

POSCO  
Form 20-F  
April 28, 2016  
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As filed with the Securities and Exchange Commission on April 28, 2016

**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, 2015**

**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)*

**Kee, Hyojin**

**POSCO Center, 440 Teheran-ro, Gangnam-gu,**

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Seoul, Korea 06194

Telephone: +82-2-3457-1355; E-mail: irenekee@posco.com; Facsimile: +82-2-3457-1982

(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 * Securities registered or to be registered pursuant to Section 12(g) of the Act.	New York Stock Exchange, Inc. *

None

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

None

As of December 31, 2015, there were 79,995,648 shares of common stock, par value Won 5,000 per share, outstanding  
(not including 7,191,187 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 x 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 x

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 x 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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer " Non-accelerated filer "

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 x 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 x

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



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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.
Korean GAAP	Generally accepted accounting principles in 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, 2014 and 2015 and for each of the years in the three-year period ended December 31, 2015 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 also 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. During the three years ended December 31, 2015, we are required to adopt certain amendments and interpretations to K-IFRS, relating to 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.

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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**

	For the Year Ended December 31,					
	2011	2012	2013	2014	2015	2015
	(In billions of Won and millions of Dollars, except per share data)					
Revenue <sup>(1)</sup>	68,890	63,345	61,766	64,759	58,522	US\$ 49,934
Cost of sales <sup>(2)</sup>	59,784	55,921	54,914	57,465	52,018	44,384
Gross profit	9,105	7,425	6,852	7,293	6,504	5,549
Administrative expenses	2,035	2,129	2,232	2,310	2,395	2,044
Selling expenses	1,612	1,679	1,632	1,760	1,729	1,475
Other operating income	307	448	229	269	549	468
Other operating expenses	367	809	651	980	1,442	1,231
Operating profit	5,398	3,255	2,566	2,513	1,486	1,268
Share of profit (loss) of equity-accounted investees, net	51	(23)	(180)	(300)	(506)	(432)
Finance income	3,190	2,897	2,381	2,397	2,557	2,182
Finance costs	3,867	2,798	2,829	3,222	3,387	2,890
Profit before income tax	4,773	3,332	1,938	1,388	150	128
Income tax expense	1,066	974	589	824	267	227
Profit	3,707	2,358	1,349	564	(116)	(99)
Total comprehensive income	2,435	1,720	1,363	108	(278)	(237)
Profit (loss) for the period attributable to:						
Owners of the controlling company	3,641	2,437	1,371	633	171	146
Non-controlling interests	65	(79)	(22)	(69)	(288)	(245)
Total comprehensive income (loss) attributable to:						
Owners of the controlling company	2,524	1,887	1,439	182	24	20
Non-controlling interests	(89)	(167)	(75)	(73)	(302)	(258)
Basic and diluted earnings per share <sup>(3)</sup>	47,138	31,552	17,338	7,514	1,731	1.48
Dividends per share of common stock	10,000	8,000	8,000	8,000	8,000	
Dividends per share of common stock (in Dollars) <sup>(4)</sup>	US\$ 8.67	US\$ 7.47	US\$ 7.58	US\$ 7.28	US\$ 6.83	

**Selected consolidated statements of financial position data**

	As of December 31,					
	2011	2012	2013	2014	2015	2015
	(In billions of Won and millions of Dollars)					
Working capital <sup>(5)</sup>	13,942	11,993	11,681	10,833	9,148	US\$ 7,806
Total current assets	33,547	31,817	32,039	33,208	29,502	25,172
Property, plant and equipment, net	28,453	32,276	35,760	35,241	34,523	29,456
Total non-current assets	44,854	47,711	52,802	52,636	51,246	43,725
Total assets	78,401	79,527	84,841	85,844	80,748	68,898
Short-term borrowings and current portion of long-term borrowings	10,792	10,509	10,714	12,195	12,371	10,555
Long-term borrowings, excluding current portion	16,020	14,412	15,533	15,233	12,849	10,963
Total liabilities	37,679	37,133	39,060	40,586	35,735	30,490
Share capital	482	482	482	482	482	412
Total equity	40,722	42,394	45,781	45,257	45,013	38,407



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

	2011	For the Year Ended December 31,				2015	US\$	2015
		2012	2013	2014	2015			
	(In billions of Won and millions of Dollars)							
Net cash provided by operating activities	1,692	7,319	4,858	3,412	7,602		6,486	
Net cash used in investing activities	(5,517)	(6,169)	(8,752)	(3,745)	(4,535)		(3,869)	
Net cash provided by (used in) financing activities	4,900	(908)	3,532	135	(2,242)		(1,913)	
Net increase (decrease) in cash and cash equivalents	1,078	82	(472)	(186)	849		724	
Cash and cash equivalents at beginning of the year	3,521	4,599	4,681	4,209	4,022		3,432	
Cash and cash equivalents at end of the year	4,599	4,681	4,209	4,022	4,871		4,156	

- (1) Includes sales by our consolidated subsidiaries of steel products purchased by such subsidiaries from third parties, including trading companies to which we sell steel products.
- (2) Includes purchases of steel products by our consolidated subsidiaries from third parties, including trading companies to which we sell steel products.
- (3) 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 77,251,818 shares as of December 31, 2011, 77,244,444 shares as of December 31, 2012, 78,009,654 shares as of December 31, 2013, 79,801,539 shares as of December 31, 2014 and 79,993,834 shares as of December 31, 2015.
- (4) Translated into Dollars by applying the exchange rate at the end of the applicable year as announced by Seoul Money Brokerage Services, Ltd.
- (5) 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 <sup>(1)</sup>	High	Low
		(Per US\$1.00)		
2011	1,153.3	1,108.1	1,199.5	1,049.5
2012	1,071.1	1,126.9	1,181.8	1,071.1
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
October	1,142.3	1,148.2	1,190.4	1,125.3
November	1,150.4	1,152.0	1,173.4	1,129.5
December	1,172.0	1,172.2	1,186.1	1,156.8
2016 (through April 27)	1,149.7	1,189.1	1,240.9	1,132.3
January	1,208.4	1,201.7	1,212.7	1,172.0
February	1,235.4	1,217.4	1,236.1	1,195.1
March	1,153.5	1,188.2	1,240.9	1,153.5
April (through April 27)	1,149.7	1,147.8	1,156.5	1,132.3

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**

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**Item 3.D. Risk Factors**

You should carefully consider the risks described below.

***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. The global economic outlook for the near future remains uncertain, particularly in light of the slowdown of economic growth and financial instability in China and other major emerging market economies, fluctuations in oil and commodity prices, financial difficulties affecting governments in southern Europe and Latin America, and political and social instability in various countries in the Middle East and Northern Africa, including Iraq, Syria and Egypt, as well as in Ukraine and Russia. In particular, the Chinese economy, which in recent years has been one of the main demand drivers in the global steel industry, has experienced a slowdown in growth since 2012 and continues to show signs of deterioration, despite successive fiscal and monetary stimulus measures implemented by the Chinese government, including in the wake of a significant downturn in the Chinese equity markets commencing in June 2015.

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 recorded crude steel production of 38.3 million tons in 2013, 41.4 million tons in 2014 and 42.0 million tons in 2015. The average unit sales prices for our semi-finished and finished steel products were Won 998 thousand per ton in 2013, Won 936 thousand per ton in 2014 and Won 798 thousand per ton in 2015.

We expect that 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 40.3% of our total revenue from

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steel products produced and sold by us in 2015. 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 ), our consolidated subsidiary in which we hold a 60.3% interest, 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 mixed signs, and future growth of the Korean economy is subject to many factors beyond our control, including developments in the global economy.

Due to recent liquidity and credit concerns and volatility in the global financial markets, the value of the Won relative to the Dollar and other foreign currencies and the stock prices of Korean companies have fluctuated significantly in recent years. In particular, the global financial markets continue to experience significant volatility in light of the slowdown of economic growth in China and other major emerging economies as well as concerns regarding the financial difficulties affecting many governments worldwide, including southern Europe and Latin America, and low oil prices. In addition, political and social instability in various countries in the Middle East and Northern Africa, including Iraq, Syria and Egypt, as well as in Ukraine and Russia, has resulted in an increase in volatility in the global financial markets. Accordingly, the overall prospects for the Korean and global economies in the remainder of 2016 and beyond remain uncertain. 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:

continuing 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;

declines in consumer confidence and a slowdown in consumer spending;

adverse changes or volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including fluctuation of the Dollar, the Euro or the Yen exchange rates or revaluation of the Renminbi), interest rates, inflation rates or stock markets;

the emergence 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 the manufacturing base from Korea to China), as well as a slowdown of economic growth and financial instability in China;

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

increasing delinquencies and credit defaults by retail and small- and medium-sized enterprise borrowers;

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

social and labor unrest;

substantial decreases in the market prices of Korean real estate;

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

financial problems or lack of progress in the restructuring of Korean conglomerates, other large troubled companies, their suppliers or the financial sector;

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loss of investor confidence arising from corporate accounting irregularities and corporate governance issues concerning certain Korean conglomerates;

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 risk of further attacks by terrorist groups around the world, including ISIS;

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

deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including deterioration resulting from trade disputes or disagreements in foreign policy;

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

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

the occurrence of severe earthquakes, tsunamis and other natural disasters in Korea and other parts of the world, particularly in trading partners (such as the March 2011 earthquake in Japan, which also resulted in the release of radioactive materials from a nuclear plant that had been damaged by the earthquake); 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 59.7% of our total revenue from steel products produced and sold by us in 2015. Our export sales volume to customers in Asia, including China, Japan, Indonesia, Thailand and Malaysia, accounted for 63.0% of our total export sales revenue from steel products produced and exported by us in 2015, and we expect our sales to these countries, especially to China, to remain important in the future. Accordingly, adverse economic and financial developments in these countries may have an adverse effect on 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



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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 2015, 59.7% 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.

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 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. 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.

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 53.8 million dry metric tons of iron ore and



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28.3 million wet metric tons of coal in 2015. 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\$159 in 2013, US\$126 in 2014 and US\$102 in 2015. The average market price of iron ore per dry metric ton (Iron Ore 62% Fe, CFR China index announced by Platts) was US\$126 in 2013, US\$88 in 2014 and US\$51 in 2015.

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 negotiations 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. Typically, globally influenced buyers and sellers of raw materials determine benchmark prices of raw materials, based on which other buyers and sellers negotiate their prices after taking into consideration the quality of raw materials and other factors. In the case of iron ore, if we fail to agree on the quarterly price adjustment within a predetermined deadline, the supplier and we typically agree on the purchase price based on the price formula that reflects the spot market price as well as the quality of iron ore and transportation expense. As of December 31, 2015, 166 million tons of iron ore and 26 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. In recent years, driven in part by strong growth in steel consumption in the developing world, particularly in China, the global steel industry has experienced renewed interest in expansion of steel production capacity. China is the largest steel producing country in the world by a significant margin, with the balance between its domestic production and demand being an important factor in the determination of global steel prices. In addition, the global steel industry has experienced consolidation in the past decade, including through the merger of Mittal and Arcelor in 2006 that created a company with approximately 10% of global steel production capacity. Competition from global steel manufacturers with expanded production capacity such as ArcelorMittal S.A. and new market entrants, especially from China and India, has resulted in significant price competition and may result in declining margins and reductions in revenue. 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.

The increased production capacity, combined with a decrease in demand due to the recent slowdown of the global economy, has resulted in production over-capacity in the global steel industry. In particular, increase in steel production in China has outpaced its domestic demand for steel products in recent years, which imbalance has been exacerbated by the recent slowdown in China's economic growth rate. As a result, China has become an increasingly larger exporter of steel, which in turn has resulted in downward pressure on global steel prices. Production over-capacity in the global

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steel industry may intensify if the slowdown of the global economy is prolonged 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 the prolonged 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 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 in which we hold a 52.8% interest, 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

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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, 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 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, our overall strategy includes securing 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, nickel, magnesium and cobalt. From time to time, we may selectively acquire or invest in companies to pursue such diversification strategy. For example, in September 2010, we acquired a controlling interest in POSCO Daewoo for Won 3.37 trillion. 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.

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 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;

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difficulties in managing a larger business; and

loss of key management personnel or customers.

Accordingly, 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. For example, in December 2013, PT. Krakatau POSCO Co., Ltd., a joint venture company in Indonesia in which we hold a 70.0% interest, completed the construction of a steel manufacturing plant with an annual capacity of 3.0 million tons of plates and slabs. 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;

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.

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***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.

***We may from time to time engage in acquisitions for which we may be required to seek additional sources of capital.***

From time to time, we may selectively acquire or invest in companies or businesses that may complement our business. 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 also cannot assure you that such financings and related debt payment obligations will not have a material adverse impact on our financial condition, results of operations or cash flow.

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

In recent years, we have become subject to a number of anti-dumping duties in the United States, Canada, the European Union, Brazil, India, Indonesia, Malaysia, Australia, Taiwan and Thailand and safeguard duties in Thailand and Malaysia. We are also subject to a number of on-going anti-dumping and safeguard investigations in the United States, China, Indonesia, Malaysia, India, Taiwan, Thailand and Vietnam. In addition, the Mexican government initiated an anti-dumping investigation in October 2012 relating to our exports of cold rolled steel products, and the investigation was suspended until 2018 on condition that we comply with supply undertakings. Our products that are subject to anti-dumping, safeguard or countervailing duty 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.

***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, in which POSCO Daewoo had invested approximately US\$1,891 million as of December 31, 2015 and plans to make further investments in the future.

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POSCO Daewoo began recognizing revenue from the Myanmar gas field project starting in November 2013. 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 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;

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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 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.***

In order to complement our steel operations, we engage in engineering and construction activities through POSCO E&C, a 52.8%-owned subsidiary. 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. Although we believe that POSCO E&C's strategy of focusing on high-value-added plant construction and urban planning and development projects such as Songdo New City has enabled it to be exposed to a lesser degree to general economic conditions in Korea in comparison to some of its domestic competitors, our construction revenues have fluctuated in the past depending on the level of domestic construction activity including new construction orders. POSCO E&C's construction operations could suffer in the future in the event of a general downturn in the construction market resulting in weaker demand, which could adversely affect POSCO E&C's 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. 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.



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***POSCO E&C's domestic residential property business is highly dependent on the real estate market in Korea.***

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 construction industry in Korea is experiencing a downturn due to excessive investment in recent years in residential property development projects, stagnation of real property prices and reduced demand for residential property, especially in areas outside of Seoul. In addition, as liquidity and credit concerns and volatility in the global financial markets increased significantly starting in September 2008, there has been a general decline in the willingness by banks and other financial institutions in Korea to engage in project financing and other lending activities to construction companies, which may adversely impact POSCO E&C's ability to meet its desired funding needs. The Government has taken measures to support the Korean construction industry, 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 real estate market temporarily recovered in recent years, the overall prospects for the Korean real estate market in 2016 and beyond remain uncertain.

***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 recognized provision expenses of Won 89 billion in 2014 and Won 2 billion in 2015 related to restoration costs of contaminated land near our magnesium plant in Gangneung, Korea, of which provision of Won 37 billion remained as of December 31, 2015. 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.

***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 are taking 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.

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***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. For example, in September 2015, we paid Won 299 billion to Nippon Steel & Sumitomo Metal Corporation to settle lawsuits alleging violation of trade secrets and seeking prohibition on production and sales of grain oriented electrical steel sheets. For a discussion of the claims and the settlement, see Item 8.A. Consolidated Statements and Other Financial Information - Legal Proceedings.

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 is legally entitled to ordinary wages. Under the guidelines previously issued by the Ministry of Employment and Labor (formerly the Ministry of Labor), ordinary wages include base salary and certain fixed monthly allowances for overtime work performed during night shifts and holidays. Prior to the Supreme Court of Korea's decision described below, we

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and other companies in Korea had interpreted these guidelines as excluding fixed bonuses that are paid other than on a monthly basis (such as bi-monthly, quarterly or biannually paid bonuses) from the scope of 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, shall be deemed ordinary wages if these bonuses are paid regularly and uniformly on a fixed basis notwithstanding differential amounts based on seniority. The Supreme Court of Korea ruled that if regular bonus payments are limited to only those working for the employer on a specific date, such bonuses are not fixed and thus do not constitute part of ordinary wage. In addition, under this decision, any collective bargaining agreement or labor-management agreement that attempts to exclude such regular bonuses from ordinary wage will be deemed void for violation of the mandatory provisions of Korean law. However, the Supreme Court of Korea further ruled that an employee's claim for underpayments under the expanded scope of ordinary wages for the past three years within the statute of limitations may be denied based on principles of good faith if (i) there is an agreement between the employer and employees that the regular bonus shall be excluded from ordinary wage in determining the total amount of wage, (ii) such claim results in further wage payments that far exceed the level of total amount of wage agreed between the employer and employees, and (iii) such claim would cause an unexpected financial burden to the employer leading to material managerial difficulty or a threat to the employer's existence. The principles of good faith, however, do not apply to an agreement on wages entered into between the employer and employees after December 18, 2013, the date of the above decision of the Supreme Court of Korea.

In light of the Supreme Court of Korea's decision above, the Ministry of Employment and Labor published its new guidelines (the Guidelines) on January 23, 2014. According to the Guidelines, the Government excludes, from ordinary wage, 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 that we have paid to our employees are likely to be excluded from ordinary wage since we have paid regular bonuses to only those working for us on the initial date of payment calculation, the 15th day of each month. However, the Supreme Court decision may result in additional labor costs to us in the form of additional payments under the expanded scope of ordinary wages applicable in the past three years as well as to be incurred in the future, which 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 future events. In particular, since the death of Kim Jong-il in December 2011, there has been increased uncertainty with respect to the future of North Korea's political leadership and concern regarding its implications for political and economic stability in the region. Although Kim Jong-il's third son, Kim Jong-eun, has assumed power as his father's designated successor, the long-term outcome of such leadership transition remains uncertain.

In addition, there have been heightened security concerns in recent years stemming from North Korea's nuclear weapon and long-range missile programs as well as its hostile military actions against Korea. Some of the significant incidents in recent years include the following:

From time to time, North Korea has conducted ballistic missile tests. Most recently in February 2016, North Korea launched a long-range rocket in violation of its agreement with the United States as well as United Nations sanctions barring it from conducting launches that use ballistic missile technology. Despite international condemnation, North Korea released a statement that it intends to continue its rocket launch program.

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North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty in January 2003 and conducted three rounds of nuclear tests between October 2006 to February 2013, which increased tensions in the region and elicited strong objections worldwide. In January 2016, North Korea conducted a fourth nuclear test, claiming that the test involved its first hydrogen bomb, which claim has not been independently verified. In response to such test (as well as North Korea's long-range rocket launch in February 2016), the United Nations Security Council unanimously passed a resolution in March 2016 condemning North Korea's actions and significantly expanding the scope of the 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 re-initiated 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. High-ranking officials from North Korea and Korea subsequently entered into an agreement on August 25, 2015 intended to diffuse military tensions.

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 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 that may aggravate social and political pressures within 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 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 depository's custodian in Korea and obtain ADRs, and holders of ADRs may surrender ADRs to the ADR depository and receive shares of our common stock. However, under current Korean laws and regulations, the depository 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 depository 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

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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 depository, 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 depository, 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 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.

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We engage in limited business activities in countries that are deemed Sanctions Targets, including Iran and Sudan. 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, a global trading company in which we hold a 60.3% interest, engages in the trading of steel, raw materials and other items with entities in countries that are deemed Sanctions Targets, including Iran and Sudan. We believe that such activities and investments do not involve any U.S. goods or services. Our activities and investments in Iran and Sudan accounted for approximately 0.2% of our consolidated revenues in 2013, 0.4% in 2014 and 0.7% in 2015.

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 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, 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.

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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 42.0 million tons of crude steel in 2015 and approximately 41.4 million tons in 2014, a substantial portion of which was produced at Pohang Works and Gwangyang Works. As of December 31, 2015, Pohang Works had 17.6 million tons of annual crude steel and stainless steel production capacity, and Gwangyang Works had an annual crude steel production capacity of 24.8 million tons. 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.

We sell primarily to the Korean market. Domestic sales accounted for 40.3% of our total revenue from steel products produced and sold by us in 2015 and 44.6% in 2014. On a non-consolidated basis, we believe that we had an overall market share of approximately 41% of the total sales volume of steel products sold in Korea in each of 2014 and 2015. Our export sales and overseas sales to customers abroad accounted for 59.7% of our total revenue from steel products produced and sold by us in 2015 and 55.4% in 2014. Our major export market is Asia, with Asia other than China and Japan accounting for 28.2%, China accounting for 25.3% and Japan accounting for 9.5% of our total steel export revenue from steel products produced and exported by us in 2015, and Asia other than China and Japan accounting for 28.3%, China accounting for 26.6%, and Japan accounting for 11.7% of our total steel export revenue from steel products produced and exported by us in 2014.

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, our consolidated subsidiary in which we hold a 52.8% interest, 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, our consolidated subsidiary in which we hold a 60.3% interest, 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, our consolidated subsidiary in which we hold an 89.0% interest, is the largest private power generation company in Korea.

We generated revenue of Won 58,522 billion and loss of Won 116 billion in 2015, compared to revenue of Won 64,759 billion and profit of Won 564 billion in 2014. We had total assets of Won 80,748 billion and total equity of Won 45,013 billion as of December 31, 2015, compared to total assets of Won 85,844 billion and total equity of Won 45,257 billion as of December 31, 2014.

#### **Business Strategy**

Leveraging on our success over the past four decades, our goal is to strengthen our position as one of the leading steel producers in the world through focusing on core technologies, further solidifying our market leading position in Korea, and pursuing operational efficiencies to increase our margins in markets abroad. In order to compete effectively in the dynamic global market environment

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driven by emerging economies and increasing demand for more environmentally friendly products, we are committed to leveraging our competitive advantages and further enhancing our leadership positions. We believe that our proprietary technologies and expertise in developing environmentally-friendly steel production facilities, ability to independently construct such facilities, and know-how in their efficient operation and management enable us to develop differentiated steel products at a highly competitive cost structure. In addition to our steel production operations, we also plan to selectively explore opportunities in growth industries that are integral to our overall business model, and we have identified trading, infrastructure construction, energy and comprehensive materials as our key areas of focus. We plan to bolster competitiveness of each of the areas of focus by developing products and services that address evolving customers' needs, while continuing to increase the portion of revenues from non-member companies of the POSCO Group.

We seek to strengthen our competitiveness and pursue growth through the following core business strategies:

### ***Seek Opportunities to Further Strengthen Our Position in Global Markets as well as Effectively Manage Our Production Infrastructure Abroad***

We plan to pursue higher margin businesses in various key markets abroad as well as further strengthen the competitiveness of production facilities abroad that we have begun operating in recent years. In China, which is experiencing a slowdown in economic growth and oversupply of steel products, we plan to focus on higher-margin products and pursue strategic entry or exit of various segments and regions. In Southeast Asia, we plan to pursue stabilization of our production operations in Indonesia as well as focus on increasing our market share of key products in Thailand, particularly for the automotive industry. We also plan to pursue differentiated strategies in each of our other key regions, such as customizing our product specifications to meet diverse customer demands and optimizing our existing production infrastructure abroad.

