cash flows from operating activities	433,493	(13,595)	19,921	434,257	6,075	(72,371)	807,780
Cash flows from investing activities	(74,644)	(8,994)	25,318	21,075	(20,980)	(110,712)	(168,937)
Cash flows from financing activities (before dividends to non-controlling interest)	(340,532)	18,886	66	69,615	11,572	289,715	49,322
Dividend to non-controlling interest	(22,597)		(4,135)	(703)	(24,125)	(145,582)	(197,142)
Effect of exchange rate fluctuation on cash held	430	83		819		3,502	4,834
Net increase (decrease) in cash and cash equivalents	(3,850)	(3,620)	41,170	525,063	(27,458)	(35,448)	495,857

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

2) December 31, 2016

	POSCO DAEWOO Corporation	PT. KRAKATAU POSCO	POSCO ENGINEERING & CONSTRUCTION CHEMTECH CO., LTD.	POSCO ENGINEERING & CONSTRUCTION ENERGY CO., LTD.	Others	Total
	(in millions of Won)					
Current assets	4,038,313	460,376	397,370	5,163,436	713,039	20,468,674
Non-current assets	4,510,085	3,304,292	243,401	1,710,398	3,038,665	20,556,118
Current liabilities	(3,662,811)	(1,120,077)	(109,016)	(3,284,090)	(937,668)	(18,782,715)
Non-current liabilities	(1,681,182)	(2,337,612)	(2,337)	(855,791)	(2,172,226)	(9,905,646)
Equity	3,204,405	306,979	529,418	2,733,953	641,810	12,336,431
Non-controlling interests	1,271,750	92,094	211,767	1,290,450	514,200	4,326,223
Sales	15,417,550	1,244,711	1,076,455	5,352,395	1,657,890	48,000,564
Profit (loss) for the period	113,832	(187,151)	41,829	(760,187)	(130,809)	(1,383,520)
Profit (loss) attributable to non-controlling interests	45,177	(56,145)	16,732	(358,815)	(14,357)	(679,705)
Cash flows from operating activities	337,338	45,672	30,295	(211,182)	18,107	273,280
Cash flows from investing activities	(35,054)	(8,804)	(42,021)	(102,939)	(1,047)	(443,071)
Cash flows from financing activities (before	(295,226)	(36,286)	(1,250)	(20,953)	(2,875)	(151,793)

dividends to
non-controlling
interest)

Dividend to non-controlling interest	(22,597)		(4,726)	(14,800)	(24,378)	(7,349)	(73,850)
Effect of exchange rate fluctuation on cash held	10	67	1	760		1,687	2,525
Net increase (decrease) in cash and cash equivalents	(15,529)	649	(17,701)	(349,114)	(10,193)	(1,021)	(392,909)

F-24

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

3) December 31, 2017

	POSCO DAEWOO Corporation	PT. KRAKATAU POSCO	POSCO ENGINEERING & CONSTRUCTION CHEMTECH CO., LTD.	POSCO ENGINEERING & CONSTRUCTION CO., LTD.	Others	Total
	(in millions of Won)					
Current assets	4,483,544	557,041	441,325	4,878,251	1,054,538	19,994,512
Non-current assets	4,590,394	2,771,504	316,724	2,444,616	2,859,824	19,659,621
Current liabilities	(4,221,443)	(1,237,255)	(145,649)	(3,896,680)	(785,462)	(18,600,391)
Non-current liabilities	(1,549,013)	(1,933,247)	(970)	(833,403)	(2,200,065)	(8,565,152)
Equity	3,303,482	158,043	611,430	2,592,784	928,835	12,488,590
Non-controlling interests	1,224,303	47,413	244,572	1,223,816	762,390	4,477,435
Sales	20,891,526	1,635,837	1,163,918	5,794,532	1,578,026	54,610,911
Profit (loss) for the period	115,321	(117,729)	101,019	169,011	70,795	596,470
Profit (loss) attributable to non-controlling interests	42,739	(35,318)	40,408	79,775	7,770	174,979
Cash flows from operating activities	128,875	(27,817)	20,042	(84,840)	30,295	206,973
Cash flows from investing activities	(86,365)	(5,502)	(18,699)	(171,924)	(2,792)	(348,903)
Cash flows from financing activities (before	(19,295)	31,782	8	150,801	220,317	345,523

dividends to
non-controlling
interest)

Dividend to non-controlling interest	(22,597)		(7,088)		(24,183)	(12,777)	(66,645)
Effect of exchange rate fluctuation on cash held	(459)	(147)	(6)	(3,541)		(15,532)	(19,685)
Net increase (decrease) in cash and cash equivalents	159	(1,684)	(5,743)	(109,504)	223,637	10,398	117,263

F-25

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

(d) Details of associates and joint ventures

1) Associates

Details of associates as of December 31, 2016 and 2017 are as follows:

Investee	Category of business	Ownership (%)		Region
		2016	2017	
[Domestic]				
EQP POSCO Global NO1 Natural Resources PEF	Investment in new technologies	29.37	31.14	Seoul
POSCO PLANTEC Co., Ltd. (*2)	Construction of industrial plant	73.94	73.94	Ulsan
SNNC	Raw material manufacturing and sales	49.00	49.00	Gwangyang
QSONE Co.,Ltd.	Real estate rental and facility management	50.00	50.00	Seoul
Chun-cheon Energy Co., Ltd	Electricity generation	29.90	45.67	Chuncheon
Incheon-Gimpo Expressway Co., Ltd. (*1)	Construction	20.04	18.26	Anyang
BLUE OCEAN Private Equity Fund	Private equity financial	27.52	27.52	Seoul
UITrans LRT Co., Ltd.	Transporting	38.19	38.19	Seoul
Keystone NO. 1. Private Equity Fund	Private equity financial	40.45	40.45	Seoul
CHUNGJU ENTERPRISE CITY DEVELOPMENT Co.,Ltd				
Daesung Steel (*1)	Real estate development	29.53	29.53	Chungju
	Steel sales	17.54	17.54	Busan
KoFC POSCO HANWHA KB Shared Growth NO. 2. Private Equity Fund (*1)	Investment in new technologies	12.50	12.50	Seoul
KONES, Corp.	Technical service	41.67	41.67	Gyeongju
Gale International Korea, LLC	Real estate rental	29.90	29.90	Seoul
Pohang Techno Valley PFV Corporation (*3)	Real estate development, supply and rental	30.28	57.39	Pohang
Gunggi Green Energy (*1)	Electricity generation	19.00	19.00	Hwaseong
Pohang Special Welding Co.,Ltd.	Welding material and tools manufacturing and sales	50.00	50.00	Pohang
KC Chemicals CORP (*1)	Machinery manufacturing	19.00	19.00	Hwaseong

Edgar Filing: POSCO - Form 20-F

Posco-IDV Growth Ladder IP Fund ^(*)	Investment in new technologies	17.86	17.86	Seoul
DAEHO GLOBAL MANAGEMENT CO., LTD.	Investment advisory service	35.82	35.82	Pohang
Clean Gimpo Co., Ltd.	Construction	29.58	29.58	Gimpo
Postech Early Stage Fund ^(*)	Investment in new technologies	10.00	10.00	Pohang
POSCO Energy Valley Fund	Investment in new technologies	20.00	20.00	Pohang
Pureun Tongyeong Enviro Co., Ltd.	Sewerage treatment	20.40	20.40	Tongyeong
Posgreen Co., Ltd. ^(*)	Lime and plaster manufacturing	19.00	19.00	Gwangyang
Pohang E&E Co., Ltd.	Investment in waste energy	30.00	30.00	Pohang
POSTECH Social Enterprise Fund ^(*)	Investment in new technologies	9.17	9.17	Seoul
Applied Science Corp.	Machinery manufacturing	24.88	23.87	Paju
Noeul Green Energy ^(*)	Electricity generation	10.00	10.00	Seoul
Pohang Techno Valley AMC	Construction	29.50	29.50	Pohang
New Songdo International City Development, LLC	Real estate rental	29.90	29.90	Seoul
Mokpo Deayang Industrial Corporation	Real estate development and rental	27.40	27.40	Mokpo
Clean Iksan Co., Ltd.	Construction	23.50	23.50	Iksan
Innovalley Co., Ltd.	Real estate development	28.77	28.77	Yongin
Pure Gimpo Co., Ltd.	Construction	28.79	28.79	Seoul
Garolim Tidal Power Plant Co.,Ltd	Tidal power plant construction and management	32.13	32.13	Seosan
2016 PoscoPlutus New Technology Investment Fund	Investment in new technologies	25.17	25.17	Seoul
Hyundai Invest Guggenheim CLO Private Special Asset Investment Trust II	Investment in new technologies	38.47	38.47	Seoul

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

Investee	Category of business	Ownership (%)		Region
		2016	2017	
PoscoPlutus Bio Fund ^{(*)1}	Investment in new technologies	11.97	11.97	Seoul
PoscoPlutus Project Fund ^{(*)1}	Investment in new technologies	11.91	11.91	Seoul
Posco Agrifood Export Investment Fund	Investment in new technologies	30.00	30.00	Seoul
PoscoPlutus Project II Investment Fund ^{(*)1}	Investment in new technologies	0.61	0.61	Seoul
Posco Culture Contents Fund	Investment in new technologies	31.67	31.67	Seoul
PCC Centroid 1st Fund ^{(*)4}	Investment in new technologies		24.10	Seoul
PCC Amberstone Private Equity Fund I ^{(*)1,4}	Investment in new technologies		9.71	Seoul
POSCO Advanced Technical Staff Fund ^{(*)1,4}	Investment in new technologies		15.87	Seoul
POSCO 4th Industrial Revolution Fund ^{(*)4}	Investment in new technologies		20.00	Seoul
METAPOLIS Co.,Ltd. ^{(*)6}	Multiplex development	40.05		Hwaseong
Universal Studios Resort Asset Management Corporation ^{(*)5}	Real estate services	26.17		Seoul
Busan-Gimhae Light Rail Transit Co., Ltd. ^{(*)5}	Transporting	25.00		Gimhae
[Foreign]				
South-East Asia Gas Pipeline Company Ltd.	Pipeline construction and management	25.04	25.04	Myanmar
AES-VCM Mong Duong Power Company Limited	Electricity generation	30.00	30.00	Vietnam
7623704 Canada Inc. ^{(*)1}	Investments management	10.40	10.40	Canada
Eureka Moly LLC	Raw material manufacturing and sales	20.00	20.00	USA
AMCI (WA) PTY LTD	Iron ore sales & mine development	49.00	49.00	Australia
Nickel Mining Company SAS	Raw material manufacturing and sales	49.00	49.00	New Caledonia
NCR LLC	Coal sales	29.41	29.41	Canada

Edgar Filing: POSCO - Form 20-F

KOREA LNG LTD.	Gas production and sales	20.00	20.00	England
PT. Batutua Tembaga Raya	Raw material manufacturing and sales	24.10	22.00	Indonesia
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd	Tinplate manufacturing and sales	34.00	34.00	China
PT. Wampu Electric Power	Construction and civil engineering	20.00	20.00	Indonesia
POSCO SeAH Steel Wire(Nantong) Co., Ltd.	Steel processing and sales	25.00	25.00	China
VSC POSCO Steel Corporation	Steel processing and sales	50.00	50.00	Vietnam
IMFA ALLOYS FINLEASE LTD	Raw material manufacturing and sales	24.00	24.00	India
General Medicines Company Ltd.	Medicine manufacturing and sales	33.00	33.00	Sudan
PT.INDONESIA POS CHEMTECH CHOSUN Ref	Refractory manufacturing and sales	30.19	30.19	Indonesia
POSK(Pinghu) Steel Processing Center Co., Ltd.	Steel processing and sales	20.00	20.00	China
SHANGHAI LANSHENG DAEWOO CORP.	Trading	49.00	49.00	China
POS-SEAHSTEELWIRE(TIANJIN)CO.,Ltd	Steel processing and sales	25.00	25.00	China
SHANGHAI WAIGAOQIAO FREE TRADE ZONE LANSHENG DAEWOO IN L TRADING CO., LTD.	Trading	49.00	49.00	China
PT. Tanggamus Electric Power ^(*)	Construction and civil engineering	17.50	17.50	Indonesia
NS-Thainox Auto Co., Ltd.	Steel manufacturing and sales	49.00	49.00	Vietnam
Hamparan Mulya	Resource development	45.00	45.00	Indonesia
Sebang Steel	Scrap sales	49.00	49.00	Japan
GLOBAL KOMSCO Daewoo LLC	Cotton celluloid manufacturing and sales	35.00	35.00	Uzbekistan
POSCO-Poggenamp Electrical Steel Pvt. Ltd.	Steel manufacturing and sales	26.00	26.00	India
KIRIN VIETNAM CO., LTD ^(*)	Panel manufacturing	19.00	19.00	Vietnam
POSCHROME (PROPRIETARY) LIMITED	Raw material manufacturing and sales	50.00	50.00	South Africa
CAML RESOURCES PTY LTD	Raw material manufacturing and sales	33.34	33.34	Australia
KG Power(M) SDN. BHD	Energy & resource development	20.00	20.00	Malaysia
LI3 ENERGY INC	Energy & resource development	26.06	26.06	Peru

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

Investee	Category of business	Ownership (%)		Region
		2016	2017	
LLP POSUK Titanium	Titanium manufacturing and sales	36.83	36.83	Kazakhstan
POS-SeAH Steel Wire (Thailand) Co., Ltd.	Steel manufacturing and sales	25.00	25.00	Thailand
Jupiter Mines Limited ^{(*)1}	Energy & resource development	17.08	17.06	Australia
KRAKATAU POS-CHEM DONG-SUH CHEMICAL ^{(*)1}	Chemical by-product manufacturing and sales	19.00	19.00	Indonesia
SAMHWAN VINA CO., LTD ^{(*)1,4}	Steel manufacturing and sales		19.00	Vietnam
JB CLARK HILLS ^{(*)4}	Construction		25.00	Philippines
Saudi-Korean Company for Maintenance Properties Management LLC ^{(*)1,4}	Building management		19.00	Saudi Arabia
AN KHANH NEW CITY DEVELOPMENT J.V CO., LTD. ^{(*)5}	Highway construction and new town development	50.00		Vietnam
Fifth Combined Heat and Power Plant LLC ^{(*)5}	Thermal power generation	30.00		Mongolia
Chongqing CISL High Strength Cold Rolling Steel Co., Ltd. ^{(*)6}	Steel manufacturing and sales	10.00		China

(*)1) Considering the composition of board of directors, the Company is able to exercise significant influence even though the Company's percentage of ownership is below 20%.

(*)2) On September 30, 2015, in order to improve its financial standing and normalize operation, the associates reached a workout agreement with its Creditor Financial Institutions Committee. As a result, the Company lost its control and classified its shares as investment in associate.

(*)3) Considering the composition of board of directors, the Company does not have control and classified its shares as investment in an associate, even though the Company's percentage of ownership is over 50%.

(*)4) These associates were newly established or acquired in 2017.

(*5) Excluded from associates due to the disposal of shares during the year ended December 31, 2017.

(*6) Excluded from associates due to loss of significant influence during the year ended December 31, 2017.

F-28

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

2) Joint ventures

Details of joint ventures as of December 31, 2016 and 2017 are as follows:

Investee	Category of business	Ownership (%)		Region
		2016	2017	
[Domestic]				
POSCO MITSUBISHI CARBON TECHNOLOGY	Steel processing and sales	60.00	60.00	Gwangyang
POSCO-SGI Falcon Pharmaceutic Bio Secondary Fund 1 (*1)	Investment in new technologies		24.55	Seoul
POSCO-KB Shipbuilding Restructuring Fund (*1)	Investment in new technologies		18.75	Seoul
POSCO-NSC Venture Fund (*1)	Investment in new technologies		16.67	Seoul
PCC L&K New Technology 1st Fund (*1)	Investment in new technologies		10.00	Seoul
PoscoPlutus Project 3rd Investment Fund (*1)	Investment in new technologies		5.96	Seoul
[Foreign]				
Roy Hill Holdings Pty Ltd	Energy & resource development	12.50	12.50	Australia
POSCO-NPS Niobium LLC	Mine development	50.00	50.00	USA
CSP Companhia Siderurgica do Pecem	Steel manufacturing and sales	20.00	20.00	Brazil
BX STEEL POSCO Cold Rolled Sheet Co., Ltd.	Steel processing and sales	25.00	25.00	China
KOBRASCO	Steel materials manufacturing and sales	50.00	50.00	Brazil
DMSA/AMSA	Energy & resource development	4.00	4.00	Madagascar
PT. POSMI Steel Indonesia	Steel processing and sales	36.69	36.69	Indonesia
VNS-DAEWOO Co., Ltd.	Steel scrap processing and sale	40.00	40.00	Vietnam
YULCHON MEXICO S.A. DE C.V.	Tube for automobile manufacturing	19.00	19.00	Mexico
POSCO-SAMSUNG-Slovakia Processing Center	Steel processing and sales	30.00	30.00	Slovakia
United Spiral Pipe, LLC	Material manufacturing and sales	35.00	35.00	USA
Korea Siberia Wood CJSC	Forest resource development	50.00	50.00	Russia
Hyunson Engineering & Construction HYENCO	Construction	4.90	4.90	Algeria
USS-POSCO Industries	Cold-rolled steel manufacturing and sales	50.00	50.00	USA

Edgar Filing: POSCO - Form 20-F

POSCO E&C Saudi Arabia	Civil engineering and construction	40.00	40.00	Saudi Arabia
Pos-Austem Suzhou Automotive Co., Ltd ^(*1)	Automotive parts manufacturing		19.90	China
POS-AUSTEM YANTAI AUTOMOTIVE CO., LTD ^(*1)	Automotive parts manufacturing		11.06	China
POS-AUSTEM WUHAN AUTOMOTIVE CO., LTD ^(*1)	Automotive parts manufacturing		13.00	China
POS-InfraAuto (Suzhou) Co., Ltd ^(*1)	Automotive parts manufacturing		16.20	China
Kwanika Copper Corporation (formerly, Daewoo Minerals Canada Corporation) ^(*2)	Energy & resource development		35.00	Canada
Henan Tsingpu Ferro Alloy Co., Ltd. ^(*3)	Raw material manufacturing and sales	49.00		China
Zhangjiagang Pohang Refractories Co., Ltd. ^(*4)	Refractory manufacturing	50.00		China

(*1) These joint ventures were newly established in 2017.

(*2) Reclassified to joint venture from subsidiary during the year ended December 31, 2017.

(*3) Excluded from joint ventures due to the disposal of shares during the year ended December 31, 2017.

(*4) Reclassified to subsidiary from joint venture during the year ended December 31, 2017.

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017****(e) Newly included subsidiaries**

Consolidated subsidiaries acquired or newly established during the year ended December 31, 2017 are as follows:

Company	Date of addition	Ownership (%)	Reason
POSCO RU Limited Liability Company	January 2017	100.00	New establishment
Golden Lace DAEWOO Company Limited	April 2017	100.00	New establishment
POSCO Research & Technology	June 2017	100.00	New establishment
POSCO DAEWOO UKRAINE LLC	July 2017	100.00	New establishment
Zhangjiagang Pohang Refractories Co., Ltd.	July 2017	51.00	Reclassification from associate
Kyobo Securities Bond Plus 6M Professional Private Equity Trust W-2	October 2017	97.47	Acquisition of control
Mirae Asset Smart Q Sigma 2.0 Professional Private Equity Trust	October 2017	99.01	Acquisition of control
Kyobo Securities Bond Plus 6M Professional Private Equity Trust W-5	November 2017	99.67	Acquisition of control
KIS Devonian Canada Corporation	December 2017	100.00	Acquisition of control

(f) Excluded subsidiaries

Subsidiaries that were excluded from consolidation during the year ended December 31, 2017 are as follows:

Company	Date of exclusion	Reason
POSCO MAPC SA DE CV	January 2017	Merged into POSCO MPPC S.A. de C.V.
POSCO (Zhangjiagang) STS Processing Center Co., Ltd	January 2017	Merged into Zhangjiagang Pohang Stainless Steel Co., Ltd.
POSCO Engineering CO., Ltd	February 2017	Merged into POSCO ENGINEERING & CONSTRUCTION CO., LTD.
POSCO YongXin Rare Earth Metal Co., Ltd.	March 2017	Disposal
SANTOS CMI S.A.	March 2017	Disposal

Edgar Filing: POSCO - Form 20-F

EPC EQUITIES LLP	March 2017	Disposal
SANTOS CMI Guatemala S.A.	March 2017	Disposal
COINSA INGENIERIA Y PETROQUIMICA S.R.L	March 2017	Disposal
SANTOS CMI CONSTRUCTION TRADING LLP	March 2017	Disposal
SANTOS CMI INC. USA	March 2017	Disposal
SANTOS CMI ENGENHARIA E CONSTRUCOES LTDA	March 2017	Disposal
SANTOS CMI PERU S.A.	March 2017	Disposal
SANTOS CMI CONSTRUCCIONES S.A.	March 2017	Disposal
GENTECH INTERNATIONAL INC.	March 2017	Disposal
SANTOS CMI CONSTRUCCIONES DE CHILE S.A.	March 2017	Disposal
COMPANIADEAUTOMATIZACION & CONTROL, GENESYS S.A.	March 2017	Disposal
POSCO Electrical Steel India Private Limited	March 2017	Merged into POSCO Maharashtra Steel Private Limited
POSEC Hawaii, Inc.	May 2017	Exclusion upon liquidation
PT. POSCO MTECH INDONESIA	May 2017	Disposal

F-30

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

Company	Date of exclusion	Reason
POSCO VIETNAM HOLDINGS CO., LTD	July 2017	Merged into POSCO VIETNAM HOLDINGS CO., LTD (formerly, POSCO-VNPC CO., LTD.)
POSCO-Vietnam Processing Center Co., Ltd.	July 2017	Merged into POSCO VIETNAM HOLDINGS CO., LTD (formerly, POSCO-VNPC CO., LTD.)
Yingkou Puxiang Trade Co.,Ltd.	July 2017	Merged into Zhangjiagang Pohang Refractories Co., Ltd
Chongqing POSCO CISL Automotive Steel Co., Ltd.	September 2017	Loss of control
IT Engineering Co., Ltd.	November 2017	Disposal
POSCO India Delhi Steel Processing Center Private Limited	November 2017	Merged into POSCO India Chennai Steel Processing Center Pvt.Ltd.
POSCO India Ahmedabad Steel Processing Center Pvt.Ltd.	November 2017	Merged into POSCO India Chennai Steel Processing Center Pvt.Ltd.
Kwanika Copper Corporation (formerly, Daewoo Minerals Canada Corporation)	November 2017	Change in status due to a decline in stake
USA-SRDC	December 2017	Exclusion upon liquidation

2. Statement of Compliance and Basis of Presentation

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board.

The consolidated financial statements were authorized for issue by the authorized directors on February 28, 2018.

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for the following material items in the statement of financial position, as described in the accounting policy below.

- (a) Derivatives instruments are measured at fair value

- (b) Financial instruments at fair value through profit or loss
- (c) Available-for-sale financial assets are measured at fair value
- (d) Defined benefit liabilities are measured at the present value of the defined benefit obligation less the fair value of the plan assets

Functional and presentation currency

The financial statements of POSCO and subsidiaries are prepared in functional currency of the respective operation. These consolidated financial statements are presented in Korean Won, which is POSCO's functional currency which is the currency of the primary economic environment in which POSCO operates.

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2015, 2016 and 2017

Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period prospectively.

(a) Judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

Note 1 Subsidiaries, associates and joint ventures

Note 10 Assets held for sale

Note 11 Investments in associates and joint ventures

Note 12 Joint operations

Note 25 Hybrid bonds

(b) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next fiscal year is included in the following notes:

Note 11 Investments in associates and joint ventures

Note 15 Goodwill and other intangible assets, net

Note 20 Provisions

Note 21 Employee benefits

Note 29 Construction contracts

Note 35 Income taxes

Note 38 Commitments and contingencies

(c) 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 IFRS including the level in the fair value hierarchy in which such valuation techniques should be classified.

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2015, 2016 and 2017

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 liability, either directly or indirectly.

Level 3 inputs for the assets or liability 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 values is included in the following note:

Note 23 Financial instruments

Changes in Accounting Policies

Except for the application of the amendments to standards for the first time for the annual period beginning on January 1, 2017, as described below, the accounting policies have been consistently applied by the Company for the periods presented.

(a) Amendments to IAS No. 7 Statement of Cash Flows

For the year beginning on January 1, 2017, the Company applied the amendments to IAS No. 7 Statement of Cash Flows . IAS No. 7 requires that changes in 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:

Changes from financing cash flows

Changes arising from obtaining or losing control of subsidiaries or other businesses

The effect of changes in foreign exchange rates

Changes in fair values

Other changes

IAS No. 7 does not require the disclosure of comparative information of prior period. The related disclosures are included in note 39.

(b) Amendments to IAS No. 12 Income Taxes

For the year beginning on January 1, 2017, the Company applied the amendments to IAS No. 12 Income Taxes . In accordance with IAS No. 12, in the case of debt instruments measured at fair value, deferred tax accounting treatment is clarified. The difference

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2015, 2016 and 2017

between the carrying amount and taxable base amount of the debt liabilities is considered as temporary differences, regardless of the expected recovery method. When reviewing the recoverability of deferred tax assets, the estimated of probable future taxable income may include the recovery of some of the Company's assets for more than their carrying amount if there is sufficient evidence that it is probable that the Company will recover the asset for more than its carrying amount. In addition, the estimated of probable future taxable income are determined as the amount before considering the deductible effect from reversal of the deductible temporary differences.

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

3. Summary of Significant Accounting Policies

The significant accounting policies applied by the Company in preparation of its consolidated financial statements are included below. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, except for those as disclosed in note 2.

