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

x **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	**The Republic of Korea**
(Translation of Registrant s name into English)	*(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,

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.

Title of Each Class	Name of Each Exchange on Which Registered
American Depositary Shares, each representing one-fourth of one share of common stock	New York Stock Exchange, Inc.
Common Stock, par value Won 5,000 per share *	New York Stock Exchange, Inc. *

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

None

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

None

As of December 31, 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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GLOSSARY

ADR	American Depositary Receipt evidencing ADSs.
ADR depositary	Citibank, N.A.
ADS	American Depositary Share representing one-fourth of one share of Common Stock.
Australian Dollar or A$	The currency of the Commonwealth of Australia.
Commercial Code	Commercial Code of the Republic of Korea.
common stock	Common stock, par value Won 5,000 per share, of POSCO.
deposit agreement	Deposit Agreement, dated as of July 19, 2013, among POSCO, the ADR Depositary and all holders and beneficial owners from time to time of ADRs issued thereunder.
Dollars, $ or US$	The currency of the United States of America.
FSCMA	Financial Investment Services and Capital Markets Act of the Republic of Korea.
Government	The government of the Republic of Korea.
IASB	International Accounting Standards Board.
IFRS	International Financial Reporting Standards.
Yen or JPY	The currency of Japan.
Korea	The Republic of Korea.
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.

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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 [1]	68,890	63,345	61,766	64,759	58,522	US$ 49,934
Cost of sales [2]	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 [3]	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) [4]	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 [5]	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

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Selected consolidated statements of cash flows data

	For the Year Ended December 31,					
	2011	2012	2013	2014	2015	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	US$ 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 (1)	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 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;

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;

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

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;

- 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.

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.

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;

- 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.

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

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

The Commercial Code and our articles of incorporation require us, with some exceptions, to offer shareholders the right to subscribe for new shares in proportion to their existing ownership percentage whenever new shares are issued. If we issue new shares to persons other than our

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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 depositary, after consultation with us, may make the rights available to you or use reasonable efforts to dispose of the rights on your behalf and make the net proceeds available to you. The ADR depositary, however, is not required to make available to you any rights to purchase any additional shares unless it deems that doing so is lawful and feasible and:

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

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

We are under no obligation to file any registration statement under the Securities Act to enable you to exercise preemptive rights in respect of the common shares underlying the ADSs, and we cannot assure you that any registration statement would be filed or that an exemption from the 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, sho 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 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	
Steel Products	**Billions of Won**	**%**	**Billions of Won**	**%**	**Billions of Won**	**%**
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
Sub-total	29,047	91.4	28,458	89.4	25,208	89.1
Others	2,748	8.6	3,384	10.6	3,085	10.9
Total	**31,795**	**100.0%**	**31,842**	**100.0%**	**28,293**	**100.0%**

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

Steel Products	For the Year Ended December 31, 2013 Thousands of Tons	%	2014 Thousands of Tons	%	2015 Thousands of Tons	%
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
Total (1)	**29,104**	**100.0%**	**30,390**	**100.0%**	**31,580**	**100.0%**

(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.

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[(1)]	43.4%	40.6%	40.8%
Other domestic steel companies sales	23.6	27.6	27.7
Imports	33.0	31.8	31.5
Total	**100.0%**	**100.0%**	**100.0%**

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

Exports

Our export sales and overseas sales to customers abroad represented 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.

	For the Year Ended December 31,					
	2013		2014		2015	
Region	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
Total	**20,587**	**100.0%**	**22,731**	**100.0%**	**21,901**	**100.0%**

	For the Year Ended December 31,					
	2013		2014		2015	
Steel Products	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

Total	**20,587**	**100.0%**	**22,731**	**100.0%**	**21,901**	**100.0%**

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The table below sets out the world s apparent steel use for the periods indicated.

	For the Year Ended December 31,		
	2013	2014	2015
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.

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.

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.

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	2013		2014		2015	
	For the Year Ended December 31, (In billions of Won, except percentages)					
Export Sales						
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
Domestic Sales						
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
Third-Country Trades						
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)
Total sales	**17,109**	**100.0%**	**20,408**	**100.0%**	**17,527**	**100.0%**

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

In most cases, POSCO Daewoo enters into trading transactions after the underlying sale and purchase contracts have been matched, which mitigates inventory and price risks to POSCO Daewoo. POSCO Daewoo typically enters into trading transactions as a principal, and in limited cases as an import or export agent. When acting as a principal or an agent, POSCO Daewoo derives its gross trading profit from the margin between the selling price of the products and the purchase price it pays for such products. In the case of principal transactions, the selling price is recorded as sales and the purchase price is recorded as cost of sales, while only the margin is recorded as sales in the case of agency transactions in which POSCO Daewoo does not assume the risks and rewards of ownership of the goods. In the case of principal transactions, it takes an average of approximately 51 days 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 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.

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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 (%) [(1)]	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.

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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 (%) (1)	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 (%) (1)	100.3	104.9	106.1

(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.

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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 (%) (1)	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 (%) (1)	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 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.

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	For the Year Ended December 31, 2013	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 [1]	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.

	For the Year Ended December 31, 2013	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.

	For the Year Ended December 31,		
	2013	2014	2015
Crude steel and stainless steel production capacity (million tons per year) (1)	40.4	43.5	47.6
POSCO	38.1	38.2	42.4
POSCO Specialty Steel Co., Ltd. (1)	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) (2)	38.3	41.4	42.0
POSCO	36.4	37.7	38.0
POSCO Specialty Steel Co., Ltd. (1)	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 (%) (1)	94.6%	95.2%	88.3%
POSCO	95.5%	98.6%	89.5%
POSCO Specialty Steel Co., Ltd. (1)	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

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

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

- our export products to be less competitive by raising our prices in Dollar terms; and
- a reduction in net sales and accounts receivables in Won from export sales, which are primarily denominated in Dollars.

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

Inflation

Inflation in Korea, which was 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.

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 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 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 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 mount 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:

	For the Year Ended December 31,		
	2013	2014	2015
		(In millions of Won)	
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)

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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. [1]
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.

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Revenue

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

	For the Year Ended December 31, 2014	2015	Changes 2014 versus 2015 Amount	%
	(In billions of Won)			
Steel Segment:				
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)
Trading Segment:				
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)
Construction Segment:				
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)
Others Segment:				
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 [1]	(340)	330	670	N.A. [2]
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 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 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

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 (1)	(350)	360	710	N.A. (2)
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.

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 versus 2015	
	2014	2015	Amount	%
		(In billions of Won)		
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 [1]	10	(30)	(40)	N.A. [2]
Gross profit	7,293	6,504	(789)	(10.8)

(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.

(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 versus 2015	
	2014	2015	Amount	%
	(In billions of Won)			
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)
Total selling expenses	1,760	1,729	(31)	(1.8)
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)
Total administrative expenses	2,310	2,395	85	3.7
Total selling and administrative expenses	4,070	4,124	54	1.3

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

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 versus 2015	
	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. (1)
Gain on insurance proceeds	3	15	12	412.2
Others	162	184	22	13.7
Total other operating income	269	549	280	103.8

(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	Amount	%
	(In billions of Won)			
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. (1)
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(2)	447	436	(11)	(2.6)
Total other operating expenses	980	1,442	463	47.2

(1) N.A. means not applicable.