### ***Maintain Technology Leadership in Steel Manufacturing***

As part of our strategy, we have identified core products that we plan to further develop, such as premium automotive steel sheets, silicon steel and API-grade steel, and we will continue to invest in developing innovative products that offer the greatest potential returns and enhance the overall quality of our steel products. In order to increase our competitiveness and the proportion of our sales of higher margin, higher value-added products, we plan to make additional investments in the development of new manufacturing technologies and upgrade our facilities in Korea and abroad through continued modernization and rationalization.

We believe that innovation is a key element of our culture and critical to our success. We will continue our research and development efforts on developing even more environmentally friendly technologies that align with our customers' changing needs and desires as well as addressing emerging technological trends. For example, we will continue to refine FINEX, a low cost, environmentally friendly steel manufacturing process that optimizes our production capacity by utilizing low-grade iron ore fines and using coal as an energy source and a reducing agent. We believe that FINEX offers considerable environmental and economic advantages through elimination of major sources of pollution such as facilities that pretreat raw materials, as well as reducing operating and raw material costs. We have also developed proprietary manufacturing technology using a compact endless cast rolling mill ( CEM ) that combines the FINEX process with an advanced basic oxygen steelmaking process that uses more scrap in place of pig iron, which enables us to manufacture products at a highly competitive cost structure with lower carbon dioxide emission. Our CEM directly casts coils from liquid steel and uses a rolling process that rolls hot rolled coils up to 40 slabs at a time.



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***Pursue Growth Opportunities in the Construction and Trading Industries***

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. In September 2015, we completed the sale of our 38.0% interest in POSCO E&C to the Public Investment Fund ( 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. In addition to the Middle East, POSCO E&C plans to pursue construction opportunities in Southeast Asia, focusing particularly on construction of industrial plants that maximize production efficiency and are environmentally friendly, as well as commercial and residential complexes that utilize innovative information and technology enhancements.

POSCO Daewoo is a global trading company that primarily engages in trading of steel and raw materials as well as investing in energy development projects. POSCO Daewoo plans to pursue opportunities to offer customized solutions to its trading partners in key global markets with the need for high value-added products such as specialized steel products and agricultural products. POSCO Daewoo will also aim to maximize the returns from its Myanmar gas field projects while mitigating risks associated with natural resources development by limiting its investments to exploration sites that are most likely to yield promising results. We will continue to selectively seek opportunities to identify new growth engines in our construction and trading operations.

***Diversify into Production of Comprehensive Materials***

We plan to leverage our expertise in production of various steel-applied materials and venture into the fast-growing and high value-added business of producing environmentally friendly comprehensive materials. In particular, demand for lithium ion batteries has been increasing in recent years, and we have identified lithium, along with nickel and cobalt, as our main investment areas. We have also developed proprietary technology to extract lithium from its brine in approximately one month compared to twelve months through conventional production processes. Leveraging on such technology, we are constructing a lithium production plant in Argentina with target completion in September 2016 and annual production capacity of approximately 2,500 tons of lithium. Subject to market conditions, we plan to further expand our production capacity of lithium in the near future.

***Further Develop Our Capabilities to become an Integrated Provider of Energy Solutions***

We plan to pursue strategic synergies with our member companies of the POSCO Group to further strengthen our capabilities in the energy industry. POSCO Energy Corporation is the largest private power generation company in Korea. POSCO E&C is one of the leading engineering and construction companies in Korea with expertise in the design and construction of power plants. POSCO Daewoo engages in various natural resources procurement and energy development projects around the world, including operation of gas fields in Myanmar. We believe that the energy industry is a sustainable business area that offers us attractive opportunities. Leveraging the expertise of various member companies of the POSCO Group, we cover all aspects of the independent power plant ( IPP ) business, including project planning, power plant construction as well as operational and maintenance services, and we will continue to seek opportunities to selectively expand our power generation business.

***Pursue Cost-Cutting through Operational and Process Innovations***

We seek to achieve cost reductions in this era of increasing raw material costs through our company wide process for innovation and enhancing efficiency of operations. We believe that strategic cost cutting measures through utilization of efficient production methods, restructuring of our

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subsidiaries and management discipline will strengthen our corporate competitiveness. We will also strive to invest more in human resources development to nurture employees who are capable of working in the global environment.

**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, 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.

	For the Year Ended December 31,					
	2013		2014		2015	
	Billions of Won	%	Billions of Won	%	Billions of Won	%
<b>Steel Products</b>						
Cold rolled products	9,879	31.1%	9,336	29.3%	8,373	29.6%
Hot rolled products	5,134	16.1	5,346	16.8	4,685	16.6
Stainless steel products	7,425	23.4	6,830	21.5	6,085	21.5
Plates	3,266	10.3	3,519	11.1	2,809	9.9
Wire rods	1,867	5.9	2,160	6.8	1,932	6.8
Silicon steel sheets	1,476	4.6	1,267	4.0	1,323	4.7
<b>Sub-total</b>	<b>29,047</b>	<b>91.4</b>	<b>28,458</b>	<b>89.4</b>	<b>25,208</b>	<b>89.1</b>
Others	2,748	8.6	3,384	10.6	3,085	10.9
<b>Total</b>	<b>31,795</b>	<b>100.0%</b>	<b>31,842</b>	<b>100.0%</b>	<b>28,293</b>	<b>100.0%</b>

The table below sets out our sales volume of the principal categories of steel products produced by us and directly sold to external customers, 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.

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	2013		For the Year Ended December 31, 2014		2015	
	Thousands of Tons	%	Thousands of Tons	%	Thousands of Tons	%
<b>Steel Products</b>						
Cold rolled products	11,915	40.9%	11,881	39.1%	11,995	38.0%
Hot rolled products	7,589	26.1	7,783	25.6	8,541	27.0
Stainless steel products	2,883	9.9	2,650	8.7	2,758	8.7
Plates	3,849	13.2	4,638	15.3	4,588	14.5
Wire rods	1,735	6.0	2,400	7.9	2,667	8.4
Silicon steel sheets	1,134	3.9	1,038	3.4	1,031	3.3
<b>Total <sup>(1)</sup></b>	<b>29,104</b>	<b>100.0%</b>	<b>30,390</b>	<b>100.0%</b>	<b>31,580</b>	<b>100.0%</b>

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

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In addition to steel products produced by us and directly sold to external customers, 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 8,391 billion in 2013, Won 9,176 billion in 2014 and Won 8,365 billion in 2015. 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***

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 12.0 million tons in 2015, representing 38.0% of our total sales volume of principal steel products produced by us and directly sold to external customers.

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 2015, our sales volume of cold rolled products produced by us and directly sold to external customers remained relatively stable and increased by 1.0% compared to our sales volume in 2014.

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.

### ***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 thickness 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 8.5 million tons in 2015, representing 27.0% 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 2015, our sales volume of hot rolled products produced by us and directly sold to external customers increased by 9.7% compared to our sales volume in 2014, primarily reflecting an increase in sales to new customers abroad, which were in large part satisfied through increased production following an increase in production capacity of our facilities dedicated to 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 37% on a non-consolidated basis.

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### ***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 2.8 million tons in 2015, representing 8.7% 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 8.7% of total sales volume of the principal steel products produced by us and directly sold to external customers in 2015, they represented 21.5% of our total revenue from such steel products in 2015. In 2015, our sales volume of stainless steel products produced by us and directly sold to external customers increased by 4.1% compared to our sales volume in 2014 primarily reflecting increased demand resulting from our efforts to focus more on marketing of higher margin, higher value-added products, which was in part met by an increase in our production capacity of stainless steel products.

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 customers, we had a domestic market share for stainless steel products of approximately 40% on a non-consolidated basis.

### ***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 4.6 million tons in 2015, representing 14.5% 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 2015, our sales volume of plates produced by us and directly sold to external customers decreased by 1.1% compared to our sales volume in 2014 primarily due to a decrease in demand from the energy industry.

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 39% on a non-consolidated basis.

### ***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 2.7 million tons in 2015, representing 8.4% 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.

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In 2015, our sales volume of wire rods produced by us and directly sold to external customers increased by 11.2% compared to 2014, primarily reflecting an increase in production capacity resulting from a ramping up of production at our no. 4 wire rod mill, which in turn enabled us to meet an increase in demand for our wire rods from global auto parts manufacturers.

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 55% on a non-consolidated basis.

### ***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 1.0 million tons in 2015, representing 3.3% of our total sales volume of principal steel products produced by us and directly sold to external customers.

In 2015, our sales volume of silicon steel sheets produced by us and directly sold to external customers remained relatively stable and decreased by 0.7% compared to 2014.

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

### ***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 40.3% of our total revenue from steel products produced and sold by us in 2015. Our export sales and overseas sales to customers abroad represented 59.7% of our total revenue from steel products in 2015. 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.

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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,		
	2013	2014	2015
POSCO's sales <sup>(1)</sup>	43.4%	40.6%	40.8%
Other domestic steel companies' sales	23.6	27.6	27.7
Imports	33.0	31.8	31.5
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

(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 59.7% of our total revenue from steel products produced and sold by us in 2015, 63.0% 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 decreased by 3.7% from 22,731 billion in 2014 to Won 21,901 billion in 2015.

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, by geographical market and by product for the periods indicated.

Region	2013		For the Year Ended December 31, 2014		2015	
	Billions of Won	%	Billions of Won	%	Billions of Won	%
Asia (other than China and Japan)	5,707	27.7%	6,434	28.3%	6,174	28.2%
China	6,220	30.2	6,057	26.6	5,541	25.3
Japan	2,583	12.5	2,668	11.7	2,075	9.5
Europe	999	4.9	1,428	6.3	1,751	8.0
Middle East	381	1.8	323	1.4	372	1.7
North America	1,145	5.6	2,131	9.4	2,162	9.9
Others	3,552	17.3	3,689	16.2	3,826	17.5
<b>Total</b>	<b>20,587</b>	<b>100.0%</b>	<b>22,731</b>	<b>100.0%</b>	<b>21,901</b>	<b>100.0%</b>

Steel Products	2013		For the Year Ended December 31, 2014		2015	
	Billions of Won	%	Billions of Won	%	Billions of Won	%
Cold rolled products	6,653	32.3%	6,907	30.4%	6,373	29.1%
Hot rolled products	3,300	16.0	3,646	16.0	4,032	18.4
Stainless steel products	5,125	24.9	5,615	24.7	5,265	24.0
Plates	1,238	6.0	1,596	7.0	1,465	6.7
Wire rods	569	2.8	783	3.4	674	3.1
Silicon steel sheets	837	4.1	771	3.4	807	3.7
Others	2,863	13.9	3,412	15.0	3,284	15.0

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<b>Total</b>	<b>20,587</b>	<b>100.0%</b>	<b>22,731</b>	<b>100.0%</b>	<b>21,901</b>	<b>100.0%</b>
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The table below sets out the world's apparent steel use for the periods indicated.

	<b>For the Year Ended December 31,</b>		
	<b>2013</b>	<b>2014</b>	<b>2015</b>
Apparent steel use (million metric tons)	1,534	1,547	1,498
Percentage of annual increase	6.3%	0.8%	(3.1)%

Source: World Steel Association.

Recently, the general weakness of the global economy, the slowdown in growth of the Chinese economy and fluctuations in oil and commodity prices have increased the uncertainty of global economic prospects in general and have adversely affected the global and Korean economies. The World Steel Association forecasts that global apparent steel use is expected to decrease by 0.7% to 1,488 million metric tons in 2016.

In recent years, driven in part by strong growth in steel consumption in emerging economies, the global steel industry has experienced renewed interest in expansion of steel production capacity. The Organisation for Economic Co-operation and Development estimated the global crude steel production capacity to be 2,307 million tons in 2015. The increased production capacity, combined with weakening demand due primarily to the recent slowdown of the global economy as well as a slowdown in demand growth from China, has resulted in production over-capacity in the global steel industry. Production over-capacity in the global steel industry may intensify if the slowdown of the global economy continues or demand from developing countries that have experienced significant growth during the past decade does not meet the growth in production capacity.

We distribute our export products mostly through Korean trading companies, including POSCO Daewoo, and our overseas sales subsidiaries. Our largest export market in 2015 was Asia (other than China and Japan), which accounted for 28.2% of our export revenue from steel products produced and sold by us. The principal products exported to Asia (other than China and Japan) were hot rolled products and cold rolled products. Our exports to Asia (other than China and Japan) amounted to Won 6,434 billion in 2014 and Won 6,174 billion in 2015. Our exports to Asia (other than China and Japan) decreased by 4.1% in 2015 primarily due to a decrease in the unit price of our products.

Our second largest export market in 2015 was China, which accounted for 25.3% 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 decreased by 8.5% from Won 6,057 billion in 2014 to Won 5,541 billion in 2015 primarily due to a decrease in demand and a subsequent decrease in the unit price of our products resulting from the deterioration of local market conditions in China.

***Anti-Dumping, Safeguard and Countervailing Duty Proceedings***

From time to time, our exporting activities have become subject to anti-dumping, safeguard and countervailing proceedings. In recent years, we have become subject to a number of anti-dumping duties in the United States, Canada, the European Union, Brazil, India, Indonesia, Malaysia, Australia, Taiwan and Thailand and safeguard duties in Thailand and Malaysia. We are also subject to a number of on-going anti-dumping and safeguard investigations in the United States, China, Indonesia, Malaysia, India, Taiwan, Thailand and Vietnam. In addition, the Mexican government initiated an anti-dumping investigation in October 2012 relating to our exports of cold rolled steel products, and the investigation was suspended until 2018 on condition that we comply with supply undertakings. Our products that are subject to anti-dumping, safeguard or countervailing duty 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.

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### **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 2013 to 2015, reflecting production over-capacity in the global steel industry. 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 2015, POSCO imported approximately 53.8 million dry metric tons of iron ore and 28.3 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. In 2015, we purchased a substantial portion of our iron ore and coal imports pursuant to long-term contracts. The supply contracts have terms of one to ten years and the long-term contracts generally provide for periodic price adjustments to the then-market prices. The long-term contracts to purchase iron ore and coal generally provide for quarterly adjustments to the purchase prices to be determined through negotiation between the supplier and us. Such price negotiations 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. Typically, globally influenced buyers and sellers of raw materials determine benchmark prices of raw materials, based on which other buyers and sellers negotiate their prices after taking into consideration the quality of raw materials and other factors. 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. We secured approximately 41% of our iron ore and coal imports in 2015 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.

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\$159 in 2013, US\$126 in 2014 and US\$102 in 2015. The average market price of iron ore per dry metric ton (Iron Ore 62% Fe, CFR China index announced by Platts) was US\$126 in 2013, US\$88 in 2014 and US\$51 in 2015. 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 Japan,

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Indonesia and Colombia. 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\$15,022 in 2013, US\$16,871 in 2014 and US\$11,836 in 2015.

***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 80% of the total requirements in 2015, and the remaining approximately 20% was transported by vessels retained through short to medium term contracts, depending on market conditions. The Asia Pacific region, including Australia, and the Atlantic region, including Brazil, are the main regions where the vessels are loaded, and they accounted for approximately 85% and 15%, respectively, of our total requirements in 2015. 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.

***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.

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### **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 37% on a non-consolidated basis in 2015, 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% in each market on a non-consolidated basis in 2015, 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. For example, Mittal Steel's takeover of Arcelor in 2006 created a company with approximately 10% of global steel production capacity. Competition from global steel manufacturers with expanded production capacity such as ArcelorMittal S.A., and new market entrants, especially from China and India, could result in a significant increase in competition. In recent years, excess capacity from developing countries, particularly China, has resulted in downward pressure on global steel prices. 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 around the world that engage in steel production activities.

***Korea.*** In order to expand our sale of value-added products, we established POSCO Coated & Color Steel Co., Ltd. by merging a coated steel manufacturer and a color sheet manufacturer in March 1999. POSCO Coated & Color Steel has an aggregate annual production capacity of 600 thousand tons of galvanized and aluminized steel sheets widely used in the construction, automotive parts and home appliances industries. POSCO Coated & Color Steel also has an aggregate annual production capacity of 350 thousand tons of color sheets that are mainly used for interior and exterior materials and home appliances. In 2015, POSCO Coated & Color Steel produced 608 thousand tons of galvanized and aluminized steel sheets and 310 thousand tons of color sheets.

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**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 1,105 thousand tons of stainless steel products in 2015. See Other Production Facilities Abroad Zhangjiagang Pohang Stainless Steel.

We established Qingdao Pohang Stainless Steel Co., Ltd., a wholly owned subsidiary set up to manufacture and sell stainless cold rolled steel products in China. The plant became operational in December 2004, with an annual production capacity of 180 thousand tons of stainless cold rolled steel products. Qingdao Pohang Steel produced 147 thousand tons of such products in 2015.

In August 2003, we entered into a joint venture agreement with Benxi Iron and Steel Group in China to establish Benxi Steel POSCO Cold Rolled Sheet Co., Ltd. The cold rolling mill with an annual production capacity of 1.9 million tons became operational in March 2006, and the company produced 1.8 million tons of such products in 2015. We currently hold a 25.0% interest in this joint venture.

**Indonesia.** We entered into an agreement with PT. Krakatau Steel (Persero) Tbk. to establish PT. Krakatau POSCO Co., Ltd., 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 2.7 million tons of plates and slabs in 2015. See Other Production Facilities Abroad PT. Krakatau POSCO.

**Vietnam.** We previously entered into an agreement with Nippon Steel & Sumitomo Metal Corporation to establish POSCO Vietnam Co., Ltd., a joint venture company in Vietnam for the manufacture and sale of cold rolled steel products. In March 2015, we acquired the interest owned by Nippon Steel & Sumitomo Metal Corporation, and we hold a 100.0% interest in the subsidiary. We completed the construction of a plant in September 2009 with an annual production capacity of 1.2 million tons of cold rolled products and commenced commercial production. POSCO Vietnam produced 900 thousand tons of such products in 2015.

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. is in the process of ramping up its production and produced 0.2 million tons of shape steel and steel reinforcement products in 2015. See Other Production Facilities Abroad POSCO SS VINA.

**Thailand.** In order to secure an alternative sales source for stainless cold rolled steel products and an export base for expanding into the Southeast Asia stainless steel markets, we acquired a controlling interest in Thainox Stainless Public Company Limited, a major stainless steel manufacturer in Thailand, in September 2011. We renamed the company as POSCO Thainox Public Company Limited in October 2011 and currently hold an 84.9% interest in the company. The company produced 175 thousand tons of stainless cold rolled products in 2015.

**United States.** We entered into a 50-50 joint venture between U.S. Steel Corporation and us called USS-POSCO Industries Corporation. We sell hot rolled products to USS-POSCO Industries, which uses such products to manufacture cold rolled and galvanized steel products and tin-plate products for sale in the United States. USS-POSCO Industries produced 716 thousand tons of such products in 2015.

**Mexico.** In Mexico, POSCO Mexico S.A. de C.V. completed the construction of a plant in August 2009 with an annual production capacity of 0.4 million tons of cold rolled products and commenced commercial production to supply automotive manufacturers in Mexico, Southeastern

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United States and South America. POSCO Mexico expanded its annual production capacity to 0.9 million tons of galvanized steel products in December 2013, and produced 474 thousand tons of cold rolled products in 2014.

*Others.* In addition to the above investments, we are carefully seeking out additional promising investment opportunities abroad. In June 2005, we entered into a memorandum of understanding with Odisha State Government of India for the construction of an integrated steel mill and the development of iron ore mines in Odisha State. The Government of India reissued clearance for the construction of the steel mill in January 2014 and the Indian Supreme Court issued a final ruling in May 2013 with respect to authority of the central government to issue permission to develop iron ore mines in Odisha State. Progress on this project remains subject to further discussion with the Government of India.

We have also established supply chain management centers around the world to provide processing and logistics services such as cutting flat steel products to smaller sizes to meet customers' needs. In 2015, our 31 supply chain management centers recorded aggregate sales of 6 million tons of steel products.

***Trading***

Our trading activities consist primarily of trading activities of POSCO Daewoo. We acquired a controlling interest in POSCO Daewoo for Won 3.37 trillion on September 20, 2010, and we currently hold a 60.3% interest in POSCO Daewoo. Our consolidated subsidiaries that also engage in trading activities include POSCO Processing & Service Co., Ltd. that primarily focuses in the domestic market, and POSCO Asia Company Limited located in Hong Kong, POSCO Japan Co., Ltd. located in Tokyo, Japan, POSCO America Corporation located in New Jersey, U.S.A. and POSCO South Asia Co., Ltd. located in Bangkok, Thailand.

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 and operates a department store in Korea. 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.

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

Product Category	For the Year Ended December 31,					
	2013		2014		2015	
	(In billions of Won, except percentages)					
<b>Export Sales</b>						
Trading sales:						
Steel and metal	5,397	31.5%	5,051	24.8%	4,648	26.5%
Chemical and commodities	1,535	9.0	1,836	9.0	1,445	8.2
Automobile and machinery parts	1,625	9.5	1,965	9.6	2,003	11.4
Electronics and miscellaneous items	72	0.4	44	0.2	42	0.2
Sub-total	8,630	50.4	8,895	43.6	8,138	46.4
Manufactured product sales	13	0.1	22	0.1	6	0.0
Miscellaneous	14	0.1	60	0.3	61	0.4
Total export sales	8,657	50.6	8,977	44.0	8,204	46.8
<b>Domestic Sales</b>						
Trading sales:						
Steel and metal	686	3.9%	737	3.6%	506	2.9%
Chemical and commodities	71	0.4	81	0.4	92	0.5
Automobile and machinery parts	34	0.2	56	0.3	62	0.4
Electronics and miscellaneous items	4	0.0	11	0.1		
Other goods	54	0.3	49	0.2	23	0.1
Sub-total	849	5.0	935	4.6	683	3.9
Miscellaneous	12	0.1	11	0.1	24	0.1
Total domestic sales	861	5.1	946	4.7	707	4.0
<b>Third-Country Trades</b>						
Trading	10,598	61.9%	14,284	70.0%	11,569	66.0%
Natural resources development	132	0.8	550	2.7	714	4.1
Manufactured product trading	261	1.5	266	1.3	242	1.4
Total third-country trades	10,991	64.2	15,100	74.0	12,525	71.5
Consolidation adjustments	(3,399)	(19.9)	(4,615)	(22.7)	(3,910)	(22.3)
<b>Total sales</b>	<b>17,109</b>	<b>100.0%</b>	<b>20,408</b>	<b>100.0%</b>	<b>17,527</b>	<b>100.0%</b>

**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

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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 case of principal transactions, it takes an average of approximately 51 days



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between POSCO Daewoo's payment of goods and its receipt of payment from its customers. In the instances in which it acts as an arranger for a 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 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 joined a consortium with Korea Gas Corporation, ONGC Videsh Ltd. and the Gas Authority of India Ltd. in November 2002, which made a successful bid in the gas exploration, development and production project in the Myanmar A-1 gas field. In October 2005, the consortium made a successful bid in the gas exploration, development and production project in the Myanmar A-3 gas field, located adjacent to the Myanmar A-1 gas field. In December 2008, the consortium entered into a sales agreement with China National United Oil Corporation to sell the gas produced from the A-1 and A-3 gas fields for a period of 30 years after the commencement of production. In August 2010, Myanmar Oil & Gas Enterprise, the national oil and gas company of Myanmar, acquired a 15.0% interest in each of the projects. As of December 31, 2015, POSCO Daewoo had invested approximately US\$ 1,303 million in the A-1 and A-3 gas field projects, approximately US\$214 million in a related off-shore pipeline project and approximately US\$374 million in a related on-shore pipeline project. POSCO Daewoo plans to make further investments in these gas fields in the future. POSCO Daewoo holds a 51.0% interest in each of the A-1, A-3 and off-shore pipeline projects and a 25.0% interest in the on-shore pipeline project. Production of gas from these gas fields commenced in July 2013 and POSCO Daewoo recognized revenue from the Myanmar gas field project starting in November 2013. POSCO Daewoo recognized revenues of approximately Won 467 billion in 2014 and Won 652 billion in 2015 from the Myanmar gas field project.