Basis of consolidation

(a) Business combinations

The Company accounts for business combinations using the acquisition method when control is transferred to the Company.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on bargain purchase is recognized in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

(b) Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date. Changes in the Company's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

F-34

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2015, 2016 and 2017

(c) Subsidiaries

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

(d) Loss of control

When the Company loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognized in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(e) Interests in equity-accounted investees

The Company's interests in equity-control investees comprise interests in associates and joint ventures. Associates are those entities in which the Company has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Company has joint control, whereby the Company has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and joint ventures are accounted for using the equity method. They are recognized initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Company's share of the profit or loss and other comprehensive income of equity-accounted investees, until the date on which significant influence or joint control ceases.

(f) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated. Unrealized gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Company's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Foreign currency transactions and translation

(a) Foreign currency transactions

Foreign currency transactions are initially recorded using the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. At the end of each reporting period, foreign currency monetary items are translated using the closing rate. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the original transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rate at the date fair value was initially determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognized in profit or

F-35

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2015, 2016 and 2017

loss in the period in which they arise. When gains or losses on non-monetary items are recognized in other comprehensive income, exchange components of those gains or losses are recognized in other comprehensive income. Conversely, when gains or losses on non-monetary items are recognized in profit or loss, exchange components of those gains or losses are recognized in profit or loss.

(b) Foreign operations

If the presentation currency of the Company is different from a foreign operation's functional currency, the financial statements of the foreign operation are translated into the presentation currency using the following methods:

The assets and liabilities of foreign operations, whose functional currency is not the currency of a hyperinflationary economy, are translated to presentation currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to functional currency at exchange rates at the dates of the transactions. Foreign currency differences are recognized in other comprehensive income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation. Thus, they are expressed in the functional currency of the foreign operation and translated at the closing rate.

When a foreign operation is disposed of, the relevant amount in the translation is transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income in the translation reserve.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term investments in highly liquid securities that are readily convertible to known amounts of cash with maturities of three months or less from the acquisition date and which are subject to an insignificant risk of changes in value. Equity investments are excluded

from cash and cash equivalents.

Non-derivative financial assets

The Company recognizes and measures non-derivative financial assets by the following four categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets. The Company recognizes financial assets in the consolidated statement of financial position when the Company becomes a party to the contractual provisions of the instrument.

F-36

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2015, 2016 and 2017

Upon initial recognition, non-derivative financial assets are measured at their fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the asset's acquisition or issuance.

(a) Financial assets at fair value through profit or loss

Financial assets are classified at fair value through profit or loss if they are held for trading or designated as such upon initial recognition. Upon initial recognition, transaction costs are recognized in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

(b) Held-to-maturity financial assets

A non-derivative financial asset with a fixed or determinable payment and fixed maturity, for which the Company has the positive intention and ability to hold to maturity, is classified as held-to-maturity. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest rate method.

(c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method unless the effect of discounting is immaterial.

(d) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, held-to-maturity financial assets or loans and receivables. Subsequent to initial recognition, they are measured at fair value, with changes in fair value, net of any tax effect, recorded in other comprehensive income in equity. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost. When a financial asset is derecognized or impairment losses are recognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Dividends on an available-for-sale equity instrument are recognized in profit or loss when the Company's right to receive payment is established.

(e) Derecognition of non-derivative financial assets

The Company derecognizes non-derivative financial assets when the contractual rights to the cash flows from the financial asset expire, or the Company transfers the rights to receive the contractual cash flows from the financial asset as well as substantially all the risks and rewards of ownership of the financial asset. Any interest in a transferred financial asset that is created or retained by the Company is recognized as a separate asset or liability.

If the Company retains substantially all the risks and rewards of ownership of the transferred financial assets, the Company continues to recognize the transferred financial assets and recognizes financial liabilities for the consideration received.

(f) Offsetting a financial asset and a financial liability

Financial assets and financial liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Company currently has a legally enforceable

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2015, 2016 and 2017

right to offset the recognized amounts, and there is the intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

Inventories

Inventory costs, except materials-in-transit in which costs are determined by using specific identification method, are determined by using the moving-weighted average method. The cost of inventories comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The allocation of fixed production overheads to the costs of finished goods or work in progress are based on the normal capacity of the production facilities.

Inventories are measured at the lower of cost or net realizable value. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories arising from an increase in net realizable value is recognized as a reduction in the amount of inventories recognized as a cost of goods sold in the period in which the reversal occurs.

The carrying amount of those inventories is recognized as cost of goods sold in the period in which the related revenue is recognized.

Non-current assets held for sale

Non-current assets or disposal groups comprising assets and liabilities that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. In order to be classified as held for sale, the assets or disposal groups must be available for immediate sale in their present condition and their sale must be highly probable. The assets or disposal groups that are classified as non-current assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell.

The Company recognizes an impairment loss for any initial or subsequent write-down of an asset or disposal group to fair value less costs to sell, and a gain for any subsequent increase in fair value less costs to sell, up to the cumulative impairment loss previously recognized in accordance with IAS No. 36 Impairment of Assets .

A non-current asset that is classified as held for sale or part of a disposal group classified as held for sale is not depreciated (or amortized).

Investment property

Property held to earn rentals or for capital appreciation or both is classified as investment property. Investment property is measured initially at its cost. Transaction costs are included in the initial measurement. Subsequently, investment property is carried at depreciated cost less any accumulated impairment losses.

Subsequent costs are recognized in the carrying amount of investment property at cost or, if appropriate, as separate items if it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing are recognized in profit or loss as incurred.

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2015, 2016 and 2017

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting date and adjusted, if appropriate. The change is accounted for as a change in an accounting estimate.

Property, plant and equipment

Property, plant and equipment are initially measured at cost and after initial recognition, are carried at cost less accumulated depreciation and any accumulated impairment losses. The cost of property, plant and equipment includes expenditures arising directly from the construction or acquisition of the asset, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, when the Company has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The cost of replacing a part of an item is recognized in the carrying amount of the item of property, plant and equipment, if the following recognition criteria are met:

- (a) it is probable that future economic benefits associated with the item will flow to the Company, and
- (b) the cost can be measured reliably.

The carrying amount of the replaced part is derecognized at the time the replacement part is recognized. The costs of the day-to-day servicing of the item are recognized in profit or loss as incurred.

Items of property, plant and equipment are depreciated from the date they are available for use or, in respect of self-constructed assets, from the date that the asset is completed and ready for use. Other than land, the costs of an asset less its estimated residual value are depreciated. Depreciation of property, plant and equipment is recognized in profit or loss on a straight-line basis, which most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset, over the estimated useful lives of each component of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognized.

Edgar Filing: POSCO - Form 20-F

The estimated useful lives for the current and comparative periods are as follows:

Buildings	3-50 years
Structures	4-50 years
Machinery and equipment	4-25 years
Vehicles	3-20 years
Tools	3-10 years
Furniture and fixtures	3-20 years
Lease assets	3-30 years
Bearer plants	20 years

The estimated residual value, useful lives and the depreciation method are reviewed at least at the end of each reporting period and, if expectations differ from previous estimates, the changes are accounted for as changes in accounting estimates.

F-39

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017****Borrowing costs**

The Company capitalizes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Other borrowing costs are recognized in expense as incurred. A qualifying asset is an asset that requires a substantial period of time to get ready for its intended use or sale. Financial assets and inventories that are manufactured or otherwise produced over a short period of time are not qualifying assets. Assets that are ready for their intended use or sale when acquired are not qualifying assets.

To the extent that the Company borrows funds specifically for the purpose of obtaining a qualifying asset, the Company determines the amount of borrowing costs eligible for capitalization as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. The Company immediately recognizes other borrowing costs as an expense. To the extent that the Company borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Company shall determine the amount of borrowing costs eligible for capitalization by applying a capitalization rate to the expenditures on that asset. The capitalization rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Company that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the Company capitalizes during a period shall not exceed the amount of borrowing costs incurred during that period.

Intangible assets

Intangible assets are measured initially at cost and, subsequently, are carried at cost less accumulated amortization and accumulated impairment losses.

Amortization of intangible assets except for goodwill is calculated on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The residual value of intangible assets is zero. However, as there are no foreseeable limits to the periods over which club memberships are expected to be available for use, this intangible asset is determined as having an indefinite useful life and not amortized.

Intellectual property rights	4-25 years
Development costs	3-5 years
Port facilities usage rights	4-75 years
Other intangible assets	2-15 years

Amortization periods and the amortization methods for intangible assets with finite useful lives are reviewed at the end of each reporting period. The useful lives of intangible assets that are not being amortized are reviewed at the end of each reporting period to determine whether events and circumstances continue to support indefinite useful life assessments for those assets. Changes are accounted for as changes in accounting estimates.

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. Other development expenditures are recognized in profit or loss as incurred.

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in profit or loss as incurred.

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2015, 2016 and 2017

Exploration for and evaluation of mineral resources

POSCO is engaged in exploration projects for mineral resources through subsidiaries, associates and joint ventures or other contractual arrangements. Expenditures related to the development of mineral resources are recognized as exploration or development intangible assets. The nature of these intangible assets are as follows:

(a) Exploration and evaluation assets

Exploration and evaluation assets consist of expenditures for topographical studies, geophysical studies and trenching. These assets are reclassified as development assets when it is proved that the exploration has identified commercially viable mineral deposit.

(b) Development assets

When proved reserves are determined and development is sanctioned, development expenditures incurred are capitalized. These expenditures include evaluation of oil fields, construction of oil/gas wells, drilling for viability and others. On completion of development and inception of extraction for commercial production of developed proved reserves, the development assets are reclassified as either property, plant and equipment or as intellectual property rights (mining rights) under intangible assets based on the nature of the capitalized expenditure.

The respective property, plant and equipment and intellectual property (mining rights) are each depreciated and amortized based on proved reserves on a unit of production basis.

Government grants

Government grants are not recognized unless there is reasonable assurance that the Company will comply with the grant's conditions and that the grant will be received.

(a) Grants related to assets

Government grants whose primary condition is that the Company purchase, construct or otherwise acquire long-term assets are deducted from the carrying amount of the assets and recognized in profit or loss on a systematic and rational basis over the life of the depreciable assets.

(b) Grants related to income

Government grants which are intended to compensate the Company for expenses incurred are deducted from the related expenses.

Leases

The Company classifies and accounts for leases as either a finance or operating lease, depending on the terms. Leases where the Company assumes substantially all of the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

(a) Finance leases

At the commencement of the lease term, the Company recognizes as finance assets and finance liabilities the lower amount of the fair value of the leased property and the present value of the minimum lease payments, each determined at the inception of the lease. Any initial direct costs are added to the amount recognized as an asset.

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2015, 2016 and 2017

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the Company adopts for similar depreciable assets that are owned. If there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

(b) Operating leases

Lease obligations under operating leases are recognized as an expense on a straight-line basis over the lease term. Contingent rents are charged as expenses in the periods in which they are incurred.

(c) Determining whether an arrangement contains a lease

Determining whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset) and the arrangement conveys a right to use the asset.

At inception or reassessment of the arrangement, management of the Company separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If management of the Company concludes for a financial lease that it is impracticable to separate the payments reliably, the Company recognizes an asset and a liability at an amount equal to the fair value of the underlying asset that was identified as the subject of the lease. Subsequently, the liability shall be reduced as payments are made and an imputed finance charge on the liability recognized using the purchaser's incremental borrowing rate of interest.

Impairment for financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the

estimated future cash flows of that asset that can be estimated reliably. However, losses expected as a result of future events, regardless of likelihood, are not recognized.

Objective evidence that a financial asset or group of financial assets are impaired includes:

- (a) significant financial difficulty of the issuer or obligor;
- (b) a breach of contract, such as a default or delinquency in interest or principal payments;
- (c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- (d) it becoming probable that the borrower will enter bankruptcy or other financial reorganization;

F-42

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2015, 2016 and 2017

(e) the disappearance of an active market for that financial asset because of financial difficulties; or

(f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

If there is objective evidence that financial assets are impaired, impairment losses are measured and recognized.

(a) Financial assets measured at amortized cost

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. If it is not practicable to obtain the instrument's estimated future cash flows, impairment losses would be measured by using prices from any observable current market transactions. The Company can recognize impairment losses directly or establish a provision to cover impairment losses. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss shall be reversed either directly or by adjusting an allowance account.

(b) Financial assets carried at cost

If there is objective evidence that an impairment loss has occurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

(c) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available-for-sale are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognized in profit or loss.

Impairment for non-financial assets

The carrying amounts of the Company's non-financial assets, other than assets arising from construction contracts, employee benefits, inventories, deferred tax assets and non-current assets held

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2015, 2016 and 2017

for sale, are reviewed at the end of the reporting period to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, irrespective of whether there is any indication of impairment, are tested for impairment annually by comparing their recoverable amount to their carrying amount.

Management estimates the recoverable amount of an individual asset. If it is impossible to measure the individual recoverable amount of an asset, then management estimates the recoverable amount of cash-generating unit (CGU). A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The Company determined that individual operating entities are CGUs.

The recoverable amount of an asset or CGU is the greater of its value-in-use and its fair value less costs to sell. The value-in-use is estimated by applying a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU for which estimated future cash flows have not been adjusted, to the estimated future cash flows expected to be generated by the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or a CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

Goodwill acquired in a business combination is allocated to each CGU that is expected to benefit from the synergies arising from the goodwill acquired. Any impairment identified at the CGU level will first reduce the carrying amount of goodwill and then be used to reduce the carrying amount of the other assets in the CGU on a pro rata basis. Except for impairment losses in respect of goodwill which are never reversed, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Derivative financial instruments and hedges

Derivatives are initially recognized at fair value. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit or loss.

(a) Hedge accounting

The Company holds forward exchange contracts, currency swaps and commodity future contracts to manage foreign exchange risk and commodity fair value risk. The Company designated derivatives as hedging instruments to hedge

the risk of changes in the fair value of assets, liabilities or firm commitments (a fair value hedge) and foreign currency risk of highly probable forecasted transactions or firm commitments (a cash flow hedge).

On initial designation of the hedge, the Company formally documents the relationship between the hedging instruments and hedged items, including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship.

Fair value hedge

Changes in the fair value of a derivative hedging instrument designated as a fair value hedge are recognized in profit or loss. The gain or loss from remeasuring the hedging instrument at fair value for a derivative hedging instrument and the gain or loss on the

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2015, 2016 and 2017

hedged item attributable to the hedged risk are recognized in profit or loss in the same line item of the consolidated statement of comprehensive income.

The Company discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, or if the hedge no longer meets the criteria for hedge accounting. Any adjustment arising from gain or loss on the hedged item attributable to the hedged risk is amortized to profit or loss from the date the hedge accounting is discontinued.

Cash flow hedge

When a derivative is designated to hedge the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income, net of tax, and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss on the hedging instrument that has been recognized in other comprehensive income is reclassified to profit or loss in the periods during which the forecasted transaction occurs. If the forecasted transaction is no longer expected to occur, then the balance in other comprehensive income is recognized immediately in profit or loss.

(b) Embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately only if the following criteria have been met: (a) the economic characteristics and risks of the host contract and the embedded derivatives are not clearly and closely related to a separate instrument with the same terms as the embedded derivative that would meet the definition of a derivative, and (b) the hybrid (combined) instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives from the host contract are recognized immediately in profit or loss. However, convertible rights of convertible bonds are not separated from the host contract and the compound financial instruments of bonds and convertible rights are designated and measured at fair value through profit and loss.

(c) Other derivatives

Changes in the fair value of a derivative that is not designated as a hedging instrument are recognized immediately in profit or loss.

Non-derivative financial liabilities

The Company classifies non-derivative financial liabilities into financial liabilities at fair value through profit or loss or other financial liabilities in accordance with the substance of the contractual arrangement and the definitions of financial liabilities. The Company recognizes financial liabilities in the consolidated statement of financial position when the Company becomes a party to the contractual provisions of the financial liability.

F-45

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2015, 2016 and 2017

(a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading or designated as such upon initial recognition. Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. Upon initial recognition, transaction costs that are directly attributable to the acquisition are recognized in profit or loss as incurred.

(b) Other financial liabilities

Non-derivative financial liabilities other than financial liabilities at fair value through profit or loss are classified as other financial liabilities. At the date of initial recognition, other financial liabilities are measured at fair value minus transaction costs that are directly attributable to the acquisition. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method. The Company derecognizes a financial liability from the consolidated statement of financial position when it is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

Construction work in progress

The gross amount due from customers for contract work is presented for all contracts in which costs incurred plus recognized profits (less recognized losses) exceed progress billings. If progress billings exceed costs incurred plus recognized profits (less recognized losses), then the gross amount due to customers for contract work is presented. Cost includes all expenditures related directly to specific projects and an allocation of fixed and variable overheads incurred in the Company's contract activities based on normal operating capacity.

The Company recognizes advances received regarding the amount received from the ordering organization before the commencement of the construction. Also, the Company recognized trade accounts and notes receivable with respect to the amount billed to the ordering organization.

Employee benefits

(a) Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within twelve months after the end of the period in which the employees render the related service. When an employee has rendered service to the Company during an accounting period, the Company recognizes the undiscounted amount of short-term employee benefits

expected to be paid in exchange for that service as profit or loss. If the Company has a legal or constructive obligation which can be reliably measured, the Company recognizes the amount of expected payment for profit-sharing and bonuses payable as liabilities.

(b) Other long-term employee benefits

Other long-term employee benefits include employee benefits that are settled beyond 12 months after the end of the period in which the employees render the related service, and are calculated at the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods, less the fair value of any related assets. Any actuarial gains and losses are recognized in profit or loss in the period in which they arise.

F-46

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2015, 2016 and 2017

(c) Retirement benefits: Defined contribution plans

For defined contribution plans, when an employee has rendered service to the Company during a period, the Company recognizes the contribution payable to a defined contribution plan in exchange for that service as an accrued expense, after deducting any contributions already paid. If the contributions already paid exceed the contribution due for service before the end of the reporting period, the Company recognizes that excess as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

(d) Retirement benefits: Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of plan assets is deducted. The calculation is performed annually by an independent actuary using the projected unit credit method.

The discount rate is the yield at the reporting date on corporate bonds that have maturity dates approximating the terms of the Company's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The Company recognizes all actuarial gains and losses arising from actuarial assumption changes and experiential adjustments in other comprehensive income when incurred.

When the fair value of plan assets exceeds the present value of the defined benefit obligation, the Company recognizes an asset, to the extent of the present value of the total of cumulative any economic benefits available in the form of refunds from the plan or reduction in the future contributions to the plan.

Remeasurements of net defined benefit liabilities, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Company determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments, net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss in curtailment is recognized immediately in profit or loss. The Company recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

F-47

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2015, 2016 and 2017

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Where the effect of the time value of money is material, provisions are determined at the present value of the expected future cash flows.

Where some or all of the expenditures required to settle a provision are expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimates. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

A provision for warranties is recognized when the underlying products are sold. The provision is based on historical warranty.

Regarding provision for construction warranties, warranty period starts from the completion of construction in accordance with construction contracts. If the Company has an obligation for warranties, provision for warranties which are estimated based on historical warranty data are recorded as cost of construction and provision for warranties during the construction period.

A provision for restoration regarding contamination of land is recognized in accordance with the Company's announced Environment Policy and legal requirement as needed.

A provision is used only for expenditures for which the provision was originally recognized.

Emission Rights

The Company accounts for greenhouse gases emission right and the relevant liability as follows pursuant to *the Act on Allocation and Trading of Greenhouse Gas Emission* which became effective in Korea in 2015.

(a) Greenhouse Gases Emission Right

Greenhouse Gases Emission Right consists of emission allowances which are allocated from the government free of charge and those purchased from the market. The cost includes any directly attributable costs incurred during the normal course of business.

Emission rights held for the purpose of performing the obligation are classified as intangible asset and initially measured at cost and subsequently carried at cost less accumulated impairment losses. Emission rights held for short-swing profits are classified as current asset and are measured at fair value with any changes in fair value recognized as profit or loss in the respective reporting period.

The Company derecognizes an emission right asset when the emission allowance is unusable, disposed or submitted to government when the future economic benefits are no longer expected to be probable.

(b) Emission liability

Emission liability is a present obligation of submitting emission rights to the government with regard to emission of greenhouse gas. Emission liability is recognized when there is a high possibility of outflows of resources in performing the obligation and the costs required to perform the obligation are reliably estimable. Emission liability is an amount of estimated

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2015, 2016 and 2017

obligations for emission rights to be submitted to the government for the performing period. The emission liability is measured based on the expected quantity of emission for the performing period in excess of emission allowance in possession and the unit price for such emission rights in the market at the end of the reporting period.

Equity instruments

(a) Share capital

Common stock is classified as equity and the incremental costs arising directly attributable to the issuance of common stock less their tax effects are deducted from equity.

If the Company reacquires its own equity instruments, the amount of those instruments (treasury shares) are presented as a contra equity account. No gain or loss is recognized in profit or loss on the purchase, sale, issuance or cancellation of its own equity instruments. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase to equity, and the resulting surplus or deficit on the transaction is recorded in capital surplus.

(b) Hybrid Bonds

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of financial liability and an equity instrument. When the Company has an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation, the instruments are classified as equity instruments.

Revenue

Revenue from the sale of goods, services provided and the use of assets is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates, which are not significant for all periods presented.

(a) Sale of goods

Revenue from the sale of goods in the ordinary course of activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. The appropriate timing for transfer of risks and rewards varies depending on the individual terms and conditions of the sales contract. For international sales, this timing depends on the type of international commercial terms of the contract.

(b) Construction contracts

Construction contracts of the Company primarily consist of contracts for the construction of plants and infrastructure facilities, and revenue recognition for different types of contracts is as follows:

When the outcome of a construction contract can be estimated reliably, contract revenue is recognized in profit or loss in proportion to the stage of completion of the contract. The

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2015, 2016 and 2017

stage of completion of a contract is determined based on the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. Contract revenue includes the initial amount agreed in the contract plus any variation in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably.

When the outcome of a construction contract cannot be estimated reliably, the revenue is recognized only to the extent of contract costs incurred that it is probable will be recoverable. An expected loss on the construction contract is recognized as an expense immediately.

The Company has construction contracts in which control and the significant risks and rewards of ownership of the residential real estate are transferred to the buyer upon the delivery. Revenue and expenses from development and sale of these residential real estate are recognized when an individual unit of residential real estate is delivered to the buyer.

(c) Services rendered

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(d) Rental income

Rental income from investment property, net of lease incentives granted, is recognized in profit or loss on a straight-line basis over the term of the lease.

Finance income and finance costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, and gains on valuations of hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest rate method. Dividend income is recognized in profit or loss on the date that the Company's right to receive payment is established.

Finance costs comprise interest expense on borrowings and changes in the fair value of financial assets at fair value through profit or loss and loss on valuations of hedging instruments that are recognized in profit or loss. Borrowing

costs are recognized in profit or loss using the effective interest rate method.

Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

The Company recognizes interest and penalties related to corporate income tax as if it is related to the income taxes, the Company applies IAS No. 12 *Income Taxes* , if it is not related to the income taxes, the Company applies IAS No. 37 *Provisions Contingent Liabilities and Contingent Assets* .

(a) Current income tax

Current income tax is the expected income tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the end of the

F-50

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

reporting period and any adjustment to tax payable in respect of previous years. The taxable profit is different from the accounting profit for the period since the taxable profit is calculated excluding the temporary differences, which will be taxable or deductible in determining taxable profit of future periods, and non-taxable or non-deductible items from the accounting profit.

(b) Deferred income tax

The measurement of deferred income tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

The Company recognizes a deferred income tax liability for all taxable temporary differences associated with investments in subsidiaries, associates, and joint ventures, except to the extent that the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. The Company recognizes a deferred income tax asset for deductible temporary differences arising from investments in subsidiaries, associates and joint ventures, to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized. However, deferred income tax is not recognized for the following temporary differences: taxable temporary differences arising on the initial recognition of goodwill, or the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit or loss nor taxable income.

The carrying amount of a deferred income tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred income tax liabilities and deferred income tax assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period to recover or settle the carrying amount of its assets and liabilities.

Deferred income tax assets and liabilities are offset only if there is a legally enforceable right to offset the related current income tax liabilities and assets, and they relate to income taxes levied by the same tax authority and they intend to settle current income tax liabilities and assets on a net basis.

Earnings per share

Management calculates basic earnings per share (EPS) data for POSCO 's ordinary shares, which is presented at the end of the statement of comprehensive income. Basic EPS is calculated by dividing profit attributable to ordinary shareholders of POSCO by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held.

F-51

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2015, 2016 and 2017

Operating segments

An operating segment is a component of the Company that: a) engages in business activities from which it may earn revenues and incur expenditures, including revenues and expenses that relate to transactions with any of the Company's other components, b) whose operating results are regularly reviewed by the Company's chief operating decision maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. Management has determined that the CODM of the Company is the CEO.

With regard to construction segment, segment profit and loss is determined in the same way that consolidated profit after tax for the period is generally determined under IFRS except that revenues and expenses from the development and sale of certain residential real estate are determined by reference to the stage of completion of the contract activity at the end of the reporting period, while in the consolidated financial statements, they are recognized when an individual unit of residential real estate is delivered to the buyer. No adjustments are made for corporate allocations to segment profit and loss. In addition, segment assets and liabilities are generally measured based on total assets and liabilities in accordance with IFRS without any adjustment for corporate allocations, except that assets and liabilities in connection with the construction and sale of residential real estate are determined by reference to the stage of completion of the contract activity at the end of each period.