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. POSCO Daewoo mitigates the risks associated with such investments through subsidies from the Special Account for Energy Related Funds that is administered, among others, by Korea National Oil Corporation and Korea Resources Corporation, government agencies that promote natural resources development activities of the fund. The fund subsidizes a portion of the investment amount in the event the investor fails to develop viable deposits. If the natural resources development activities are successful, the investor must reimburse the fund for the subsidy amount, together with accrued interest. In most instances, POSCO Daewoo is required to obtain consent from the Ministry of Trade, Industry & Energy prior to investing in natural resources development projects.

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**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, our consolidated subsidiary in which we hold a 52.8% interest, 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

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, and thereby enhance its know-how and profitability.

**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

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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 capacity was approximately 4,526 megawatts as of December 31, 2015. 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.*** In an effort to reduce our dependency on oil, we became the first private company in Korea to import LNG in 2005, and we have steadily increased the use of natural gas for energy generation at our steel production facilities. We operate an LNG receiving terminal that is equipped with two 100,000 kiloliters storage tanks, two 165,000 kiloliters storage tanks and additional facilities 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 are in the process of building a synthetic natural gas production plant with an annual capacity of 500,000 tons in Gwangyang that will become operational during 2016. We believe that the synthetic natural gas production plant provides us with a stable supply of LNG substitutes that we can utilize to meet our growing needs for energy generation.

***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., founded in 1989, provides information and technology consulting and system network integration and outsourcing services. POSCO Processing & Service Co., Ltd., founded in 1994, provides material processing and fabrication services. POSCO Chemtech Company Ltd., formerly POSCO Refractories and Environment 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.

**Table of Contents****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	60.3%
POSCO Engineering & Construction Co., Ltd	Korea	52.8%
POSCO Energy Corporation	Korea	89.0%
Zhangjiagang Pohang Stainless Steel Co., Ltd.	China	82.5%
POSCO Processing & Service Co., Ltd.	Korea	96.0%
POSCO ICT Co., Ltd.	Korea	65.4%

**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 expect to 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.

**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 43 plants, including iron-making, crude steelmaking and continuous casting and other rolling facilities. Pohang Works also has docking facilities capable of accommodating ships as large as 200,000 tons for unloading raw materials, storage areas for up to 34 days supply of raw materials and separate docking facilities for ships carrying products for export. Pohang Works consumed approximately 390 thousand tons of LNG and approximately 790 gigawatt hours of electricity in 2015. Pohang Works is equipped with a highly advanced computerized production-management system allowing constant monitoring and control of the production process.

The following table sets out Pohang Works capacity utilization rates for the periods indicated.

	As of or for the Year Ended December 31,		
	2013	2014	2015
Crude steel and stainless steel production capacity as of end of the year (million tons per year)	17.30	17.40	17.61
Actual crude steel and stainless steel output (million tons)	16.18	16.18	16.23
Capacity utilization rate (%) <sup>(1)</sup>	93.5	93.0	92.2

(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.

**Table of Contents****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 47 plants, including 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 ships as large as 300,000 tons for unloading raw materials, storage areas for 38 days supply of raw materials and separate docking facilities for ships carrying products for export. Gwangyang Works consumed approximately 260 thousand tons of LNG and approximately 1,390 gigawatt hours of electricity in 2015.

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.

The following table sets out Gwangyang Works capacity utilization rates for the periods indicated.

	As of or for the Year Ended December 31,		
	2013	2014	2015
Crude steel production capacity as of end of the year (million tons per year)	20.80	20.80	24.80
Actual crude steel output (million tons)	20.23	21.47	21.74
Capacity utilization rate (%) <sup>(1)</sup>	97.3	103.2	87.7

(1) Calculated by dividing actual crude steel output by the actual crude 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 Co., Ltd. in Indonesia and POSCO SS Vina Co., Ltd. in Vietnam, engage in steel production activities. For a discussion of such operations, see Item 4. Information of 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,		
	2013	2014	2015
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)	1.10	1.15	1.17
Capacity utilization rate (%) <sup>(1)</sup>	100.3	104.9	106.1

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- (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.

**Table of Contents****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,	
	2014	2015
Crude steel production capacity as of end of the year (million tons per year)	3.00	3.00
Actual crude steel output (million tons)	1.90	2.72
Capacity utilization rate (%) <sup>(1)</sup>	63.4	90.7

(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 2015.

	As of or for the Year Ended December 31, 2015
Crude steel production capacity as of end of the year (million tons per year)	1.10
Actual crude steel output (million tons)	0.17
Capacity utilization rate (%) <sup>(1)</sup>	15.8

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

**The Environment**

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. As we continue to diversify our production operations abroad and the importance of comprehensive environmental management continues to grow, we announced an integrated environmental management system in December 2010, pursuant to which all of our subsidiaries located in Korea as well as abroad acquired the ISO 14001 certification. 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.

We have taken additional measures to ensure that we are appropriately addressing environmental issues. We recycle most of the by-products from the steelmaking process. A vital part of our production process requires consumption of water, and many of our operations are located on coastal sites or adjacent to major lakes and rivers. Recognizing the importance of water resources, we established mid-to-long-term water management strategies to more effectively utilize water resources, including increasing water recycling, reducing usage volume, developing substitute sources and reducing manufacturing discharge harmful to the environment. As part of our efforts to preserve biological diversity, we supply steel slag that is used in the construction of underwater facilities designed to restore marine ecosystems damaged by rising seawater temperatures. In addition, we have been developing environmentally friendly products such as chrome-free steel sheets in an effort to compete with products from the European Union, the United States and Japan and to meet strengthened environmental regulations. Anticipating the trend toward increasing regulation of chrome in various steel products, we introduced chrome-free steel products meeting international environmental standards in 2006 that are used to manufacture automotive oil tanks.





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We plan to continue to invest in developing more environmentally friendly steel manufacturing processes. We commenced research and development for a new steel manufacturing technology called FINEX in 1992 jointly with the Research Institute of Industrial Science and Technology and VOEST Alpine, an Austrian company. We will continue to refine FINEX, a low cost, environmentally friendly steel manufacturing process that we believe optimizes our production capacity by utilizing low-grade iron ore fines and using coal as an energy source and a reducing agent. We believe that FINEX offers considerable environmental and economic advantages by eliminating major sources of pollution such as facilities that pretreat raw materials, as well as decreasing operating and raw material costs.

Our climate change response program seeks to minimize the risks from changes in climate as well as to maximize the opportunities available in such environment by enhancing the energy efficiency of our production process. We have disclosed our carbon dioxide emission levels and efforts to deal with climate changes through various channels, including participating in the Carbon Disclosure Project. The Carbon Disclosure Project is an organization based in the United Kingdom that works with major corporations around the world to disclose their greenhouse gas emission levels. We are also in compliance with the Korea Emissions Trading Scheme, which was launched by the Government in January 2015 to reduce greenhouse gas emissions by limiting the total amount of allowable greenhouse gas emission by a manufacturer.

While we believe we are in compliance with applicable environmental laws and regulations in all material respects, we may be responsible for the investigation and remediation of environmental conditions at currently and formerly operated manufacturing or construction sites. For example, we recognized provision expenses of Won 89 billion in 2014 and Won 2 billion in 2015 related to restoration costs of contaminated land near our magnesium plant in Gangneung, Korea, of which provision of Won 37 billion remained as of December 31, 2015. We spent Won 295 billion in 2013, Won 299 billion in 2014 and Won 168 billion in 2015 on anti-pollution facilities.

### **Item 4.E. *Unresolved Staff Comments***

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.

#### **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 of global trading activities of POSCO Daewoo, exporting and importing 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 41 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

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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 2014, unit sales prices in Won for our principal product lines of steel products produced by us and directly sold to external customers, other than hot rolled products and stainless steel products, decreased. The weighted average unit price for such products decreased by 6.2% from 2013 to 2014, in part due to an appreciation in the average value of the Won against the Dollar in 2014 that decreased our export prices in Won terms. The average exchange rate of the Won against the Dollar appreciated from Won 1,095.0 to US\$1.00 in 2013 to Won 1,053.2 to US\$1.00 in 2014.

The unit sales price of wire rods, which accounted for 7.9% of total sales volume of the principal steel products produced by us and directly sold to external customers, decreased by 16.4% in 2014. The unit sales price of plates, which accounted for 15.3% of total sales volume of such products, decreased by 10.6% in 2014. The unit sales price of silicon steel sheets, which accounted for 3.4% of total sales volume of such products, decreased by 6.2% in 2014. The unit sales price of cold rolled products, which accounted for 39.1% of total sales volume of such products, decreased by 5.2% in 2014. On the other hand, the unit sales price of hot rolled products, which accounted for 25.6% of total sales volume of such products, increased by 1.5% in 2014. The unit sales price of stainless steel products, which accounted for 8.7% of total sales volume of such products, increased by 0.1% in 2014.

In 2015, unit sales prices in Won for our principal product lines of steel products produced by us and directly sold to external customers, other than silicon steel sheets, decreased. The weighted average unit price for such products decreased by 14.8% from 2014 to 2015, despite a depreciation in the average value of the Won against the Dollar in 2015 that increased our export prices in Won terms. The average exchange rate of the Won against the Dollar depreciated from Won 1,053.2 to US\$1.00 in 2014 to Won 1,131.5 to US\$1.00 in 2015.

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The unit sales price of hot rolled products, which accounted for 27.0% of total sales volume of the principal steel products produced by us and directly sold to external customers, decreased by

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20.1% in 2015. The unit sales price of wire rods, which accounted for 8.4% of total sales volume of such products, decreased by 19.5% in 2015. The unit sales price of plates, which accounted for 14.5% of total sales volume of such products, decreased by 19.3% in 2015. The unit sales price of stainless steel products, which accounted for 8.7% of total sales volume of such products, decreased by 14.4% in 2015. The unit sales price of cold rolled products, which accounted for 38.0% of total sales volume of such products, decreased by 11.2% in 2015. On the other hand, the unit sales price of silicon steel sheets, which accounted for 3.3% of total sales volume of such products, increased by 5.1% in 2015.

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

Products	2013	For the Year Ended December 31,	
		2014	2015
	(In thousands of Won per ton)		
Cold rolled products	829	786	698
Hot rolled products	677	687	549
Stainless steel products	2,576	2,577	2,207
Plates	849	759	612
Wire rods	1,076	900	724
Silicon steel sheets	1,302	1,221	1,284
Average <sup>(1)</sup>	998	936	798

(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.

	2013	For the Year Ended December 31,	
		2014	2015
	(Percentage of net sales)		
Cost of sales	88.9%	88.7%	88.9%
Selling and administrative expenses	6.3	6.3	7.0
Gross margin	11.1	11.3	11.1
Operating profit margin	4.2	3.9	2.5

Our operating profit margin decreased from 4.2% in 2013 to 3.9% in 2014 and further decreased to 2.5% in 2015, reflecting the current challenging business environment as discussed below.

We are closely monitoring changes in market conditions and we implemented the following measures in recent years to address challenges posed by the global economic downturn:

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; and

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

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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.

	<b>For the Year Ended December 31,</b>		
	<b>2013</b>	<b>2014</b>	<b>2015</b>
Crude steel and stainless steel production capacity (million tons per year) <sup>(1)</sup>	40.4	43.5	47.6
POSCO	38.1	38.2	42.4
POSCO Specialty Steel Co., Ltd. <sup>(1)</sup>	1.2	1.2	
Zhangjiagang Pohang Stainless Steel Co., Ltd.	1.1	1.1	1.1
PT. Krakatau POSCO Co., Ltd.		3.0	3.0
POSCO SS VINA Co., Ltd.			1.1
Actual crude steel and stainless steel output (million tons) <sup>(2)</sup>	38.3	41.4	42.0
POSCO	36.4	37.7	38.0
POSCO Specialty Steel Co., Ltd. <sup>(1)</sup>	0.7	0.7	
Zhangjiagang Pohang Stainless Steel Co., Ltd.	1.1	1.2	1.2
PT. Krakatau POSCO Co., Ltd.		1.9	2.7
POSCO SS VINA Co., Ltd.			0.2
Capacity utilization rate (%) <sup>(1)</sup>	94.6%	95.2%	88.3%
POSCO	95.5%	98.6%	89.5%
POSCO Specialty Steel Co., Ltd. <sup>(1)</sup>	61.8%	60.1%	
Zhangjiagang Pohang Stainless Steel Co., Ltd.	100.3%	104.9%	106.1%
PT. Krakatau POSCO Co., Ltd.		63.4%	90.7%
POSCO SS VINA Co., Ltd.			15.8%

(1) In March 2015, we sold an aggregate of 52.2% of our interest in POSCO Specialty Steel to SeAH Besteel Corp., Shinyoung Securities Co., Ltd. and Shinhan Investment Corp. for approximately Won 419 billion. As a result, we hold a 19.9% interest in POSCO Specialty Steel.

(2) Reflects production capacity of POSCO, Zhangjiagang Pohang Stainless Steel Co., Ltd, PT. Krakatau POSCO Co., Ltd. and POSCO SS VINA Co., Ltd. In 2013 and 2014, also includes production capacity of POSCO Specialty Steel Co., Ltd.

**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 2015, 59.7% 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

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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.

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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 1.3% in 2013, 1.3% in 2014 and 0.7% in 2015, 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 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, 2015, the percentage of allowance for doubtful accounts to trade accounts and notes receivable and other receivables was 7.55%. Our allowance for doubtful accounts increased by 4.8%, or Won 46 billion, from Won 954 billion as of December 31, 2014 to Won 1,000 billion as of December 31, 2015. See Note 23 of Notes to Consolidated Financial Statements. Assumptions and judgments related to the allowance for doubtful accounts did not change in 2015.



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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, 2015 was 0.16%. 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 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

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have decreased by 18% 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 16% in total.

We recognized impairment losses on available-for-sale investments of Won 370 billion in 2014 and Won 143 billion in 2015. Our impairment losses on available-for-sale investments in recent years related primarily to a significant and prolonged decline in the fair value of shares of Hyundai Heavy Industries Co., Ltd. and Dongbu Metal Co., Ltd. below cost.

Historically, our estimates and assumptions used to evaluate impairment of investments have been within expectations. 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 reduced by selling costs) and its value in use. When the book value of long-lived asset exceeds the recoverable value 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 value and the resulting impairment loss is charged to current operations. Such recoverable value 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, 2015, we recognized impairment loss on property, plant and equipment amounting to Won 136 billion in 2015.

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 values 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 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 value 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 five years. For periods beyond the five year forecast period, we use a terminal value approach to estimate the cash flows for the remaining years based on an expected estimated growth rate. This estimated growth rate is based on actual historical results. As of December 31, 2015, we estimated an average discount rate of 5.5% and an average rate of revenue growth of 1.4%. However, given the current economic environment, it is likely that the estimates and assumptions will be more volatile than they have been in the past. 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. Assessment of the timing of when such declines become other than temporary and the amount of such impairment is a matter of

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significant judgment. 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 average discount rates used in these valuations were increased by 1%, then the estimated fair values would have decreased by 19.3% in total. If the estimated average rate of revenue growth rate were decreased by 1%, then the estimated fair values would have decreased by 17.2% in total. These sensitivity analyses do not affect the impairment loss due to the absence of an impairment loss indicator for our 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 would have decreased by 3.65% in total. If the estimated terminal growth rates were decreased by 0.25%, the estimated value-in-use would have decreased by 1.24% in total. If the discount rate assumptions were increased by 0.25% or the terminal growth rate assumptions were decreased by 0.25%, there would be no impact on goodwill impairment. Based on an impairment test as of December 31, 2015, we recognized impairment loss on goodwill of Won 99 billion in 2015, which related primarily to impairment of goodwill related to EPC Equities LLP. 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 goodwill, 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.

***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

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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 the inventory cost amount less 16.1% of gross profit margin to the inventory cost amount plus 11.4% of gross profit margin. 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 2013, 2014 and 2015. The valuation losses of inventories recognized within cost of goods sold were Won 49 billion in 2013, Won 42 billion in 2014 and Won 153 billion in 2015.

***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, 2015, the book value of our investments in associates and joint ventures was Won 3,945 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 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. 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 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 used to evaluate impairment of our interest in our associates and joint ventures and potentially have different impacts on our results of operations.

***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.

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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. 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.

***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 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

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valuations were increased by 1%, then the estimated provision for severance benefits would have decreased by Won 133 billion, or 7.8% 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 130 billion, or 7.6% in total.

**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.

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During the three years ended December 31, 2015, we are required to adopt certain amendments and interpretations to K-IFRS, relating to 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, 2013, 2014 and 2015 to our 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:

	<b>For the Year Ended December 31,</b>		
	<b>2013</b>	<b>2014</b>	<b>2015</b>
	<b>(In millions of Won)</b>		
Operating profit under IFRS as issued by the IASB	2,566,269	2,512,998	1,486,380
Additions:			
Impairment loss on assets held for sale	1,814	17,205	133,547
Loss on disposals of assets held for sale	26,498	14	190,357
Loss on disposals of investments in subsidiaries, associates and joint ventures	19,404	2,556	18,996
Loss on disposals of property, plant and equipment	121,133	50,006	101,732
Impairment loss on property, plant and equipment	9,742	64,833	136,269
Impairment loss on intangible assets	125,316	55,220	161,412
Other bad debt expenses	111,065	96,373	158,071
Idle tangible assets expenses	17,624	12,214	12,773
Impairment loss on other non-current assets	9,000	38,137	12,264
Other provision expenses	65,896	126,601	18,396
Donations	60,940	69,544	62,957
Others	82,374	446,971	435,524
	650,806	979,674	1,442,298
Deductions:			
Gain on disposals of assets held for sale	(101,611)	(48,232)	(227,956)
Gain on disposals of investments in subsidiaries, associates and joint ventures	(7,668)	(41,258)	(88,718)
Gain on disposals of property, plant and equipment	(14,177)	(15,039)	(22,730)
Recovery of allowance for other doubtful accounts			(10,452)
Rental revenues	(1,588)	(1,743)	(1,019)
Gain on insurance proceeds	(1,000)	(2,924)	(14,976)
Others	(103,029)	(160,210)	(183,197)
	(229,073)	(269,406)	(549,048)
Revenue recognition related to development and sale of real estate	98,907	339,820	(329,923)
Cost of sales recognition related to development and sale of real estate	(90,775)	(349,556)	360,336
Operating profit under K-IFRS	2,996,134	3,213,530	2,410,043
Net income (loss) under IFRS as issued by the IASB	1,349,016	564,039	(116,215)
Adjustments related to development and sale of real estate:			
Revenue	98,907	339,820	(329,923)
Cost of sales	(90,775)	(349,556)	360,336
Income tax	(1,968)	2,356	(10,379)
Net income (loss) under K-IFRS	1,355,180	556,659	(96,181)

**Table of Contents****Operating Results 2014 Compared to 2015**

The following table presents our income statement information and changes therein for 2014 and 2015.

	For the Year Ended December 31,		Changes 2014 versus 2015	
	2014	2015	Amount	%
	(In billions of Won)			
Revenue	64,759	58,522	(6,236)	(9.6)%
Cost of sales	57,465	52,018	(5,447)	(9.5)
Gross profit	7,293	6,504	(789)	(10.8)
Administrative expenses	2,310	2,395	85	3.7
Selling expenses	1,760	1,729	(31)	(1.8)
Other operating income	269	549	280	103.8
Other operating expenses	980	1,442	463	47.2
Operating profit	2,513	1,486	(1,027)	(40.9)
Share of loss of equity-accounted investees	300	506	206	68.7
Finance income	2,397	2,557	160	6.7
Finance costs	3,222	3,387	165	5.1
Profit before income tax	1,388	150	(1,238)	(89.2)
Income tax expense	824	267	(557)	(67.6)
Profit (loss)	564	(116)	(680)	N.A. <sup>(1)</sup>
Profit for the period attributable to owners of the controlling company	633	171	(461)	(72.9)
Loss for the period attributable to non-controlling interests	(69)	(288)	(219)	319.0

(1) N.A. means not applicable.



**Table of Contents****Revenue**

The following table presents our revenue by segment and changes therein for 2014 and 2015.

	For the Year Ended December 31,		Changes 2014 versus 2015	
	2014	2015	Amount	%
(In billions of Won)				
<b>Steel Segment:</b>				
External revenue	31,842	28,293	(3,549)	(11.1)%
Internal revenue	17,755	16,544	(1,211)	(6.8)
Total revenue from Steel Segment	49,597	44,837	(4,760)	(9.6)
<b>Trading Segment:</b>				
External revenue	21,166	18,315	(2,850)	(13.5)
Internal revenue	10,095	8,692	(1,403)	(13.9)
Total revenue from Trading Segment	31,261	27,008	(4,253)	(13.6)
<b>Construction Segment:</b>				
External revenue	8,119	8,516	397	4.9
Internal revenue	2,185	1,352	(832)	(38.1)
Total revenue from Construction Segment	10,304	9,868	(436)	(4.2)
<b>Others Segment:</b>				
External revenue	3,972	3,068	(903)	(22.7)
Internal revenue	3,095	2,691	(403)	(13.0)
Total revenue from Others Segment	7,066	5,760	(1,307)	(18.5)
Total revenue prior to consolidation adjustments and basis difference	98,228	87,472	(10,756)	(11.0)
Consolidation adjustments	(33,129)	(29,279)	3,850	(11.6)
Basis difference <sup>(1)</sup>	(340)	330	670	N.A. <sup>(2)</sup>
Revenue	64,759	58,522	(6,236)	(9.6)

(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 41 of Notes to Consolidated Financial Statements.

(2) N.A. means not applicable.

Our revenue decreased by 9.6%, or Won 6,236 billion, from Won 64,759 billion in 2014 to Won 58,522 billion in 2015 primarily due to decreases in external revenues from the Steel Segment, the Trading Segment and the Others Segment, which were offset in part by an increase in external revenues from the Construction Segment. 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 11.1%, or Won 3,549 billion, from Won 31,842 billion in 2014 to Won 28,293 billion primarily

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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, 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 14.8% from Won 936,405 per ton in 2014 to Won 798,217 per ton in 2015, while the overall sales volume of the steel products produced by us and directly sold to external customers (including miscellaneous steel products) increased by 3.9% from 30.4 million tons in 2014 to 31.6 million tons in 2015. Such factors were principally attributable to the following:

The unit sales prices in Won of hot rolled products, wire rods, plates, stainless steel products and cold rolled products produced by us and directly sold to external customers decreased

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by 20.1%, 19.5%, 19.3%, 14.4% and 11.2%, respectively, from 2014 to 2015. On the other hand, the unit sales prices in Won of silicon steel sheets produced by us and directly sold to external customers increased by 5.1% from 2014 to 2015. 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 wire rods, hot rolled products, stainless steel products and cold rolled products produced by us and directly sold to external customers increased by 11.2%, 9.7%, 4.1% and 1.0%, respectively, from 2014 to 2015. On the other hand, our sales volume of plates and silicon steel sheets produced by us and directly sold to external customers decreased by 1.1% and 0.7%, respectively, from 2014 to 2015. 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 9.6%, or Won 4,760 billion, from Won 49,597 billion in 2014 to Won 44,837 billion in 2015 as internal revenue from inter-company transactions decreased by 6.8%, or Won 1,211 billion, from Won 17,755 billion in 2014 to Won 16,543 billion in 2015. Such decrease primarily reflected a decrease in the average unit sales price of the steel products sold to our sales subsidiaries, which was offset in part by an increase in reliance on sales subsidiaries for the sale of our steel products.

**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 13.5%, or Won 2,850 billion, from Won 21,166 billion in 2014 to Won 18,315 billion in 2015 primarily due to a decrease in third-country trades by POSCO Daewoo and our other trading subsidiaries from 2014 to 2015, 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, which were partially offset by an increase in revenue from natural resources development activities, particularly from revenue related to the gas produced at the Myanmar gas fields.

Total revenue from the Trading Segment, which includes internal revenue from inter-company transactions, decreased by 13.6%, or Won 4,253 billion, from Won 31,261 billion in 2014 to Won 27,008 billion in 2015 as internal revenue from inter-company transactions decreased by 13.9%, or Won 1,403 billion, from Won 10,095 billion in 2014 to Won 8,692 billion in 2015 primarily due to the reasons stated above.

**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 4.9%, or Won 397 billion, from Won 8,119 billion in 2014 to Won 8,516 billion in 2015 primarily due to an increase in POSCO E&C's construction activities in Brazil relating to the construction of a steel plant.

Total revenue from the Construction Segment, which includes internal revenue from inter-company transactions, decreased by 4.2%, or Won 436 billion, from Won 10,304 billion in 2014 to Won 9,868 billion in 2015 as internal revenue from inter-company transactions decreased by 38.1%, or Won 832 billion, from Won 2,185 billion in 2014 to Won 1,352 billion in 2015. Such decrease primarily reflected a decrease in the amount of construction activities for member companies of the POSCO Group, which was partially offset by an increase in external revenue as discussed above.

**Others Segment.** The Others Segment 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 22.7%, or Won 903 billion, from Won 3,972 billion in

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2014 to Won 3,068 billion in 2015 primarily due to a decrease in revenue of POSCO Energy Corporation reflecting a decrease in the unit price of electric power sold, which was offset in part by an increase in the volume of power sold.

Total revenue from the Others Segment, which includes internal revenue from inter-company transactions, decreased by 18.5%, or Won 1,307 billion, from Won 7,066 billion in 2014 to Won 5,760 billion in 2015 as internal revenue from inter-company transactions decreased by 13.0%, or Won 403 billion, from Won 3,095 billion in 2014 to Won 2,691 billion in 2015. Such decrease primarily reflected a decrease in inter-company sales of POSCO ICT Co., Ltd. due to a general reduction in investments made by the POSCO Group in 2015, which in turn reduced demand for system network integration and outsourcing services provided by POSCO ICT Co., Ltd. In addition, inter-company sales between eNtoB Corporation and POSCO E&C related to the construction of a synthetic natural gas production plant in Gwangyang also decreased in 2015 due to the substantial completion of POSCO E&C's construction activities during 2015.

**Cost of Sales**

Our cost of sales decreased by 9.5%, or Won 5,447 billion, from Won 57,465 billion in 2014 to Won 52,018 billion in 2015. 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 trading 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 changes therein for 2014 and 2015.

	For the Year Ended December 31,		Changes 2014 versus 2015	
	2014	2015	Amount	%
	(In billions of Won)			
Steel Segment	44,587	40,381	(4,207)	(9.4)%
Trading Segment	29,884	25,563	(4,321)	(14.5)
Construction Segment	9,554	9,248	(305)	(3.2)
Others Segment	6,366	5,158	(1,208)	(19.0)
Consolidation adjustments	(32,577)	(28,692)	3,884	(11.9)
Basis difference <sup>(1)</sup>	(350)	360	710	N.A. <sup>(2)</sup>
Cost of sales	57,465	52,018	(5,447)	(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 41 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 9.4%, or Won 4,207 billion, from Won 44,587 billion in 2014 to Won 40,381 billion in 2015 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 directly sold to external customers.

**Trading Segment.** The cost of sales of our Trading Segment, prior to consolidation adjustments, decreased by 14.5%, or Won 4,321 billion, from Won 29,884 billion in 2014 to Won 25,563 billion in 2015 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.



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**Construction Segment.** The cost of sales of our Construction Segment, prior to consolidation adjustments, decreased by 3.2%, or Won 305 billion, from Won 9,554 billion in 2014 to Won 9,248 billion in 2015 in line with the decrease in total revenue from the Construction Segment.

**Others Segment.** The cost of sales of our Others Segment, prior to consolidation adjustments, decreased by 19.0%, or Won 1,208 billion, from Won 6,366 billion in 2014 to Won 5,158 billion in 2015 primarily due to decreases in the average price in Won terms of key raw materials of POSCO Energy Corporation.

**Gross Profit**

Our gross profit decreased by 10.8%, or Won 789 billion, from Won 7,293 billion in 2014 to Won 6,504 billion in 2015 primarily due to decreases in gross profit of our Steel Segment, Construction Segment and Others Segment, which were partially offset by an increase in gross profit of our Trading Segment. Our gross margin decreased from 11.3% in 2014 to 11.1% in 2015.

The following table presents our gross profit by segment, prior to adjusting for inter-company transactions that are eliminated during consolidation, and changes therein for 2014 and 2015.

	For the Year Ended December 31,		Changes	
	2014	2015	2014 versus 2015	
	(In billions of Won)		Amount	%
Steel Segment	5,010	4,456	(553)	(11.0)%
Trading Segment	1,376	1,445	68	4.9
Construction Segment	750	619	(130)	(17.4)
Others Segment	700	601	(99)	(14.1)
Consolidation adjustments	(553)	(587)	(34)	6.2
Basis difference <sup>(1)</sup>	10	(30)	(40)	N.A. <sup>(2)</sup>
<b>Gross profit</b>	<b>7,293</b>	<b>6,504</b>	<b>(789)</b>	<b>(10.8)</b>

(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 41 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, decreased by 11.0%, or Won 553 billion, from Won 5,010 billion in 2014 to Won 4,456 billion in 2015 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, which was partially offset by 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 and an increase 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, decreased from 10.1% in 2014 to 9.9% in 2015.

**Trading Segment.** The gross profit of our Trading Segment, prior to consolidation adjustments, increased by 4.9%, or Won 68 billion, from Won 1,376 billion in 2014 to Won 1,445 billion in 2015, reflecting POSCO Daewoo's and our other trading subsidiaries' efforts to streamline their trading operations to focus on higher margin trades, as well as an increase in gross profit of the Myanmar gas fields. The gross margin of our Trading Segment, prior to consolidation adjustments, increased from 4.4% in 2014 to 5.3% in 2015.

**Construction Segment.** The gross profit of our Construction Segment, prior to consolidation adjustments, decreased by 17.4%, or Won 130 billion, from Won 750 billion in 2014 to Won 619 billion in 2015, and the gross margin decreased from 7.3% in 2014 to 6.3% in 2015 primarily due to a



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decrease in construction activities for member companies of the POSCO Group, as well as the weakening of market conditions in the domestic construction industry in 2015 that resulted in an increase in competition.

**Others Segment.** The gross profit of our Others Segment, prior to consolidation adjustments, decreased by 14.1%, or Won 99 billion, from Won 700 billion in 2014 to Won 601 billion in 2015 primarily due to decreases in gross profit of POSCO Chemtech Co., Ltd., POS-HIMetal Co., Ltd. and POSCO ICT Co., Ltd. Despite such decreases, gross margin increased from 9.9% in 2014 to 10.4% in 2015 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 2014 and 2015.

	For the Year Ended December 31,		Changes	
	2014	2015	2014 versus 2015	
	(In billions of Won)		Amount	%
Freight and custody expenses	1,552	1,532	(20)	(1.3)%
Sales commissions	66	80	14	20.8
Sales promotion	26	22	(3)	(12.9)
Sales insurance premium	40	31	(9)	(22.4)
Contract cost	50	38	(11)	(23.0)
Others	27	25	(2)	(5.6)
<b>Total selling expenses</b>	<b>1,760</b>	<b>1,729</b>	<b>(31)</b>	<b>(1.8)</b>
Wages and salaries	781	811	29	3.8%
Expenses related to post-employment benefits	67	87	21	30.8
Other employee benefits	174	194	20	11.4
Depreciation and amortization	273	274	1	0.3
Taxes and public dues	56	74	19	33.5
Rental	137	120	(18)	(12.8)
Advertising	104	91	(14)	(13.2)
Research and development	175	136	(40)	(22.7)
Service fees	216	219	3	1.3
Bad debt allowance	109	190	81	74.1
Others	217	200	(16)	(7.5)
<b>Total administrative expenses</b>	<b>2,310</b>	<b>2,395</b>	<b>85</b>	<b>3.7</b>
<b>Total selling and administrative expenses</b>	<b>4,070</b>	<b>4,124</b>	<b>54</b>	<b>1.3</b>

Our selling and administrative expenses increased by 1.3%, or Won 54 billion, from Won 4,070 billion in 2014 to Won 4,124 billion in 2015 primarily due to increases in bad debt allowance, labor-related expenses and expenses related to post-employment benefits, which were partially offset by a decrease in research and development expenses and freight and custody expenses. Such factors were principally attributable to the following:

Our bad debt allowance increased by 74.1%, or Won 81 billion, from Won 109 billion in 2014 to Won 190 billion in 2015 primarily due to additional bad debt allowance recognized related to POSCO Daewoo's outstanding receivables in Kazakhstan as well as POSCO E&C's bad debt allowance related to pre-sales of residential apartments in Chungnam, Korea.

Our labor-related expenses included in selling and administrative expenses, which consist of wages and salaries, other employee benefits and expenses related to post-employment benefits, increased by 6.8%, or Won 70 billion, from Won 1,022 billion in 2014 to Won 1,092 billion in 2015 primarily due to increases in wages as well as post-employment





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benefits and other employee benefits related to an increase in early retirement of our employees in 2015, which were offset in part by a decrease in the number of administrative personnel.

Our research and development expenses decreased by 22.7%, or Won 40 billion, from Won 175 billion in 2014 to Won 136 billion in 2015 primarily due to a decrease in our development activities for new products.

Our freight and custody expenses decreased by 1.3%, or Won 20 billion, from Won 1,552 billion in 2014 to Won 1,532 billion in 2015 primarily due to an increase in our export volume, which was offset in part by a decrease in freight rates.

**Other Operating Income and Expenses**

The following table presents a breakdown of our other operating income and expenses and changes therein for 2014 and 2015.

	For the Year Ended December 31,		Changes	
	2014	2015	Amount	%
	(In billions of Won)			
Gain on disposals of assets held for sale	48	228	180	372.6%
Gain on disposals of investments in subsidiaries, associates and joint ventures	41	89	47	115.0
Gain on disposals of property, plant and equipment	15	23	8	51.1
Recovery of allowance for other doubtful accounts		10	10	N.A. <sup>(1)</sup>
Gain on insurance proceeds	3	15	12	412.2
Others	162	184	22	13.7
<b>Total other operating income</b>	<b>269</b>	<b>549</b>	<b>280</b>	<b>103.8</b>

(1) N.A. means not applicable.

Our other operating income increased by 103.8%, or Won 280 billion, from Won 269 billion in 2014 to Won 549 billion in 2015 primarily due to increases in gain on disposals of assets held for sale and gain on disposals of investments in subsidiaries, associates and joint ventures. Our gain on disposals of assets held for sale increased by 372.6%, or Won 180 billion, from Won 48 billion in 2014 to Won 228 billion in 2015. In 2014, we recognized a gain of Won 48 billion on disposals of assets held for sale primarily from our disposition of International Business Center Corporation shares. In 2015, we recognized a gain of Won 228 billion on disposals 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. Our gain on disposals of investments in subsidiaries, associates and joint ventures increased by 115.0%, or Won 47 billion, from Won 41 billion in 2014 to Won 89 billion in 2015 primarily due to disposition of our interests in some of our subsidiaries and associates as part of our reorganization efforts.

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	For the Year Ended December 31,		Changes 2014 versus 2015	
	2014	2015 (In billions of Won)	Amount	%
Impairment loss on assets held for sale	17	134	116	676.2%
Loss on disposals of assets held for sale	0	190	190	N.A. <sup>(1)</sup>
Loss on disposals of investments in subsidiaries, associates and joint ventures	3	19	16	643.2
Loss on disposals of property, plant and equipment	50	102	52	103.4
Impairment loss on property, plant and equipment	65	136	71	110.2
Impairment loss on intangible assets	55	161	106	192.3
Other bad debt expenses	96	158	62	64.0
Idle tangible assets expenses	12	13	1	4.6
Impairment loss on other non-current assets	38	12	(26)	(67.8)
Other provision expenses	127	18	(108)	(85.5)
Donations	70	63	(7)	(9.5)
Others <sup>(2)</sup>	447	436	(11)	(2.6)
<b>Total other operating expenses</b>	<b>980</b>	<b>1,442</b>	<b>463</b>	<b>47.2</b>

(1) N.A. means not applicable.

(2) Includes penalty and additional tax payments of Won 352 billion in 2014 and lawsuit settlement expenses of Won 299 billion in 2015.

Our other operating expenses increased by 47.2%, or Won 463 billion, from Won 980 billion in 2014 to Won 1,442 billion in 2015, primarily due to our recognition of lawsuit settlement expenses in 2015 related to the litigation with Nippon Steel & Sumitomo Metal Corporation as well as increases in our loss on disposals of assets held for sale, impairment loss on assets held for sale, impairment loss on intangible assets and impairment loss on property, plant and equipment, which were partially offset by decreases in penalty and additional tax payments and our other provision expenses. 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 2014. See Item 8.A. Consolidated Statements and Other Financial Information Legal Proceedings.

We recognized a loss on disposals of assets held for sale of Won 190 billion in 2015 primarily due to the disposal of our investment in Nacional Minerios S.A. In 2014, we only recognized Won 14 million of loss on disposals of assets held for sale.

Our impairment loss on assets held for sale increased by 676.2%, or Won 116 billion, from Won 17 billion in 2014 to Won 134 billion in 2015 primarily due to classification of our investment in Nacional Minerios S.A. as assets held for sale and impairment loss from the fair value of such investment less cost to sell being below the carrying amount.

Our impairment loss on intangible assets increased by 192.3%, or Won 106 billion, from Won 55 billion in 2014 to Won 161 billion in 2015 primarily due to impairment losses in goodwill in 2015 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.

Our impairment loss on property, plant and equipment increased by 110.2%, or Won 71 billion, from Won 65 billion in 2014 to Won 136 billion in 2015 primarily due to an impairment loss of Won 46 billion related to the suspension of operation of our

magnesium plant in Gangneung, Korea.

Our penalty and additional tax payments decreased by 98.7%, or Won 348 billion, from Won 352 billion in 2014 to Won 5 billion in 2015 primarily due to additional tax payments of

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Won 272 billion resulting from Korea National tax Service's periodic audit completed in 2014, which mostly related to value added taxes, compared to no such expenses in 2015.

Our other provision expenses decreased by 85.5%, or Won 108 billion, from Won 127 billion in 2014 to Won 18 billion in 2015 primarily due to a decrease in our provision related to restoration costs of contaminated land near our magnesium plant in Gangneung, Korea, from Won 89 billion in 2014 to Won 37 billion in 2015.

**Operating Profit**

Due to the factors described above, our operating profit decreased by 40.9%, or Won 1,027 billion, from Won 2,513 billion in 2014 to Won 1,486 billion in 2015. Our operating margin decreased from 3.9% in 2014 to 2.5% in 2015.

**Share of Loss of Equity-Accounted Investees**

Our share of loss of equity-accounted investees increased by 68.7%, or by Won 206 billion, from Won 300 billion in 2014 to Won 506 billion in 2015. In 2014, we recognized a net loss for our proportionate share of equity-accounted investees of Won 300 billion primarily due to our share of loss of POSCO Plantec Co., Ltd. (Won 211 billion) and CSP-Compania Siderurgica do Pecem (Won 57 billion), which was partially offset by our share of profit of KOBRASCO (Won 30 billion) and South-East Asia Gas Pipeline Company Ltd. (Won 26 billion). 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) 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). For a discussion of our share of profits or losses of equity-accounted investees, 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 2014 and 2015.

	For the Year Ended December 31,		Changes	
	2014	2015	2014 versus 2015	
	(In billions of Won)		Amount	%
Interest income	228	210	(18)	(7.9)%
Dividend income	48	184	136	284.1
Gain on foreign currency transactions	1,022	1,025	3	0.3
Gain on foreign currency translations	453	466	13	2.8
Gain on derivatives transactions	328	366	39	11.8
Gain on valuation of derivatives	73	155	82	112.0
Gain on disposals of available-for-sale financial assets	236	139	(97)	(41.2)
Others	7	11	3	46.0
<b>Total finance income</b>	<b>2,397</b>	<b>2,557</b>	<b>160</b>	<b>6.7</b>
Interest expenses	796	789	(7)	(0.9)%
Loss on foreign currency transactions	1,034	1,157	123	11.9
Loss on foreign currency translations	429	717	288	67.1
Loss on derivatives transactions	353	343	(10)	(2.9)
Loss on valuation of derivatives	101	72	(29)	(28.8)
Impairment loss on available-for-sale financial assets	370	143	(227)	(61.4)
Others	139	166	27	19.4
<b>Total finance costs</b>	<b>3,222</b>	<b>3,387</b>	<b>165</b>	<b>5.1</b>



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We recognized a net gain on foreign currency translations of Won 25 billion in 2014 compared to a net loss on foreign currency translations of Won 251 billion in 2015, and net loss on foreign currency transactions increased more than ten-fold, or Won 120 billion, from Won 11 billion in 2014 to Won 132 billion in 2015, as the Won depreciated against the Dollar in both 2014 and 2015 and the Won appreciated against the Yen in 2014 while it depreciated against the Yen in 2015. In terms of the market average exchange rates announced by Seoul Money Brokerage Services, Ltd., the Won depreciated from Won 1,055.3 to US\$1.00 as of December 31, 2013 to Won 1,099.2 to US\$1.00 as of December 31, 2014 and depreciated further to Won 1,172.0 to US\$1.00 as of December 31, 2015. The Won appreciated against the Yen from Won 1,004.7 per Yen 100 as of December 31, 2013 to Won 920.1 per Yen 100 as of December 31, 2014 but depreciated to Won 972.0 per Yen 100 as of December 31, 2015. Against such fluctuations, we recognized a net loss on valuation of derivatives of Won 28 billion in 2014 compared to a net gain on valuations of derivatives of Won 83 billion in 2015, as well as a net loss on transactions of derivatives of Won 26 billion in 2014 compared to a net gain on transactions of derivatives of Won 23 billion in 2015.

Our gain on disposals of available-for-sale financial assets decreased by 41.2%, or Won 97 billion, from Won 236 billion in 2014 to Won 139 billion in 2015. Our gain in 2014 related primarily to our disposal of interest in SK Telecom Co., Ltd., and our gain in 2015 related primarily to our acquisition of, and subsequent partial disposal of, shares in Congonhas Minerios S.A., as well as our disposal of interest in Sandfire Resources NL by POSCO Australia Pty Ltd. We acquired shares in Congonhas Minerios S.A., a Brazil-based iron ore mining company, in exchange for our shares in Nacional Minerios S.A. For a discussion of our impairment loss on our investment in Nacional Minerios S.A., see Operating Results 2014 Compared to 2015 Other Operating Income and Expenses.

Our impairment loss on available-for-sale financial assets decreased by 61.4%, or Won 227 billion, from Won 370 billion in 2014 to Won 143 billion in 2015 primarily due to a decrease in our impairment in recent years that related primarily to a significant and prolonged decline in the fair value of shares of Hyundai Heavy Industries Co., Ltd. and Dongbu Metal Co., Ltd. below cost.

Our dividend income increased by 284.1%, or Won 136 billion, from Won 48 billion in 2014 to Won 184 billion in 2015 primarily due to the dividend we received from Nacional Minerios S.A.

***Income Tax Expense***

Our income tax expense decreased by 67.6%, or Won 557 billion, from Won 824 billion in 2014 to Won 267 billion in 2015. Our effective tax rate increased from 59.4% in 2014 to 177.3% in 2015 primarily due to an increase in tax related to investments in subsidiaries, associates and joint ventures from Won 372 billion in 2014 to Won 440 billion in 2015 (that resulted in an increase in effective tax rate of 265.6%), an increase in tax credits from Won 50 billion in 2014 to Won 152 billion in 2015 due to an increase in investment tax credit (that resulted in a decrease in effective tax rate of 97.6%), a decrease in tax effects due to permanent differences from Won 70 billion in 2014 to Won (26) billion in 2015 (that resulted in a decrease in effective tax rate of 22.4%), as well as an increase over provision from prior years from Won 0.5 billion in 2014 to 47 billion in 2015 (that resulted in a decrease in effective tax rate of 31.3%). See Note 35 of Notes to Consolidated Financial Statements.

**Table of Contents****Profit**

Due to the factors described above, we recorded profit of Won 564 billion in 2014 compared to loss of Won 116 billion in 2015.

The following table presents our profit and loss by segment, prior to adjusting for inter-company transactions that are eliminated during consolidation, and changes therein for 2014 and 2015.