For the other segments, segment profit and loss is determined the same way that consolidated net after tax profit for the period is generally determined under IFRS without any adjustment for corporate allocations. The accounting policies used by each segment are consistent with the accounting policies used in the preparation of the consolidated financial statements. Segment assets and liabilities are generally measured based on total assets and liabilities in accordance with IFRS without any adjustment for corporate allocations. Also, segment assets and liabilities are based on the separate financial statements of the entities instead of on consolidated basis.

In addition, there are varying levels of transactions amongst the reportable segments. These transactions include sales of property, plant and assets, and rendering of construction service and so on.

Segment results that are reported to the CEO include items directly attributable to a segment and items allocated on a reasonable basis. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017****New standards and interpretations not yet adopted**

The Company will apply IFRS No. 9 Financial Instruments and IFRS No. 15 Revenue from Contracts with Customers for the year beginning on January 1, 2018. The Company has completed an analysis of the financial impacts resulting from adoption of new standards and the estimated effect on equity in the consolidated financial statements at the date of initial application based on available information which are summarized as follows.

	December 31, 2017	IFRS No. 9	IFRS No. 15	Date of initial application (January 1, 2018)
	(in millions of Won)			
Reserves	(682,556)	(401,344)		(1,083,900)
Retained earnings	42,974,658	368,612	(71,066)	43,272,204
Non-controlling interests	3,666,334	(19,545)	(59,060)	3,587,729
	45,958,436	(52,277)	(130,126)	45,776,033

The above estimated amounts could differ from the actual impact when the Company adopts the new standards in 2018 for the following reasons.

Changes in internal controls related to application of new standards

Changes in the Company's selection in accounting policy during the year ending December 31, 2018 when initial disclosure of the consolidated financial statements at the date of initial application is made

The following new standards, including IFRS No. 9 and IFRS No. 15, interpretations and amendments to existing standards have been published but are not mandatory for the Company for annual periods beginning on January 1, 2017, and the Company has not early adopted them.

(a) IFRS No. 9 Financial Instruments

IFRS No. 9 Financial Instruments regulates requirements for measurement and recognition of certain contracts in relation to trading financial assets and liabilities or non-financial items. It replaces existing guidance in IAS No. 39 Financial Instruments: Recognition and Measurement .

The standard will generally be applied retrospectively with some exemptions allowing an entity not to restate the comparative information for prior periods in relation to classification and measurement (including impairment) changes. Such exemptions will be applied by the Company. The Company will recognize the accumulated effect resulting from initial application of IFRS No. 9 as reserves, retained earnings and non-controlling interests of the Company at the date of initial application.

The standard's expected impact on the consolidated financial statements are as follows.

1) Classification and measurement of financial assets

When applying IFRS No. 9, the classification of financial assets will be driven by the Company's business model for managing the financial assets and contractual terms of cash flow.

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

The following table shows the classification of financial assets measured subsequently at amortized cost, at fair value through other comprehensive income and at fair value through profit or loss. If a hybrid contract contains a host that is a financial asset, the classification of the hybrid contract shall be determined for the entire contract without separating the embedded derivative.

Contractual cash flows are**solely payments of**

Business model	principal and interests	All other cases
To collect contractual cash flows	Amortized cost ^(*1)	
Both to collect contractual cash flows and sell financial assets	Fair value through other comprehensive income ^(*1)	Fair value through profit or loss ^(*2)
For trading, and others	Fair value through profit or loss	

(*1) The Company may irrevocably designate as at fair value through profit or loss to eliminate or significantly reduce an accounting mismatch.

(*2) The Company may irrevocably designate equity investments that are not held for trading as at fair value through other comprehensive income.

As of December 31, 2017, the Company had financial asset at fair value through profit or loss of 67,021 million, available-for-sale financial assets of 1,978,115 million, financial assets held-to-maturity of 5,211 million, and loans and receivables of 21,268,107 million.

As a result of analysis of the impact on the consolidated financial statements, the Company expects that debt instruments whose contractual cash flows do not solely represent payments of principal and interest and those held for trading will be measured at fair value through profit or loss; loans and receivables whose contractual cash flows solely represent receipt of principal and interest but are not owned for the purpose of collection of contractual cash flows will be measured at fair value through other comprehensive income or fair value through profit or loss. Accordingly, the financial assets at fair value through profit or loss may increase upon adoption of IFRS No. 9 which may increase the

volatility in profit or loss. The Company expects the application of IFRS No. 9 on these financial assets will not have a material impact on the consolidated financial statements.

In accordance with IFRS No. 9, the Company may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument which is not held for trading at initial recognition. As of December 31, 2017, the Company had equity instruments classified as financial assets available-for-sale for the purpose of long-term strategic plan and the fair value of the accompanying asset is

1,730,753 million. In accordance with IFRS No. 9, the Company expects to make an irrevocable election to classify the equity instrument as assets measured at fair value through other comprehensive income, for which all subsequent changes in fair value are recognized in other comprehensive income and not subsequently recycled to profit or loss.

As of January 1, 2018, the date of initial application, the Company expects to recognize a decrease in reserves of

401,344 million and an increase in retained earnings of 401,344 million due to designation of equity instruments to fair value through other comprehensive income.

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2015, 2016 and 2017

2) Impairment: Financial Assets and Contract Assets

IFRS No. 9 replaces the incurred loss model in the existing standard with a forward-looking expected credit loss model for debt instruments, lease receivables, contractual assets, loan commitments, and financial guarantee contracts.

Under IFRS No. 9, impairment losses are likely to be recognized earlier than using the incurred loss model under the existing guidance in IAS No. 39 as loss allowances will be measured either 12-month or lifetime expected credit loss based on the extent of increase in credit risk.

If credit risk has increased significantly since the initial recognition, a loss allowance for lifetime expected credit loss is required to be measured at the end of every reporting period. If credit risk has not increased significantly since the initial recognition, a loss allowance is measured based on 12-month expected credit loss.

If the financial instrument has low credit risk at the end of the reporting period, the Company may assume that the credit risk has not increased significantly since initial recognition. However, a loss allowance for lifetime expected credit losses is required for contract assets or trade receivables that do not contain a significant financing component. Additionally, the Company has elected to recognize lifetime expected credit losses for contract assets or trade receivables that contain a significant financing component.

The Company expects impairment losses of financial assets under IFRS No. 9 to be recognized earlier. As of January 1, 2018, the date of initial application, the Company expects to recognize an increase in loss allowance of 66,637 million and a decrease in retained earnings and non-controlling interests of 32,732 million and 19,545 million, respectively.

3) Classification and Measurement of Financial Liabilities

IFRS No. 9 mostly adheres to the existing requirements under IAS No. 39 regarding the classification of financial liabilities.

Under IAS No. 39, all financial liabilities designated at fair value through profit or loss recognized their fair value movements in profit or loss. However, IFRS No. 9 requires the amount of the change in the liability's fair value attributable to changes in the credit risk to be recognized in other comprehensive income. Amounts presented in other comprehensive income are not subsequently transferred to profit or loss.

The Company did not designate financial liabilities as financial liability at fair value through profit or loss as of December 31, 2017 and expects the adoption of IFRS No. 9 will not have significant impact on the classification of

financial liabilities.

4) Hedge Accounting

Regarding the initial application of IFRS No. 9, the Company may choose as its accounting policy choice to continue to apply all of the hedge accounting requirements of IAS No. 39 instead of the requirements of IFRS No. 9. The Company determined to consistently apply hedge accounting requirements of IAS No. 39.

F-55

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2015, 2016 and 2017

(b) IFRS No. 15 Revenue from Contracts with Customers

IFRS No. 15 Revenue from Contracts with Customers provides a unified five-step model for determining the timing, measurement and recognition of revenue. It replaces existing revenue recognition guidance, including IAS No. 18

Revenue, IAS No. 11 Construction Contracts, SIC No. 31 Revenue- Barter Transactions Involving Advertising Services, IFRIC No. 13 Customer Loyalty Programs, IFRIC No. 15 Agreements for the Construction of Real Estate, and IFRIC No. 18 Transfers of Assets from Customers.

The Company intends to apply the modified retrospective approach by recognizing the cumulative impact of initially applying the revenue standard as of January 1, 2018, the date of initial application and the Company also decided to apply the practical expedients as allowed by IFRS No. 15 by applying the new standard only to those contracts that are not considered as completed contracts at the date of initial application. Accordingly, upon adoption of IFRS No. 15, the Company will not restate the financial statements for comparative periods.

Existing IFRS standards and interpretations including IAS No. 18 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, IFRS No. 15, 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 standard's expected impact on the consolidated financial statements are as follows.

1) Identification of performance obligations

The Company holds certain contracts for sales of manufactured product and merchandise which include transportation service. When applying IFRS No. 15, sales of manufactured products or merchandise and delivery of products (i.e. shipping service) are identified as separate performance obligations in the contracts with customers. For transactions for which the shipping terms are on shipment basis and the customer pays shipping costs, the two performance obligations are separately accounted for because delivery of products is performed after the control over the products is transferred to the customer. The transaction price allocated to the performance obligation of delivery service will be recognized when the obligation of delivery of the product is completed.

The Company identified shipping service included in the sales contract as a separate performance obligation that will be satisfied over the promised service period. As of January 1, 2018, the date of initial application, change in relevant

accounting policy is expected to result in decrease in retained earnings and non-controlling interests of 949 million and 156 million, respectively.

Certain construction contracts of the Company include design, purchase and construction services through separate service contracts. According to IFRS No. 15, if service or goods provided by the Company are highly dependent or correlated, the

F-56

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2015, 2016 and 2017

Company should identify them as a single performance obligation regardless of the number of contracts made.

The Company considered each service contract as a combined single obligation and therefore, upon adoption of IFRS No. 15 as of January 1, 2018, the date of initial application, the Company expects to recognize increases in retained earnings and non-controlling interests of 452 million and 628 million, respectively.

2) Variable consideration

Under IFRS No. 15, the Company estimates the amount of variable consideration by using the expected value which the Company expects to better predict the amount of consideration. The Company recognizes revenue with transaction price including variable consideration only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the refund period has lapsed.

In certain sales arrangements, unit price is subject to adjustment due to quality of products. A certain percentage of sales discount is also provided in case customers make payment before the settlement due date. In addition, certain service contracts are subject to compensation payment if the Company fails to achieve a promised level of obligation.

As of January 1, 2018, the date of initial application of IFRS No. 15, the adoption is expected to result in decrease in retained earnings of 2,773 million and increase in non-controlling interests of 88 million.

3) Performance obligation satisfied over time

In accordance with IFRS No. 15, revenue is recognized over time by measuring progress only if the Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date.

The Company analyzed certain service contracts, where the Company provides manufacturing services for customized machinery. Currently the related revenue is recognized over the period when such services are provided. Under IFRS No. 15, as the Company does not have an enforceable right to payment for performance completed to date, the related revenue is recognized at the time when the machinery is delivered. As of January 1, 2018, the date of initial application, changes in accounting policy due to enforceable right to payment are expected to result in decreases in retained earnings and non-controlling interests of 1,188 million and 1,115 million, respectively.

According to IFRS No. 15, the effects of any inputs that do not depict the transfer of control of goods or services to the customer such as the costs of wasted materials, labor or other resources to fulfill the contract that were not reflected in the price of the contract should be excluded from calculating percentage of completion. As of January 1, 2018, the date of initial application, change in percentage of completion due to excessive use of materials is expected to result in decreases in retained earnings and non-controlling interests of 2,855 million and 1,512 million, respectively.

F-57

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2015, 2016 and 2017

4) Incremental costs of obtaining a contract

In accordance with IFRS No. 15, the Company recognizes as an asset the incremental costs of obtaining a contract with a customer if the Company expects to recover those costs, and costs that are recognized as assets are amortized over the period that the related goods or services are transferred to the customer.

Certain costs incurred in construction segment such as costs to obtain a contract that would have been incurred regardless of whether the contract was obtained should be recognized as an expense immediately, unless those costs are explicitly chargeable to the customer regardless of whether the contract is obtained. Such costs have been previously capitalized if it is probable the related contracts will be entered into. As of January 1, 2018, the date of initial application, change in accounting policy regarding incremental costs of obtaining a contract is expected to result in decreases in retained earnings and non-controlling interests of 63,753 million and 56,993 million, respectively.

(c) IFRS No. 16 Leases

IFRS No. 16 Leases will replace IAS No. 17 Leases and IFRIC No. 4 Determining whether an Arrangement contains a Lease. It is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted for a Company which has adopted IFRS No. 15.

As a lessee, the Company shall apply this standard using one of the following two methods; (a) retrospectively to each prior reporting period presented in accordance with IAS No. 8 Accounting Policies, Changes in Accounting Estimates and Errors but using the practical expedients for completed contracts- i.e. completed contracts as of the beginning of 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.

IFRS No. 16 suggests a single accounting model that requires a lessee to recognize lease related asset and liability in the consolidated financial statements. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The lessee may elect not to apply the requirements to short-term lease of which has a term of 12 months or less at the commencement date and low value assets. Accounting treatment for lessor is similar to the existing standard which classifies lease into finance and operating lease.

Application of IFRS No. 16 will change current operating lease expense which has been recognized in straight-line method into depreciation expense of right-of-use asset and interest expense of lease liability, and therefore, nature of expense recognized in relation to lease will change. However, it is expected that there will be no significant impact on

finance lease.

The Company has not yet initiated the preparation for the application of IFRS No. 16 and has not performed an assessment of the impact resulting from the application of IFRS No. 16. The Company will complete the analysis of financial impacts arising from applying this standard in 2018.

F-58

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2015, 2016 and 2017

4. Financial risk management

The Company has exposure to the following risks from its use of financial instruments:

credit risk

liquidity risk

market risk

capital risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

(a) Financial risk management

1) Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

2) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment securities. In addition, credit risk arises from finance guarantees.

The Company implements a credit risk management policy under which the Company only transacts business with counterparties that have a certain level of credit rate evaluated based on financial condition, historical experience, and other factors. The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of a nation or an industry in which a customer operates its business does not have a significant influence on credit risk. The Company has established a credit policy under which each new customer is analyzed individually for creditworthiness.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for companies of similar assets in respect of losses that have been incurred but not yet identified. The collective

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2015, 2016 and 2017

loss allowance is determined based on historical data of payment statistics for similar financial assets. Debt securities are analyzed individually, and an expected loss shall be directly deducted from debt securities.

Credit risk also arises from transactions with financial institutions, and such transactions include transactions of cash and cash equivalents, various deposits, and financial instruments such as derivative contracts. The Company manages its exposure to this credit risk by only entering into transactions with banks that have high international credit ratings. The Company's treasury department authorizes, manages, and oversees new transactions with financial institutions with whom the Company has no previous relationship.

Furthermore, the Company limits its exposure to credit risk of financial guarantee contracts by strictly evaluating their necessity based on internal decision making processes, such as the approval of the board of directors.

3) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Company's cash flow from business, borrowing or financing is sufficient to meet the cash requirements for the Company's strategic investments. Management believes that the Company is capable of raising funds by borrowing or financing if the Company is not able to generate cash flow requirements from its operations. The Company has committed borrowing facilities with various banks.

4) Market risk

Market risk means that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The goal of market risk management is optimization of profit and controlling the exposure to market risk within acceptable limits.

Currency risk

The Company's policy in respect of foreign currency risks is a natural hedge whereby foreign currency income is offset with foreign currency expenditures. The remaining net exposures after the natural hedge have been hedged using derivative contracts such as forward exchange contracts. In addition, the Company's derivative transactions are limited to hedging actual foreign currency transactions and speculative hedging is not permitted. Based on this policy, the Company has performed currency risk management specific to various characteristics of different segments. The entities in the steel segment reduces the foreign currency exposure by repayment of foreign currency borrowings subjected to investment in overseas when its maturities come. The entities in the engineering and construction segment have hedged foreign currency risks by using forward

F-60

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

exchange contracts. Entities in the trading segment have hedged foreign currency risks by using forward exchange contracts when the foreign currencies received and paid are different.

Interest rate risk

The Company manages the exposure to interest rate risk by adjusting of borrowing structure ratio between borrowings at fixed interest rates and variable interest rate. The Company monitors interest rate risks regularly in order to avoid exposure to interest rate risk on borrowings at variable interest rate.

Other market price risk

Equity price risk arises from listed equity securities among available-for-sale equity securities. Management of the Company measures regularly the fair value of listed equity securities and the risk of variance in future cash flow caused by market price fluctuations. Significant investments are managed separately and all buy and sell decisions are approved by management of the Company.

(b) Management of capital

The fundamental goal of capital management is the maximization of shareholders' value by means of the stable dividend policy and the retirement of treasury shares. The capital structure of the Company consists of equity and net borrowings (after deducting cash and cash equivalents) and current financial instruments from borrowings. The Company applied the same capital risk management strategy that was applied in the previous period.

Net borrowing-to-equity ratio as of December 31, 2016 and 2017 is as follows:

	2016	2017
	(in millions of Won)	
Total borrowings	22,704,998	21,063,657
Less: Cash and cash equivalents	2,447,619	2,612,530
Net borrowings	20,257,379	18,451,127

Total equity	45,765,269	47,326,725
Net borrowings-to-equity ratio	44.26%	38.99%

5. Cash and Cash Equivalents

Cash and cash equivalents as of December 31, 2016 and 2017 are as follows:

	2016 (in millions of Won)	2017 ^(*1)
Cash	11,960	1,896
Demand deposits and checking accounts	1,312,426	1,259,813
Time deposits	254,888	360,985
Other cash equivalents	868,345	989,836
	2,447,619	2,612,530

(*1) As of December 31, 2017, cash equivalents amounting to 36,302 million of POSCO ENGINEERING & CONSTRUCTION CO., LTD., a subsidiary of the Company, are restricted for use related to the joint account of joint operations and others.

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017****6. Trade Accounts and Notes Receivable**

(a) Trade accounts and notes receivable as of December 31, 2016 and 2017 are as follows:

	2016	2017
	(in millions of Won)	
Current		
Trade accounts and notes receivable	9,320,915	8,579,620
Finance lease receivables	10,300	10,469
Unbilled due from customers for contract work	860,287	728,007
Less: Allowance for doubtful accounts	(517,476)	(493,533)
	9,674,026	8,824,563
Non-current		
Trade accounts and notes receivable	80,447	871,432
Finance lease receivables	11,326	734
Less: Allowance for doubtful accounts	(40,649)	(140,596)
	51,124	731,570

Trade accounts and notes receivable sold to financial institutions, for which the derecognition conditions were not met, amounted to 344,410 million and 309,964 million as of December 31, 2016 and 2017, respectively. The fair value of trade accounts and notes receivable approximates the carrying amounts and trade accounts and notes receivable are included in short-term borrowings from financial institutions (Note 17).

(b) Finance lease receivables are as follows:

Customer	Contents	2016	2017
	(in millions of Won)		
Korea Electric Power Corporation	Combined thermal power plant 3~4	20,648	10,469

KC Chemicals CORP	Machinery and equipment	244	
Hystech.Co. Ltd.	Machinery and equipment	734	734
		21,626	11,203

(c) The gross amount and present value of minimum lease payments as of December 31, 2016 and 2017 are as follows:

	2016	2017
	(in millions of Won)	
Less than 1 year	13,114	11,771
1 year 5 years	12,547	828
Unrealized interest income	(4,035)	(1,396)
Present value of minimum lease payment	21,626	11,203

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017****7. Other Receivables**

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

	2016	2017
	(in millions of Won)	
Current		
Loans	421,818	617,696
Other accounts receivable	1,131,492	960,543
Accrued income	139,618	179,971
Deposits	93,891	107,137
Others	13,606	18,925
Less: Allowance for doubtful accounts	(260,683)	(248,266)
	1,539,742	1,636,006
Non-current		
Loans	733,974	874,158
Other accounts receivable	81,938	92,939
Accrued income	1,746	1,663
Deposits	104,217	122,485
Less: Allowance for doubtful accounts	(158,963)	(212,069)
	762,912	879,176

8. Other Financial Assets

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

	2016	2017
	(in millions of Won)	
Current		

Derivatives assets held for trading	49,281	63,912
Financial assets held for trading		1,970
Available-for-sale securities (bonds)	2,952	136,141
Current portion of held-to-maturity securities	422	421
Short-term financial instruments ^(*1,2)	5,172,256	6,843,436
	5,224,911	7,045,880

Non-current

Derivatives assets held for trading	98,301	4,378
Available-for-sale securities (equity instruments) ^(*3,4)	2,392,534	1,730,753
Available-for-sale securities (bonds)	46,330	54,439
Available-for-sale securities (others)	73,108	56,782
Held-to-maturity securities	2,048	4,790
Long-term financial instruments ^(*2)	45,371	60,542
	2,657,692	1,911,684

(*1) As of December 31, 2016 and 2017, 6,813 million and 10,080 million, respectively, are restricted for use in a government project.

(*2) As of December 31, 2016 and 2017, financial instruments amounting to 82,008 million and 78,477 million, respectively, are restricted for use in financial arrangements, pledge and others.

(*3) During the year ended December 31, 2017, there were objective evidences of impairment for listed equity securities such as FINE BESTEEL CO., LTD and others and for non-listed equity securities such as Congonhas Minerios S.A. and others due to the significant or prolonged decline in the fair value below cost of the shares. As a result, an impairment losses of 123,214 million was recognized in profit or loss for the year ended December 31, 2017.

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

(*4) As of December 31, 2016 and 2017, 123,220 million and 136,099 million of available-for-sale securities, respectively, have been provided as collateral for borrowings, construction projects and others.

9. Inventories

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

	2016	2017
	(in millions of Won)	
Finished goods	1,200,344	1,526,628
Merchandise	851,325	930,558
Semi-finished goods	1,552,988	1,721,130
Raw materials	1,939,539	2,329,268
Fuel and materials	817,397	808,016
Construction inventories	1,455,115	1,692,092
Materials-in-transit	1,807,816	1,818,576
Others	94,535	103,144
	9,719,059	10,929,412
Less: Allowance for inventories valuation	(203,164)	(135,631)
	9,515,895	10,793,781

(b) The changes of allowance for inventories valuation for the years ended December 31, 2015, 2016 and 2017 were as follows:

	2015	2016	2017
	(in millions of Won)		
Beginning	161,940	231,378	203,164
Loss on valuation of inventories	152,952	152,249	78,560
Realization on disposal of inventories	(77,102)	(161,458)	(138,967)

Others	(6,412)	(19,005)	(7,126)
Ending	231,378	203,164	135,631

10. Assets Held for Sale

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

	2016			2017		
	Controlling company	Subsidiaries (*1)	Total (in millions of Won)	Controlling company	Subsidiaries (*2)	Total
Assets						
Property, plant and equipment	764	305,864	306,628	392	71,340	71,732
Others		5,330	5,330		36	36
	764	311,194	311,958	392	71,376	71,768

(*1) During the year ended December 2016, Posco e&c Songdo International Building, a subsidiary of the Company, entered into a sales contract regarding disposal of the office building of POSCO ENGINEERING & CONSTRUCTION CO., LTD. in Songdo and classified the accompanying property, plant and equipment as assets held for sale. During the year ended December 2017, disposal of the accompanying assets held for sale was completed.

(*2) During the year ended December 2017, POSCO ENGINEERING & CONSTRUCTION CO., LTD., a subsidiary of the Company, determined to dispose of the office building, Seomyeon Fiesta, in Busan and classified the related property, plant and equipment amounting to 71,340 million as assets held for sale.

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017****11. Investments in Associates and Joint ventures**

(a) Investments in associates and joint ventures as of December 31, 2016 and 2017 are as follows:

	2016 (in millions of Won)	2017
Investments in associates	1,595,441	1,520,441
Investments in joint ventures	2,286,948	2,037,491
	3,882,389	3,557,932

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

Company	Number of shares	Ownership (%)	Acquisition cost (in millions of Won)	Book value 2016	2017
[Domestic]					
EQP POSCO Global NO1 Natural Resources PEF	178,713,975,892	31.14	178,787	175,690	175,553
SNNC	18,130,000	49.00	90,650	107,859	110,424
QSONE Co.,Ltd.	200,000	50.00	84,395	84,799	85,049
Chun-cheon Energy Co., Ltd. (*1)	16,098,143	45.67	80,491	45,077	74,378
Incheon-Gimpo Expressway Co., Ltd. (*1)	9,032,539	18.26	45,163	37,372	31,660
BLUE OCEAN Private Equity Fund	333	27.52	33,300	35,752	19,620
CHUNGJU ENTERPRISE CITY DEVELOPMENT Co.,Ltd	2,008,000	29.53	10,040	12,551	17,252
UITrans LRT Co., Ltd. (*1)	7,714,380	38.19	38,572	17,851	15,841
Daesung Steel	108,038	17.54	14,000	12,302	15,500
Keystone NO. 1. Private Equity Fund	13,800,000	40.45	13,800	13,314	12,379
KoFC POSCO HANWHA KB Shared Growth NO. 2. Private Equity Fund	6,485	12.50	6,485	11,890	6,828
KONES, Corp.	3,250,000	41.67	6,893	5,641	2,827

Others (35 companies) (*1)				55,061	67,325
				615,159	634,636
[Foreign]					
South-East Asia Gas Pipeline Company Ltd.	135,219,000	25.04	150,779	215,996	197,069
AES-VCM Mong Duong Power Company Limited (*2)		30.00	164,303	167,141	142,348
7623704 Canada Inc.	114,452,000	10.40	124,341	137,512	121,702
Eureka Moly LLC		20.00	240,123	89,601	79,398
AMCI (WA) PTY LTD	49	49.00	209,664	70,501	63,378
Nickel Mining Company SAS	3,234,698	49.00	157,585	45,138	45,905
NCR LLC		29.41	37,634	36,738	33,738
KOREA LNG LTD.	2,400	20.00	135,205	63,058	33,422
PT. Batutua Tembaga Raya	128,285	22.00	21,824	22,723	21,823
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd	10,200,000	34.00	9,517	18,008	15,617
PT. Wampu Electric Power (*1)	8,708,400	20.00	10,054	8,706	13,391
POSCO SeAH Steel Wire(Nantong) Co., Ltd.	50	25.00	4,723	6,840	6,517
Others (26 companies) (*1)				98,320	111,497
				980,282	885,805
				1,595,441	1,520,441

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

(*1) As of December 31, 2016 and 2017, investments in associates amounting to 124,963 million and 158,370 million, respectively, are provided as collateral in relation to the associates borrowings.