	For the Year Ended December 31,		Changes	
	2014	2015	2014 versus 2015	
	(In billions of Won)		Amount	%
Steel Segment	857	181	(676)	(78.8)%
Trading Segment	181	39	(142)	(78.6)
Construction Segment	13	(276)	(289)	N.A. <sup>(1)</sup>
Others Segment	9	(66)	(74)	N.A. <sup>(1)</sup>
Consolidation adjustments	(503)	25	528	N.A. <sup>(1)</sup>
Basis difference <sup>(2)</sup>	7	(20)	(27)	N.A. <sup>(1)</sup>
Profit (loss) for the period	564	(116)	(680)	N.A. <sup>(1)</sup>

(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 41 of Notes to Consolidated Financial Statements.

**Operating Results 2013 Compared to 2014**

The following table presents our income statement information and changes therein for 2013 and 2014.

	For the Year Ended December 31,		Changes	
	2013	2014	2013 versus 2014	
	(In billions of Won)		Amount	%
Revenue	61,766	64,759	2,993	4.8%
Cost of sales	54,914	57,465	2,552	4.6
Gross profit	6,852	7,293	441	6.4
Administrative expenses	2,232	2,310	78	3.5
Selling expenses	1,632	1,760	128	7.8
Other operating income	229	269	40	17.6
Other operating expenses	651	980	329	50.5
Operating profit	2,566	2,513	(53)	(2.1)
Share of loss of equity-accounted investees	180	300	120	66.8
Finance income	2,381	2,397	16	0.7
Finance costs	2,829	3,222	393	13.9
Profit before income tax	1,938	1,388	(550)	(28.4)



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Income tax expense	589	824	235	39.9
Profit	1,349	564	(785)	(58.2)
Profit for the period attributable to owners of the controlling company	1,371	633	(738)	(53.8)
Loss for the period attributable to non-controlling interests	(22)	(69)	(47)	214.1

**Table of Contents****Revenue**

The following table presents our revenue by segment and changes therein for 2013 and 2014.

	For the Year Ended December 31,		Changes 2013 versus 2014	
	2013	2014	Amount	%
(In billions of Won)				
<b>Steel Segment:</b>				
External revenue	31,795	31,842	47	0.1%
Internal revenue	16,229	17,755	1,526	9.4
Total revenue from Steel Segment	48,024	49,597	1,573	3.3
<b>Trading Segment:</b>				
External revenue	18,308	21,166	2,858	15.6
Internal revenue	7,611	10,095	2,484	32.6
Total revenue from Trading Segment	25,919	31,261	5,342	20.6
<b>Construction Segment:</b>				
External revenue	6,897	8,119	1,222	17.7
Internal revenue	3,885	2,185	(1,701)	(43.8)
Total revenue from Construction Segment	10,782	10,304	(478)	(4.4)
<b>Others Segment:</b>				
External revenue	4,865	3,972	(894)	(18.4)
Internal revenue	3,019	3,095	75	2.5
Total revenue from Others Segment	7,885	7,066	(818)	(10.4)
Total revenue prior to consolidation adjustments and basis difference	92,610	98,228	5,618	6.1
Consolidation adjustments	(30,745)	(33,129)	(2,384)	7.8
Basis difference <sup>(1)</sup>	(99)	(340)	(241)	243.4
Revenue	61,766	64,759	2,993	4.8

(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 41 of Notes to Consolidated Financial Statements.

Our revenue increased by 4.8%, or Won 2,993 billion, from Won 61,766 billion in 2013 to Won 64,759 billion in 2014 due to increases in external revenues from the Trading Segment and the Construction Segment, which were offset in part by a decrease in external revenue from the Others Segment. External revenues from the Steel Segment remained relatively unchanged. 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 slightly by 0.1%, or Won 47 billion, from Won 31,795 billion in 2013 to Won 31,842 billion in 2014 primarily due to 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), which was largely offset by a decrease in the average unit

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sales price per ton of the principal steel products produced by us and directly sold to external customers. The overall sales volume of the steel products produced by us and directly sold to external customers (including miscellaneous steel products) increased by 4.4% from 29.1 million tons in 2013 to 30.4 million tons in 2014, while the weighted average unit sales price per ton of the principal steel products produced by us and directly sold to external customers decreased by 6.2% from Won 998,012 per ton in 2013 to Won 936,405 per ton in 2014. Such factors were principally attributable to the following:

The sales volume of wire rods, plates and hot rolled produced by us and directly sold to external customers increased by 38.3%, 20.5% and 2.6%, respectively, from 2013 to 2014. On the other hand, our sales volume of silicon steel sheets, stainless steel products

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and cold rolled produced by us and directly sold to external customers decreased by 8.5%, 8.1% and 0.3%, respectively, from 2013 to 2014. For a discussion of changes in sales volume of each of our principal product lines, see Item 4.B. Business Overview Major Products.

The unit sales prices in Won of wire rods, plates, silicon steel sheets and cold rolled products produced by us and directly sold to external customers decreased by 16.4%, 10.6%, 6.2% and 5.2%, respectively, from 2013 to 2014. On the other hand, the unit sales prices in Won of hot rolled products and stainless steel products produced by us and directly sold to external customers increased by 1.5% and 0.1%, respectively, from 2013 to 2014. 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.

Total revenue from the Steel Segment, which includes internal revenue from inter-company transactions, increased by 3.3%, or Won 1,573 billion, from Won 48,024 billion in 2013 to Won 49,597 billion in 2014, as internal revenue from inter-company transactions increased from 2013 to 2014 due to an increase in reliance on sales subsidiaries for the sale of our steel products.

**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 15.6%, or Won 2,858 billion, from Won 18,308 billion in 2013 to Won 21,166 billion in 2014 primarily due to an increase in third-country trades by POSCO Daewoo and our other trading subsidiaries.

Total revenue from the Trading Segment, which includes internal revenue from inter-company transactions, increased by 20.6%, or Won 5,342 billion, from Won 25,919 billion in 2013 to Won 31,261 billion in 2014 primarily due to the reasons stated above, which was enhanced by an increase in reliance on sales subsidiaries by us on our steel trading activities.

**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 17.7%, or Won 1,222 billion, from Won 6,897 billion in 2013 to Won 8,119 billion in 2014 primarily due to an increase in POSCO E&C's construction activities in architectural works.

Total revenue from the Construction Segment, which includes internal revenue from inter-company transactions, decreased by 4.4%, or Won 478 billion, from Won 10,782 billion in 2013 to Won 10,304 billion in 2014 primarily due to a decrease in internal revenue from inter-company transactions by 43.8%, or Won 1,701 billion, from Won 3,885 billion in 2013 to Won 2,185 billion in 2014 resulting from a decrease in the amount of construction activities for member companies of the POSCO Group. The impact from such decrease was offset in part by an increase in external revenue as discussed above.

**Others Segment.** The Others Segment 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 18.4%, or Won 894 billion, from Won 4,865 billion in 2013 to Won 3,972 billion in 2014 primarily due to a decrease in revenue of POSCO Energy Corporation reflecting a decrease in demand for fuel cell energy as well as a decrease in revenue of POSCO ICT Co., Ltd. following the completion of some of its major service contracts in 2014.

Total revenue from the Others Segment, which includes internal revenue from inter-company transactions, decreased by 10.4%, or Won 818 billion, from Won 7,885 billion in 2013 to Won 7,066 billion in 2014, primarily due to the reasons stated above.

**Cost of Sales**

Our cost of sales increased by 4.6%, or Won 2,552 billion, from Won 54,914 billion in 2013 to Won 57,465 billion in 2014. The increase in cost of sales was primarily due to increases in our sales

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volume of steel products and trading activities as discussed above, which were partially offset by decreases in the average price in Won terms of key raw materials that were used to manufacture our steel products sold.

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 changes therein for 2013 and 2014.

	For the Year Ended December 31,		Changes	
	2013	2014	2013 versus 2014	%
	(In billions of Won)			
Steel Segment	43,274	44,587	1,313	3.0%
Trading Segment	24,816	29,884	5,068	20.4
Construction Segment	9,848	9,554	(294)	(3.0)
Others Segment	7,123	6,366	(757)	(10.6)
Consolidation adjustments	(30,056)	(32,576)	(2,520)	8.4
Basis difference <sup>(1)</sup>	(91)	(350)	(259)	284.6
Cost of sales	54,914	57,465	2,552	4.6

(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 41 of Notes to Consolidated Financial Statements.

**Steel Segment.** The cost of sales of our Steel Segment, prior to consolidation adjustments, increased by 3.0%, or Won 1,313 billion, from Won 43,274 billion in 2013 to Won 44,587 billion in 2014 primarily due to increase in our sales volume of the principal steel products produced by us and directly sold to external customers, the impact of which was partially offset by decreases in the average price in Won terms of key raw materials that were used to manufacture our finished goods sold.

**Trading Segment.** The cost of sales of our Trading Segment, prior to consolidation adjustments, increased by 20.4%, or Won 5,068 billion, from Won 24,816 billion in 2013 to Won 29,884 billion in 2014 primarily due to an increase in our trading volumes as well as an increase in the production costs related to gas produced at the Myanmar gas field and sold to customers. The Myanmar gas field began its commercial production in July 2013.

**Construction Segment.** The cost of sales of our Construction Segment, prior to consolidation adjustments, decreased by 3.0%, or Won 294 billion, from Won 9,848 billion in 2013 to Won 9,554 billion in 2014 primarily due to a decrease in the construction activities of POSCO E&C.

**Others Segment.** The cost of sales of our Others Segment, prior to consolidation adjustments, decreased by 10.6%, or Won 757 billion, from Won 7,123 billion in 2013 to Won 6,366 billion in 2014 primarily due to decreases in the average price in Won terms of key raw materials that were used by POSCO Energy Corporation in its power generation activities, as well as a decrease in costs from completion of POSCO ICT Co., Ltd.'s major service contracts in 2014.

**Gross Profit**

Our gross profit increased by 6.4%, or Won 441 billion, from Won 6,852 billion in 2013 to Won 7,293 billion in 2014 primarily due to increases in gross profit of our Trading Segment and Steel Segment, which were partially offset by a decrease in gross profit of our Construction Segment. Our gross margin increased from 11.1% in 2013 to 11.3% in 2014.

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The following table presents our gross profit by segment, prior to adjusting for inter-company transactions that are eliminated during consolidation, and changes therein for 2013 and 2014.

	For the Year Ended December 31,		Changes 2013 versus 2014	
	2013	2014	Amount	%
	(In billions of Won)			
Steel Segment	4,749	5,010	260	5.5%
Trading Segment	1,103	1,376	274	24.8
Construction Segment	934	750	(184)	(19.7)
Others Segment	761	700	(61)	(8.0)
Consolidation adjustments	(687)	(553)	134	(19.5)
Basis difference <sup>(1)</sup>	(8)	10	18	N.A. <sup>(2)</sup>
Gross profit	6,852	7,293	441	6.4

(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 41 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 5.5%, or Won 260 billion, from Won 4,749 billion in 2013 to Won 5,010 billion in 2014 primarily due to an increase in the overall sales volume of our steel products, as discussed above, which was partially offset by a decrease in the average unit sales price per ton of our principal steel products as well as 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. The gross margin of our Steel Segment, which is gross profit as a percentage of total revenue prior to consolidation adjustments, increased slightly from 9.9% in 2013 to 10.1% in 2014.

**Trading Segment.** The gross profit of our Trading Segment, prior to consolidation adjustments, increased by 24.8%, or Won 274 billion, from Won 1,103 billion in 2013 to Won 1,376 billion in 2014, reflecting an increase in overall trading volumes as well as an increase in the gross profit from our sale of gas produced at the Myanmar gas field. The gross margin of our Trading Segment, prior to consolidation adjustments, increased slightly from 4.3% in 2013 and 4.4% in 2014.

**Construction Segment.** The gross profit of our Construction Segment, prior to consolidation adjustments, decreased by 19.7%, or Won 184 billion, from Won 934 billion in 2013 to Won 750 billion in 2014, and the gross margin decreased from 8.7% in 2013 to 7.3% in 2014 primarily due to a decrease in POSCO E&C's construction activities for POSCO as well as a decrease in its participation of construction projects with higher margins in 2014.

**Others Segment.** The gross profit of our Others Segment, prior to consolidation adjustments, decreased by 8.0%, or Won 61 billion, from Won 761 billion in 2013 to Won 700 billion in 2014 while its gross margin increased from 9.7% in 2013 to 9.9% in 2014, primarily due to the results of POSCO Energy Corporation described above.

**Table of Contents*****Selling and Administrative Expenses***

The following table presents a breakdown of our selling and administrative expenses and changes therein for 2013 and 2014.

	For the Year Ended December 31,		Changes	
	2013	2014	Amount	%
	(In billions of Won)			
Freight and custody expenses	1,433	1,552	119	8.3%
Sales commissions	74	66	(8)	(10.2)
Sales promotion	27	26	(1)	(5.0)
Sales insurance premium	27	40	13	46.3
Contract cost	37	50	13	33.7
Others	34	27	(7)	(20.5)
<b>Total selling expenses</b>	<b>1,632</b>	<b>1,760</b>	<b>128</b>	<b>7.8</b>
Wages and salaries	755	781	27	3.5%
Expenses related to post-employment benefits	67	67	(1)	(1.1)
Other employee benefits	166	174	8	5.1
Depreciation and amortization	228	273	45	19.6
Rental	110	137	27	24.7
Repairs	6	14	8	143.9
Advertising	106	104	(1)	(1.1)
Research and development	193	175	(18)	(9.1)
Service fees	240	216	(24)	(10.0)
Bad debt allowance	90	109	19	20.9
Others	271	258	(12)	(4.6)
<b>Total administrative expenses</b>	<b>2,232</b>	<b>2,310</b>	<b>78</b>	<b>3.5</b>
<b>Total selling and administrative expenses</b>	<b>3,864</b>	<b>4,070</b>	<b>206</b>	<b>5.3</b>

Our selling and administrative expenses increased by 5.3%, or Won 206 billion, from Won 3,864 billion in 2013 to Won 4,070 billion in 2014 primarily due to increases in freight and custody expenses and depreciation and amortization expenses, which were partially offset by a decrease in service fees and research and development expenses. Such factors were principally attributable to the following:

Our freight and custody expense increased by 8.3%, or Won 119 billion, from Won 1,433 billion in 2013 to Won 1,552 billion in 2014 primarily due to increases in freight rates as well as an increase in our export volume.

Our depreciation and amortization expenses increased by 19.6%, or Won 45 billion, from Won 228 billion in 2013 to Won 273 billion in 2014 primarily due to an increase in amortization of intangible assets related to upgrading of our new information technology infrastructure in 2014.

Our service fees decreased by 10.0%, or Won 24 billion, from Won 240 billion in 2013 to Won 216 billion in 2014 primarily due to a decrease in professional advisory services provided to us resulting from our reduction in investment activities.

Our research and development expenses decreased by 9.1%, or Won 18 billion, from Won 193 billion in 2013 to Won 175 billion in 2014 primarily reflecting a decrease in our development activities for new products.





**Table of Contents****Other Operating Income and Expenses**

The following table presents a breakdown of our other operating income and expenses and changes therein for 2013 and 2014.

	For the Year Ended December 31,		Changes 2013 versus 2014	
	2013	2014	Amount	%
	(In billions of Won)			
Gains on disposals of assets held for sale	102	48	(53)	(52.5)%
Gains on disposals of investment in associates	8	41	34	438.1
Gains on disposals of property, plant and equipment	14	15	1	6.1
Reversal of other provision expenses	3	20	17	576.1
Outsourcing income	25	14	(11)	(44.2)
Gain on disposals of waste	17	11	(5)	(31.3)
Gain from claim compensation	15	29	15	100.8
Penalty income from early termination of contracts	16	35	18	110.0
Others	30	56	26	87.7
Total other operating income	229	269	40	17.6

Our other operating income increased by 17.6%, or Won 40 billion, from Won 229 billion in 2013 to Won 269 billion in 2014 primarily due to increases in gains on disposals of investment in associates, penalty income from early termination of contracts and reversal of other provision expenses, which were offset in part by a decrease in gains on disposal of assets for sale. Our gains on disposals of investment in associates increased more than four-fold, or Won 34 billion, from Won 8 billion in 2013 to Won 41 billion in 2014 primarily due to gains related to POSCO Plantec Co., Ltd. that became our consolidated subsidiary in 2014. Our penalty income from early termination of contracts increased by 110.0%, or Won 18 billion, from Won 16 billion in 2013 to Won 35 billion in 2014 primarily due to an increase in delayed payments to subcontractors as a result of the prolonged downturn in the construction industry. Our reversal of other provision expenses increased more than five-fold, or Won 17 billion, from Won 3 billion in 2013 to Won 20 billion in 2014 primarily due to reversal of provisions of POSCO Daewoo of Won 8 billion in connection with guarantees provided for the acquisition of Shandong Cement and reversal of provisions of POSCO Engineering Co., Ltd. ( POSCO Engineering ) of Won 9 billion relating to settled litigation regarding deferred compensation. On the other hand, our gains on disposals of assets held for sale decreased by 52.5%, or Won 53 billion, from Won 102 billion in 2013 to Won 48 billion in 2014. In 2013, we recognized a gain of Won 102 billion on disposal of assets held for sale primarily from our disposition of SK Telecom shares and SeAH Steel shares. In 2014, we recognized a gain of Won 48 billion on disposal of assets held for sale primarily from our disposition of International Business Center Corporation shares.

	For the Year Ended December 31,		Changes 2013 versus 2014	
	2013	2014	Amount	%
	(In billions of Won)			
Other bad debt expenses	111	96	(15)	(13.2)%
Losses on disposals of assets held for sale	26	0	(26)	(99.9)
Impairment losses on assets held for sale	2	17	15	848.5
Losses on disposals of property, plant and equipment	121	50	(71)	(58.7)
Impairment losses on property, plant and equipment	10	65	55	565.5
Impairment losses on intangible assets	125	55	(70)	(55.9)
Idle tangible assets expenses	18	12	(5)	(30.7)
Impairment losses on other non-current assets	9	38	29	323.7
Other provision expenses	66	127	61	92.1
Donations	61	70	9	14.1
Loss on disposal of investment in associates	19	3	(17)	(86.8)
Loss on disposal of wastes	15	16	1	7.6
Penalty and additional tax payments	19	352	333	1,721.0
Others	48	78	31	64.0
Total other operating expenses	651	980	329	50.5



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Our other operating expenses increased by 50.5%, or Won 329 billion, from Won 651 billion in 2013 to Won 980 billion in 2014, primarily due to an increase in penalty and additional tax payments and other provisions expenses, which were partially offset by decreases in our losses on disposals of property, plant and equipment and impairment losses on intangible assets. Such factors were principally attributable to the following:

Our penalty and additional tax payments increased more than seventeen-fold, or Won 333 billion, from Won 19 billion in 2013 to Won 352 billion in 2014 primarily due to additional tax payments of Won 272 billion resulting from Korea National tax Service's periodic audit completed in 2014, which mostly related to value added taxes.

Our other provision expenses increased by 92.1%, or Won 61 billion, from Won 66 billion in 2013 to Won 127 billion in 2014 primarily due to a provision of Won 89 billion in 2014 related to restoration costs of contaminated land near our magnesium plant in Gangneung, Korea.

Our losses on disposals of property, plant and equipment decreased by 58.7%, or Won 71 billion, from Won 121 billion in 2013 to Won 50 billion in 2014 primarily due to removal and dismantlement costs related to the restoration work of furnace no. 1 and no. 2 in Gwangyang in 2013 compared to no such loss in 2014.

Our impairment losses on intangible assets decreased by 55.9%, or Won 70 billion, from Won 125 billion in 2013 to Won 55 billion in 2014 primarily due to impairment loss of Won 97 billion related to the decrease in value of POSCO Thainox Public Company Limited in 2013 compared to no such impairment loss in 2014.

***Operating Profit***

Due to the factors described above, our operating profit decreased by 2.1%, or Won 53 billion, from Won 2,566 billion in 2013 to Won 2,513 billion in 2014. Our operating margin decreased from 4.2% in 2013 to 3.9% in 2014.

***Share of Loss of Equity-Accounted Investees***

Our share of loss of equity-accounted investees increased by 66.8%, or by Won 120 billion, from Won 180 billion in 2013 to Won 300 billion in 2014. In 2013, we recognized a net loss for our proportionate share of equity-accounted investees of Won 180 billion primarily due to our share of loss of POSCO Plantec Co., Ltd. (Won 49 billion), Roy Hill Holdings Pty Ltd. (Won 38 billion) and CSP-Compania Siderurgica do Pecem (Won 34 billion), which was partially offset by our share of profit of KOBRASCO (Won 22 billion), Korea LNG Ltd. (Won 22 billion) and CAML Resources Pty Ltd. (Won 18 billion). In 2014, we recognized a net loss for our proportionate share of equity-accounted investees of Won 300 billion primarily due to our share of loss of POSCO Plantec Co., Ltd. (Won 211 billion) and CSP-Compania Siderurgica do Pecem (Won 57 billion), which was partially offset by our share of profit of KOBRASCO (Won 30 billion) and South-East Asia Gas Pipeline Company Ltd. (Won 26 billion). For a discussion of our share of profits or losses of equity-accounted investees, 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 2013 and 2014.

	For the Year Ended December 31,		Changes 2013 versus 2014	
	2013	2014	Amount	%
	(In billions of Won)			
Interest income	260	228	(32)	(12.3)%
Dividend income	59	48	(11)	(19.2)
Gain on foreign currency transactions	998	1,022	25	2.5
Gain on foreign currency translations	511	453	(58)	(11.3)
Gain on derivatives transactions of	370	328	(43)	(11.5)
Gain on valuations of derivatives	72	73	1	1.4
Gain on disposals of available-for-sale financial assets	106	236	131	124.0
Others	4	7	3	72.6
<b>Total finance income</b>	<b>2,381</b>	<b>2,397</b>	<b>16</b>	<b>0.7</b>
Interest expenses	658	796	138	21.0%
Loss on foreign currency transactions	927	1,034	106	11.5
Loss on foreign currency translations	345	429	84	24.4
Loss on derivatives transactions	287	353	67	23.3
Loss on valuations of derivatives	291	101	(190)	(65.2)
Impairment loss on available-for-sale financial assets	280	370	89	31.9
Loss on disposals of available-for-sale financial assets	4	55	51	1370.3
Loss on financial guarantee	6	10	4	71.4
Others	31	75	43	137.7
<b>Total finance costs</b>	<b>2,829</b>	<b>3,222</b>	<b>393</b>	<b>13.9</b>

Our net gain on foreign currency translations decreased by 85.2%, or Won 141 billion, from Won 166 billion in 2013 to Won 25 billion in 2014, and we recognized a net gain on foreign currency transactions of Won 70 billion in 2013 compared to a net loss on foreign currency transactions of Won 11 billion in 2014, as the Won appreciated against the Dollar in 2013 while it depreciated against the Dollar in 2014 and the Won depreciated at a greater level against the Yen in 2013 compared to 2014. In terms of the market average exchange rates announced by Seoul Money Brokerage Services, Ltd., the Won appreciated from Won 1,071.1 to US\$1.00 as of December 31, 2012 to Won 1,055.3 to US\$1.00 as of December 31, 2013 but depreciated to Won 1,099.2 to US\$1.00 as of December 31, 2014. The Won appreciated against the Yen from Won 1,247.5 per Yen 100 as of December 31, 2012 to Won 1,004.7 per Yen 100 as of December 31, 2013 and appreciated further to Won 920.1 per Yen 100 as of December 31, 2014. Against such fluctuations, we recognized a decrease of 87.2% in net loss on valuations of derivatives, or Won 191 billion, from Won 219 billion in 2013 to Won 28 billion in 2014, as well as a net gain on derivatives transactions of Won 84 billion in 2013 compared to a net loss on derivatives transactions of Won 28 billion in 2014.

Our interest expenses increased by 21.0%, or Won 138 billion, from Won 658 billion in 2013 to Won 796 billion in 2014 primarily due to an increase in the average balance of our interest-bearing payables and financial liabilities, which was partially offset by a general decrease in interest rates in Korea.

Our impairment loss on available-for-sale financial assets increased by 31.9%, or Won 89 billion, from Won 280 billion in 2013 to Won 370 billion in 2014 primarily due to a prolonged decline in the fair value of shares of Hyundai Heavy Industries Co., Ltd. and unmarketable securities of Dongbu Metal Co., Ltd.

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Our gain on disposal of available-for-sale financial assets increased by 124.0%, or Won 131 billion, from Won 106 billion in 2013 to Won 236 billion in 2014, as we recognized a Won 199 billion gain in 2014 from our disposal of interest in SK Telecom Co., Ltd.

**Income Tax Expense**

Our income tax expense increased by 39.9%, or Won 235 billion, from Won 589 billion in 2013 to Won 824 billion in 2014. Our effective tax rate increased from 30.4% in 2013 to 59.4% in 2014 primarily due to an increase in tax related to investments in subsidiaries, associates and joint ventures from Won 251 billion in 2013 to Won 372 billion in 2014 (that resulted in an increase in effective tax rate of 13.8%), a decrease in tax credits from Won 169 billion in 2013 to Won 50 billion in 2014 due to a decrease in job creation tax credit (that resulted in an increase in effective tax rate of 5.2%), an increase in tax effects due to permanent differences from Won 8 billion in 2013 to Won 70 billion in 2014 (that resulted in an increase in effective tax rate of 4.6%), as well as adjustments on prior year tax of Won 56 billion resulting from the tax audit completed in 2014 (that resulted in an increase 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 decreased by 58.2%, or Won 785 billion, from Won 1,349 billion in 2013 to Won 564 billion in 2014. Our net profit margin decreased from 2.2% in 2013 to 0.9% in 2014.

The following table presents our profit by segment, prior to adjusting for inter-company transactions that are eliminated during consolidation, and changes therein for 2013 and 2014.

	For the Year Ended December 31,		Changes	
	2013	2014	Amount	%
	(In billions of Won)			
Steel Segment	1,449	857	(592)	(40.9)%
Trading Segment	10	181	172	1,804.6
Construction Segment	147	13	(134)	(91.2)
Others Segment	197	9	(189)	(95.7)
Consolidation adjustments	(448)	(503)	(55)	12.3
Basis difference <sup>(1)</sup>	(6)	7	13	N.A. <sup>(2)</sup>
<b>Profit for the period</b>	<b>1,349</b>	<b>564</b>	<b>(785)</b>	<b>(58.2)</b>

(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 41 of Notes to Consolidated Financial Statements.

(2) N.A. means not applicable.

**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,		
	2013	2014	2015
	(In billions of Won)		
Net cash provided by operating activities	4,858	3,412	7,602

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Net cash used in investing activities	(8,752)	(3,745)	(4,535)
Net cash provided by (used in) financing activities	3,532	135	(2,242)
Effect of exchange rate fluctuations on cash held	(111)	12	23
Cash and cash equivalents at beginning of period	4,681	4,209	4,022
Cash and cash equivalents at end of period	4,209	4,022	4,871
Net increase (decrease) in cash and cash equivalents	(472)	(186)	849

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### 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 8,752 billion in 2013, Won 3,745 billion in 2014 and Won 4,535 billion in 2015. These amounts included acquisition of property, plant and equipment of Won 6,570 billion in 2013, Won 3,506 billion in 2014 and Won 2,560 billion in 2015. We plan to spend between Won 2 trillion to Won 3 trillion in capital expenditures in 2016, 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 548 billion in 2013, net disposals of short-term financial instruments of Won 1,539 billion in 2014 and net acquisitions of short-term financial instruments of Won 2,443 billion in 2015. We also had net acquisitions of available-for-sale investments of Won 40 billion in 2013 and net disposals of available-for-sale investments of Won 176 billion in 2014 and Won 220 billion in 2015.

In our financing activities, we used cash of Won 2,846 billion in 2013, Won 2,802 billion in 2014 and Won 3,510 billion in 2015 for repayments of borrowings. We paid dividends on common stock in the amount of Won 649 billion in 2013, Won 677 billion in 2014 and Won 823 billion in 2015.

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. Contingent liabilities on outstanding guarantees provided by us were Won 9,555 billion as of December 31, 2015. The following table sets forth the amount of long-term debt, capital lease and operating lease obligations as of December 31, 2015.

	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 <sup>(a)</sup>	17,048	3,885	4,838	3,334	4,991
Interest payments on long-term debt <sup>(b)</sup>	2,495	477	1,067	561	390
Capital lease obligations	55	20	16	16	3
Operating lease obligations	49	17	16	15	1
Purchase obligations <sup>(c)</sup>	16,415	5,826	5,060	3,454	2,075
Accrued severance benefits <sup>(d)</sup>	2,303	46	232	250	1,775
<b>Total</b>	<b>38,365</b>	<b>10,271</b>	<b>11,229</b>	<b>7,630</b>	<b>9,235</b>

(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, 2015, a portion of our long-term debt carried variable interest rates. We used the interest rate in effect as of December 31, 2015 in calculating the interest payments on long-term debt for the periods indicated.

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- (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, 2015, 166 million tons of iron ore and 26 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



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agreement with Tanguh 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, 2015 in calculating the iron ore, coal and LNG purchase obligations described above for the periods indicated.

- (d) Represents, as of December 31, 2015, 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 29.8%, or Won 1,446 billion, from Won 4,858 billion in 2013 to Won 3,412 billion in 2014. Our gross cash flow from our sales activities increased as discussed above. However, our cash outflows increased due to the buildup of semi-finished and finished goods resulting from continuing uncertainties in the global economy affecting China and other major emerging market economies.

Our net cash provided by operating activities increased by 122.8%, or Won 4,190 billion, from Won 3,412 billion in 2014 to Won 7,602 billion in 2015. Our gross cash flow from our sales activities decreased as discussed above. However, we managed our inventory level in 2015 in response to the continuing uncertainties in the global economy and overcapacity in the global steel industry. The inventory turnover was faster in 2015 compared to 2014 as we maintained a lower level of inventory level. Our outstanding trade accounts and notes receivable also decreased in 2015, as we shortened payment terms for some of our key customers, which in turn positively impacted our net cash provided by operating activities.

Net proceeds from borrowings, after deducting for repayment of borrowings, were Won 2,253 billion in 2013. We had net repayments of borrowings of Won 280 billion in 2014 and Won 1,731 billion in 2015. Net proceeds from short-term borrowings, after deducting for repayments of short-term borrowings, were Won 87 billion in 2013 and Won 1,038 billion in 2014. We had net repayment of short-term borrowings, after deducting for repayment of short-term borrowings, of Won 846 billion in 2015. We also raised Won 1,495 billion from our issuances of hybrid bonds in 2013, which are accounted for as part of our equity. Long-term borrowings, excluding current portion, were Won 15,533 billion as of December 31, 2013, Won 15,233 billion as of December 31, 2014 and Won 12,849 billion as of December 31, 2015. Total short-term borrowings and current portion of long-term borrowings were Won 10,714 billion as of December 31, 2013, Won 12,195 billion as of December 31, 2014 and Won 12,371 billion as of December 31, 2015. Outstanding hybrid bonds were Won 997 billion as of December 31, 2013, 2014 and 2015. 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 52.18% as of December 31, 2014 and 45.21% as of December 31, 2015.

We periodically increase our short-term borrowings and adjust our long-term debt financing levels depending on changes in our capital requirements. We also generated cash of Won 14 billion in 2013 and Won 43 billion in 2014 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

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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 11,681 billion as of December 31, 2013, Won 10,833 billion as of December 31, 2014 and Won 9,148 billion as of December 31, 2015. Our holdings of cash and cash equivalents (which do not include cash and cash equivalents categorized under assets for sale) were Won 4,209 billion as of December 31, 2013, Won 3,811 billion as of December 31, 2014 and Won 4,870 billion as of December 31, 2015. See Notes 5 and 10 of Notes to Consolidated Financial Statements. Our holding of other receivables and other short-term financial assets were Won 4,861 billion as of December 31, 2013, Won 3,419 billion as of December 31, 2014 and Won 5,590 billion as of December 31, 2015. As of December 31, 2015, approximately 25% 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 2,215 billion as of December 31, 2015, none 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 6,570 billion in 2013, Won 3,506 billion in 2014 and Won 2,560 billion in 2015. We plan to spend between Won 2 trillion to Won 3 trillion in capital expenditures in 2016, 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.

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, 2015:

Project	Expected Completion Date	Total Cost of Project (In billions of Won)	Estimated Remaining Cost of Completion as of December 31, 2015
<b>Steel Segment:</b>			
Miscellaneous capital expenditures, including rationalization and upgrading of raw materials treatment and transportation facilities	December 2018	2,199	1,001
Rationalization of furnace no. 3 at Pohang Works	December 2017	532	475
Rationalization of furnace no. 5 at Gwangyang Works	December 2016	509	289
Rationalization of furnace no. 2 at Pohang Works	April 2016	394	6
Construction of no. 7 CGL at Gwangyang Works	June 2017	255	203

**Table of Contents****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, 2015, POSCO Technical Research Laboratories employed 1,041 personnel, including 532 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 370 billion as cost of sales in 2013, Won 353 billion in 2014 and Won 356 billion in 2015, as well as research and development expenses of Won 193 billion as selling and administrative expenses in 2013, Won 175 billion in 2014 and Won 136 billion in 2015.

Our research and development program has filed over 39,000 industrial rights applications relating to steel-making technology, approximately one-third of which were registered as of December 31, 2015, 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.

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

As of December 31, 2014 and 2015, 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 Committee ) after the committee reviews such candidates' qualifications. Any shareholder holding our outstanding shares with voting rights may suggest candidates for Outside Directors to the Director Candidate Recommendation Committee.

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

the Director Candidate Recommendation Committee;

the Evaluation and Compensation Committee;

the Finance and Operation Committee;

the Executive Management Committee;

the Audit Committee; and

the Related Party Transactions 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.

**Inside Directors**

Our current Inside Directors are:

Name	Position	Responsibilities and Division	Years as Director	Years with POSCO	Age	Expiration of Term of Office
Kwon, Oh-Joon	Chief Executive Officer and Representative Director		2	27	65	March 2017
Kim, Jin-Il	President and Representative Director	Head of Steel Production Division	4	39	63	March 2017
Lee, Young-Hoon	Senior Executive Vice President		2	29	56	March 2017
Oh, In-Hwan	Senior Executive Vice President	Head of Steel Business Division	1	33	57	March 2017
Choi, Jeong-Woo	Senior Executive Vice President	Head of Corporate Strategy & Finance Center	0	30	59	March 2017

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 ).

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<b>Name</b>	<b>Position</b>	<b>Principal Occupation</b>	<b>Years as Director</b>	<b>Age</b>	<b>Expiration of Term of Office</b>
Lee, Myoung-Woo	Chairman	President, Dongwon Industries	3	62	March 2019
Shin, Chae-Chol	Director	Former Chairman and CEO, IBM Korea Inc.	3	68	March 2018
Kim, Il-Sup	Director	President, Seoul School of Integrated Sciences & Technologies	2	69	March 2017
Sunwoo, Young	Director	Representative Lawyer, Rhi & Partners	2	60	March 2017
Ahn, Dong-Hyun	Director	Professor, Seoul National University	2	52	March 2017
Bahk, Byong-Won	Director	Chairman, Korea Employers Federation	1	63	March 2018
Kim, Joo-Hyun	Director	Advisory, Hyundai Research Institute	1	63	March 2018

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The term of office of the Directors elected in March 2016 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:

<b>Name</b>	<b>Position</b>	<b>Responsibility and Division</b>	<b>Years with POSCO</b>	<b>Age</b>
Hwang, Eun-Yeon	President	Head of Management Support Division	28	57
An, Tong-Il	Senior Executive Vice President	General Superintendent, Gwangyang Works	29	56
Kim, Hag-Dong	Senior Executive Vice President	General Superintendent, Pohang Works	29	56
Chang, In-Hwa	Senior Executive Vice President	Head of Technology and Investment Division, Head of Technical Research Laboratories	5	60
Lee, Woo-Kyu	Executive Vice President	Head of Corporate Audit Dept.	26	58
Yim, Chang-Hee	Executive Vice President		30	59
Yu, Seong	Executive Vice President	Head of Energy Storage Materials Business Dept.	30	59
Min, Kyung-Zoon	Executive Vice President	President, PT Krakatau POSCO Co., Ltd.	32	57
Jeong, Tak	Executive Vice President	Head of Energy and Shipbuilding Materials Marketing Dept.	4	56
Yang, Heung-Yul	Executive Vice President	Head of Labor and Outside Services Dept.	26	55
Chung, Chang-Hwa	Executive Vice President	Head of Public Relations Dept.	20	54
Son, Chang Hwan	Executive Vice President	Head of Steel Business Strategy Dept.	31	55
Chon, Jung-Son	Executive Vice President	Head of Corporate Strategy Dept.	29	53
Kim, Hak-Yong	Executive Vice President	Head of Plant, Equipment and Materials Procurement Dept.	27	54
Kim, Jun-Hyung	Executive Vice President	Head of New Business Dept.	30	53
Lee, Duk-Lak	Executive Vice President	Head of Steel Solution Marketing Dept.	30	55
Kwak Jeong-Shik	Executive Vice President	Head of External Relation Dept.	28	58
Choi, Jong-Jin	Senior Vice President	Deputy General Superintendent (Administration, Pohang Works)	26	52
Jeong, Ki-Seop	Senior Vice President	Head of Domestic Business Management Dept.	1	54
Yi, Kyung-Jo	Senior Vice President	Head of Steel Planning Dept.	30	55
Kim, Byung-Hwi	Senior Vice President	Head of Human Resources Management Dept.	25	52
Cho, Il-Hyun	Senior Vice President	Deputy General Superintendent (Safety and Maintenance, Pohang Works)	29	54
Park, Young-Kwan	Senior Vice President	Deputy General Superintendent (Iron and Steel Making, Gwangyang Works)	30	57
Nam, Soo-hi	Senior Vice President	Deputy General Superintendent (Iron and Steel Making, Pohang Works)	28	56
Lee, Won-Hwi	Senior Vice President	Head of Automotive Materials Marketing Dept.	26	52
Noh, Min-Yong	Senior Vice President	Head of Finance Dept.	26	52
Kim, Dong-Ho	Senior Vice President	President, CSP-Compania Siderurgica do Pecem	31	56
Yun, Han-Kuen	Senior Vice President	Deputy General Superintendent (Hot and Cold Rolling, Pohang Works)	33	57

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<b>Name</b>	<b>Position</b>	<b>Responsibility and Division</b>	<b>Years with POSCO</b>	<b>Age</b>
Choi, Joo	Senior Vice President	General Manager of Gwangyang Research Lab	32	57
Kwon, Woo-Taeck	Senior Vice President	Head of Investment Planning & Engineering Dept.	30	56
Yoo, Byeong-Og	Senior Vice President	Head of Raw Materials Dept.	27	53
Yang, Weon-Jun	Senior Vice President	Head of Human Resources and Innovation Dept.	27	50
Lee, Eun-Seok	Senior Vice President	Deputy General Superintendent (Stainless Steel Production, Pohang Works)	30	55
Kim, Soon-Ki	Senior Vice President	Deputy General Superintendent (Administration, Gwangyang Works)	25	51
Park, Mi-Hwa	Senior Vice President	Head of Information Planning Dept.	1	49
Lee, Si-Woo	Senior Vice President	Deputy General Superintendent (Hot and Cold Rolling, Gwangyang Works)	30	55
Kwon, Jong-Won	Senior Vice President	General Manager of Europe Office	21	54
Kim, Kwang-Soo	Senior Vice President	Head of Stainless Steel Marketing Dept.	31	56
Kim, Gwang-Soo	Senior Vice President	Head of Global Marketing Coordination Dept.	29	54
Min, Jung-Ki	Senior Vice President	Head of Production Division, PT Krakatau POSCO Co., Ltd.	29	56
Ha, Dae-Ryong	Senior Vice President	Head of Electrical and Electronic Materials Marketing Dept.	27	52
Park, Hyeon	Senior Vice President	Head of Environment, Energy and Social Responsibility Dept.	15	49
Lim Seung-Kyu	Senior Vice President	Head of Overseas Business Management Dept.	27	52
Choo, Se-Don	Senior Vice President	General Manager of Pohang Research Lab	22	54
Lee, Sang-Hyeon	Senior Vice President	Center Manager of Engineering Solution Dept.	12	55
Kim, Bok-Tae	Senior Vice President	Head of Safety and Production Strategy Dept.	28	54
Chun, Sung-Lae	Senior Vice President	Head of Hot Rolled and Construction Steel Materials Marketing Dept.	27	52
Kim Min-Chul	Senior Vice President	Deputy General Superintendent (Safety and Maintenance, Gwangyang Works)	30	53
Kim, Jeong-Su	Senior Vice President	Head of Wire Rod Marketing Dept.	20	52
Lee, Hoo-Geun	Executive Vice President	Technology and Investment Division	33	58
Kim, Jeong-Sik	Executive Vice President	Steel Production Division	33	59
Lee, Jong-Sub	Executive Vice President	Steel Business Division	32	59
Cho, Won-Kyu	Executive Vice President	Management Support Division	0	59
Shin, Geon	Senior Vice President	Steel Business Division	34	58
Park, Yong-Kyu.	Senior Vice President	Steel Production Division	31	56
Lee, Young-Woo	Senior Vice President	Steel Business Division	27	55
Lee, Chang-Sun	Senior Vice President	Technical Research Laboratories	28	58
Kim, Gyo-Sung	Senior Vice President	Steel Business Division	31	54
Yi, Sang-Ho	Senior Vice President	Steel Production Division	31	55
Kang, Seog-Beom	Senior Vice President	Steel Business Division	30	55
Hong, Moon-Hi	Senior Vice President	Steel Production Division	29	50
Han Chan-Hee	Senior Vice President	Technical Research Laboratories	30	57
Won, Hyung-Il	Senior Vice President	Legal Affairs Dept.	4	47
Kim, Sun-Koo	Senior Vice President	Technical Research Laboratories	25	56

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Name	Position	Responsibility and Division	Years with POSCO	Age
Chon, Uong	Senior Vice President	Technology and Investment Division	1	52
Lee, Ki-Ho	Senior Vice President	Steel Production Division	32	56
Kim, Jong-Sang	Senior Vice President	Technical Research Laboratories	21	55
Chun, Myung-Sik	Senior Vice President	Technical Research Laboratories	12	56

**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 2015, the aggregate compensation paid and accrued to all Directors and executive officers was approximately Won 39.7 billion and the aggregate amount set aside or accrued by us to provide pension and retirement benefits to such persons was Won 10.2 billion.

The compensation of our directors and executive officers who received total annual compensation exceeding Won 500 million in 2015 were as follows:

Name	Position	Total Compensation in 2015	Long-term Incentive Compensation for Payment Subsequent to 2015 (In millions of Won)
Kwon, Oh-Joon	Chief Executive Officer and Representative Director	1,207	
Kim, Jin-Il	President and Representative Director	808	
Lee, Young-Hoon	Senior Executive Vice President	657	
Oh, In-Hwan	Senior Executive Vice President	577	

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 Committee**

The Director Candidate Recommendation Committee is composed of three Outside Directors, Shin, Chae-Chol (committee chair), Lee, Myoung-Woo, Kim, Joo-Hyun and one Inside Director, Choi, Jeong-Woo. The Director Candidate Recommendation Committee reviews the qualifications of potential candidates and proposes nominees to serve on our board of directors as an Outside Director. Any shareholder holding our outstanding shares with voting rights may suggest candidates for Outside Directors to the Director Candidate Recommendation Committee.



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### **Evaluation and Compensation Committee**

The Evaluation and Compensation Committee is composed of four Outside Directors, Sunwoo, Young (committee chair), Kim, Il-Sup, Ahn, Dong-Hyun and Bahk, Byong-Won. 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 Operation Committee**

The Finance and Operation Committee is composed of three Outside Directors, Ahn, Dong-Hyun (committee chair), Shin, Chae-Chol, Bahk, Byong-Won and two Inside Directors, Kim, Jin-Il and 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.

### **Executive Management Committee**

The Executive Management Committee is composed of five Inside Directors, Kwon, Oh-Joon (committee chair), Kim, Jin-Il, Lee, Young-Hoon, Oh, In-Hwan and Choi, Jeong-Woo. 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 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 Kim, Il-Sup (committee chair), Kim, Joo-Hyun and Sunwoo, Young.

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.

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**Table of Contents****Related Party Transactions Committee**

The Related Party Transaction Committee is composed of three Outside Directors, Kim, Il-Sup (committee chair), Kim, Joo-Hyun and Sunwoo, Young. This committee reviews related party and other internal transactions and ensures compliance with the Monopoly Regulation and Fair Trade Act.

**Item 6.D. Employees**

As of December 31, 2015, we had 34,327 employees, including 17,282 persons employed by our subsidiaries, almost all of whom were employed within Korea. 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 37,225 employees, including 19,538 persons employed by our subsidiaries, as of December 31, 2014, and 37,809 employees, including 19,906 persons employed by our subsidiaries, as of December 31, 2013. To improve operational efficiency and increase labor productivity, we plan to reduce the number of our employees in future years through natural attrition. However, we expect the number of persons employed by our subsidiaries in growth industries to increase in the future.

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. Union membership peaked at 19,026 employees at the beginning of 1991, but has steadily declined since then. As of December 31, 2015, only 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 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, 2015, our employees owned, through our employee stock ownership association, approximately 0.001% of our common stock in their association accounts and 1.76% of our common stock in their employee accounts.

**Table of Contents****Item 6.E. Share Ownership****Common Stock**

The persons who are currently our Directors or executive officers held, as a group, 19,672 common shares as of March 30, 2016, 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.