(*2) As of December 31, 2016 and 2017, shares of PSC Energy Global Co., Ltd., a subsidiary of the Company, are provided as collateral in relation to the associates borrowings.

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

Company	Number of shares	Ownership (%)	Acquisition cost (in millions of Won)	Book value	
				2016	2017
[Domestic]					
POSCO MITSUBISHI CARBON TECHNOLOGY	11,568,000	60.00	115,680	83,113	110,760
Others (5 companies)					6,094
				83,113	116,854
[Foreign]					
Roy Hill Holdings Pty Ltd (*1)	13,117,972	12.50	1,528,672	1,186,859	1,125,133
POSCO-NPS Niobium LLC	325,050,000	50.00	364,609	393,570	348,836
CSP Companhia Siderurgica do Pecem	1,108,696,532	20.00	558,821	330,463	146,427
KOBRASCO	2,010,719,185	50.00	32,950	88,308	108,485
BX STEEL POSCO Cold Rolled Sheet Co., Ltd.		25.00	61,961	97,369	88,305
DMSA/AMSA (*1)		4.00	304,623	74,935	56,735
Others (14 companies)				32,331	46,716
				2,203,835	1,920,637

2,286,948 2,037,491

(*1) As of December 31, 2016 and 2017, the investments in joint ventures are provided as collateral in relation to the joint ventures borrowings.

F-66

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

(d) The movements of investments in associates and joint ventures for the years ended December 31, 2016 and 2017 were as follows:

1) For the year ended December 31, 2016

Company	December 31, 2015 Book value	Acquisition	Dividends	Share of profits (losses)	Other increase (decrease) (*1)	December 31, 2016 Book value
(in millions of Won)						
[Domestic]						
EQP POSCO Global NO1						
Natural Resources PEF	175,676	222		(399)	191	175,690
SNNC	111,326			(3,417)	(50)	107,859
QSONE Co.,Ltd.	83,919			880		84,799
Chun-cheon Energy Co., Ltd	30,420	19,832		(5,175)		45,077
Incheon-Gimpo Expressway Co., Ltd.	39,447			(2,758)	683	37,372
BLUE OCEAN Private Equity Fund	35,437			643	(328)	35,752
CHUNGJU ENTERPRISE CITY						
DEVELOPMENT Co.,Ltd	12,265			286		12,551
UITrans LRT Co., Ltd.	40,903	6,817		(29,825)	(44)	17,851
Daesung Steel	14,000			(2,272)	574	12,302
Keystone NO. 1. Private Equity Fund	13,015			281	18	13,314
KoFC POSCO HANWHA KB Shared Growth NO. 2. Private Equity Fund	14,829	1,875		1,186	(6,000)	11,890
KONES, Corp.	5,775			(256)	122	5,641
POSCO MITSUBISHI CARBON TECHNOLOGY	104,970			(21,929)	72	83,113
POSCO PLANTEC Co., Ltd.	171,218			(171,927)	709	
	165,754			4,797	(170,551)	

SeAH Changwon Integrated Special Steel						
POSCO ES MATERIALS						
CO.,LTD	38,447			(2,061)	(36,386)	
Others (33 companies)	33,933	20,061	(200)	(2,802)	4,069	55,061
	1,091,334	48,807	(200)	(234,748)	(206,921)	698,272
[Foreign]						
South-East Asia Gas Pipeline Company Ltd.	222,269		(59,717)	46,855	6,589	215,996
AES-VCM Mong Duong Power Company Limited	153,271			27,031	(13,161)	167,141
7623704 Canada Inc.	134,034		(921)	175	4,224	137,512
Eureka Moly LLC	87,878			(18)	1,741	89,601
AMCI (WA) PTY LTD	72,289			(3,358)	1,570	70,501
Nickel Mining Company SAS	76,445			(31,047)	(260)	45,138
NCR LLC	35,447			(41)	1,332	36,738
KOREA LNG LTD.	53,548		(6,342)	6,392	9,460	63,058
PT. Batutua Tembaga Raya	15,382	7,040			301	22,723
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd	19,311			(412)	(891)	18,008
PT. Wampu Electric Power	8,855			(397)	248	8,706
POSCO SeAH Steel Wire(Nantong) Co., Ltd.	7,061			242	(463)	6,840
Roy Hill Holdings Pty Ltd	1,153,434			12,643	20,782	1,186,859
POSCO-NPS Niobium LLC	381,461		(10,893)	11,499	11,503	393,570
CSP - Compania Siderurgica do Pecem	80,805	88,930		116,694	44,034	330,463
KOBRASCO	78,364		(29,297)	20,761	18,480	88,308
BX STEEL POSCO Cold Rolled Sheet Co., Ltd.	100,908			258	(3,797)	97,369
DMSA/AMSA	105,964	24,624		(60,415)	4,762	74,935
Others (37 companies)	67,273	28,993	(4,252)	(791)	39,428	130,651
	2,853,999	149,587	(111,422)	146,071	145,882	3,184,117
	3,945,333	198,394	(111,622)	(88,677)	(61,039)	3,882,389

(*1) Other increase or decrease represents the changes in investments in associates and joint ventures due to disposals, change in capital adjustments effect from translations of financial statements of foreign investees and others.

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

2) For the year ended December 31, 2017

Company	December 31, 2016 Book value	Acquisition	Dividends	Share of profits (losses)	Other increase (decrease) (*1)	December 31, 2017 Book value
(in millions of Won)						
[Domestic]						
EQP POSCO Global NO1						
Natural Resources PEF	175,690			418	(555)	175,553
SNNC	107,859			2,370	195	110,424
QSONE Co.,Ltd.	84,799		(368)	618		85,049
Chun-cheon Energy Co., Ltd	45,077	27,791		1,510		74,378
Incheon-Gimpo Expressway Co., Ltd.	37,372			(6,463)	751	31,660
BLUE OCEAN Private Equity Fund	35,752			(8,154)	(7,978)	19,620
CHUNGJU ENTERPRISE CITY DEVELOPMENT Co.,Ltd	12,551			4,701		17,252
UITrans LRT Co., Ltd.	17,851			(2,010)		15,841
Daesung Steel	12,302			3,198		15,500
Keystone NO. 1. Private Equity Fund	13,314			(886)	(49)	12,379
KoFC POSCO HANWHA KB Shared Growth						
NO. 2. Private Equity Fund	11,890			(197)	(4,865)	6,828
KONES, Corp.	5,641			(2,774)	(40)	2,827
POSCO MITSUBISHI CARBON TECHNOLOGY	83,113			27,582	65	110,760
Others (40 companies)	55,061	28,348	(137)	(7,995)	(1,858)	73,419
	698,272	56,139	(505)	11,918	(14,334)	751,490
[Foreign]						
	215,996		(37,016)	42,896	(24,807)	197,069

South-East Asia Gas Pipeline
Company Ltd.

AES-VCM Mong Duong Power Company Limited	167,141		(30,798)	19,644	(13,639)	142,348
7623704 Canada Inc.	137,512		(7,563)	7,468	(15,715)	121,702
Eureka Moly LLC	89,601			(35)	(10,168)	79,398
AMCI (WA) PTY LTD.	70,501			(4,299)	(2,824)	63,378
Nickel Mining Company SAS	45,138			424	343	45,905
NCR LLC	36,738	276		(60)	(3,216)	33,738
KOREA LNG LTD.	63,058		(6,466)	(70,180)	47,010	33,422
PT. Batutua Tembaga Raya	22,723			260	(1,160)	21,823
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd	18,008			(1,268)	(1,123)	15,617
PT. Wampu Electric Power	8,706			5,927	(1,242)	13,391
POSCO SeAH Steel Wire(Nantong) Co., Ltd.	6,840			303	(626)	6,517
Roy Hill Holdings Pty Ltd.	1,186,859			46,020	(107,746)	1,125,133
POSCO-NPS Niobium LLC	393,570		(17,277)	17,173	(44,630)	348,836
CSP-Compania Siderurgica do Pecem	330,463			(147,847)	(36,189)	146,427
KOBRASCO	88,308		(22,135)	56,445	(14,133)	108,485
BX STEEL POSCO Cold Rolled Sheet Co., Ltd.	97,369		(5,542)	1,555	(5,077)	88,305
DMSA/AMSA	74,935	13,712		(22,339)	(9,573)	56,735
Others (40 companies)	130,651	22,209	(4,408)	46,535	(36,774)	158,213
	3,184,117	36,197	(131,205)	(1,378)	(281,289)	2,806,442
	3,882,389	92,336	(131,710)	10,540	(295,623)	3,557,932

(*1) Other increase or decrease represents the changes in investments in associates and joint ventures due to disposals, change in capital adjustments effect from translations of financial statements of foreign investees and others.

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

(e) Summarized financial information of associates and joint ventures as of and for the years ended December 31, 2016 and 2017 are as follows:

1) December 31, 2016

Company	Assets	Liabilities	Equity (deficit) (in millions of Won)	Sales	Net income (loss)
[Domestic]					
EQP POSCO Global NO1 Natural Resources PEF	597,767	864	596,903		(1,349)
SNNC	725,987	482,429	243,558	527,101	2,022
QSONE Co.,Ltd.	247,385	77,786	169,599	15,961	1,760
Chun-cheon Energy Co., Ltd	547,805	378,613	169,192		(3,748)
Incheon-Gimpo Expressway Co., Ltd.	929,539	718,107	211,432		(1,910)
BLUE OCEAN Private Equity Fund	357,723	220,895	136,828	456,311	2,335
CHUNGJU ENTERPRISE CITY DEVELOPMENT Co.,Ltd	136,857	124,666	12,191	19,028	967
UITrans LRT Co., Ltd.	400,761	307,625	93,136		(822)
Daesung Steel	150,944	112,194	38,750	60,772	(12,955)
Keystone NO. 1. Private Equity Fund	119,378	79,946	39,432	197	694
KoFC POSCO HANWHA KB Shared Growth NO. 2. Private Equity Fund	96,213	1,094	95,119	14,157	9,561
KONES, Corp.	2,627	1,519	1,108	3,952	(615)
POSCO MITSUBISHI CARBON TECHNOLOGY	448,618	311,070	137,548	53,908	(36,572)
POSCO PLANTEC Co., Ltd.	501,659	678,004	(176,345)	361,351	(43,195)
[Foreign]					
South-East Asia Gas Pipeline Company Ltd.	2,171,689	1,305,942	865,747	491,011	187,114
7623704 Canada Inc.	1,334,391	1	1,334,390		19,485
Nickel Mining Company SAS	491,458	347,194	144,264	145,571	(61,473)
KOREA LNG LTD.	303,389	19,704	283,685	33,035	31,962
PT. Batutua Tembaga Raya	351,119	332,037	19,082		

Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd	83,291	24,676	58,615	117,387	(1,216)
PT. Wampu Electric Power	206,052	165,618	40,434	3,405	(1,984)
POSCO SeAH Steel Wire(Nantong) Co., Ltd.	67,905	40,451	27,454	81,260	938
Roy Hill Holdings Pty Ltd	10,962,261	8,059,714	2,902,547	845,243	129,968
POSCO-NPS Niobium LLC	786,937		786,937		24,719
CSP - Companhia Siderurgica do Pecem	5,682,161	4,237,247	1,444,914	226,669	243,151
KOBRASCO	178,853	2,236	176,617	72,274	41,522
BX STEEL POSCO Cold Rolled Sheet Co., Ltd.	789,336	427,475	361,861	948,488	1,033
DMSA/AMSA	6,570,172	4,842,560	1,727,612	579,388	(519,969)

F-69

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

2) December 31, 2017

Company	Assets	Liabilities	Equity	Sales	Net income (loss)
(in millions of Won)					
[Domestic]					
EQP POSCO Global NO1 Natural Resources PEF	562,698	866	561,832		1,261
SNNC	705,975	459,519	246,456	576,023	2,417
QSONE Co.,Ltd.	248,779	78,680	170,099	15,297	1,236
Chun-cheon Energy Co., Ltd	700,079	539,137	160,942	164,294	(8,250)
Incheon-Gimpo Expressway Co., Ltd.	1,132,233	922,338	209,895		(23,221)
BLUE OCEAN Private Equity Fund	311,129	188,512	122,617	445,238	(3,345)
CHUNGJU ENTERPRISE CITY DEVELOPMENT Co.,Ltd	76,184	48,072	28,112	77,093	15,921
UITrans LRT Co., Ltd.	464,074	384,202	79,872	3,689	(13,263)
Daesung Steel	169,774	112,795	56,979	70,434	18,230
Keystone NO. 1. Private Equity Fund	170,155	133,033	37,122	5,391	(2,070)
KoFC POSCO HANWHA KB Shared Growth NO. 2. Private Equity Fund	55,936	1,315	54,621	10,212	(1,578)
KONES, Corp.	2,766	1,616	1,150	5,379	139
POSCO MITSUBISHI CARBON TECHNOLOGY	478,847	295,052	183,795	154,312	46,138
[Foreign]					
South-East Asia Gas Pipeline Company Ltd.	1,911,942	1,121,783	790,159	445,682	171,303
7623704 Canada Inc.	1,182,376	9	1,182,367		82,344
Nickel Mining Company SAS	465,700	324,687	141,013	179,683	(4,450)
KOREA LNG LTD.	179,269	86	179,183	34,640	32,446
PT. Batutua Tembaga Raya	336,085	272,542	63,543	195,520	49,091
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd	70,437	18,722	51,715	85,850	(3,736)
PT. Wampu Electric Power	212,095	148,177	63,918	779	29,634

Edgar Filing: POSCO - Form 20-F

POSCO SeAH Steel Wire(Nantong) Co., Ltd.	70,701	43,588	27,113	84,973	1,210
Roy Hill Holdings Pty Ltd	10,148,416	6,600,900	3,547,516	2,988,372	797,008
POSCO-NPS Niobium LLC	697,470		697,470		32,481
CSP - Companhia Siderurgica do Pecem	4,805,353	4,223,392	581,961	1,290,767	(740,591)
KOBRASCO	252,813	35,843	216,970	179,453	112,890
BX STEEL POSCO Cold Rolled Sheet Co., Ltd.	717,472	391,871	325,601	1,245,178	5,978
DMSA/AMSA	5,586,171	4,167,906	1,418,265	630,229	(475,958)

F-70

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017****12. Joint Operations**

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

Joint operations	Operation	Ownership (%)	Location
Myanmar A-1/A-3 mine	Mineral development and gas production	51.00	Myanmar
Offshore midstream	Gas transportation facility	51.00	Myanmar
Greenhills mine	Mine development	20.00	Canada
Arctos Anthracite coal project	Mine development	50.00	Canada
Mt. Thorley J/V	Mine development	20.00	Australia
POSMAC J/V	Mine development	20.00	Australia
RUM J/V	Mine development	10.00	Australia
Hanam-Gamil package public housing project	Construction	7.70	Korea
Sejong 2-1 P3 Block public housing project	Construction	37.00	Korea
Yongin-Giheung Station area city development project	Construction	61.00	Korea
Korean wave world complex land multi-purpose building development project	Construction	33.30	Korea
Sejong 4-1 P3 Block public housing project	Construction	60.00	Korea

13. Investment Property, Net

(a) Investment property as of December 31, 2016 and 2017 are as follows:

	2016 Accumulated depreciation and impairment loss	Book value (in millions of Won)		2017 Accumulated depreciation and impairment loss	Book value
Acquisition cost			Acquisition cost		

Edgar Filing: POSCO - Form 20-F

Land	423,910	(31,187)	392,723	360,402		360,402
Buildings	807,657	(136,118)	671,539	727,022	(92,982)	634,040
Structures	3,148	(1,001)	2,147	7,717	(1,436)	6,281
Construction-in-progress	51,311		51,311	64,191		64,191
	1,286,026	(168,306)	1,117,720	1,159,332	(94,418)	1,064,914

As of December 31, 2017, the fair value of investment property is 1,663,682 million, among which the Company believed the fair value of its investment property of six subsidiaries, including POSCO (Dalian) IT Center Development Co., Ltd. approximate its book value of 126,026 million. Also, the Company used the prior year's fair value for some of the investment property since it is believed that the fair value has not changed significantly.

(b) Changes in the carrying amount of investment property for the years ended December 31, 2016 and 2017 were as follows:

1) For the year ended December 31, 2016

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

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

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

(*2) Includes reclassification resulting from changing purpose of use, adjustment of foreign currency translation difference and others.

2) For the year ended December 31, 2017

	Beginning	Acquisitions	Disposals	Depreciation	Others (*1)	Ending
	(in millions of Won)					
Land	392,723	20,941	(37,725)		(15,537)	360,402
Buildings	671,539	38,831	(9,506)	(23,450)	(43,374)	634,040
Structures	2,147			(591)	4,725	6,281
Construction-in-progress	51,311	17,648			(4,768)	64,191
	1,117,720	77,420	(47,231)	(24,041)	(58,954)	1,064,914

(*1) Includes reclassification resulting from changing purpose of use, adjustment of foreign currency translation difference and others.

14. Property, Plant and Equipment, Net

(a) Property, plant and equipment as of December 31, 2016 and 2017 are as follows:

2016**2017**

	Acquisition cost	Accumulated depreciation and impairment loss	Government grants	Book value (in millions of Won)	Acquisition cost	Accumulated depreciation and impairment loss	Government grants	Book value
Land	2,607,660	(6,452)		2,601,208	2,534,102	(6,452)		2,527,650
Buildings	9,180,028	(4,183,974)	(423)	4,995,631	9,311,426	(4,433,996)	(412)	4,877,018
Structures	5,385,365	(2,476,818)	(67)	2,908,480	5,452,713	(2,686,802)	(59)	2,765,852
Machinery and equipment	46,698,254	(26,379,544)	(320)	20,318,390	46,669,612	(27,301,410)	(245)	19,367,957
Vehicles	306,770	(259,986)	(85)	46,699	296,815	(263,884)	(70)	32,861
Tools	385,960	(312,266)	(2,314)	71,380	380,144	(315,446)	(1,058)	63,640
Furniture and fixtures	609,736	(477,064)	(266)	132,406	643,779	(498,192)	(148)	145,439
Finance lease assets	248,590	(89,577)		159,013	243,160	(97,903)		145,257
Bearer plants					70,031	(4,516)		65,515
Construction-in-progress	2,542,233		(5,101)	2,537,132	1,897,885		(5,539)	1,892,346
	67,964,596	(34,185,681)	(8,576)	33,770,339	67,499,667	(35,608,601)	(7,531)	31,883,535

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

(b) Changes in the carrying amount of property, plant and equipment for the years ended December 31, 2016 and 2017 were as follows:

1) For the year ended December 31, 2016

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

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

(*2)

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

2) For the year ended December 31, 2017

	Beginning	Acquisitions	Disposals	Depreciation (*1)	Others (*2)	Ending
	(in millions of Won)					
Land	2,601,208	3,477	(18,226)		(58,809)	2,527,650
Buildings	4,995,631	53,961	(5,782)	(361,531)	194,739	4,877,018
Structures	2,908,480	18,943	(2,558)	(246,229)	87,216	2,765,852
Machinery and equipment	20,318,390	194,653	(93,210)	(2,217,435)	1,165,559	19,367,957
Vehicles	46,699	9,982	(1,623)	(22,340)	143	32,861
Tools	71,380	16,424	(976)	(28,539)	5,351	63,640
Furniture and fixtures	132,406	61,597	(1,296)	(48,416)	1,148	145,439
Finance lease assets	159,013	4,760	(453)	(14,810)	(3,253)	145,257
Bearer plants				(4,830)	70,345	65,515
Construction-in-progress	2,537,132	1,894,067	(817)	(36,706)	(2,501,330)	1,892,346
	33,770,339	2,257,864	(124,941)	(2,980,836)	(1,038,891)	31,883,535

(*1) Includes impairment losses on property, plant and equipment amounting to 117,231 million. During the year ended December 31, 2017, due to the existence of indicators for impairment, such as continuing operating loss on Suncheon Bay Personal Rapid Transit business of the Suncheon Eco Trans Co., Ltd, a subsidiary of the Company, the Company performed impairment test and recognized impairment loss of 48,070 million. The impairment recorded in 2017 also included 17,651 million related to POSCO for individual assets due to a decline in economic result and others.

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

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

(c) Borrowing costs capitalized and the capitalized interest rate for the years ended December 31, 2016 and 2017 were as follows:

	2016	2017
	(in millions of Won)	
Weighted average expenditure	1,070,280	1,180,563
Borrowing costs capitalized	40,321	37,261
Capitalization rate (%)	3.32 ~ 3.82	1.74 ~ 3.45

(d) Property, plant and equipment and investment property pledged as collateral as of December 31, 2016 and 2017 are as follows:

		Book value	
		2016	2017 (*2)
		(in millions of Won)	
	Collateral right holder		
Land (*1)	Korean Development Bank and others	925,670	822,057
Buildings and structures (*1)	Korean Development Bank and others	1,734,543	1,678,403
Machinery and equipment	Korean Development Bank and others	4,037,813	3,527,420
Construction-in-progress	Korean Development Bank and others		15,389
		6,698,026	6,043,269

(*1) Investment property and other assets(land-use right) are included.

(*2) As of December 31, 2017, the pledged amount is 4,984,841 million.

15. Goodwill and Other Intangible Assets, Net

(a) Goodwill and other intangible assets as of December 31, 2016 and 2017 are as follows:

	2016				2017			
	Accumulated amortization and impairment				Accumulated amortization and impairment			
	Acquisition cost	loss	Government grants	Book value	Acquisition cost	loss	Government grants	Book value
	(in millions of Won)							
Goodwill	1,669,556	(294,425)		1,375,131	1,604,288	(254,450)		1,349,838
Intellectual property rights	2,923,030	(401,156)	(703)	2,521,171	3,140,159	(690,966)		2,449,193
Premium in rental	139,843	(20,804)		119,039	139,873	(21,563)		118,310
Development expense	376,327	(259,184)	(131)	117,012	397,129	(316,892)	(19)	80,218
Port facilities usage rights	633,025	(376,408)		256,617	705,692	(396,319)		309,373
Exploration and evaluation assets	196,124	(33,856)		162,268	296,320	(90,376)		205,944
Customer relationships	859,643	(345,398)		514,245	857,624	(390,679)		466,945
Power generation permit	539,405			539,405	539,405			539,405
Other intangible assets	1,007,871	(524,000)	(30)	483,841	1,006,219	(573,152)	(24)	433,043
	8,344,824	(2,255,231)	(864)	6,088,729	8,686,709	(2,734,397)	(43)	5,952,269

F-74

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

(b) The changes in carrying amount of goodwill and other intangible assets for the years ended December 31, 2016 and 2017 were as follows:

1) For the year ended December 31, 2016

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

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

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

2) For the year ended December 31, 2017

	Beginning	Acquisitions	Business combination	Disposals	Amortization	Impairment loss	Others ^(*2)	Ending
	(in millions of Won)							
Goodwill	1,375,131					(21,750)	(3,543)	1,349,838
Intellectual property rights	2,521,171	167,580	47,625	(450)	(217,932)	(74,524)	5,723	2,449,193
Premium in rental ^(*1)	119,039	6,006		(3,666)	(611)	(1,661)	(797)	118,310
Development expense	117,012	3,479		(1,179)	(66,847)	(694)	28,447	80,218
Port facilities usage rights	256,617				(19,912)		72,668	309,373
Exploration and evaluation assets	162,268	91,548				(56,519)	8,647	205,944
Customer relationships	514,245				(46,508)		(792)	466,945
Power generation permit	539,405							539,405
Other intangible assets	483,841	84,502		(1,641)	(57,964)	(11,829)	(63,866)	433,043
	6,088,729	353,115	47,625	(6,936)	(409,774)	(166,977)	46,487	5,952,269

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

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

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

(c) For the purpose of impairment testing, goodwill is allocated to individually operating entities which are determined to be CGUs. The goodwill amounts as of December 31, 2016 and 2017 are as follows:

Reportable segments	Total number of CGUs		CGUs	2016 (in millions of Won)	
	2016	2017		2016	2017
Steel	9	7	POSCO VST CO., LTD.	36,955	36,955
			Others (*1)	13,151	12,494
Trading	2	2	POSCO DAEWOO Corporation (*1)	1,163,922	1,165,030
			PT. Bio Inti Agrindo	8,070	7,099
E&C	4	2	POSCO ENGINEERING & CONSTRUCTION CO., LTD. (*2)		90,426
			POSCO Engineering CO.,Ltd (*2)	111,309	
			DONG FANG JIN HONG	166	157
Others	6	5	POSCO ENERGY CO., LTD.	26,471	26,471
			Others	15,087	11,206
Total	21	16		1,375,131	1,349,838

(*1) For the year ended December 31, 2017, POSCO DAEWOO Corporation has taken over steel marketing and other business unit of POSCO Processing & Service. As a result, goodwill of POSCO Processing & Service amounting to 1,108 million was transferred to POSCO DAEWOO Corporation.

Recoverable amounts of POSCO DAEWOO Corporation are determined based on its value in use. As of December 31, 2017, value in use is estimated by applying 8.1% discount rate and 1.9% terminal growth rate within 5 years, the period for the estimated future cash flows, based on management's business plan. The terminal growth rate does not exceed long-term average growth rate of its industry. No impairment loss on goodwill was

recognized for the year ended December 31, 2017 as the recoverable amount exceeded the carrying amount of the CGU.