Kwon, Oh-Joon	1,692
Lee, Hoo-Geun	701
Park, Yong-Gyu	662
Kim, Hak-Yong	577
Noh, Min-Yong	572
Lee, Ki-Ho	541
Yim, Chang-Hee	533
Kim, Jeong-Sik	520
Min, Kyung-Zoon	494
Kwon, Woo-Taeck	469
Kim, Hag-Dong	411
Lee, Chang-Sun	392
Kim, Sun-Koo	384
Kim, Kwang Soo	370
Lee, Woo Kyu	360
Kim, Jin-Il	359
Han, Chan-Hee	356
Yi, Sang-Ho	352
Shin, Chae-Chol	350
Kim, Dong-Ho	347
Lee, Eun-Seok	347
Yu, Seong	337
Kim, Soon-Ki	326
Kim, Min-Chul	314
An, Tong-Il	296
Yang, Weon-Jun	293
Park, Young-Kwan	292
Yoo, Byeong-Og	291
Choi, Joo	290
Kang, Seog-Beom	290
Cho, Il-Hyun	281
Lee, Young-Woo	274
Lee, Jong-Seob	261
Chun, Myung-Sik	242
Kwak, Jeong-Shik	241
Kim, Gyo-Sung	230
Lee, Young-Hoon	223
Chon, Jung-Son	220
Park, Hyeon	219
Nam, Soo-Hi	216
Hwang, Eun-Yeon	204
Kim, Il-Sup	200
Oh, In-Hwan	199
Choi, Jeong-Woo	198
Yi, Kyung-Jo	192
Yang, Heung-Yul	173
Son, Chang-Hwan	173
Shin, Geon	170
Kim, Jun-Hyung	165
Lim, Seung-Kyu	164
Choi, Jong-Jin	163
Chang, In-Hwa	160
Chung, Chang-Hwa	158



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Choo, Se-Don	142
Chun, Sung-Lae	127
Kim, Jong Sang	118
Hong, Moon-Hi	115
Jeong, Tak	109
Lee, Won-Hwi	99
Min, Jung Ki	99
Yun, Han-Kuen	62
Kim, Gwang-Soo	53
Lee, Sang-Hyeon	47
Lee, Duk-Lak	44
Kwon, Jong-Won	41
Ha, Dae-Ryong	40
Lee, Si-Woo	39
Kim, Boktae	34
Kim, Jeong-Su	31
Park, Mi Hwa	26
Won, Hyung Il	26
Chon, Uong	17
Cho, Won Kyu	8
Jeong, Ki Seop	
Lee, Myoung-Woo	
Sun, Woo-Young	
Ahn, Dong-Hyun	
Bahk, Byong-Won	
Kim, Joo-Hyun	
Total	19,672

**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, 2015.

<b>Shareholders</b>	<b>Number of Shares Owned</b>	<b>Percentage</b>
National Pension Service	7,885,065	9.04%
Nippon Steel & Sumitomo Metal Corporation <sup>(1)</sup>	4,394,712	5.04
Pohang University of Science and Technology	1,905,000	2.18
Government of Singapore Investment Corporation Pte. Ltd	1,862,625	2.14
KB Financial Group Inc. and subsidiaries	1,828,207	2.10
Directors and executive officers as a group	21,891	0.03
Public <sup>(2)</sup>	62,098,148	71.22
POSCO (held in the form of treasury stock)	7,191,187	8.25
<b>Total issued shares of common stock</b>	<b>87,186,835</b>	<b>100.00%</b>

(1) Held in the form of ADRs.

(2) Includes ADRs.

As of December 31, 2015, there were 12,495,565 shares of common stock outstanding in the form of ADRs, representing 14.33% of the total issued shares of common stock.

**Item 7.B. Related Party Transactions**

We have issued guarantees of Won 6,362 billion as of December 31, 2013, Won 6,691 billion as of December 31, 2014 and Won 6,855 billion as of December 31, 2015, in favor of affiliated and related companies. 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, 2013, 2014 and 2015, 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-117.

**Legal Proceedings**

In recent years, we have become subject to a number of anti-dumping duties in the United States, Canada, the European Union, Brazil, India, Indonesia, Malaysia, Australia, Taiwan and Thailand and safeguard duties in Thailand and Malaysia. We are also subject to a number of

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on-going anti-dumping and safeguard investigations in the United States, China, Indonesia, Malaysia, India, Taiwan, Thailand and Vietnam. In addition, the Mexican government initiated an anti-dumping investigation in October 2012 relating to our exports of cold rolled steel products, and the investigation was suspended until 2018 on condition that we comply with supply undertakings. Our products that are subject to anti-dumping, safeguard or countervailing duty 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



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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.

During the course of its internal audit in July 2014, POSCO E&C, one of our subsidiaries, discovered certain officers' use, for unauthorized and unidentified purposes, of approximately Won 10 billion belonging to POSCO E&C's project management office and its subsidiary in Vietnam between 2009 and 2012, which related to certain construction projects in Vietnam. POSCO E&C, after such discovery through its internal audit, undertook an internal investigation over other projects for further assessment, strengthened its internal control procedures, such as segregating duties and enhancing monitoring procedures, to ensure similar cases do not arise and reprimanded the responsible employees, including dismissal of the responsible officers. After POSCO E&C's internal audit result was publicized by the press, the prosecutors' office of Korea commenced an investigation that lasted from March to October of 2015, which resulted in a determination to prosecute 14 responsible employees. We understand that the scope of the prosecution remains limited to the individuals and does not extend to POSCO E&C.

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 and is currently pending at the Supreme Court of Korea. 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, but POSCO Coated & Color Steel appealed with respect to Won 3.0 billion of such fine, which is currently pending at the Supreme Court of Korea. We and POSCO Coated & Color Steel intend to vigorously defend against such administrative actions.

In May 2002, Industrial Development Bank of India brought a suit against POSCO Daewoo, Daewoo Motors India Ltd., Daewoo Co., Ltd. and Daewoo Engineering & Construction 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 23 billion relating to its portion of the guarantee. The outcome of such lawsuits remains uncertain and POSCO Daewoo's provision is classified as a non-current liability as of December 31, 2015.

In April 2012, Nippon Steel & Sumitomo Metal Corporation filed a civil lawsuit in Japan, alleging violation of trade secrets and seeking prohibition on production and sales of grain oriented electrical steel sheets. In September 2015, we paid Won 299 billion as settlement to Nippon Steel & Sumitomo Metal Corporation, and the lawsuit filed in Japan as well as all related lawsuits filed by Nippon Steel & Sumitomo Metal Corporation were withdrawn.

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 interim dividends once a year under our articles of incorporation. If we decide to pay interim dividends, our articles of

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incorporation authorize us to pay them in cash, shares or other form of property to the shareholders of record as of June 30 of the relevant fiscal year. We may pay cash dividends out of retained earnings that have not been appropriated to statutory reserves.

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 declared on the outstanding common stock to shareholders of record on June 30 of the years indicated. A total of 87,186,835 shares of common stock were issued as of December 31, 2015. Of these shares and as of such date, 79,995,648 shares were outstanding and 7,191,187 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
2011	7,500	2,500	10,000
2012	6,000	2,000	8,000
2013	6,000	2,000	8,000
2014	6,000	2,000	8,000
2015	6,000	2,000	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 first section of 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.

	Price		Average Daily Trading Volume (Number of Shares)
	High (In Won)	Low	
<b>2011</b>			
First Quarter	517,000	450,500	345,785
Second Quarter	565,000	421,000	282,070
Third Quarter	480,000	358,500	277,876
Fourth Quarter	351,000	308,000	235,063
<b>2012</b>			
First Quarter	424,000	376,000	198,239
Second Quarter	385,000	351,500	169,135
Third Quarter	391,000	353,500	159,508
Fourth Quarter	367,000	308,000	202,895
<b>2013</b>			
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
<b>2014</b>			
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
<b>2015</b>			
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
October	193,000	167,000	396,644
November	188,000	165,500	326,570
December	179,000	162,000	418,095
<b>2016</b>			
First Quarter	222,000	156,000	394,379
January	178,500	156,000	367,264
February	202,000	173,000	391,685
March	222,000	203,000	413,306
Second Quarter (through April 27)	249,000	213,500	434,336
April (through April 27)	249,000	213,500	434,336

**ADSs**

Our common stock is also listed on the New York Stock Exchange, the London Stock Exchange and the Tokyo Stock Exchange in the form of ADSs. The ADSs have been issued by Citibank, N.A. as ADR depository 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, 2015, 49,982,260 ADSs representing 12,495,565 common shares were outstanding, representing 14.33% shares of common stock.

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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		Average Daily Trading Volume (Number of ADSs)
	High (In US\$)	Low	
<b>2011</b>			
First Quarter	117.57	100.50	403,646
Second Quarter	116.83	95.86	348,986
Third Quarter	112.41	76.01	344,454
Fourth Quarter	89.16	72.51	366,073
<b>2012</b>			
First Quarter	94.06	80.28	268,347
Second Quarter	85.09	74.82	262,176
Third Quarter	85.55	77.21	190,260
Fourth Quarter	82.97	71.85	187,932
<b>2013</b>			
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
<b>2014</b>			
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
<b>2015</b>			
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
October	42.62	34.85	518,573
November	42.00	34.42	441,353
December	38.82	33.73	403,863
<b>2016</b>			
First Quarter	47.61	32.26	388,580
January	37.09	32.26	463,277
February	40.53	35.76	331,243
March	47.61	41.09	376,193
Second Quarter (through April 26)	54.85	46.71	446,989
April (through April 26)	54.85	46.71	446,989

**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



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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, 2015, the aggregate market value of equity securities listed on the KRX KOSPI Market and the KRX KOSDAQ Market was approximately Won 1,444 trillion, and the average daily trading volume of equity securities for 2015 was approximately 1,060 million shares with an average transaction value of Won 8,875 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.

Movements in KOSPI are set out in the following table together with the associated dividend yields and price earnings ratios.

Year	Opening	High	Low	Closing	Period Average	
					Dividend Yield (1)(2) (Percent)	Price Earnings Ratio (2)(3)
1986	161.40	279.67	153.85	272.61	4.3	7.6
1987	264.82	525.11	264.82	525.11	2.6	10.9
1988	532.04	922.56	527.89	907.20	2.4	11.2
1989	919.61	1,007.77	844.75	909.72	2.0	13.9
1990	908.59	928.82	566.27	696.11	2.2	12.8
1991	679.75	763.10	586.51	610.92	2.6	11.2
1992	624.23	691.48	459.07	678.44	2.2	10.9
1993	697.41	874.10	605.93	866.18	1.6	12.7
1994	879.32	1,138.75	855.37	1,027.37	1.2	16.2
1995	1,027.45	1,016.77	847.09	882.94	1.2	16.4
1996	882.29	986.84	651.22	651.22	1.3	17.8
1997	647.67	792.29	350.68	376.31	1.5	17.0
1998	374.41	579.86	280.00	562.46	1.9	10.8
1999	565.10	1,028.07	498.42	1,028.07	1.1	13.5
2000	1,028.33	1,059.04	500.60	504.62	1.6	18.6
2001	503.31	704.50	468.76	693.70	2.0	14.2
2002	698.00	937.61	584.04	627.55	1.4	17.8
2003	633.03	822.16	515.24	810.71	2.2	10.9
2004	821.26	936.06	719.59	895.92	2.1	15.8
2005	896.00	1,379.37	870.84	1,379.37	1.7	11.0
2006	1,383.32	1,464.70	1,203.86	1,434.46	1.7	11.4
2007	1,438.89	2,015.48	1,345.08	1,897.13	1.4	16.8
2008	1,891.45	1,888.88	938.75	1,124.47	2.6	8.9

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Year	Opening	High	Low	Closing	Period Average	
					Dividend Yield (1)(2)	Price Earnings Ratio (2)(3)
2009	1,132.87	1,718.88	1,018.81	1,682.77	1.2	23.7
2010	1,681.71	2,052.97	1,552.79	2,051.00	1.1	19.0
2011	2,063.69	2,231.47	1,644.11	1,825.12	1.3	13.1
2012	1,831.69	2,057.28	1,758.99	1,997.05	1.3	12.9
2013	2,031.10	2,059.58	1,780.63	2,011.34	1.1	15.0
2014	2,013.11	2,093.08	1,881.73	1,915.19	1.1	15.3
2015	1,926.44	2,173.41	1,829.81	1,961.31	1.3	14.6
2016 (through April 27)	1,918.76	2,022.10	1,835.28	2,015.40	1.4	14.3

Source: The KRX KOSPI Market

- (1) Dividend yields are based on daily figures. Before 1983, dividend yields were calculated at the end of each month. Dividend yields after January 3, 1984 include cash dividends only.
- (2) Starting in April 2000, dividend yield and price earnings ratio are calculated based on KOSPI 200, an index of 200 equity securities listed on the KRX KOSPI Market. Starting in April 2000, KOSPI 200 excludes classified companies, companies which did not submit annual reports to the KRX KOSPI Market, and companies which received qualified opinion from external auditors.
- (3) The price earnings ratio is based on figures for companies that record a profit in the preceding year. 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

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 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.



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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	Number of Listed Companies	Market Capitalization on the Last Day of Each Period		Average Daily Trading Volume, Value		
		(Billions of Won)	(Millions of US\$) <sup>(1)</sup>	Thousands of Shares	(Millions of Won)	(Thousands of US\$) <sup>(1)</sup>
1986	355	11,994	US\$ 13,924	31,755	32,870	US\$ 38,159
1987	389	26,172	33,033	20,353	70,185	88,583
1988	502	64,544	94,348	10,367	198,364	289,963
1989	626	95,477	140,490	11,757	280,967	414,430
1990	669	79,020	110,301	10,866	183,692	256,411
1991	686	73,118	96,107	14,022	214,263	281,629
1992	688	84,712	107,448	24,028	308,246	390,977
1993	693	112,665	139,420	35,130	574,048	710,367
1994	699	151,217	191,730	36,862	776,257	984,223
1995	721	141,151	182,201	26,130	487,762	629,613
1996	760	117,370	139,031	26,571	486,834	576,680
1997	776	70,989	50,162	41,525	555,759	392,707
1998	748	137,799	114,091	97,716	660,429	546,803
1999	725	349,504	305,137	278,551	3,481,620	3,039,655
2000	704	188,042	149,275	306,163	2,602,211	2,065,739
2001	689	255,850	192,934	473,241	1,997,420	1,506,237
2002	683	258,681	215,496	857,245	3,041,598	2,533,815
2003	684	355,363	296,679	542,010	2,216,636	1,850,589
2004	683	412,588	395,275	372,895	2,232,109	2,138,445
2005	702	655,075	646,158	467,629	3,157,662	3,114,679
2006	731	704,588	757,948	279,096	3,435,180	3,695,331
2007	745	951,900	1,016,770	363,741	5,539,653	5,917,168
2008	763	576,888	458,758	352,599	3,211,039	2,553,510
2009	770	887,935	762,503	485,657	5,595,552	4,976,859
2010	777	1,141,885	1,006,243	380,859	5,619,768	4,952,210
2011	791	1,041,999	904,670	353,760	6,836,146	5,935,185
2012	930	1,154,294	1,078,578	486,479	4,823,642	4,507,234
2013	777	1,185,974	1,123,720	328,425	3,993,422	3,783,800
2014	773	1,192,253	1,084,655	278,081	3,983,580	3,624,072
2015	770	1,242,832	1,060,437	455,256	5,351,734	4,566,326
2016 (through April 27)	769	1,276,057	1,109,904	364,992	4,604,139	4,004,644

Source: The Korea Exchange

(1) Converted at the Concentration Base Rate of The Bank of Korea or the Market Average Exchange Rate, as the case may be, at the end of the periods indicated.

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 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**

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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

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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.

## **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

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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, 2015, 87,186,835 Common Shares were issued, of which 7,191,187 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, 3, 4, 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.

**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

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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.

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



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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, 2015, our employees owned, through our employee stock ownership association, approximately 0.001% of our common stock in their association accounts and 1.76% 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

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 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

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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 depository, 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 depository how to vote the Common Shares underlying their ADSs.

### **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





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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 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.

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### **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.

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.

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### **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 depository 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 depository 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.

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

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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;

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;

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acquisition of shares by a foreign depositary in connection with the issuance of depositary 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

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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 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

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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.

**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



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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. Since the payer is required to withhold the tax, Korean law does not entitle the person who was subject to the withholding of Korean tax to recover from the Government any part of the Korean tax withheld, even if it subsequently produces evidence that it was entitled to have tax withheld at a lower rate, except in certain limited circumstances.

***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 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 domiciled in 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.

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### ***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 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.

Furthermore, in order for a non-resident of Korea to obtain the benefits of tax exemption 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 agent) to submit to the payer of such Korean source income an application for a tax exemption along with a certificate of tax residency of such non-resident issued by a competent authority of the non-resident's country of tax residence, subject to certain exceptions. 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.

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

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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.

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 prepared by the non-resident beneficial owner. 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

a partnership that holds shares of common stock or ADSs, or a partner 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.

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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

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

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**Table of Contents*****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 depository'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 2014 or 2015 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 2016 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.

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.

**Table of Contents***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.

*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

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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.

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 loss on derivatives transactions of Won 26 billion and net loss on valuation of derivatives of Won 28 billion in 2014 and net gain on valuation of derivatives of Won 83 billion and net gain on derivatives transactions of Won 23 billion in 2015.

**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.

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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,					
	2013		2014		2015	
	Increase	Decrease	Increase	Decrease	Increase	Decrease
	(In billions of Won)					
US Dollars	(502)	502	(356)	356	(166)	166
Japanese Yen	(125)	125	(96)	96	(22)	22
Euro	(4)	4	(30)	30	(97)	97

**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:

	For the Years Ended December 31,		
	2013	2014	2015
	(In billions of Won)		
Increase or decrease in annual profit and net equity	106	102	118

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, 2015 which are sensitive to exchange rates and/or interest rates. The information is presented in Won, which is our reporting currency.

	Maturities							December 31, 2015 Fair Value	December 31, 2014 Total	Fair Value
	2016	2017	2018	2019	2020	Thereafter	Total			
	(In billions of Won except rates)									
<b>Local currency:</b>										
Fixed rate	4,533	1,082	633	599	190	1,621	8,658	8,674	8,251	8,349
Average weighted rate <sup>(1)</sup>	3.07%	3.91%	3.80%	3.75%	2.80%	3.58%	3.37%		4.02%	
Variable rate	550	4	233	81	11	102	981	984	1,224	1,223
Average weighted rate <sup>(1)</sup>	2.96%	1.86%	3.01%	2.21%	3.57%	2.87%	2.91%		3.03%	
Sub-total	5,083	1,086	866	680	201	1,723	9,639	9,658	9,475	9,572
<b>Foreign currency, principally Dollars and Yen:</b>										
Fixed rate	1,714	238	389	2	998	1,471	4,812	4,994	8,407	8,669
Average weighted rate <sup>(1)</sup>	2.94%	3.65%	1.35%	0.48%	4.03%	4.19%	3.45%		2.84%	
Variable rate	5,452	492	969	63	831	2,962	10,769	10,762	9,546	9,515
Average weighted rate <sup>(1)</sup>	1.43%	1.84%	1.81%	1.65%	2.88%	3.36%	2.13%		2.27%	
Sub-total	7,166	730	1,358	65	1,829	4,433	15,581	15,756	17,953	18,184



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Total	12,249	1,816	2,224	745	2,030	6,156	25,220	25,414	27,428	27,756
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(1) Weighted average rates of the portfolio at the period end.

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**Table of Contents****Item 12. Description of Securities Other than Equity Securities**

Not applicable

**Item 12.A. Debt Securities**

Not applicable

**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 depository 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 depository:

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 depository 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 depository 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

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fees and expenses incurred in connection with the delivery or servicing of shares on deposit.

Depository fees payable upon the issuance and surrender of ADSs are typically paid to the depository by the brokers (on behalf of their clients) receiving the newly issued ADSs from the depository and by the brokers (on behalf of their clients) delivering the ADSs to the depository for surrender. The brokers in turn charge these fees to their clients. Depository fees payable in connection with distributions of cash or securities to ADS holders and the depository services fee are charged by the depository to the holders of record of ADSs as of the applicable ADS record date.

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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 Depository, 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.

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 2015, we received the following payments from the depositary, net of tax:

Reimbursement of expenses for preparation of SEC filing and submission:	\$ 109,663
Reimbursement of listing fees:	\$ 133,685
Reimbursement of legal fees:	\$ 55,443
Reimbursement of proxy process expenses (printing, postage and distribution):	\$ 312,276
Contributions toward our investor relations efforts:	\$ 121,813
Miscellaneous:	\$ 37,119
<b>Total:</b>	<b>\$ 769,999</b>

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, 2015. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including

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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.

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, 2015 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, 2015.

### **c. Report of the Independent Registered Public Accounting Firm**

KPMG Samjong Accounting Corp. ( KPMG Samjong ), an independent registered public accounting firm, which audited our consolidated financial statements as of, and for the year ended, December 31, 2015, has issued an audit report on the effectiveness of our internal control over financial reporting, which report 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.

**Table of Contents****Item 16. [Reserved]****Item 16.A. Audit Committee Financial Expert**

The board of directors has approved the members of our audit committee. Kim, Il-Sup 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](http://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.

**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 2013, 2014 and 2015:

	For the Year Ended December 31,		
	2013	2014	2015
	(In millions of Won)		
Audit fees	5,356	5,481	5,491
Audit-related fees	90		
Tax fees	1,110	1,082	974
Other fees	25	16	3
<b>Total fees</b>	<b>6,581</b>	<b>6,579</b>	<b>6,468</b>

Audit fees in 2015 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.

Audit-related fees in 2013 as set forth in the above table are the aggregate fees billed by KPMG for comfort letter services related to our securities offering.

Tax fees in 2015 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.

Other fees in 2015 as set forth in the above table are fees billed by KPMG primarily in relation to certifications in connection with forward contracts.

**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



**Table of Contents****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, 2015:

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid Per Share (In Won)</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans</b>	<b>Maximum Number of Shares that May Yet Be Purchased Under the Plans</b>
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				
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				
<b>Total</b>				

**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.

<b>NYSE Corporate Governance Standards</b>	<b>POSCO's Corporate Governance Practice</b>
<b>Director Independence</b>	

Listed companies must have a majority of independent directors

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 7 out of 12 directors are Outside Directors. Under our articles of incorporation, we may have up to five Inside Directors and seven 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 Committee composed of three Outside Directors and one Inside Director.

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**NYSE Corporate Governance Standards**

**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.

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

**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 on the company's website

**Audit Committee Additional Requirements**

Listed companies must have an audit committee that is composed of at least three directors.

**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

**Corporate Governance Guidelines**

Listed companies must adopt and disclose corporate governance guidelines

**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

**POSCO's Corporate Governance Practice**

We maintain an Evaluation and Compensation Committee composed of four Outside Directors.

Our Outside Directors hold meetings solely attended by Outside Directors in accordance with operation guidelines of our board of directors.

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.

Our Audit Committee has three members, as described above.

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.

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](http://www.posco.com).

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](http://www.posco.com).