The estimated recoverable amount of the CGU exceeded the carrying amount by 117,324 million. Value in use of the CGU was affected by the assumptions such as discount rate and terminal growth used in discount cash flow model. When the discount rate increases by 0.25%, value in use will be decreased by 3.45% and when the terminal growth rate decreases by 0.25%, value in use will be decreased by 1.78%. Management believes that any reasonably possible negative change in the key assumptions on which the recoverable amount is based would result in impairment loss of goodwill.

(*2) For the year ended December 31, 2017, POSCO Engineering CO., Ltd was merged into POSCO ENGINEERING & CONSTRUCTION CO., LTD, resulting in transfer of its goodwill to POSCO ENGINEERING & CONSTRUCTION CO., LTD.

Recoverable amounts of POSCO ENGINEERING & CONSTRUCTION CO., LTD are determined based on its value in use. As of December 31, 2017, value in use is estimated by applying 8.2% discount rate and 1.0% terminal growth rate within 5 years, the period for the estimated future cash flows, based on management's business plan. The terminal growth rate does not exceed long-term average growth rate of its industry. Impairment loss on goodwill of 20,883 million was recognized for the year ended December 31, 2017 as the recoverable amount is lower than the carrying amount of the CGU.

Value in use of the CGU was affected by the assumptions such as discount rate and terminal growth used in discount cash flow model. When the discount rate increases by 0.25%, value in use will be decreased by 3.02% and when the terminal growth rate decreases by 0.25%, value in use will be decreased by 2.06%.

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017****16. Other Assets**

Other current assets and other non-current assets as of December 31, 2016 and 2017 are as follows:

	2016	2017
	(in millions of Won)	
Current		
Advance payment	787,452	661,779
Prepaid expenses	105,102	143,032
Firm commitment asset		15,115
Others	1,930	1,316
	894,484	821,242
Non-current		
Long-term advance payment	27,189	24,201
Long-term prepaid expenses	380,678	333,153
Others (*1)	159,813	131,657
	567,680	489,011

(*1) As of December 31, 2016 and 2017, the Company recognized tax assets amounting to 100,693 million and 88,633 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 that were finalized and claim for rectification are finalized.

17. Borrowings

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

	Bank	Issuance date	Maturity date (in millions of Won)	Interest rate (%)	2016	2017
Short-term borrowings						
Bank overdrafts	JP Morgan and others	January, 2017~ December, 2017	January, 2018~ December, 2018	1.2~9.0	254,036	217,879
Short-term borrowings	HSBC and others	January, 2017~ December, 2017	January, 2018~ December, 2018	0.3~10.5	7,725,691	7,956,939
					7,979,727	8,174,818
Current portion of long-term liabilities						
Current portion of long-term borrowings	Export-Import Bank of Korea and others	September, 2001~ November, 2017	February, 2018~ December, 2018	0.4~8.5	1,390,733	1,407,123
Current portion of debentures	Korean Development Bank and others	August, 2009~ November, 2016	February, 2018~ December, 2018	1.4~6.1	825,176	1,693,974
Less: Current portion of discount on debentures issued					(829)	(1,399)
					2,215,080	3,099,698
					10,194,807	11,274,516

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

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

	Bank	Issuance date	Maturity date	Interest rate (%)	2016	2017
		(in millions of Won)				
Long-term borrowings	Export-Import bank of Korea and others	September, 2001~ December, 2017	March, 2019~ March, 2037	0.5~8.4	6,420,612	4,839,199
Less: Present value discount					(55,799)	(36,459)
Bonds	Korea Development Bank and others	August, 2009~ November, 2017	February, 2019~ July, 2025	1.8~6.3	6,163,896	4,999,575
Less: Discount on debentures issued					(18,518)	(13,174)
					12,510,191	9,789,141

(c) Assets pledged as collateral in regards to the borrowings as of December 31, 2017 are as follows:

	Bank	Book value	Pledged amount
	(in millions of Won)		
Property, plant and equipment and Investment property ^(*)	Korea Development Bank and others	5,777,330	4,969,201
Trade accounts and notes receivable	Korea Development Bank and others	147,581	147,581
Inventories	Export-Import Bank of Korea and others	162,198	116,378
Financial instruments	Woori Bank and others	56,491	55,048
		6,143,600	5,288,208

(*1) Includes other assets(land-use right).

18. Other Payables

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

	2016	2017
	(in millions of Won)	
Current		
Accounts payable	854,623	800,374
Accrued expenses	665,295	653,923
Dividend payable	7,770	7,213
Finance lease liabilities	24,523	17,763
Withholdings	299,448	274,188
	1,851,659	1,753,461
Non-current		
Accounts payable	6,823	4,632
Accrued expenses	41,082	14,234
Finance lease liabilities	89,886	75,255
Long-term withholdings	70,768	53,629
	208,559	147,750

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017****19. Other Financial Liabilities**

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

	2016	2017
	(in millions of Won)	
Current		
Derivatives liabilities	85,786	69,872
Financial guarantee liabilities	63,962	59,940
	149,748	129,812
Non-current		
Derivatives liabilities	37,110	85,638
Financial guarantee liabilities	44,199	28,467
	81,309	114,105

20. Provisions

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

	2016		2017	
	Current	Non-current	Current	Non-current
	(in millions of Won)			
Provision for bonus payments	42,986		49,171	
Provision for construction warranties	10,551	86,158	11,804	106,232
Provision for legal contingencies and claims ^(*1)	4,348	80,498	495	36,269
Provision for the restoration ^(*2)	10,169	52,425	12,273	121,917
Others ^(*3,4)	46,811	118,658	37,203	212,754
	114,865	337,739	110,946	477,172

- (*1) The Company recognized probable outflow of resources amounting to 30,425 million and 27,963 million as provisions in relation to lawsuits against the Company as of December 31, 2016 and 2017, respectively.
- (*2) Due to contamination of lands near the Company's magnesium smelting plant located in Gangneung province and others, the Company recognized present values of estimated costs for recovery, 29,471 million as provisions for restoration as of December 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 2.73% to measure present value of these costs.
- (*3) As of December 31, 2016 and 2017, POSCO ENERGY CO., LTD., a subsidiary of the Company, recognized 87,827 million and 157,461 million of provisions for warranties, respectively, for the service contract on fuel cell based on its estimate of probable outflow of resources.
- (*4) As of December 31, 2016 and 2017, the amount includes a provision of 23,600 million for expected outflow of resources in connection with the performance guarantee for the Hwaseong-Dongtan complexes development project of POSCO ENGINEERING & CONSTRUCTION CO., LTD.
- (b) The following are the key assumptions concerning the future and other key sources of estimation uncertainties at the end of the reporting period.

Provision for bonus payments
 Provision for construction warranties
 Provision for legal contingencies and claims

Key assumptions for the estimation
 Estimations based on financial performance
 Estimations based on historical warranty data
 Estimations based on the degree of probability of an unfavorable outcome and the ability to make a sufficient reliable estimate of the amount of loss

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

(c) Changes in provisions for the years ended December 31, 2016 and 2017 were as follows:

1) For the year ended December 31, 2016

	Beginning	Increase	Utilization (in millions of Won)	Reversal	Others (*1)	Ending
Provision for bonus payments	42,602	44,106	(42,211)	(272)	(1,239)	42,986
Provision for construction warranties	81,446	33,925	(19,469)	(2,695)	3,502	96,709
Provision for legal contingencies and claims	52,610	45,525	(14,012)	(188)	911	84,846
Provisions for the restoration	45,111	42,529	(13,367)	(12,475)	796	62,594
Others	102,243	131,911	(68,143)	(3,086)	2,544	165,469
	324,012	297,996	(157,202)	(18,716)	6,514	452,604

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

2) For the year ended December 31, 2017

	Beginning	Increase	Utilization (in millions of Won)	Reversal	Others (*1)	Ending
Provision for bonus payments	42,986	74,728	(64,319)	(3,035)	(1,189)	49,171
Provision for construction warranties	96,709	40,916	(18,006)	(2,502)	919	118,036
Provision for legal contingencies and claims	84,846	27,459	(70,156)	(1,749)	(3,636)	36,764
Provisions for the restoration	62,594	63,438	(8,530)		16,688	134,190
Others	165,469	161,054	(64,850)	(20,199)	8,483	249,957
	452,604	367,595	(225,861)	(27,485)	21,265	588,118

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

21. Employee Benefits

(a) Defined contribution plans

The expenses related to post-employment benefit plans under defined contribution plans for the years ended December 31, 2015, 2016 and 2017 were as follows:

	2015	2016	2017
	(in millions of Won)		
Expense related to post-employment benefit plans under defined contribution plans	25,224	30,344	35,538

(b) Defined benefit plans

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

	2016	2017
	(in millions of Won)	
Present value of funded obligations	1,715,583	1,826,907
Fair value of plan assets (*1)	(1,693,118)	(1,714,166)
Present value of non-funded obligations	17,437	16,228
Net defined benefit liabilities	39,902	128,969

(*1) As of December 31, 2016 and 2017, the Company recognized net defined benefit assets amounting to 83,702 million and 8,224 million, respectively, since there are consolidated entities whose fair value of plan assets exceeded the present value of defined benefit obligations.

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

2) Changes in present value of defined benefit obligations for the years ended December 31, 2016 and 2017 were as follows:

	2016	2017
	(in millions of Won)	
Defined benefit obligations at the beginning of period	1,714,115	1,733,020
Current service costs	285,706	209,612
Interest costs	39,286	35,830
Remeasurements:	(32,927)	51,994
Gain from change in financial assumptions	(72,910)	(50,218)
Loss (gain) from change in demographic assumptions	(4,140)	15,952
Others	44,123	86,260
Benefits paid	(278,278)	(185,220)
Others	5,118	(2,101)
Defined benefit obligations at the end of period	1,733,020	1,843,135

3) Changes in fair value of plan assets for the years ended December 31, 2016 and 2017 were as follows:

	2016	2017
	(in millions of Won)	
Fair value of plan assets at the beginning of period	1,532,090	1,693,118
Interest on plan assets	37,385	45,516
Remeasurement of plan assets	(6,963)	(17,190)
Contributions to plan assets	328,671	164,828
Benefits paid	(189,817)	(168,643)
Others	(8,248)	(3,463)
Fair value of plan assets at the end of period	1,693,118	1,714,166

The Company expects to make an estimated contribution of 164,865 million to the defined benefit plan assets in 2018.

4) The fair value of plan assets as of December 31, 2016 and 2017 are as follows:

	2016	2017
	(in millions of Won)	
Equity instruments	56,187	41,218
Debt instruments	411,726	367,027
Deposits	1,167,475	1,254,571
Others	57,730	51,350
	1,693,118	1,714,166

5) The amounts recognized in consolidated statements of comprehensive income for the years ended December 31, 2015, 2016 and 2017 were as follows:

	2015	2016	2017
	(in millions of Won)		
Current service costs	239,508	285,706	209,612
Net interest costs ^(*1)	5,894	1,901	(9,686)
	245,402	287,607	199,926

(*1) The actual return on plan assets amounted to 32,630 million, 30,422 million and 28,326 million for the years ended December 31, 2015, 2016 and 2017, respectively.

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

The above expenses by function were as follows:

	2015	2016	2017
	(in millions of Won)		
Cost of sales	170,334	161,810	131,724
Selling and administrative expenses	74,210	124,994	67,424
Others	858	803	778
	245,402	287,607	199,926

6) Accumulated actuarial gains (losses), net of tax recognized in other comprehensive income for the years ended December 31, 2015, 2016 and 2017 were as follows:

	2015	2016	2017
	(in millions of Won)		
Beginning	(314,106)	(272,152)	(251,612)
Current actuarial gains (losses)	41,954	20,540	(47,543)
Ending	(272,152)	(251,612)	(299,155)

7) The principal actuarial assumptions as of December 31, 2016 and 2017 are as follows:

	2016	2017
	(%)	
Discount rate	2.15~8.59	2.70~7.75
Expected future increase in salaries ^(*)	1.00~10.00	1.04~10.00

(*1) The expected future increase in salaries is based on the average salary increase rate for the past three years. All assumptions are reviewed at the end of the reporting period. Additionally, the total estimated defined benefit obligation includes actuarial assumptions associated with the long-term characteristics of the defined benefit plan.

8) Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

	1% Increase		1% Decrease	
	Amount	Percentage (%)	Amount	Percentage (%)
	(in millions of Won)			
Discount rate	(123,568)	(6.7)	138,196	7.5
Expected future increase in salaries	136,385	7.4	(124,400)	(6.7)

9) As of December 31, 2017 the maturity of the expected benefit payments are as follows:

	Within 1 year	1 year - 5 years	5 years - 10 years	10 years - 20 years	After 20 years	Total
	(in millions of Won)					
Benefits paid	109,212	613,786	792,792	655,599	347,280	2,518,669

The maturity analysis of the defined benefit obligation was nominal amounts of defined benefit obligations using expected remaining period of service of employees.

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017****22. Other Liabilities**

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

	2016	2017
	(in millions of Won)	
Current		
Due to customers for contract work	1,031,663	782,968
Advances received	864,536	1,183,108
Unearned revenue	8,702	7,121
Withholdings	186,665	221,940
Firm commitment liability		12,192
Others	22,307	33,590
	2,113,873	2,240,919
Non-current		
Advances received	418,832	353,631
Unearned revenue	20,013	18,440
Others	40,338	14,360
	479,183	386,431

23. Financial Instruments

(a) Classification of financial instruments

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

	2016	2017
	(in millions of Won)	
Financial assets at fair value through profit or loss		

Financial assets held for trading		1,970
Derivatives assets held for trading	147,582	65,051
Derivatives assets designated as hedging instruments		3,239
Available-for-sale financial assets	2,514,924	1,978,115
Held-to-maturity financial assets	2,470	5,211
Loans and receivables	19,277,709	21,268,107
	21,942,685	23,321,693

The Company applies fair value hedge which uses commodity futures as hedging instrument in order to hedge the risk of changes in fair value of product prices regarding fixed price sales or purchase commitments. Also, the Company applies cash flow hedge which uses currency swap as hedging instrument in order to hedge the risk of changes in cash flow from borrowings due to foreign currency fluctuations.

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

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

	2016	2017
	(in millions of Won)	
Financial liabilities at fair value through profit or loss		
Derivatives liabilities held for trading	122,896	142,280
Derivatives liabilities designated as hedging instruments		13,230
Financial liabilities measured at amortized cost		
Trade accounts and notes payable	4,117,798	3,477,678
Borrowings	22,704,998	21,063,657
Financial guarantee liabilities	108,161	88,407
Others	2,007,114	1,865,683
	29,060,967	26,650,935

3) Finance income and costs by category of financial instrument for the years ended December 31, 2015, 2016 and 2017 were as follows:

December 31, 2015

	Finance income and costs						
	Interest income (expense)	Gain and loss on valuation	Gain and loss on foreign currency	Gain and loss on disposal (in millions of Won)	Impairment loss	Others	Other comprehensive loss
Derivatives assets		129,949		357,715			487,664
Available-for-sale financial assets	1,956			138,782	(142,781)	183,712	181,669
Held-to-maturity financial assets	456					(688)	(232)
	207,781		283,030	(15,406)		(217)	475,188

Loans and
receivables

Derivatives

liabilities

(46,748)

(334,340)

(381,088)

Financial

liabilities

measured at

amortized cost

(788,772)

(665,583)

(138,827)

(1,593,182)

(578,579)

83,201

(382,553)

146,751

(142,781)

43,980

(829,981)

(187,854)

December 31, 2016

Finance income and costs**Gain and****Interest
income
(expense)****Gain and
loss on
valuation****loss on
foreign
currency****Gain and
loss on
disposal****Impairment
loss****Others****Other
comprehensive
income****Total****(in millions of Won)**

Derivatives assets

57,411

310,625

368,036

Available-for-sale

financial assets

431

127,524

(248,404)

41,000

(79,449)

310,608

Held-to-maturity

financial assets

266

38

304

Loans and

receivables

181,778

140,751

(17,854)

(172)

304,503

Derivatives

liabilities

(72,976)

(332,415)

(405,391)

Financial

liabilities

measured at

amortized cost

(658,726)

(283,059)

(61)

(28,367)

(970,213)

(476,251)

(15,565)

(142,308)

87,819

(248,404)

12,499

(782,210)

310,608

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

December 31, 2017

			Finance income and costs					
	Interest income (expense)	Gain and loss on valuation	Gain and loss on foreign currency	Gain and loss on disposal	Impairment loss	Others	Total	Other comprehensive loss
			(in millions of Won)					
Financial assets held for trading		16					16	
Derivatives assets		(99,942)		206,362			106,420	(143)
Available-for-sale financial assets	60			418,789	(123,214)	92,961	388,596	(31,389)
Held-to-maturity financial assets	236					7	243	
Loans and receivables	212,155		(607,837)	(32,456)		(304)	(428,442)	
Derivatives liabilities		(61,809)		(231,908)			(293,717)	
Financial liabilities measured at amortized cost	(653,115)		777,935			(9,546)	115,274	
	(440,664)	(161,735)	170,098	360,787	(123,214)	83,118	(111,610)	(31,532)

(b) Credit risk**1) Credit risk exposure**

The carrying amount of financial assets represents the Company's maximum exposure to credit risk. The maximum exposure to credit risk as of December 31, 2016 and 2017 are as follows:

	2016	2017
	(in millions of Won)	
Cash and cash equivalents	2,447,619	2,612,530
Financial assets held for trading		1,970
Derivative assets	147,582	68,290
Available-for-sale financial assets	51,649	192,866
Held-to-maturity financial assets	2,470	5,211
Loans and other receivables	7,104,940	9,099,444
Trade accounts and notes receivable, net	9,674,026	8,824,563
Long-term trade accounts and notes receivable, net	51,124	731,570
	19,479,410	21,536,444

The Company provided financial guarantees for the repayment of loans of associates, joint ventures and third parties. As of December 31, 2016 and 2017, the maximum exposure to credit risk related to the financial guarantees amounted to 2,995,544 million and 3,135,084 million, respectively.

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017****2) Impairment losses on financial assets**

Allowance for doubtful accounts as of December 31, 2016 and 2017 are as follows:

	2016	2017
	(in millions of Won)	
Trade accounts and notes receivable	558,125	634,129
Other accounts receivable	203,346	187,706
Loans	210,346	258,957
Other assets	5,954	13,672
	977,771	1,094,464

Impairment losses on financial assets for the years ended December 31, 2016 and 2017 were as follows:

	2016	2017
	(in millions of Won)	
Bad debt expenses on trade accounts and notes receivable	165,150	173,694
Other bad debt expenses ^(*1)	50,225	100,920
Impairment loss on available-for-sale financial assets	248,404	123,214
Less: Recovery of allowance for other bad debt accounts	(12,658)	(2,743)
Less: Recovery of impairment loss on held-to-maturity financial assets	(38)	(20)
	451,083	395,065

(*1) Other bad debt expenses are mainly related to other receivables and loans.

The aging and impairment losses of trade accounts and notes receivable as of December 31, 2016 and 2017 are as follows:

	2016		2017	
	Trade accounts and notes receivable	Impairment (in millions of Won)	Trade accounts and notes receivable	Impairment
Not due	7,963,491	62,511	7,736,092	65,314
Over due less than 1 month	790,042	27,482	445,390	12,546
1 month 3 months	205,394	8,955	170,682	742
3 months 12 months	189,605	26,814	384,313	21,030
Over 12 months	1,134,743	432,363	1,453,785	534,497
	10,283,275	558,125	10,190,262	634,129

The aging and impairment losses of other receivables as of December 31, 2016 and 2017 are as follows:

	2016		2017	
	Other receivables	Impairment (in millions of Won)	Other receivables	Impairment
Not due	1,641,924	23,958	1,888,726	9,672
Over due less than 1 month	197,772	75,207	235,559	35,539
1 month 3 months	27,525	1,189	69,372	54,335
3 months 12 months	82,337	20,300	96,942	64,467
over 12 months	357,401	298,992	365,202	296,322
	2,306,959	419,646	2,655,801	460,335

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

Changes in the allowance for doubtful accounts for the years ended December 31, 2015, 2016 and 2017 were as follows:

	2015	2016	2017
	(in millions of Won)		
Beginning	954,153	999,678	977,771
Bad debt expenses	189,616	165,150	173,694
Other bad debt expenses	147,619	37,567	98,177
Others ^(*1)	(291,710)	(224,624)	(155,178)
Ending	999,678	977,771	1,094,464

(*1) Others for the year ended December 31, 2015 included a decrease of 199,003 million due to exclusion of POSCO PLANTEC Co., Ltd. from consolidation. Others for years ended December 31, 2016 and 2017, included decreases mainly due to write-off amounting to 216,657 million and 119,964 million, respectively.

(c) Liquidity risk

1) Contractual maturities for non-derivative financial liabilities, including estimated interest, are as follows:

	Book value	Contractual cash flow	Within 1 year	1 year - 5 years	After 5 years
	(in millions of Won)				
Trade accounts and notes payable	3,477,678	3,478,992	3,466,001	12,991	
Borrowings	21,063,657	22,928,112	12,093,516	9,200,416	1,634,180
Financial guarantee liabilities ^(*1)	88,407	3,135,084	3,135,084		
Other financial liabilities	1,865,683	1,874,667	1,721,004	153,663	

26,495,425	31,416,855	20,415,605	9,367,070	1,634,180
------------	------------	------------	-----------	-----------

(*1) For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

2) The maturity analysis of derivative financial liabilities is as follows:

	Within 1 year	1 year - 5 years	Total
	(in millions of Won)		
Currency forward	9,744	300	10,044
Currency futures	9,632	74,834	84,466
Currency swaps	25,553	10,504	36,057
Interest swaps	153		153
Other forwards	24,790		24,790
	69,872	85,638	155,510

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017****(d) Currency risk**

1) The Company has exposure to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in foreign exchange rates. The exposure to currency risk as of December 31, 2016 and 2017 are as follows:

	2016		2017	
	Assets	Liabilities	Assets	Liabilities
	(in millions of Won)			
USD	5,007,649	6,636,065	4,215,151	5,940,380
EUR	463,110	550,235	552,630	454,072
JPY	45,975	821,403	165,356	709,318
Others	219,444	286,112	220,723	117,632

2) As of December 31, 2016 and 2017, provided that functional currency against foreign currencies other than functional currency hypothetically strengthens or weakens by 10%, the changes in gain or loss during the years ended December 31, 2016 and 2017 were as follows:

	2016		2017	
	10% increase	10% decrease	10% increase	10% decrease
	(in millions of Won)			
USD	(162,842)	162,842	(172,523)	172,523
EUR	(8,713)	8,713	9,856	(9,856)
JPY	(77,543)	77,543	(54,396)	54,396

(e) Interest rate risk

1) The carrying amount of interest-bearing financial instruments as of December 31, 2016 and 2017 are as follows:

	2016	2017
	(in millions of Won)	
Fixed rate		

Financial assets	8,650,483	10,943,300
Financial liabilities	(10,794,724)	(11,179,635)
	(2,144,241)	(236,335)

Variable rate

Financial liabilities	(12,024,683)	(9,977,040)
-----------------------	--------------	-------------

2) Sensitivity analysis on the fair value of financial instruments with fixed interest rate

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Company does not designate derivatives (interest rate swaps) as hedging instruments under fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

3) Sensitivity analysis on the cash flows of financial instruments with variable interest rate

As of December 31, 2016 and 2017, provided that other factors remain the same and the interest rate of borrowings with floating rates increases or decreases by 1%, the changes in interest expense for the years ended December 31, 2016 and 2017 were as follows:

	2016		2017	
	1% increase	1% decrease	1% increase	1% decrease
	(in millions of Won)			
Variable rate financial instruments	(120,247)	120,247	(99,770)	99,770

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017****(f) Fair value****1) Fair value and book value**

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

	2016		2017	
	Book value	Fair value	Book value	Fair value
	(in millions of Won)			
Financial assets measured at fair value				
Available-for-sale financial assets ^{(*)1}	2,139,687	2,139,687	1,506,893	1,506,893
Financial assets held for trading			1,970	1,970
Derivatives assets	147,582	147,582	68,290	68,290
	2,287,269	2,287,269	1,577,153	1,577,153
Financial assets measured at amortized cost ^{(*)2}				
Cash and cash equivalents	2,447,619	2,447,619	2,612,530	2,612,530
Trade accounts and notes receivable, net	9,725,150	9,725,150	9,556,133	9,556,133
Loans and other receivables, net	7,104,940	7,104,940	9,099,444	9,099,444
Held-to-maturity financial assets	2,470	2,470	5,211	5,211
	19,280,179	19,280,179	21,273,318	21,273,318
Financial liabilities measured at fair value				
Derivatives liabilities	122,896	122,896	155,510	155,510
Financial liabilities measured at amortized cost ^{(*)2}				
Trade accounts and notes payable	4,117,798	4,117,798	3,477,678	3,477,678
Borrowings	22,704,998	22,956,571	21,063,657	21,217,415
Financial guarantee liabilities	108,161	108,161	88,407	88,407
Others	2,007,114	2,007,114	1,865,683	1,865,683
	28,938,071	29,189,644	26,495,425	26,649,183

(*1) Available-for-sale financial assets which are not measured at fair value are not included.

(*2) The fair value of financial assets and liabilities measured at amortized cost is measured using discounted cash flow method, and 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.