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**Item 16.H. Mine Safety Disclosure**

Not applicable

**PART III**

**Item 17. Financial Statements**

Not applicable

**Item 18. Financial Statements**

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<u>Report of Independent Registered Public Accounting Firm, KPMG Samjong Accounting Corp., on Internal Control over Financial Reporting</u>	F-2
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<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2013, 2014 and 2015</u>	F-9
<u>Notes to Consolidated Financial Statements</u>	F-11
<b>Item 19. Exhibits</b>	

- 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. 333-189473)\*
- 2.2 Form of Deposit Agreement (including Form of American Depositary Receipts) (incorporated by reference to the Registrant's Registration Statement (File No. 33-84318) 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

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders

POSCO:

We have audited the accompanying consolidated statements of financial position of POSCO and subsidiaries as of December 31, 2014 and 2015 and the related consolidated statements of comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2015. These consolidated financial statements are the responsibility of POSCO's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of POSCO and subsidiaries as of December 31, 2014 and 2015 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2015, 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), the effectiveness of POSCO's internal control over financial reporting as of December 31, 2015, 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 27, 2016 expressed an unqualified opinion on the effectiveness of POSCO's internal control over financial reporting.

/s/ KPMG Samjong Accounting Corp.

Seoul, Korea

April 27, 2016

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**Report of Independent Registered Public Accounting Firm  
on Internal Control over Financial Reporting**

The Board of Directors and Stockholders

POSCO:

We have audited POSCO's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. POSCO'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 POSCO's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, 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.

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 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.

In our opinion, POSCO maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, 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), the consolidated statements of financial position of POSCO and subsidiaries as of December 31, 2014 and 2015, and the related consolidated statements of comprehensive income, changes in equity and cash flows for each of the years in the three-year period ended December 31, 2015, and our report dated April 27, 2016 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG Samjong Accounting Corp.

Seoul, Korea

April 27, 2016

**Table of Contents****POSCO and Subsidiaries****Consolidated Statements of Financial Position****As of December 31, 2014 and 2015**

	Notes	December 31, 2014 (in millions of Won)	December 31, 2015
<b>Assets</b>			
Cash and cash equivalents	4,5,23	3,811,202	4,870,185
Trade accounts and notes receivable, net	6,17,23,29,37	11,664,587	9,575,264
Other receivables, net	7,23	1,956,216	1,679,879
Other short-term financial assets	8,23,37	1,462,920	3,910,387
Inventories	9	11,173,343	8,566,882
Current income tax assets	35	36,147	33,765
Assets held for sale	10	2,127,087	57,281
Other current assets	16	976,425	808,252
<b>Total current assets</b>		<b>33,207,927</b>	<b>29,501,895</b>
Long-term trade accounts and notes receivable, net	6,23	79,336	120,338
Other receivables, net	7,23	1,144,160	863,258
Other long-term financial assets	8,23	2,455,900	2,341,460
Investments in associates and joint ventures	11	4,060,507	3,945,333
Investment property, net	13	1,055,592	1,084,292
Property, plant and equipment, net	14	35,241,195	34,522,855
Intangible assets, net	15	6,884,989	6,405,754
Deferred tax assets	35	1,206,408	1,333,785
Other long-term assets	16	507,549	629,000
<b>Total non-current assets</b>		<b>52,635,636</b>	<b>51,246,075</b>
<b>Total assets</b>		<b>85,843,563</b>	<b>80,747,970</b>

*See accompanying notes to the consolidated financial statements.*

**Table of Contents****POSCO and Subsidiaries****Consolidated Statements of Financial Position, Continued****As of December 31, 2014 and 2015**

	Notes	December 31, 2014 (in millions of Won)	December 31, 2015
<b>Liabilities</b>			
Trade accounts and notes payable	23,37	3,950,786	3,125,348
Short-term borrowings and current installments of long-term borrowings	4,17,23	12,195,484	12,371,032
Other payables	18,23	2,194,713	2,129,093
Other short-term financial liabilities	19,23,37	111,637	202,117
Current income tax liabilities	35	453,613	377,962
Liabilities of disposal group held for sale	10	590,982	34,202
Provisions	20	150,030	102,320
Other current liabilities	22,29	2,727,793	2,011,452
<b>Total current liabilities</b>		<b>22,375,038</b>	<b>20,353,526</b>
Long-term trade accounts and notes payable	23,37	88,469	11,098
Long-term borrowings, excluding current installments	4,17,23	15,232,773	12,849,199
Other payables	18,23	169,986	134,470
Other long-term financial liabilities	19,23	91,095	54,696
Defined benefit liabilities, net	21	290,325	182,025
Deferred tax liabilities	35	1,832,260	1,676,658
Long-term provisions	20	223,239	221,692
Other long-term liabilities	22	282,982	251,405
<b>Total non-current liabilities</b>		<b>18,211,129</b>	<b>15,381,243</b>
<b>Total liabilities</b>		<b>40,586,167</b>	<b>35,734,769</b>
<b>Equity</b>			
Share capital	24	482,403	482,403
Capital surplus	24	1,083,718	1,393,079
Hybrid bonds	25	996,919	996,919
Reserves	26	(408,773)	(594,756)
Treasury shares	27	(1,534,457)	(1,533,898)
Retained earnings		40,937,148	40,461,496
<b>Equity attributable to owners of the controlling company</b>		<b>41,556,958</b>	<b>41,205,243</b>
<b>Non-controlling interests</b>	25	<b>3,700,438</b>	<b>3,807,958</b>
<b>Total equity</b>		<b>45,257,396</b>	<b>45,013,201</b>
<b>Total liabilities and equity</b>		<b>85,843,563</b>	<b>80,747,970</b>

*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, 2013, 2014 and 2015**

	Notes	2013	2014	2015
(in millions of Won, except per share information)				
<b>Revenue</b>	28,29,37	61,765,743	64,758,625	58,522,268
<b>Cost of sales</b>	29,31,34,37	(54,913,816)	(57,465,485)	(52,018,434)
<b>Gross profit</b>		6,851,927	7,293,140	6,503,834
Selling and administrative expenses	30,34			
Administrative expenses	31	(2,231,805)	(2,309,756)	(2,395,248)
Selling expenses		(1,632,120)	(1,760,118)	(1,728,956)
Other operating income and expenses	32,37			
Other operating income		229,073	269,406	549,048
Other operating expenses	34	(650,806)	(979,674)	(1,442,298)
<b>Operating profit</b>		2,566,269	2,512,998	1,486,380
Share of loss of equity-accounted investees, net	11	(179,809)	(299,893)	(506,054)
Finance income and costs	23,33			
Finance income		2,380,838	2,396,762	2,557,073
Finance costs		(2,829,253)	(3,221,987)	(3,387,054)
<b>Profit before income taxes</b>		1,938,045	1,387,880	150,345
Income tax expense	35	(589,029)	(823,841)	(266,560)
<b>Profit (loss)</b>		1,349,016	564,039	(116,215)
<b>Other comprehensive income (loss)</b>				
Items that will never be reclassified subsequently to profit or loss :				
Remeasurements of defined benefit pension plans	21	6,224	(75,101)	41,954
Items that are or may be reclassified subsequently to profit or loss :				
Capital adjustment arising from investments in equity-method investees		(183,836)	(45,754)	(82,509)
Net changes in the unrealized fair value of available-for-sale investments	23	412,346	(333,891)	(187,854)
Foreign currency translation differences		(220,464)	(836)	66,280
<b>Other comprehensive income (loss), net of tax</b>		14,270	(455,582)	(162,129)
<b>Total comprehensive income (loss)</b>		1,363,286	108,457	(278,344)
<b>Profit (loss) attributable to :</b>				
Owners of the controlling company		1,370,878	632,706	171,494
Non-controlling interests		(21,862)	(68,667)	(287,709)
<b>Profit (loss)</b>		1,349,016	564,039	(116,215)
<b>Total comprehensive income (loss) attributable to :</b>				

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Owners of the controlling company	1,438,744	181,525	23,864
Non-controlling interests	(75,458)	(73,068)	(302,208)
<b>Total comprehensive income (loss)</b>	<b>1,363,286</b>	<b>108,457</b>	<b>(278,344)</b>
<b>Basic and diluted earnings per share (in Won)</b>	<b>36</b>	<b>17,338</b>	<b>7,514</b>

*See accompanying notes to the consolidated financial statements.*

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**Table of Contents****POSCO and Subsidiaries****Consolidated Statements of Changes in Equity****For the years ended December 31, 2013, 2014 and 2015**

	Share capital	Attributable to owners of the controlling company					Sub total	Non-controlling interests	Total
		Capital surplus	Hybrid bonds	Reserves	Treasury shares (in millions of Won)	Retained earnings			
<b>Balance as of January 1, 2013</b>	482,403	1,104,814		(88,150)	(2,391,406)	40,314,982	39,422,643	2,971,591	42,394,234
<b>Comprehensive income (loss):</b>									
Profit (loss)						1,370,878	1,370,878	(21,862)	1,349,016
Other comprehensive income (loss)									
Remeasurements of defined benefit pension plans, net of tax						3,039	3,039	3,185	6,224
Capital adjustment arising from investments in equity-method investees, net of tax				(166,787)			(166,787)	(17,049)	(183,836)
Net changes in the unrealized fair value of available-for-sale investments, net of tax				412,453			412,453	(107)	412,346
Foreign currency translation differences, net of tax				(180,839)			(180,839)	(39,625)	(220,464)
<b>Total comprehensive income (loss)</b>				64,827		1,373,917	1,438,744	(75,458)	1,363,286
<b>Transactions with owners of the controlling company, Recognized directly in equity:</b>									
Year-end dividends						(463,467)	(463,467)	(30,544)	(494,011)
Interim dividends						(154,490)	(154,490)		(154,490)
Changes in subsidiaries								40,506	40,506
Changes in ownership interests in subsidiaries		(31,417)					(31,417)	373,963	342,546
Issue of hybrid bonds			996,919				996,919	498,468	1,495,387
Interest of hybrid bonds						(24,161)	(24,161)	(6,228)	(30,389)
Disposal of treasury shares		5,348			812,282		817,630		817,630
Others		(479)		247		6,851	6,619	(636)	5,983
<b>Total transactions with owners of the controlling company</b>		(26,548)	996,919	247	812,282	(635,267)	1,147,633	875,529	2,023,162
<b>Balance as of December 31, 2013</b>	482,403	1,078,266	996,919	(23,076)	(1,579,124)	41,053,632	42,009,020	3,771,662	45,780,682

*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, 2013, 2014 and 2015**

	Share capital	Attributable to owners of the controlling company				Retained earnings	Sub total	Non-controlling interests	Total
		Capital surplus	Hybrid bond	Reserves	Treasury shares	(in millions of Won)			
<b>Balance as of January 1, 2014</b>	482,403	1,078,266	996,919	(23,076)	(1,579,124)	41,053,632	42,009,020	3,771,662	45,780,682
<b>Comprehensive income (loss):</b>									
Profit (loss)						632,706	632,706	(68,667)	564,039
Other comprehensive income (loss)									
Remeasurements of defined benefit pension plans, net of tax						(65,152)	(65,152)	(9,949)	(75,101)
Capital adjustment arising from investments in equity-method investees, net of tax				(50,920)			(50,920)	5,166	(45,754)
Net changes in the unrealized fair value of available-for-sale investments, net of tax				(335,626)			(335,626)	1,735	(333,891)
Foreign currency translation differences, net of tax				517			517	(1,353)	(836)
<b>Total comprehensive income (loss)</b>				(386,029)		567,554	181,525	(73,068)	108,457
<b>Transactions with owners of the controlling company, Recognized directly in equity:</b>									
Year-end dividends						(478,702)	(478,702)	(32,887)	(511,589)
Interim dividends						(159,568)	(159,568)	(76,854)	(236,422)
Changes in subsidiaries								91,551	91,551
Changes in ownership interests in subsidiaries		(9,401)					(9,401)	44,265	34,864
Interest of hybrid bonds						(43,600)	(43,600)	(26,175)	(69,775)
Disposal of treasury shares		14,576			44,667		59,243		59,243
Others		277		332		(2,168)	(1,559)	1,944	385
<b>Total transactions with owners of the controlling company</b>		5,452		332	44,667	(684,038)	(633,587)	1,844	(631,743)
<b>Balance as of December 31, 2014</b>	482,403	1,083,718	996,919	(408,773)	(1,534,457)	40,937,148	41,556,958	3,700,438	45,257,396

*See accompanying notes to the consolidated financial statements.*

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**Table of Contents****POSCO and Subsidiaries****Consolidated Statements of Changes in Equity, Continued****For the years ended December 31, 2013, 2014 and 2015**

	Share capital	Attributable to owners of the controlling company					Sub total	Non-controlling interests	Total
		Capital surplus	Hybrid bond	Reserves	Treasury shares	Retained earnings			
<b>Balance as of January 1, 2015</b>	482,403	1,083,718	996,919	(408,773)	(1,534,457)	40,937,148	41,556,958	3,700,438	45,257,396
<b>Comprehensive income (loss):</b>									
Profit (loss)						171,494	171,494	(287,709)	(116,215)
Other comprehensive income (loss)									
Remeasurements of defined benefit pension plans, net of tax						38,771	38,771	3,183	41,954
Capital adjustment arising from investments in equity-method investees, net of tax				(81,418)			(81,418)	(1,091)	(82,509)
Net changes in the unrealized fair 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
<b>Total comprehensive income (loss)</b>				(186,401)		210,265	23,864	(302,208)	(278,344)
<b>Transactions with owners of the controlling company, Recognized directly in equity:</b>									
Year-end dividends						(479,958)	(479,958)	(32,410)	(512,368)
Interim dividends						(159,987)	(159,987)	(67,700)	(227,687)
Changes in subsidiaries								(311,548)	(311,548)
Changes in ownership interests in subsidiaries		310,485					310,485	844,769	1,155,254
Interest of hybrid bonds						(43,574)	(43,574)	(24,187)	(67,761)
Disposal of treasury shares		(35)			559		524		524
Others		(1,089)		418		(2,398)	(3,069)	804	(2,265)
<b>Total transactions with owners of the controlling company</b>		309,361		418	559	(685,917)	(375,579)	409,728	34,149
<b>Balance as of December 31, 2015</b>	482,403	1,393,079	996,919	(594,756)	(1,533,898)	40,461,496	41,205,243	3,807,958	45,013,201

*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, 2013, 2014 and 2015**

	Notes	2013	2014 (in millions of Won)	2015
<b>Cash flows from operating activities</b>				
Profit (loss)		1,349,016	564,039	(116,215)
Adjustments for:				
Depreciation		2,505,536	2,894,609	2,836,663
Amortization		180,014	343,940	381,583
Finance income		(1,012,281)	(1,046,718)	(1,165,340)
Finance costs		1,585,778	1,801,015	1,852,862
Income tax expense		589,029	823,841	266,560
Gain on disposal of property, plant and equipment		(14,177)	(15,039)	(22,730)
Loss on disposal of property, plant and equipment		121,133	50,006	101,732
Impairment loss on property, plant and equipment		9,742	64,833	136,269
Share of loss of equity-accounted investees		179,809	299,893	506,054
Costs for defined benefit plans		247,748	237,886	245,402
Contribution to provisions		111,364	245,470	86,903
Bad debt expenses		201,185	205,306	337,235
Loss on valuation of inventories		49,172	41,713	152,952
Impairment loss on goodwill and intangible assets		125,316	55,220	161,412
Gain on disposals of assets held for sale		(101,611)	(48,232)	(227,956)
Loss on disposals of assets held for sale		26,498	14	190,357
Impairment loss on assets held for sale		1,814	17,205	133,547
Others, net		4,581	56,876	(21,643)
		4,810,650	6,027,838	5,951,862
Changes in operating assets and liabilities	39	(108,300)	(1,853,782)	2,784,452
Interest received		227,989	238,817	198,193
Interest paid		(797,316)	(882,183)	(831,566)
Dividends received		193,008	114,694	237,715
Income taxes paid		(816,912)	(797,324)	(622,612)
Net cash provided by operating activities		4,858,135	3,412,099	7,601,829
<b>Cash flows from investing activities</b>				
	40			
Acquisitions of short-term financial instruments		(4,449,312)	(3,096,602)	(13,037,990)
Proceeds from disposal of short-term financial instruments		3,901,527	4,635,120	10,595,379
Acquisition of long-term financial instruments		(123,703)	(24,683)	(34,733)
Increase in loans		(575,343)	(361,671)	(295,689)
Collection of loans		417,971	76,717	308,906
Acquisitions of available-for-sale investments		(309,469)	(75,582)	(87,824)
Proceeds from disposal of available-for-sale investments		269,363	252,056	308,161
Acquisitions of investments of equity-accounted investees		(1,076,763)	(702,989)	(77,155)
Proceeds from disposal of investments of equity-accounted investees		89,533	21,359	11,813
Acquisitions of property, plant and equipment		(6,569,613)	(3,505,549)	(2,560,244)
Proceeds from disposal of property, plant and equipment		82,153	62,829	59,031
Acquisitions of investment property		(20,945)	(406,603)	(61,478)

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Proceeds from disposal of investment property	8,464	43,167	1,120
Acquisitions of intangible assets	(543,666)	(343,804)	(289,148)
Proceeds from disposal of intangible assets	5,429	9,043	12,832
Proceeds from disposal of assets held for sale	126,809	1,291	127,133
Cash received from (paid in) acquisition of business, net of cash acquired	5,729	(388,578)	
Cash received from disposal of business, net of cash transferred	5,962	48,949	469,576
Other, net	4,204	10,348	15,634
<b>Net cash used in investing activities</b>	<b>(8,751,670)</b>	<b>(3,745,182)</b>	<b>(4,534,676)</b>

*See accompanying notes to the consolidated financial statements.*

**Table of Contents****POSCO and Subsidiaries****Consolidated Statements of Cash Flows, Continued****For the years ended December 31, 2013, 2014 and 2015**

	Notes	2013	2014 (in millions of Won)	2015
<b>Cash flows from financing activities</b>	40			
Proceeds from borrowings		5,098,702	2,522,495	1,779,097
Repayment of borrowings		(2,845,957)	(2,802,150)	(3,509,970)
Proceeds from (repayment of) short-term borrowings, net		86,475	1,037,912	(846,230)
Payment of cash dividends		(648,580)	(677,000)	(822,570)
Proceeds from issuance of hybrid bonds		1,495,387		
Payment of interest of hybrid bonds		(26,088)	(69,713)	(67,725)
Capital contribution from non-controlling interests and proceeds from disposal of subsidiary while maintaining control		385,122	54,066	1,260,053
Capital deduction from non-controlling interests and additional acquisition of interests in subsidiaries		(22,078)		(10,810)
Proceeds from disposal of treasury shares		14,019	43,188	
Other, net		(4,666)	26,314	(23,446)
Net cash provided by (used in) financing activities		3,532,336	135,112	(2,241,601)
Effect of exchange rate fluctuation on cash held		(110,765)	11,545	23,496
<b>Net increase (decrease) in cash and cash equivalents</b>		(471,964)	(186,426)	849,048
<b>Cash and cash equivalents at beginning of the period</b>		4,680,526	4,208,562	4,022,136
<b>Cash and cash equivalents at end of the period</b>	5	4,208,562	4,022,136	4,871,184

*See accompanying notes to the consolidated financial statements.*

**Table of Contents****POSCO and Subsidiaries****Notes to the Consolidated Financial Statements****As of December 31, 2013, 2014 and 2015****1. General Information**

General information about POSCO, its 42 domestic subsidiaries including POSCO Engineering & Construction Co., Ltd., 171 foreign subsidiaries including POSCO America Corporation (collectively the Company ) and its 98 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 since 1988. POSCO owns and operates two steel plants (Pohang and Gwangyang) and one office in Korea and it also operates internationally through five of its overseas liaison offices.

As of December 31, 2015, POSCO's shareholders are as follows:

Shareholder's name	Number of shares	Ownership (%)
National Pension Service	7,885,065	9.04
Nippon Steel & Sumitomo Metal Corporation (*1)	4,394,712	5.04
Pohang University of Science and Technology	1,905,000	2.18
Government of Singapore Investment Corporation Pte Ltd	1,862,625	2.14
KB Financial Group Inc. and subsidiaries (*2)	1,828,207	2.10
Others	69,311,226	79.50
	87,186,835	100.00

(\*1) Nippon Steel & Sumitomo Metal Corporation owns 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, 2015, the shares of POSCO are listed on the Korea Exchange, while its depository shares are listed on the New York Stock Exchanges.

**Table of Contents****POSCO and Subsidiaries****Notes to the Consolidated Financial Statements, Continued****As of December 31, 2013, 2014 and 2015**

## (b) Consolidated subsidiaries

Details of consolidated subsidiaries as of December 31, 2014 and 2015 are as follows:

	Principal operations	Ownership (%)						Region
		December 31, 2014			December 31, 2015			
		POSCO	Subsidiaries	Total	POSCO	Subsidiaries	Total	
<b>[Domestic]</b>								
POSCO ENGINEERING & CONSTRUCTION., LTD.	Engineering and construction	89.53		89.53	52.80		52.80	Pohang
POSCO Processing & Service	Steel sales and trading	96.01		96.01	96.01		96.01	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	Seongnam
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	57.25	11.05	68.30	Suncheon
POSCO A&C	Architecture and consulting	100.00		100.00	100.00		100.00	Seoul
POSCO Capital Co., Ltd	Investment in venture companies	95.00		95.00	95.00		95.00	Pohang
eNtoB Corporation	Electronic commerce		62.38	62.38	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
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 TMC Co., Ltd.	Component manufacturing		74.56	74.56		74.56	74.56	Cheonan
POSCO NIPPON STEEL RHF JOINT VENTURE. CO., Ltd.	Steel 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	Cheonan
POSCO Engineering CO., Ltd	Construction and engineering service		95.56	95.56		95.56	95.56	Incheon
POSCO AST	Steel manufacturing and sales		100.00	100.00		100.00	100.00	Ansan
POSHIMETAL Co., Ltd.	Ferromanganese manufacturing and sales	65.00		65.00	100.00		100.00	Gwangyang
Poscoene	Refuse derived fuel and power generation		100.00	100.00		100.00	100.00	Seoul
POSCO Humans	Construction	90.30		90.30	90.30		90.30	Pohang
Mapo Hibroad Parking co., Ltd.	Construction		70.99	70.99		70.99	70.99	Seoul
	Steel manufacturing		84.89	84.89		84.89	84.89	Gwangyang

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Steel Processing and Fabricating Center  
Co., LTD

BLUE O&M Co., Ltd.	Engineering service		100.00	100.00		100.00	100.00	Pohang
Busan E&E Co., Ltd.	Refuse derived fuel and power generation	70.00		70.00	70.00		70.00	Busan
POSCO Family Strategy Fund	Investment in venture companies	60.79	39.21	100.00	69.91	30.09	100.00	Pohang
Daewoo International Corporation	Trading, energy & resource development and others	60.31						