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

December 31, 2016

	Level 1	Level 2	Level 3	Total
	(in millions of Won)			
Financial assets				
Available-for-sale financial assets	1,800,943		338,744	2,139,687
Derivatives assets		137,236	10,346	147,582
	1,800,943	137,236	349,090	2,287,269
Financial liabilities				
Derivatives liabilities		122,896		122,896

F-89

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

December 31, 2017

	Level 1	Level 2	Level 3	Total
	(in millions of Won)			
Financial assets				
Available-for-sale financial assets	1,137,662	17,812	351,419	1,506,893
Financial assets held for trading		1,970		1,970
Derivatives assets		68,290		68,290
	1,137,662	88,072	351,419	1,577,153
Financial liabilities				
Derivatives liabilities		155,510		155,510

3) Financial assets and financial liabilities classified as fair value hierarchy level 2

Fair values of derivatives are measured using the derivatives instrument valuation model such as discounted cash flow method and others. Inputs of the financial instrument valuation model include forward rate, interest rate and others. It may change depending on the type of derivatives and the nature of the underlying assets.

4) Financial assets and financial liabilities classified as fair value hierarchy level 3

Value measurement method and significant but not observable inputs for the financial assets classified as fair value hierarchy level 3 as of December 31, 2017 are as follows:

	Fair value	Valuation technique	Inputs	Range of inputs	Effect on fair value assessment with unobservable input
			(in millions of Won)		
Available-for-sale financial assets	235,803	Discounted cash flows	Growth rate	0% ~ 2.0%	As growth rate increases, fair

				value increases
				As discount rate increases, fair value decreases
		Discount rate	0.5% ~ 11.9%	
				As price multiple increases, fair value increases
14,775	Market comparable companies	Price multiple	1.085 ~ 5.245	
100,841	Asset value approach			

Sensitivity analysis of financial assets and financial liabilities classified as Level 3 of fair value hierarchy

If other inputs remain constant as of December 31, 2017 and one of the significant but not observable input is changed, the effect on fair value measurement is as follows:

	Input variable (in millions of Won)	Favorable changes	Unfavorable changes
Available-for-sale financial assets	Fluctuation 0.5% of growth rate	5,713	4,641
	Fluctuation 0.5% of discount rate	27,238	22,724

F-90

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

Changes in fair value of financial assets and financial liabilities classified as Level 3 for the years ended December 31, 2016 and 2017 were as follows:

	2016	2017
	(in millions of Won)	
Beginning	466,407	349,090
Acquisition and others	47,493	129,766
Gain (loss) on valuations of derivatives	(59,829)	(10,346)
Other comprehensive income (loss)	(38,731)	35,126
Impairment	(19,111)	(107,934)
Disposal and others	(47,139)	(44,283)
Ending	349,090	351,419

24. Share Capital and Capital Surplus

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

	2016	2017
	(Share, in Won)	
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 December 31, 2017, total shares of ADRs of 36,840,292 outstanding in overseas stock market are equivalent to 9,210,073 of common stock.

(*2) As of December 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) The changes in issued common stock for the years ended December 31, 2016 and 2017 were as follows:

	2016			2017		
	Issued shares	Treasury shares	Number of outstanding shares (share)	Issued shares	Treasury shares	Number of outstanding shares
Beginning	87,186,835	(7,191,187)	79,995,648	87,186,835	(7,189,170)	79,997,665
Disposal of treasury shares		2,017	2,017		1,939	1,939
Ending	87,186,835	(7,189,170)	79,997,665	87,186,835	(7,187,231)	79,999,604

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

	2016 (in millions of Won)	2017
Share premium	463,825	463,825
Gain on disposal of treasury shares	783,788	783,914
Other capital deficit	159,634	174,282
	1,407,247	1,422,021

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

(d) During the year ended December 31, 2017, POSCO ENERGY CO., LTD., a subsidiary of the Company, issued redeemable convertible preferred shares which are classified as non-controlling interests in the consolidated financial statements. The details of redeemable convertible preferred shares as of December 31, 2017 are as follows:

Redeemable Convertible Preferred Shares	
(Share, in Won)	
February 25, 2017	
Issue date	
Number of shares issued	8,643,193 shares
Price per share	28,346
Voting rights	No voting rights for 3 years from issue date
Dividend rights	Comparative, Non-participating
	· Minimum dividend rate for 1~3 years: 3.98%
	· Minimum dividend rate after 4 years: Comparative rate + Issuance spread + 2%
Details about Redemption	Issuer can demand redemption of all or part of redeemable convertible preferred shares every year after the issue date, for a period of 10 years from the issue date.
Details about Conversion	Stockholders of redeemable convertible preferred shares can convert them to common shares from 3 years after the issue date to the end of the redemption period (10 years). Conversion price is equal to issue price, which could be adjusted according to anti-dilution clause.

Redeemable convertible preferred stocks are classified as non-controlling interests in the consolidated financial statements since the issuer has a redemption right and can control the circumstances in which the entity can settle with a variable quantity of equity instruments.

25. Hybrid Bonds

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

	Date of issue	Date of maturity	Interest rate (%)	2016	2017
			(in millions of Won)		
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)
				996,919	996,919

F-92

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

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

	Hybrid bond 1-1	Hybrid bond 1-2
	(in millions of Won)	
Issue price	800,000	200,000
Maturity date	30 years (POSCO has a right to extend the maturity date)	
Interest rate	Issue date ~ 2018-06-12: 4.3% Reset every 5 years as follows; · After 5 years: return on government bond (5 years) + 1.3% · After 10 years: additionally +0.25% according to Step-up clauses · After 25 years: additionally +0.75%	Issue date ~ 2023-06-12: 4.6% Reset every 10 years as follows; · After 10 years: return on government bond (10 years) + 1.4% · After 10 years: additionally +0.25% according to Step-up clauses · After 30 years: additionally +0.75%
Interest payments condition	Quarterly (Optional deferral of interest payment is available to POSCO)	
Others	POSCO can call the hybrid bond at year 5 and interest payment date afterwards	POSCO 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 December 31, 2017 amounts to 2,389 million.

(b) POSCO ENERGY CO., LTD., a subsidiary of the Company, issued hybrid bonds, which are classified as non-controlling interests in the consolidated financial statements. Hybrid bonds as of December 31, 2016 and 2017 are as follows:

Date of issue	Date of maturity	Interest rate (%)	2016	2017
		(in millions of Won)		

Edgar Filing: POSCO - Form 20-F

Hybrid bond 1-1 ^(*1)	2013-08-29	2043-08-29	4.66	165,000	165,000
Hybrid bond 1-2 ^(*1)	2013-08-29	2043-08-29	4.72	165,000	165,000
Hybrid bond 1-3 ^(*1)	2013-08-29	2043-08-29	4.72	30,000	30,000
Hybrid bond 1-4 ^(*1)	2013-08-29	2043-08-29	5.21	140,000	140,000
Issuance cost				(1,532)	(1,532)
				498,468	498,468

F-93

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

(*1)Details of issuance of hybrid bonds of POSCO ENERGY CO., LTD. as of December 31, 2017 are as follows:

	Hybrid bond 1-1	Hybrid bond 1-2 and 1-3 (in millions of Won)	Hybrid bond 1-4
Issue price	165,000	195,000	140,000
Maturity date	30 years (The Company has a right to extend the maturity date)		
Interest rate	Issue date ~ 2018-08-29: 4.66% Reset every 5 years as follows; · After 5 years: return on government bond (5 years) + 1.39% · After 10 years: additionally +0.25% according to Step-up clauses · After 25 years: additionally +0.75%	Issue date ~ 2018-08-29: 4.72% Reset every 5 years as follows; · After 5 years: return on government bond (5 years) + 1.45% · After 10 years: additionally +0.25% according to Step-up clauses · After 25 years: additionally +0.75%	Issue date ~ 2023-08-29: 5.21% Reset every 10 years as follows; · After 10 years: return on government bond (10 years) + 1.55% · After 10 years: additionally +0.25% according to Step-up clauses · After 30 years: additionally +0.75%
Interest payments condition	Quarterly (Optional deferral of interest payment is available to the Company but for hybrid bond 1-3, the Company pays every quarter(3/30, 6/30, 9/30, 12/30))		
Others	The issuer can call the hybrid bond at year 5 and interest payment date afterwards		The issuer 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 December 31, 2017 amounts to 2,004 million.

26. Reserves

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

	2016	2017
	(in millions of Won)	
Accumulated comprehensive loss of investments in associates and joint ventures	(301,734)	(516,528)
Changes in the unrealized fair value of available-for-sale investments	276,143	230,190
Currency translation differences	(99,264)	(372,166)
Gain or losses on valuation of derivatives		(136)
Others	(19,130)	(23,916)
	(143,985)	(682,556)

(b) Changes in the unrealized fair value of available-for-sale investments for the years ended December 31, 2016 and 2017 were as follows:

	2016	2017
	(in millions of Won)	
Beginning balance	(38,294)	276,143
Changes in the unrealized fair value of available-for-sale investments	218,542	183,761
Reclassification to profit or loss upon disposal	(88,781)	(299,862)
Impairment of available-for-sale investments	187,108	96,083
Others	(2,432)	(25,935)
Ending balance	276,143	230,190

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017****27. Treasury Shares**

Based on the Board of Directors' resolution, the Company holds treasury shares for business purposes including price stabilization. The changes in treasury shares for the years ended December 31, 2016 and 2017 were as follows:

	2016		2017	
	Number of shares	Amount	Number of shares	Amount
	(shares, in millions of Won)			
Beginning	7,191,187	1,533,898	7,189,170	1,533,468
Disposal of treasury shares	(2,017)	(430)	(1,939)	(414)
Ending	7,189,170	1,533,468	7,187,231	1,533,054

28. Revenue

Details of revenue for the years ended December 31, 2015, 2016 and 2017 were as follows:

	2015	2016	2017
	(in millions of Won)		
Sale of goods	47,018,466	43,683,169	51,357,709
Services	2,489,447	2,276,534	2,064,583
Construction revenue	8,546,454	6,497,723	6,299,483
Rental income	11,757	8,930	6,370
Others	456,144	473,415	458,722
	58,522,268	52,939,771	60,186,867

29. Construction Contracts

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

	2016	2017
	(in millions of Won)	
Aggregate amount of costs incurred	22,012,241	21,404,321
Add: Recognized profits	1,429,555	1,524,208
Less: Recognized losses	(1,139,165)	(718,593)
Cumulative construction revenue	22,302,631	22,209,936
Less: Progress billing	(22,483,968)	(22,265,891)
Others	9,961	994
	(171,376)	(54,961)

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

	2016	2017
	(in millions of Won)	
Unbilled due from customers for contract work	860,287	728,007
Due to customers for contract work	(1,031,663)	(782,968)
	(171,376)	(54,961)

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

(c) Due to the factors causing the variation of costs for the years ended December 31, 2016 and 2017, the estimated total contract costs have changed. Details of changes in estimated total contract costs and the impact on profit before income taxes for the years ended December 31, 2016, 2017 and future periods are as follows:

	2016	2017
	(in millions of Won)	
Changes in estimated total contract costs	532,801	164,812
Changes in profit before income taxes of construction contract:		
- Current period	(790,391)	(69,656)
- Future periods	69,464	(6,041)

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

(d) Uncertainty of estimates**1) Total contract revenues**

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

2) Total contract costs

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

Method of significant assumption

Material cost	Assumption based on recent purchasing price and quoted market price
Labor cost	Assumption based on standard monthly and daily labor cost
Outsourcing cost	Assumption based on the past experience rate of similar project and market price
Management reviews the assumptions used in estimated contract costs at each reporting period end and adjusts them, if necessary.	

F-96

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017****30. Selling and Administrative Expenses****(a) Administrative expenses**

Administrative expenses for the years ended December 31, 2015, 2016 and 2017 were as follows:

	2015	2016	2017
	(in millions of Won)		
Wages and salaries	810,851	769,589	774,900
Expenses related to post-employment benefits	87,293	200,956	78,654
Other employee benefits	193,967	176,794	159,920
Travel	48,426	40,828	39,790
Depreciation	105,470	103,442	97,261
Amortization	168,525	139,569	146,314
Communication	12,502	11,186	11,740
Electricity expenses	9,573	7,527	7,050
Taxes and public dues	74,315	78,895	72,826
Rental	119,836	82,005	69,976
Repairs	11,677	11,316	9,859
Entertainment	15,740	13,157	11,582
Advertising	90,698	86,141	119,724
Research & development	135,508	120,608	125,795
Service fees	218,751	201,129	193,387
Vehicles maintenance	10,756	10,090	8,211
Industry association fee	12,603	13,468	10,140
Conference	16,053	13,108	14,494
Increase to provisions	14,900	6,532	10,990
Bad debt expenses	189,616	165,150	173,694
Others	48,188	40,050	40,493
	2,395,248	2,291,540	2,176,800

(b) Selling expenses

Selling expenses for the years ended December 31, 2015, 2016 and 2017 were as follows:

	2015	2016	2017
	(in millions of Won)		
Freight and custody expenses	1,531,906	1,342,009	1,336,969
Operating expenses for distribution center	11,021	10,315	10,503
Sales commissions	80,165	94,377	115,925
Sales advertising	3,220	5,117	3,800
Sales promotion	22,443	10,670	12,414
Sample	2,576	2,335	1,989
Sales insurance premium	30,682	31,379	36,546
Contract cost	38,425	49,480	23,061
Others	8,518	8,004	16,070
	1,728,956	1,553,686	1,557,277

F-97

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017****31. Research and Development Expenditures Recognized as Expenses**

Research and development expenditures recognized as expenses for the years ended December 31, 2015, 2016 and 2017 were as follows:

	2015	2016	2017
	(in millions of Won)		
Administrative expenses	135,508	120,608	125,795
Cost of sales	356,173	324,190	361,093
	491,681	444,798	486,888

32. Other Operating Income and Expenses

Details of other operating income and expenses for the years ended December 31, 2015, 2016 and 2017 were as follows:

	2015	2016	2017
	(in millions of Won)		
Other operating income			
Gain on disposal of assets held for sale	227,956	23,112	1,180
Gain on disposal of investments in subsidiaries, associates and joint ventures	88,718	23,305	81,794
Gain on disposal of property, plant and equipment	22,730	23,826	32,145
Gain on disposal of intangible assets	1,432	671	23,391
Recovery of allowance for other doubtful accounts	10,452	12,658	2,743
Gain on valuation of firm commitment			56,301
Rental revenues	1,019	1,771	1,498
Gain on insurance proceeds	14,976	22,400	5,878
Others (*1)	181,765	107,393	246,294
	549,048	215,136	451,224

Other operating expenses

Impairment losses on assets held for sale	(133,547)	(24,890)	
Loss on disposal of assets held for sale	(190,357)	(254)	(608)
Loss on disposal of investments in subsidiaries, associates and joint ventures	(18,996)	(22,499)	(19,985)
Loss on disposal of property, plant and equipment	(101,732)	(86,622)	(151,343)
Impairment losses on property, plant and equipment	(136,269)	(196,882)	(117,231)
Impairment losses on goodwill and intangible assets	(161,412)	(127,875)	(167,995)
Other bad debt expenses	(158,071)	(50,225)	(100,920)
Loss on valuation of firm commitment			(43,164)
Idle tangible asset expenses	(12,773)	(6,437)	(10,490)
Increase to provisions	(18,396)	(53,058)	(33,964)
Donations	(62,957)	(43,810)	(51,424)
Others ^(*2)	(447,788)	(143,168)	(95,172)
	(1,442,298)	(755,720)	(792,296)

(*1) The Company recognized the refund of VAT and others amounting to 160,501 million as other operating income for the year ended December 31, 2017, based on the result 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 for rectification were finalized.

(*2) 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 for the year ended December 31, 2015.

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017****33. Finance Income and Costs**

Details of finance income and costs for the years ended December 31, 2015, 2016 and 2017 were as follows:

	2015	2016	2017
	(in millions of Won)		
Finance income			
Interest income	210,193	182,475	212,451
Dividend income	183,712	41,000	92,962
Gain on foreign currency transactions	1,025,240	1,032,552	785,616
Gain on foreign currency translations	466,090	377,723	564,016
Gain on derivatives transactions	366,482	316,524	210,727
Gain on valuations of derivatives	155,334	147,111	64,735
Gain on disposals of available-for-sale financial assets	139,136	130,830	425,684
Others	10,886	3,765	16,476
	2,557,073	2,231,980	2,372,667
Finance costs			
Interest expenses	(788,772)	(658,726)	(653,115)
Loss on foreign currency transactions	(1,157,161)	(1,147,192)	(756,654)
Loss on foreign currency translations	(716,722)	(405,391)	(422,880)
Loss on derivatives transactions	(343,118)	(338,314)	(236,273)
Loss on valuation of derivatives	(72,133)	(162,676)	(226,487)
Impairment loss on available-for-sale financial assets	(142,781)	(248,404)	(123,214)
Others	(166,367)	(53,487)	(65,654)
	(3,387,054)	(3,014,190)	(2,484,277)

34. Expenses by Nature

Expenses that are recorded by nature as cost of sales, selling and administrative expenses and other operating expenses in the statements of comprehensive income for the years ended December 31, 2015, 2016 and 2017 were as follows (excluding finance costs and income tax expense):

	2015	2016 (in millions of Won)	2017
Raw material used, changes in inventories and others	33,939,108	30,177,732	35,584,184
Employee benefits expenses (*2)	3,472,295	3,444,276	3,357,861
Outsourced processing cost	8,681,271	7,678,055	7,074,948
Electricity expenses	1,251,546	1,018,429	933,045
Depreciation (*1)	2,836,663	2,835,843	2,887,646
Amortization	381,583	378,004	409,774
Freight and custody expenses	1,531,906	1,342,009	1,336,969
Sales commissions	80,165	94,377	115,925
Loss on disposal of property, plant and equipment	101,732	86,622	151,343
Impairment loss on property, plant and equipment	136,269	196,882	117,231
Impairment loss on goodwill and intangible assets	161,412	127,875	167,995
Increase to provisions	86,903	189,914	215,383
Donations	62,957	43,810	51,424
Other expenses	4,861,126	3,258,583	4,038,242
	57,584,936	50,872,411	56,441,970

(*1) Includes depreciation expense of investment property.

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

(*2) The details of employee benefits expenses for the years ended December 31, 2015, 2016 and 2017 were as follows:

	2015	2016	2017
	(in millions of Won)		
Wages and salaries	3,186,237	3,016,488	3,105,364
Expenses related to post-employment benefits	286,058	427,788	252,497
	3,472,295	3,444,276	3,357,861

35. Income Taxes

(a) Income tax expense for the years ended December 31, 2015, 2016 and 2017 was as follows:

	2015	2016	2017
	(in millions of Won)		
Current income taxes	553,041	699,269	864,143
Deferred income tax due to temporary differences	(253,860)	(209,706)	300,037
Items recorded directly in equity	(32,621)	(110,019)	21,560
Income tax expense	266,560	379,544	1,185,740

(b) The income taxes credited (charged) directly to equity for the years ended December 31, 2015, 2016 and 2017 were as follows:

	2015	2016	2017
	(in millions of Won)		
Net changes in the unrealized fair value of available-for-sale investments	60,077	(100,550)	1,271
Loss (gain) on sale of treasury shares	12	(10)	(40)

Other capital surplus	(86,765)		
Others	(5,945)	(9,459)	20,329
	(32,621)	(110,019)	21,560

(c) The following table reconciles the calculated income tax expense based on POSCO's statutory rate (24.2%) to the actual amount of taxes recorded by the Company for the years ended December 31, 2015, 2016 and 2017.

	2015	2016 (in millions of Won)	2017
Profit before income tax expense	150,345	1,411,609	4,095,051
Income tax expense computed at statutory rate	35,921	341,148	990,540
Adjustments:			
Tax credits	(152,139)	(30,124)	(40,757)
Over provisions from prior years	(47,053)	(11,829)	(20,912)
Investment in subsidiaries, associates and joint ventures	439,575	76,751	55,113
Tax effects due to permanent differences	(26,045)	(9,962)	4,798
Effect of tax rate change ^(*)			175,647
Others	16,301	13,560	21,311
	230,639	38,396	195,200
Income tax expense	266,560	379,544	1,185,740
Effective tax rate (%)	177.30%	26.89%	28.96%

(*1) During the year ended December 31, 2017, the statutory rate changed from 24.2% to 27.5% for taxable income in excess of 300,000 million was enacted as a result of a revision to Korean tax law, which will be effective from 2018.

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

(d) The movements in deferred tax assets (liabilities) for the years ended December 31, 2016 and 2017 were as follows:

	2016			2017		
	Beginning	Inc. (Dec.)	Ending	Beginning	Inc. (Dec.)	Ending
	(in millions of Won)					
Deferred income tax due to temporary differences						
Allowance for doubtful accounts	202,592	10,527	213,119	213,119	60,875	273,994
Reserve for technology developments	(177,676)	85,716	(91,960)	(91,960)	53,973	(37,987)
PP&E Depreciation	(15,240)	3,601	(11,639)	(11,639)	26,280	14,641
Share of profit or loss of equity-accounted investees	(45,174)	115,433	70,259	70,259	125,783	196,042
Allowance for inventories valuation	13,373	2,278	15,651	15,651	(4,871)	10,780
PP&E Revaluation	(1,393,501)	(130,648)	(1,524,149)	(1,524,149)	(304,015)	(1,828,164)
Prepaid expenses	19,180	485	19,665	19,665	335	20,000
PP&E Impairment loss	8,055	(2,760)	5,295	5,295	245	5,540
Gain or loss on foreign currency translation	(29,355)	23,398	(5,957)	(5,957)	(42,515)	(48,472)
Defined benefit obligations	354,175	7,663	361,838	361,838	68,279	430,117
Plan assets	(287,839)	(28,686)	(316,525)	(316,525)	(36,129)	(352,654)
Provision for construction losses	612	385	997	997	(556)	441
Provision for construction warranty	21,604	2,718	24,322	24,322	4,395	28,717
Accrued income	(8,982)	(459)	(9,441)	(9,441)	(3,474)	(12,915)
Impairment loss on AFS	266,474	(21,306)	245,168	245,168	(42,373)	202,795
Difference in acquisition costs of treasury shares	62,116	(17)	62,099	62,099	8,448	70,547
Others	296,207	107,541	403,748	403,748	(27,740)	376,008
	(713,379)	175,869	(537,510)	(537,510)	(113,060)	(650,570)

**Deferred income taxes
recognized directly to equity**

Loss (gain) on valuation of available-for-sale investments	50,043	(100,550)	(50,507)	(50,507)	1,271	(49,236)
Others	61,291	(9,459)	51,832	51,832	20,329	72,161
	111,334	(110,009)	1,325	1,325	21,600	22,925

Deferred tax from tax credit

Tax credit carry-forward and others	277,261	30,074	307,335	307,335	(189,303)	118,032
--	---------	--------	---------	---------	-----------	---------

**Investments in subsidiaries,
associates and joint ventures**

Investments in subsidiaries, associates and joint ventures	(18,089)	104,219	86,130	86,130	(17,704)	68,426
	(342,873)	200,153	(142,720)	(142,720)	(298,467)	(441,187)

F-101

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

(e) Deferred tax assets and liabilities as of December 31, 2016 and 2017 are as follows:

	Assets	2016 Liabilities	Net (in millions of Won)	Assets	2017 Liabilities	Net
Deferred income tax due to temporary differences						
Allowance for doubtful accounts	213,119		213,119	273,994		273,994
Reserve for technology developments		(91,960)	(91,960)		(37,987)	(37,987)
PP&E Depreciation	50,843	(62,482)	(11,639)	59,912	(45,271)	14,641
Share of profit or loss of equity-accounted investees	178,538	(108,279)	70,259	236,637	(40,595)	196,042
Allowance for inventories valuation	15,651		15,651	10,780		10,780
PP&E Revaluation		(1,524,149)	(1,524,149)		(1,828,164)	(1,828,164)
Prepaid expenses	19,665		19,665	20,000		20,000
PP&E Impairment loss	5,397	(102)	5,295	5,639	(99)	5,540
Gain or loss on foreign currency translation	99,836	(105,793)	(5,957)	113,760	(162,232)	(48,472)
Defined benefit obligations	361,838		361,838	430,117		430,117
Plan assets		(316,525)	(316,525)		(352,654)	(352,654)
Provision for construction losses	997		997	441		441
Provision for construction warranty	24,322		24,322	28,717		28,717
Accrued income		(9,441)	(9,441)		(12,915)	(12,915)
Impairment loss on AFS	245,168		245,168	202,795		202,795
Difference in acquisition costs of treasury shares	62,099		62,099	70,547		70,547
Others	452,425	(48,677)	403,748	473,025	(97,017)	376,008
	1,729,898	(2,267,408)	(537,510)	1,926,364	(2,576,934)	(650,570)

**Deferred income taxes
recognized directly to equity**

Loss (gain) on valuation of available-for-sale investments	50,245	(100,752)	(50,507)	110,865	(160,101)	(49,236)
Others	65,532	(13,700)	51,832	92,981	(20,820)	72,161
	115,777	(114,452)	1,325	203,846	(180,921)	22,925

Deferred tax from tax credit

Tax credit carry-forward and others	307,335		307,335	118,032		118,032
-------------------------------------	---------	--	---------	---------	--	---------

**Investments in subsidiaries,
associates and joint ventures**

Investments in subsidiaries, associates and joint ventures	561,506	(475,376)	86,130	563,406	(494,980)	68,426
	2,714,516	(2,857,236)	(142,720)	2,811,648	(3,252,835)	(441,187)

(f) As of December 31, 2016 and 2017, The Company did not recognize income tax effects associated with deductible temporary differences of 4,612,900 million and 5,300,667 million, respectively, mainly relating to loss of subsidiaries and associates because realization is not considered probable. As of December 31, 2016 and 2017, the Company did not recognize income tax effects associated with taxable temporary differences of 3,933,428 million and 4,362,127 million (deferred tax liabilities of 951,890 million and 1,137,632 million), respectively, mainly relating to increase in retained earnings of subsidiaries since it is probable that the temporary difference will not reverse in the foreseeable future.

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017****36. Earnings per Share**

Basic and diluted earnings per share for the years ended December 31, 2015, 2016 and 2017 were as follows:

	2015	2016	2017
	(in Won, except per share information)		
Profit attribute to controlling interest	171,493,811,117	1,354,806,734,940	2,756,230,487,872
Interests of hybrid bonds	(33,029,632,499)	(33,225,163,081)	(33,048,799,997)
Weighted-average number of common shares outstanding ^(*1)	79,993,834	79,996,389	79,998,600
Basic and diluted earnings per share	1,731	16,521	34,040

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

(shares)	2015	2016	2017
Total number of common shares issued	87,186,835	87,186,835	87,186,835
Weighted-average number of treasury shares	(7,193,001)	(7,190,446)	(7,188,235)
Weighted-average number of common shares outstanding	79,993,834	79,996,389	79,998,600

Since there were no potential shares of common stock which had dilutive effects as of December 31, 2015, 2016 and 2017, diluted earnings per share is equal to basic earnings per share.

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017****37. Related Party Transactions**

(a) Significant transactions between the controlling company and related parties for the years ended December 31, 2015, 2016 and 2017 were as follows:

1) For the year ended December 31, 2015

	Sales and others ^(*1)		Purchase and others ^(*2)			
	Sales	Others	Purchase of material (in millions of Won)	Purchase of fixed assets	Outsourced processing cost	Others
Subsidiaries						
POSCO ENGINEERING & CONSTRUCTION CO., LTD.	4,441	145	19	427,760	2,250	37,488
POSCO Processing & Service	1,074,826	24	437,626			2,281
POSCO COATED & COLOR STEEL Co., Ltd.	380,626				9,359	104
POSCO ICT ^(*3)	1,259	7		210,877	29,612	182,745
eNtoB Corporation			261,989	6,501	130	22,017
POSCO CHEMTECH	436,594	30,343	519,956	9,515	297,183	1,773
POSCO ENERGY CO., LTD.	188,458	1,359				6
POSCO TMC Co., Ltd.	263,242				1,497	1,560
POSCO AST	362,658	15	4,115		39,175	1,611
POSHIMETAL Co., Ltd.	10,777	151	145,165			46
POSCO DAEWOO Corporation	3,505,187	34,334	46,675			480
SeAH Changwon Integrated Special Steel ^(*4)	2,811	176,904	8,239		515	75
POSCO PLANTEC Co., Ltd. ^(*4)	4,280	33	2,544	125,192	15,135	13,649
POSCO Thainox Public Company Limited	268,576	10	5,147			34
POSCO America Corporation	624,549	6				725
POSCO Canada Ltd.			111,243			
POSCO Asia Co., Ltd.	1,822,932	960	269,086		513	2,273
Qingdao Pohang Stainless Steel Co., Ltd.	118,845					220

Edgar Filing: POSCO - Form 20-F

POSCO JAPAN Co., Ltd.	1,051,910	9,383	25,957	2,278	201	2,754
POSCO MEXICO S.A. DE C.V.	270,184	80				11
PT. KRAKATAU POSCO			118,888			
POSCO Maharashtra Steel Private Limited	421,244	752				31
Others (*5)	867,334	14,474	223,393	113,769	212,539	129,506
	11,680,733	268,980	2,180,042	895,892	608,109	399,389

Associates and joint ventures

SeAH Changwon Integrated Special Steel (*4)	6,042		3,802		419	
POSCO PLANTEC Co., Ltd. (*4)	147	14	1,017	82,338	3,513	4,676
SNNC	4,673	594	422,420			
POSCO-SAMSUNG-Slovakia Processing center	26,379					
Others (*6,7)	28,841	40,600	51,855			
	66,082	41,208	479,094	82,338	3,932	4,676
	11,746,815	310,188	2,659,136	978,230	612,041	404,065

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

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

(*5) During the year ended December 31, 2015, the Company borrowed USD 17.42 million from POSCO-Uruguay S.A., a subsidiary of the Company, and the entire amount was repaid as of December 31, 2015.

(*6) During the year ended December 31, 2015, the Company lent USD 60 million to CSP-Compania Siderurgica do Pecem, an associate of the Company, and the entire amount of loan was collected as of December 31, 2015.

(*7) The Company has collected loans of USD 3.85 million from LLP POSUK Titanium, an associate of the Company for the year ended December 31, 2015

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

2) For the year ended December 31, 2016

	Sales and others ^(*1)		Purchase and others ^(*2)			
	Sales	Others	Purchase of material (in millions of Won)	fixed assets	Purchase of Outsourced processing cost	Others
Subsidiaries						
POSCO ENGINEERING & CONSTRUCTION CO., LTD.	29,511	16,661	8	183,768		24,511
POSCO Processing & Service	1,212,220	5,778	549,803	2,896	22,704	2,445
POSCO COATED & COLOR STEEL Co., Ltd.	326,078	2,560			12,232	126
POSCO ICT ^(*3)	1,224	727		219,301	32,456	171,107
eNtoB Corporation		5	278,016	9,836	212	19,436
POSCO CHEMTECH	319,164	33,784	502,448	14,847	290,427	5,139
POSCO ENERGY CO., LTD.	187,311	1,382				7
POSCO TMC Co., Ltd. ^(*4)	219,489		2		863	1,177
POSCO AST ^(*4)	152,098	1			19,695	922
POSCO DAEWOO Corporation	3,227,716	34,341	92,203		343	
POSCO Thainox Public Company Limited	237,471	2,915	9,593		19	548
POSCO America Corporation	469,543		284			1,103
POSCO Canada Ltd.	275		148,528			
POSCO Asia Co., Ltd.	1,758,080	1,373	403,174	247	939	3,602
Qingdao Pohang Stainless Steel Co., Ltd.	135,405					525
POSCO JAPAN Co., Ltd.	1,112,489	128	23,217	3,744	345	3,841
POSCO-VIETNAM Co., Ltd.	226,063	445				
POSCO MEXICO S.A. DE C.V.	274,210	462				
POSCO Maharashtra Steel Private Limited	355,829	2,613				93
POSCO(Suzhou) Automotive Processing Center Co., Ltd.	149,911					

Edgar Filing: POSCO - Form 20-F

Others	766,263	22,717	207,601	62,202	212,344	145,562
	11,160,350	125,892	2,214,877	496,841	592,579	380,144
Associates and joint ventures						
SeAH Changwon Integrated Special Steel	28		1,095		627	
POSCO PLANTEC Co., Ltd.	2,245	48	3,533	244,898	16,812	8,146
SNNC	6,004	1,042	487,395			2
POSCO-SAMSUNG-Slovakia Processing center	44,686					
KOBRASCO		29,297				
Others	26,625	13,122	175,246			
	79,588	43,509	667,269	244,898	17,439	8,148
	11,239,938	169,401	2,882,146	741,739	610,018	388,292

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

(*4) During the year ended December 31, 2016, it was merged into POSCO Processing & Service.

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

3) For the year ended December 31, 2017

	Sales and others ^(*1)		Purchase and others ^(*2)			
	Sales	Others	Purchase of material (in millions of Won)	Purchase of fixed assets	Outsourced processing cost	Others
Subsidiaries ^(*3)						
POSCO ENGINEERING & CONSTRUCTION CO., LTD.	3,328	71		151,639	32	18,352
POSCO Processing & Service	298,781	1	113,628	4,595	8,309	404
POSCO COATED & COLOR STEEL Co., Ltd.	417,369	3,533			8,483	106
POSCO ICT ^(*4)	1,697	5,097		315,748	29,773	183,226
eNtoB Corporation	1	30	330,921	8,215	139	26,023
POSCO CHEMTECH	359,862	33,076	479,896	23,043	296,296	6,860
POSCO ENERGY CO., LTD.	179,966	1,456				2
POSCO DAEWOO Corporation	5,214,127	35,182	550,258	221	44,108	1,948
POSCO Thainox Public Company Limited	218,005	9,780	10,168			
POSCO America Corporation	345,225		90			1,776
POSCO Canada Ltd.	439	690	278,915			
POSCO Asia Co., Ltd.	1,949,354	1,454	365,025	337	1,625	4,982
Qingdao Pohang Stainless Steel Co., Ltd.	161,803					176
POSCO JAPAN Co., Ltd.	1,436,159	20	26,256	621		44,829
POSCO-VIETNAM Co., Ltd.	212,883					7
POSCO MEXICO S.A. DE C.V.	276,387					1,749
POSCO Maharashtra Steel Private Limited	467,206					65
POSCO(Suzhou) Automotive Processing Center Co., Ltd.	192,467					
Others	932,048	10,073	262,828	25,270	240,687	118,665

Edgar Filing: POSCO - Form 20-F

	12,667,107	100,463	2,417,985	529,689	629,452	409,170
Associates and joint ventures ^(*3)						
POSCO PLANTEC Co., Ltd.	2,947	112	5,487	300,041	20,718	19,763
SNNC	6,734	712	554,151			4
POSCO-SAMSUNG-Slovakia Processing Center	52,779					
Roy Hill Holdings Pty Ltd			697,096			
CSP Compania Siderurgica do Pecem	7,384		159,501			
Others	14,943	52,583	79,103			3
	84,787	53,407	1,495,338	300,041	20,718	19,770
	12,751,894	153,870	3,913,323	829,730	650,170	428,940

(*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 December 31, 2017, the Company provided guarantees to related parties (Note 38).

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

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

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

1) December 31, 2016

	Receivables		Payables				
	Trade accounts and notes receivable	Others	Trade accounts and notes payable	Accounts payable	Others	Total	
	(in millions of Won)						
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	458	376,281	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	1,024	115,190				
POSCO Maharashtra Steel Private Limited	208,737	9,923	218,660				
Others	333,031	64,526	397,557	17,374	46,455	26,974	90,803

	1,614,302	96,992	1,711,294	109,732	192,626	61,118	363,476
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
	1,053	36	1,089	43,317	57,332		100,649
	1,615,355	97,028	1,712,383	153,049	249,958	61,118	464,125

F-107

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

2) December 31, 2017

	Receivables			Payables			
	Trade accounts and notes receivable	Others	Total	Trade accounts and notes payable	Accounts payable	Others	Total
	(in millions of Won)						
Subsidiaries							
POSCO ENGINEERING & CONSTRUCTION CO., LTD.	2	2,908	2,910		21,965	674	22,639
POSCO COATED & COLOR STEEL Co., Ltd.	58,184	324	58,508		5	504	509
POSCO ICT	55	217	272	1,458	72,586	27,009	101,053
eNtoB Corporation				12,252	31,899	20	44,171
POSCO CHEMTECH	61,810	3,589	65,399	51,774	20,313	17,568	89,655
POSCO ENERGY CO., LTD.	33,239	1,673	34,912			1,425	1,425
POSCO DAEWOO Corporation	483,915	12,739	496,654	10,213	2,145	5,794	18,152
POSCO Thainox Public Company Limited	57,826		57,826	1,204			1,204
POSCO America Corporation	5,365		5,365				
POSCO Asia Co., Ltd.	404,857	541	405,398	9,811	24		9,835
Qingdao Pohang Stainless Steel Co., Ltd.	31,693		31,693				
POSCO MEXICO S.A. DE C.V.	55,695	530	56,225				
POSCO Maharashtra Steel Private Limited	392,630	5,733	398,363				
Others	384,385	49,403	433,788	15,038	59,575	31,118	105,731
	1,969,656	77,657	2,047,313	101,750	208,512	84,112	394,374
Associates and joint ventures							
POSCO PLANTEC Co., Ltd.	1,946	9	1,955	3,842	15,723		19,565
SNNC	648	61	709	49,506	3		49,509
Others	8,350	904	9,254	824			824

10,944	974	11,918	54,172	15,726	69,898	
1,980,600	78,631	2,059,231	155,922	224,238	84,112	464,272

(c) Significant transactions between the Company, excluding the controlling company, and related companies for the years ended December 31, 2015, 2016 and 2017 were as follows:

1) December 31, 2015

	Sales and others		Purchase and others	
	Sales	Others	Purchase of material	Others
	(in millions of Won)			
Associates and joint ventures				
SeAH Changwon integrated Special Steel	32,802		49,862	1,977
POSCO PLANTEC Co., Ltd.	10,543		5,953	6,386
New Songdo International City Development, LLC	420,094			667
SNNC	32,160	44	6,518	53,260
Posco e&c Songdo International Building	6,278			25,197
VSC POSCO Steel Corporation	37,416		2,395	3
USS-POSCO Industries	353,626		1,109	
CSP Companhia Siderurgica do Pecem	845,979			
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd	68,300	111	70,236	
BX STEEL POSCO Cold Rolled Sheet Co., Ltd.	3		23,320	
POS-SEAHSTEELWIRE(TIANJIN)CO.,Ltd	9,668			
POSCO SeAH Steel Wire(Nantong) Co., Ltd.	30,310		4	
Zhangjiagang Pohang Refractories Co., Ltd.	970	1,248	17,484	2,023
Sebang Steel			29,007	
SHANGHAI WAIGAOQIAO FREE TRADE ZONE				
LANSHENG DAEWOO IN L TRADING CO., LTD.	214,521		3,960	3,190
DMSA/AMSA	800	9,322	241,074	
South-East Asia Gas Pipeline Company Ltd.		47,556		
Others	415,217	17,793	18,518	2,683
	2,478,687	76,074	469,440	95,386

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017****2) December 31, 2016**

	Sales and others		Purchase and others	
	Sales	Others	Purchase of material	Others
	(in millions of Won)			
Associates and joint ventures				
SeAH Changwon integrated Special Steel	16,294		22,029	
POSCO PLANTEC Co., Ltd.	21,659	5	3,335	5,912
New Songdo International City Development, LLC	226,042			14
SNNC	29,330		21,479	9,494
Posco e&c Songdo International Building	4,245			16,219
Chun-cheon Energy Co., Ltd	288,307			
Noeul Green Energy	107,268			
Incheon-Gimpo Expressway Co., Ltd.	102,183			
VSC POSCO Steel Corporation	43,650	47	479	
USS-POSCO Industries	287,072		1,195	
CSP Compania Siderurgica do Pecem	157,814			
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd	61,844		57,179	
LLP POSUK Titanium			14,575	
BX STEEL POSCO Cold Rolled Sheet Co., Ltd.			24,365	
POS-SEAHSTEELWIRE(TIANJIN)CO.,Ltd	15,759			
PT. Batutua Tembaga Raya			13,079	
POSCO SeAH Steel Wire(Nantong) Co., Ltd.	31,711		65	
Zhangjiagang Pohang Refractories Co., Ltd.	250	14	364	2,472
Sebang Steel			26,276	
SHANGHAI WAIGAOQIAO FREE TRADE ZONE				
LANSHENG DAEWOO IN L TRADING CO., LTD.	157,886		3,535	
DMSA/AMSA			72,582	
South-East Asia Gas Pipeline Company Ltd.		87,973		
Others	195,139	11,184	16,664	1,801

	1,746,453	99,223	277,201	35,912
--	-----------	--------	---------	--------

3) December 31, 2017

	Sales and others		Purchase and others	
	Sales	Others	Purchase of material	Others
	(in millions of Won)			
Associates and joint ventures				
POSCO PLANTEC Co., Ltd.	19,513		98	8,113
New Songdo International City Development, LLC	223,567	13,207		49
SNNC	26,288		3,578	17,985
Chun-cheon Energy Co., Ltd	42,147			
Noeul Green Energy	11,863			2,178
VSC POSCO Steel Corporation	19,404		188	
USS-POSCO Industries	26,899	107	2,222	
CSP Compania Siderurgica do Pecem	241,299		101,018	21,154
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd	38,484		47,241	
LLP POSUK Titanium			3,972	
BX STEEL POSCO Cold Rolled Sheet Co., Ltd.	4		20,145	
POS-SEAHSTEELWIRE(TIANJIN)CO.,Ltd	20,004			
PT. Batutua Tembaga Raya			21,024	
POSCO SeAH Steel Wire(Nantong) Co., Ltd.	34,088		192	
Zhangjiagang Pohang Refractories Co., Ltd.			87	1,632
Sebang Steel	441		23,778	
SHANGHAI WAIGAOQIAO FREE TRADE ZONE				
LANSHENG DAEWOO IN L TRADING CO., LTD.	43,764			
DMSA/AMSA		99	47,092	
South-East Asia Gas Pipeline Company Ltd.		62,423		
Others	272,107	43,126	19,520	19,483
	1,019,872	118,962	290,155	70,594

F-109

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

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

1) December 31, 2016

	Receivables (*1)			Payables		
	Trade accounts and notes receivable	Loan	Others	Trade accounts and notes payable	Others	Total
	(in millions of Won)					
Associates and joint ventures						
POSCO PLANTEC Co., Ltd.	4,709		6	4,715	2,718	8,521
New Songdo International City Development, LLC	255,822		5,725	261,547		
Chun-cheon Energy Co., Ltd	12,142			12,142	3,171	3,171
VSC POSCO Steel Corporation	5,265			5,265		
USS-POSCO Industries	583			583	75	75
Nickel Mining Company SAS	133	60,425	116	60,674		
AN KHANH NEW CITY DEVELOPMENT J.V CO., LTD.	62,814	60,425	1,643	124,882	875	875
CSP Companhia Siderurgica do Pecem	224,760		149,700	374,460	109,272	109,272
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd	3,279	6,647	6	9,932	1,365	1,365
PT. Batutua Tembaga Raya		38,120		38,120	2,293	2,293
POSCO SeAH Steel Wire(Nantong) Co., Ltd.	9,292	8,460	43	17,795	40	40
SHANGHAI WAIGAOQIAO FREE TRADE ZONE LANSHENG DAEWOO IN L TRADING CO.,LTD.	100,367			100,367		
DMSA/AMSA		90,638		90,638		
		276,605	48	276,653		

South-East Asia Gas Pipeline Company Ltd.							
Others	184,402	142,812	6,593	333,807	4,615	750	5,365
	863,568	684,132	163,880	1,711,580	11,106	122,589	133,695

(*1) As of December 31, 2016, the Company recognizes bad debt allowance for receivables amounting to 48,891 million.

F-110

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

2) December 31, 2017

	Receivables (*1)			Payables			
	Trade accounts and notes receivable	Loan	Others	Trade accounts and notes payable	Others	Total	
	(in millions of Won)						
Associates and joint ventures							
POSCO PLANTEC Co., Ltd.	2,287		5	2,292	3,442	5,595	9,037
New Songdo International City Development, LLC	484,038	282,775	1,696	768,509		7,146	7,146
Chun-cheon Energy Co., Ltd			21	21		9,617	9,617
VSC POSCO Steel Corporation	16			16	17		17
USS-POSCO Industries			4	4			
Nickel Mining Company SAS		59,668	118	59,786			
CSP Companhia Siderurgica do Pecem	380,180		13,443	393,623		29,700	29,700
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd	2,108	5,357	6	7,471	2,449		2,449
PT. Batutua Tembaga Raya	24	29,048		29,072			
POSCO SeAH Steel Wire(Nantong) Co., Ltd.	8,067	5,357	32	13,456	107		107
SHANGHAI WAIGAOQIAO FREE TRADE ZONE LANSHENG DAEWOO IN L TRADING CO.,LTD.	715			715		526	526
DMSA/AMSA		69,713	4,443	74,156			
South-East Asia Gas Pipeline Company Ltd.		229,880		229,880			
Others	134,397	134,506	6,885	275,788	1,856	2,005	3,861
	1,011,832	816,304	26,653	1,854,789	7,871	54,589	62,460

(*1)As of December 31, 2017, the Company recognizes bad debt allowance for receivables amounting to 4,217 million.

F-111

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

(e) Significant financial transactions between the Company, excluding the controlling company, and related companies for the years ended December 31, 2016 and 2017 were as follows:

1) December 31, 2016

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

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

(*2) During the year ended December 31, 2016, loans amounting to 24,624 million have been converted to shares of DMSA/AMSA, and its amount is included in others.

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

2) December 31, 2017

	Beginning	Lend	Collect	Others ^(*4)	Ending
(in millions of Won)					
Associates and joint ventures					
METAPOLIS Co.,Ltd. ^(*1)	13,270			(13,270)	
New Songdo International City Development, LLC		484,644	(201,869)		282,775
GALE International Korea, LLC		2,000			2,000
DMSA/AMSA ^(*2)	90,638	2,956		(23,881)	69,713
South-East Asia Gas Pipeline Company Ltd.	276,605	28,967	(46,252)	(29,440)	229,880
PT. Batutua Tembaga Raya	38,120			(9,072)	29,048
PT. Tanggamus Electric Power	3,606			(409)	3,197
PT. Wampu Electric Power	5,761			(654)	5,107
PT. POSMI Steel Indonesia	4,834			(548)	4,286
Nickel Mining Company SAS	60,425			(757)	59,668
AN KHANH NEW CITY DEVELOPMENT J.V CO., LTD. ^(*1)	60,425			(60,425)	
Zhongyue POSCO (Qinhuangdao) Tinplate Industrial Co., Ltd	6,647		(577)	(713)	5,357
KRAKATAU POS-CHEM DONG-SUH CHEMICAL	7,251			(823)	6,428
Hamparan Mulya	3,626		(3,626)		
POS-SEAHSTEELWIRE(TIANJIN)CO.,Ltd	5,438		(5,438)		
POSCO SeAH Steel Wire(Nantong) Co., Ltd.	8,460		(2,262)	(841)	5,357
POS-SeAH Steel Wire (Thailand) Co., Ltd.	7,251		(1,142)	319	6,428
AMCI (WA) PTY LTD	91,775	4,327		(4,041)	92,061
POS-AUSTEM YANTAI AUTOMOTIVE CO.,LTD ^(*3)				5,357	5,357
POS-AUSTEM WUHAN AUTOMOTIVE CO.,LTD ^(*3)				8,571	8,571
SAMHWAN VINA CO., LTD ^(*3)				1,071	1,071
	684,132	522,894	(261,166)	(129,556)	816,304

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

(*1) During the year ended December 31, 2017, it was excluded from associates.

(*2) During the year ended December 31, 2017, loans amounting to 13,712 million have been converted to shares of DMSA/AMSA, and its amount is included in others.

(*3) During the year ended December 31, 2017, it was newly classified to associates and joint ventures.

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

(f) For the years ended December 31, 2015, 2016 and 2017, details of compensation to key management officers were as follows:

	2015	2016	2017
	(in millions of Won)		
Short-term benefits	111,278	90,916	112,688
Long-term benefits	19,513	17,905	8,632
Retirement benefits	21,850	17,870	20,422
	152,641	126,691	141,742

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

38. Commitments and Contingencies**(a) Contingent liabilities**

Contingent liabilities may develop in a way not initially expected. Therefore, management continuously assesses contingent liabilities to determine whether an outflow of resources embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognized in the consolidated financial statements of the period in which the change in probability occurs (except in the extremely rare circumstances where no reliable estimate can be made).

Management makes estimates and assumptions that affect disclosures of commitments and contingencies. All estimates and assumptions are based on the evaluation of current circumstances and appraisals with the supports of internal specialists or external consultants.

Management regularly analyzes current information about these matters and provides for probable contingent losses including the estimate of legal expense to resolve the matters. Internal and external lawyers are used for these assessments. In making the decision regarding the need for a provision, management considers whether the Company has an obligation as a result of a past event, whether it is probable that an outflow of cash or other resources embodying economic benefits will be required to settle the obligation and the ability to make a reliable estimate of the amount of the obligation.

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017****(b) Details of guarantees**

Contingent liabilities on outstanding guarantees provided by the Company as of December 31, 2017 are as follows:

Guarantors	Guarantee beneficiary	Financial institution	Guarantee limit			Guarantee amount	
			Foreign currency (in millions of Won)	Won equivalent	Foreign currency	Won equivalent	
[The Company]							
POSCO	POSCO Asia Co., Ltd.	BOC	USD	50,000,000	53,570	50,000,000	53,570
	POSCO ASSAN TST STEEL INDUSTRY	SMBC and others	USD	146,527,500	156,990	131,874,750	141,291
	POSCO COATED STEEL (THAILAND) CO., LTD.	The Great&CO Co.,Ltd (SPC)	THB	5,501,000,000	180,268	5,501,000,000	180,268
	POSCO Maharashtra Steel Private Limited	Export-Import Bank of Korea and others	USD	649,853,000	696,252	323,918,500	347,045
	POSCO MEXICO S.A. DE C.V.	BOA and others	USD	160,000,000	171,424	160,000,000	171,424
	POSCO SS-VINA CO., LTD.	Export-Import Bank of Korea and others	USD	354,351,050	379,652	314,599,225	337,062
	POSCO VST CO., LTD.	ANZ and others	USD	65,000,000	69,641	8,125,000	8,706
	POSCO-VIETNAM Co., Ltd.	Export-Import Bank of Korea	USD	196,000,000	209,994	196,000,000	209,994
	PT. KRAKATAU POSCO	Export-Import Bank of Korea	USD	1,350,300,000	1,446,711	1,187,394,785	1,272,174

Edgar Filing: POSCO - Form 20-F

	Zhangjiagang Pohang Stainless Steel Co., Ltd.	and others BTMU and others	CNY	760,500,000	124,456	684,450,000	112,011
POSCO DAEWOO Corporation	Daewoo Global Development. Pte., Ltd	Export-Import Bank of Korea	USD	21,633,300	23,178	21,633,300	23,178
		MIRAE ASSET DAEWOO CO.,LTD.	KRW	29,137	29,137	10,703	10,703
	Daewoo Power PNG Ltd.	Export-Import Bank of Korea	USD	54,400,000	58,284	54,400,000	58,284
	Daewoo Textile LLC	Export-Import Bank of Korea	USD	4,000,000	4,286	4,000,000	4,286
	POSCO ASSAN TST STEEL INDUSTRY	ING and others	USD	14,652,750	15,699	14,652,750	15,699
	POSCO DAEWOO INDIA PVT., LTD.	Shinhan Bank and others	USD	162,400,000	173,995	51,237,684	54,896
		SC Bank and others	INR	7,350,000,000	122,892	2,037,278,075	34,063
	PT. Bio Inti Agrindo	Export-Import Bank of Korea and others	USD	120,875,000	129,505	120,875,000	129,505
	Songdo Posco family Housing	SAMSUNG SECURITIES CO.,LTD and others	KRW	70,000	70,000	49,500	49,500

F-114

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

Guarantors	Guarantee beneficiary	Financial institution	Guarantee limit		Guarantee amount		
			Foreign currency (in millions of Won)	Won equivalent	Foreign currency	Won equivalent	
POSCO ENGINEERING & CONSTRUCTION CO., LTD.	POSCO E&C Vietnam Co., Ltd.	Export-Import Bank of Korea	USD	30,000,000	32,142	30,000,000	32,142
	HONG KONG POSCO E&C (CHINA) INVESTMENT Co., Ltd.	Woori Bank and others	USD	138,000,000	147,853	138,000,000	147,853
	POSCO ENGINEERING & CONSTRUCTION DO BRAZIL LTDA.	HSBC	USD	100,000,000	107,140	100,000,000	107,140
	POSCO ENGINEERING (THAILAND) CO., LTD.	POSCO Asia Co., Ltd	USD	39,451,000	42,268	39,451,000	42,268
	POSCO Engineering and Construction India Private Limited	Woori Bank	USD	2,100,000	2,250	2,100,000	2,250
	PT PEN INDONESIA	POSCO Asia Co., Ltd.	USD	5,000,000	5,357	5,000,000	5,357
	PT. POSCO E&C INDONESIA	BNP Indonesia	IDR	79,000,000,000	6,241	79,000,000,000	6,241
	Songdo Posco family Housing	SAMSUNG SECURITIES CO.,LTD and others	KRW	70,000	70,000	49,500	49,500
			USD	68,719,200	73,626	59,088,100	63,307

Edgar Filing: POSCO - Form 20-F

	Daewoo Global Development. Pte., Ltd	POSCO Asia Co., Ltd. and others					
POSCO ICT	PT.POSCO ICT INDONESIA	POSCO Asia Co., Ltd.	USD	1,500,000	1,607	1,500,000	1,607
POSCO CHEMTECH	PT.Krakatau Posco Chemtech Calcination	Hana Bank	USD	33,600,000	35,999	20,705,882	22,184
POSCO COATED & COLOR STEEL Co., Ltd.	Myanmar POSCO C&C Company, Limited.	POSCO Asia Co., Ltd. and others	USD	13,986,947	14,985	13,986,947	14,985
POSCO ENERGY CO., LTD.	PT. KRAKATAU POSCO ENERGY	Export-Import Bank of Korea and others	USD	193,900,000	207,744	137,396,174	147,206
POSCO Asia Co., Ltd.	POSCO ASSAN TST STEEL INDUSTRY	SMBC	USD	25,000,000	26,785	25,000,000	26,785

F-115

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

Guarantors	Guarantee beneficiary	Financial institution	Guarantee limit		Guarantee amount			
			Foreign currency	Won equivalent	Foreign currency	Won equivalent		
			(in millions of Won)					
[Associates and joint ventures]								
POSCO	CSP Companhia Siderurgica do Pecem LLP POSUK Titanium Nickel Mining Company SAS	Export-Import Bank of Korea and others	USD	420,000,000	449,990	420,000,000	449,990	
		BNDES	BRL	464,060,000	150,100	464,060,000	150,100	
		SMBC	USD	15,000,000	16,071	15,000,000	16,071	
		SMBC	EUR	46,000,000	58,846	37,000,000	47,332	
POSCO DAEWOO Corporation	GLOBAL KOMSCO Daewoo LLC	Industrial & Commercial Bank of China	USD	8,225,000	8,812	8,225,000	8,812	
POSCO ENGINEERING & CONSTRUCTION CO., LTD.	New Songdo International City Development, LLC	Others	KRW	340,000	340,000	317,900	317,900	
		UITrans LRT Co., Ltd.	KRW	20,740	20,740	20,740	20,740	
		Chun-cheon Energy Co., Ltd	KRW	11,600	11,600	10,993	10,993	
POSCO ICT	Incheon-Gimpo Expressway co., Ltd. UITrans LRT Co., Ltd.	Korea Development Bank	KRW	100,000	100,000	100,000	100,000	
		Kookmin Bank	KRW	76,000	76,000	76,000	76,000	
POSCO CHEMTECH	KRAKATAU POS-CHEM DONG-SUH CHEMICAL	Hana Bank	USD	1,140,000	1,221	1,140,000	1,221	

Edgar Filing: POSCO - Form 20-F

POSCO(Suzhou) Automotive Processing Center Co.,Ltd.	POS-InfraAuto (Suzhou) Co., Ltd	Korea Development Bank	USD	780,000	836	780,000	836
[Others]							
POSCO DAEWOO Corporation	Ambatovy Project Investments Limited and others	Export-Import Bank of Korea	USD	87,272,727	93,504	28,325,258	30,348
POSCO ENGINEERING & CONSTRUCTION CO., LTD.	Ecocity CO.,LTD and others	Others	KRW	960,011	960,011	446,098	446,098
	AN KHANH NEW CITY DEVELOPMENT J.V CO., LTD.	POSCO Asia Co., Ltd. and others	USD	150,000,000	160,710	150,000,000	160,710

F-116

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

Guarantors	Guarantee beneficiary	Financial institution	Guarantee limit			Guarantee amount	
			Foreign currency (in millions of Won)	Won equivalent	Foreign currency	Won equivalent	
POSCO ICT	SMS Energy and others	Hana Bank and others	KRW	104,880	104,880	73,676	73,676
	Hyochun CO., LTD	Daegu Bank and others	KRW	39,575	39,575	39,575	39,575
	BLT Enterprise and others	Kyobo Life Insurance Co.,Ltd and others	KRW	1,163,585	1,163,585	1,163,585	1,163,585
POSCO AUSTRALIA PTY LTD	Department of Trade and Investment(NSW Government)	Woori Bank and others	AUD	25,260,721	21,097	25,260,721	21,097
			USD	4,683,667,474	5,018,081	3,834,409,355	4,108,186
			KRW	2,985,528	2,985,528	2,358,270	2,358,270
			CNY	760,500,000	124,456	684,450,000	112,011
			INR	7,350,000,000	122,892	2,037,278,075	34,063
			IDR	79,000,000,000	6,241	79,000,000,000	6,241
			THB	5,501,000,000	180,268	5,501,000,000	180,268
			EUR	46,000,000	58,846	37,000,000	47,332
			AUD	25,260,721	21,097	25,260,721	21,097
			BRL	464,060,000	150,100	464,060,000	150,100

(c) POSCO ENGINEERING & CONSTRUCTION CO., LTD. has provided the completion guarantees for Samsung C&T Corporation amounting to 395,792 million while Samsung C&T Corporation has provided the construction guarantees or payment guarantees on customers borrowings on behalf of POSCO ENGINEERING & CONSTRUCTION CO., LTD. amounting to 269,455 million as of December 31, 2017.

Table of Contents

POSCO and Subsidiaries

Notes to the Consolidated Financial Statements, Continued

As of December 31, 2015, 2016 and 2017

(d) Other commitments

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

POSCO

POSCO entered into long-term contracts to purchase iron ore, coal, nickel and others. The contracts of iron ore and coal generally have terms of more than three years and the contracts of nickel have terms of more than one year. These contracts provide for periodic price adjustments based on the market price. As of December 31, 2017, 116 million tons of iron ore and 18 million tons of coal remained to be purchased under such long-term contracts.

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

As of December 31, 2017, the Company entered into commitments with KOREA ENERGY AGENCY for long-term foreign currency borrowings, which enables the Company to borrow up to the amount of USD 6.49 million. The borrowings are related to the Company's the exploration of gas hydrates in Western Fergana-Chinabad. The repayment of the borrowings depends on the success of the projects. The Company is not liable for the repayment of full or part of the amount 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 December 31, 2017, the ending balance of the borrowing amounts to USD 1.02 million.

POSCO has provided a supplemental funding agreement, as the largest shareholder, as requested from the creditors, including Norddeutsche Landesbank, for seamless funding to POSCO ENERGY Co., Ltd. under

construction of new power plant.

The Company provides a supplementary fund of up to 9.8 billion to the Company's subsidiary, Busan E&E Co., Ltd., at the request of creditors such as the Korea Development Bank.

The Company provides supplementary funding for the purpose of promoting the Suncheon Bay PRT business of Suncheon Eco Trans Co., Ltd, a subsidiary of the Company, at the request of creditors.

**POSCO ENGINEERING &
CONSTRUCTION CO., LTD.**

As of December 31, 2017, POSCO ENGINEERING & CONSTRUCTION CO., LTD. has foreign currency guarantee of up to USD 2,311 million and uses USD 1,306 million with Woori Bank and others.

POSCO ICT

As of December 31, 2017, in relation to contract enforcement, POSCO ICT was provided with 143,582 million and 22,432 million guaranties from Korea Software Financial Cooperative and Seoul Guarantee Insurance, respectively.

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017****(e) Litigation in progress**

As of December 31, 2017, litigations in progress that POSCO and certain subsidiaries are defendants in legal actions arising from the normal course of business are as follows:

Company	Legal actions	Claim amount	Korean Won equivalent		Description
			(In millions of Won, in thousands of foreign currencies)		
POSCO	15	KRW	23,037	23,037	Lawsuit on claim for employee right and others(*1)
	1	USD	1,583	1,696	Arbitration on trading and others
POSCO DAEWOO Corporation	2	EUR	2,747	3,514	Lawsuit on claim for damages and others
	3	INR	4,518,694	75,553	Lawsuit on claim for payment on guarantees and others(*1)
	10	KRW	9,903	9,903	Lawsuit on claim for payment and others
	3	USD	22,228	23,815	Lawsuit on claim for damages and others(*1)
	1	PKR	124,775	1,208	Lawsuit on claim for damages
	1	CAD	79,000	67,363	Lawsuit on claim for damages
POSCO ENGINEERING & CONSTRUCTION CO., LTD.	104	KRW	461,134	461,134	Arbitration on construction costs allocation and others
POSCO ICT	13	KRW	9,894	9,894	Lawsuit on claim for payment and others
POSCO A&C	3	KRW	3,985	3,985	Lawsuit on claim for payment on construction
POSCO ENERGY CO., LTD.	4	KRW	7,017	7,017	Lawsuit on claim for damages and revocation of electricity supply contract and others
POSCO E&C CHINA CO., LTD.	11	CNY	13,679	2,239	Lawsuit on claim for payment of reserve for construction warranty and others
	1	KRW	3,305	3,305	Lawsuit on claim for payment on construction
Posco e&c Songdo International Building	3	KRW	892	892	Lawsuit on affirmation of the non-existence of general meeting of stockholders and others
POSPower CO., Ltd.	1	KRW	1,000	1,000	Lawsuit on claim for damages
POSCO ENGINEERING(THAILAND) CO., LTD.	7	THB	724,400	23,739	Lawsuit on claim for payment on construction
POSCO TNPC Otomotiv Celik San. Ve Tic. A.S	6	TRY	31	9	Lawsuit on claim for unfair dismissal and others

PT. KRAKATAU POSCO	1	IDR	324,858,033	25,664	Lawsuit on claim for payment on construction
POSCO(Dalian)IT Center Development Co., Ltd.	2	CNY	423	69	Lawsuit over contract dispute dealing apartment
Brazil Sao Paulo Steel Processing Center	3	BRL	12,167	3,935	Lawsuit on claim for payment on construction and others
POSCO ENGINEERING &CONSTRUCTION DO BRAZIL LTDA.	184	BRL	121,058	39,156	Lawsuit on claim for damages and others(*1)
HONG KONG POSCO E&C (CHINA) INVESTMENT Co., Ltd.	1	KRW	3,305	3,305	Lawsuit on claim for payment on construction
POSCO India Chennai Steel Processing Center Pvt.Ltd.	6	USD	8,409	9,009	Lawsuit on custom duty and others

(*1)The Company made a reliable estimate in 163 lawsuits by considering the possibility and amount of outflow of resources and recognized 27,963 million as provision for legal contingencies and claims.

For all the other lawsuits and claims, management does not believe the Company has any present obligations and therefore, the Company has not recognized any provisions as of December 31, 2017 for the matters.

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017****39. Additional Information of Cash Flow Statements**

(a) Changes in operating assets and liabilities for the years ended December 31, 2015, 2016 and 2017 were as follows:

	2015	2016	2017
	(in millions of Won)		
Trade accounts and notes receivable	1,586,113	273,419	63,075
Other receivables	259,741	191,591	113,740
Inventories	2,456,068	(889,998)	(1,435,170)
Other current assets	42,131	(287,377)	110,688
Other non-current assets	72,826	33,584	12,455
Trade accounts and notes payable	(894,129)	769,337	(607,999)
Other payables	39,811	(179,174)	(26,922)
Other current liabilities	(457,947)	2,490	338,273
Provisions	(119,172)	(124,884)	(145,763)
Payments of severance benefits	(157,983)	(278,278)	(185,220)
Plan assets	(115,274)	(138,854)	3,815
Other non-current liabilities	72,267	223,574	(82,605)
	2,784,452	(404,570)	(1,841,633)

(b) Changes in liabilities arising from financial activities for the year ended December 31, 2017 were as follows:

	Liabilities				
	Short-term borrowings	long-term borrowings	Dividend payable	Finance lease liabilities	Derivatives held to hedge borrowings
	(in millions of Won)				
Beginning	7,979,727	14,725,271	7,770	114,409	(52,373)
Changes from financing cash flows	558,083	(1,410,033)	(931,232)	(10,536)	
Changes arising from obtaining or losing control of subsidiaries or other business	(12,469)	3,299			

The effect of changes in foreign exchange rates	(350,523)	(435,170)	(10,855)		
Changes in fair values					171,693
Other changes:					
Decrease in retained earnings			863,579		
Decrease in non-controlling interests			67,096		
Amortization of discount on debentures issued		5,472			
Ending	8,174,818	12,888,839	7,213	93,018	119,320

40. Operating Segments and Geographic Information

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

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

(b) Information about reportable segments as of and for the years ended December 31, 2015, 2016 and 2017 was as follows:

1) As of and for the year ended December 31, 2015

	Steel	Trading	Construction	Others	Total
	(in millions of Won)				
External revenues	28,292,824	18,315,487	8,515,780	3,068,254	58,192,345
Internal revenues	16,543,951	8,692,020	1,352,067	2,691,361	29,279,399
Including inter segment revenue	9,146,808	4,480,744	1,090,193	2,571,219	17,288,964
Total revenues	44,836,775	27,007,507	9,867,847	5,759,615	87,471,744
Interest income	139,821	55,630	27,134	16,173	238,758
Interest expenses	(560,767)	(76,672)	(91,742)	(141,095)	(870,276)
Depreciation and amortization	(2,782,680)	(166,814)	(50,605)	(282,817)	(3,282,916)
Impairment loss on property, plant and equipment and others	(243,828)	(17,281)	(28,345)	(22,979)	(312,433)
Impairment loss on available-for-sale financial assets	(151,503)	(1,410)	(47,616)	(40,261)	(240,790)
Share of profit or loss of investment in associates and JVs	(562,133)	(212,535)	(25,223)	(22,618)	(822,509)
Income tax expense	(390,000)	(4,772)	(30,615)	(18,718)	(444,105)
Segment profit (loss)	181,495	38,843	(275,651)	(65,570)	(120,883)
Segment assets	70,102,972	12,160,406	9,997,683	10,962,594	103,223,655
Investment in associates	17,457,391	1,097,971	1,076,024	1,186,307	20,817,693
Acquisition of non-current assets	2,102,674	303,753	276,863	345,971	3,029,261
Segment liabilities	21,078,613	8,953,410	5,716,550	6,472,925	42,221,498

2) As of and for the year ended December 31, 2016

	Steel	Trading	Construction	Others	Total
	(in millions of Won)				
External revenues	26,844,154	16,774,078	6,768,348	2,696,933	53,083,513
Internal revenues	16,062,016	9,646,026	713,703	2,379,945	28,801,690

Edgar Filing: POSCO - Form 20-F

Including inter segment revenue	8,992,783	5,296,847	557,526	2,285,128	17,132,284
Total revenues	42,906,170	26,420,104	7,482,051	5,076,878	81,885,203
Interest income	126,210	40,424	65,256	13,564	245,454
Interest expenses	(459,345)	(70,841)	(102,292)	(126,523)	(759,001)
Depreciation and amortization	(2,788,535)	(165,863)	(57,719)	(264,299)	(3,276,416)
Impairment loss on property, plant and equipment and others	(99,165)	(45,995)	(9,426)	(88,696)	(243,282)
Impairment loss on available-for-sale financial assets	(225,225)	(28,988)	(35,331)	(24,902)	(314,446)
Share of profit or loss of investment in associates and JVs	(211,084)	(53,586)	(283,833)	(6,369)	(554,872)
Income tax expense	(495,874)	(18,629)	107,520	(56,026)	(463,009)
Segment profit (loss)	1,511,383	53,244	(1,403,712)	(25,889)	135,026
Segment assets	69,914,939	13,580,179	9,501,046	8,529,600	101,525,764
Investment in associates	16,109,360	1,100,973	795,445	1,200,295	19,206,073
Acquisition of non-current assets	2,334,842	249,597	25,533	191,715	2,801,687
Segment liabilities	20,292,764	10,134,170	6,780,380	4,709,689	41,917,003

F-121

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

3) As of and for the year ended December 31, 2017

	Steel	Trading	Construction	Others	Total
	(in millions of Won)				
External revenues	30,230,368	20,802,207	6,886,606	2,735,919	60,655,100
Internal revenues	17,381,010	14,075,996	398,924	2,548,674	34,404,604
Including inter segment revenue	12,004,614	8,043,643	329,215	2,446,029	22,823,501
Total revenues	47,611,378	34,878,203	7,285,530	5,284,593	95,059,704
Interest income	128,827	32,799	100,922	17,940	280,488
Interest expenses	(422,357)	(121,967)	(112,983)	(100,656)	(757,963)
Depreciation and amortization	(2,856,133)	(206,490)	(42,123)	(255,620)	(3,360,366)
Impairment loss on property, plant and equipment and others	(149,840)	(140,839)	(37,476)	(8,564)	(336,719)
Impairment loss on available-for-sale financial assets	(95,261)		(18,637)	(13,421)	(127,319)
Share of profit or loss of investment in associates and JVs	8,352		(8,555)	(1,518)	(1,721)
Income tax expense	(977,853)	(109,710)	(109,961)	(77,172)	(1,274,696)
Segment profit (loss)	2,790,855	112,661	24,545	232,700	3,160,761
Segment assets	70,017,816	14,139,098	8,609,753	8,776,090	101,542,757
Investment in associates	16,116,654	1,134,798	668,392	1,193,895	19,113,739
Acquisition of non-current assets	2,033,184	286,185	99,190	251,665	2,670,224
Segment liabilities	19,057,249	10,386,294	5,744,693	4,620,902	39,809,138

(c) Reconciliations of total segment revenues, profit or loss, assets and liabilities, and other significant items to their respective consolidated financial statement line items are as follows:

1) Revenues

	2015	2016	2017
	(in millions of Won)		
Total revenue for reportable segments	87,471,744	81,885,203	95,059,704
Elimination of inter-segment revenue	(29,279,399)	(28,801,690)	(34,404,604)

Basis difference (*2)	329,923	(143,742)	(468,233)
	58,522,268	52,939,771	60,186,867

2) Profit

	2015	2016 (in millions of Won)	2017
Total profit (loss) for reportable segments	(120,883)	135,026	3,160,761
Goodwill and corporate FV adjustments	(95,150)	(123,110)	(84,370)
Elimination of inter-segment profits	119,852	1,036,253	(102,922)
Income tax expense	276,939	384,685	1,206,223
Basis difference (*2)	(30,413)	(21,245)	(84,641)
Profit before income tax expense	150,345	1,411,609	4,095,051

F-122

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017****3) Assets**

	2016	2017
	(in millions of Won)	
Total assets for reportable segments ^(*1)	101,525,764	101,542,757
Equity-accounted investees	(15,322,271)	(15,555,972)
Goodwill and corporate FV adjustments	3,750,915	3,368,333
Elimination of inter-segment assets	(10,191,413)	(10,330,159)
Basis difference ^(*2)	374,619	760,670
	80,137,614	79,785,629

(*1) As segment assets and liabilities are determined based on separate financial statements, for subsidiaries which are in a different segment from that of its immediate parent company, their carrying amount in separate financial statements is eliminated upon consolidation. In addition, adjustments are made to adjust the amount of investment in associates and joint ventures from the amount reflected in segment assets to that determined using equity method in consolidated financial statements.

4) Liabilities

	2016	2017
	(in millions of Won)	
Total liabilities for reportable segments	41,917,003	39,809,138
Corporate FV adjustments	442,178	483,693
Elimination of inter-segment liabilities	(8,434,580)	(8,731,880)
Basis difference ^(*2)	447,744	897,953
	34,372,345	32,458,904

5) Other significant items

a) December 31, 2015

	Total segment	Corporate FV adjustments	Elimination of inter-segment transactions (in millions of Won)	Basis difference (*2)	Consolidated
Interest income	238,758		(28,565)		210,193
Interest expenses	(870,276)	1,282	80,222		(788,772)
Depreciation and amortization	(3,282,916)	(117,595)	182,265		(3,218,246)
Share of profit or loss of investment in associates	(822,509)		316,455		(506,054)
Income tax expense	(444,105)	24,294	142,872	10,379	(266,560)
Impairment loss on property, plant and equipment and others	(312,433)		(142,234)		(454,667)
Impairment loss on available-for-sale financial assets	(240,790)		98,009		(142,781)
	(5,734,271)	(92,019)	649,024	10,379	(5,166,887)

F-123

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017****b) December 31, 2016**

	Total segment	Corporate FV adjustments	Elimination of inter-segment transactions (in millions of Won)	Basis difference ^(*2)	Consolidated
Interest income	245,454		(62,979)		182,475
Interest expenses	(759,001)	(807)	101,082		(658,726)
Depreciation and amortization	(3,276,416)	(104,949)	167,518		(3,213,847)
Share of profit or loss of investment in associates	(554,872)	(38,732)	504,927		(88,677)
Income tax expense	(463,009)	21,945	56,379	5,141	(379,544)
Impairment loss on property, plant and equipment and others	(243,282)		(125,657)		(368,939)
Impairment loss on available-for-sale financial assets	(314,446)		66,042		(248,404)
	(5,365,572)	(122,543)	707,312	5,141	(4,775,662)

c) December 31, 2017

	Total segment	Corporate FV adjustments	Elimination of inter-segment transactions (in millions of Won)	Basis difference ^(*2)	Consolidated
Interest income	280,488		(68,037)		212,451
Interest expenses	(757,963)	1,304	103,544		(653,115)
Depreciation and amortization	(3,360,366)	(106,195)	169,141		(3,297,420)
Share of profit or loss of investment in associates	(1,721)		12,261		10,540

Edgar Filing: POSCO - Form 20-F

Income tax expense	(1,274,696)	21,270	47,203	20,483	(1,185,740)
Impairment loss on property, plant and equipment and others	(336,719)	(867)	34,619		(302,967)
Impairment loss on available-for-sale financial assets	(127,319)		4,105		(123,214)
	(5,578,296)	(84,488)	302,836	20,483	(5,339,465)

(*2)Basis difference is related to the difference in recognizing revenue and expenses in connection with development and sale of certain residential real estate between the report reviewed by the CEO and the consolidated financial statements.

(d) Revenue by geographic area for years ended December 31, 2015, 2016 and 2017 was as follows:

	2015	2016	2017
	(in millions of Won)		
Domestic	39,268,907	34,883,941	38,882,220
Japan	1,934,808	1,892,022	2,200,405
China	5,756,867	5,908,046	6,731,214
Asia-other	5,888,045	5,649,843	7,750,553
North America	1,921,039	1,899,291	1,725,120
Others	3,422,679	2,850,370	3,365,588
	58,192,345	53,083,513	60,655,100
Basis difference	329,923	(143,742)	(468,233)
	58,522,268	52,939,771	60,186,867

Table of Contents**POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2015, 2016 and 2017**

In presenting geographic information revenue is based on the geographical location of customers.

(e) Non-current assets by geographic area as of December 31, 2016 and 2017 are as follows:

	2016	2017
	(in millions of Won)	
Domestic	31,772,641	30,790,462
Japan	187,266	162,328
China	1,451,405	1,284,561
Asia-other	6,163,388	5,266,799
North America	168,800	277,249
Others	1,233,288	1,119,319
	40,976,788	38,900,718

Non-current assets by geographic area include investment property, property, plant and equipment, goodwill and other intangible assets.

(f) There are no customers whose revenue is 10% or more of consolidated revenue.

Table of Contents

Exhibit Index

1.1	<u>Articles of incorporation of POSCO (English translation)</u>
2.1	Form of Common Stock Certificate (including English translation) (incorporated by reference to Exhibit 4.3 to the Registrant's Registration Statement No. 33-81554)* (P)
2.2	<u>Form of Deposit Agreement (including Form of American Depositary Receipts) (incorporated by reference to the Registrant's Registration Statement (File No. 333-189473) on Form F-6)*</u>
8.1	<u>List of consolidated subsidiaries</u>
12.1	<u>Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
12.2	<u>Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
13.1	<u>Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>

* Filed previously

Table of Contents

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

POSCO
(Registrant)

/s/ Kwon, Oh-Joon
Name: Kwon, Oh-Joon
Title: Chief Executive Officer and Representative
Director
Date: April 27, 2018