



posco

2018 2Q Earnings Release

July 23, 2018

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Parent Performance (Production/Sales)

Shipment Down, Sales Price Increased, WP and Domestic Sales Ratio Up

(thousand tons, thousand KRW/ton)

	2Q 17	1Q 18	2Q 18	QoQ
Crude Steel Production	8,801	9,288	9,377	+89
Product Production	8,520	9,072	9,027	-45
STS	518	493	534	+41
Product Sales	8,463	9,294	8,960	-334
STS	509	510	528	+18
Carbon Steel ASP	705	710	730	+20
WP Sales Ratio(%)	56.0	54.9	55.6	+0.7%p
Export Ratio(%)	46.7	43.1	42.5	-0.6%p
Product Inventory	977	1,055	1,070	+15

[QoQ Analysis]

- **Crude steel production increased due to more production days, product production volume slightly decreased from facility maintenance in Gwangyang Works**
 - Crude Steel : P) +126, G) -37 thousand tons
 - Product : P) +139, G) -184 thousand tons
 - * Major maintenance projects : G) #1HR, #2CR, #4CR, #4CGL, etc.
- **Product sales volume went down due to the base effect of inventory sales in previous quarter and facility maintenance in Gwangyang Works**
 - HR(-263 thousand tons), CR(+22 thousand tons), etc.
- **Average Sales Price (ASP) heightened**
 - Carbon Steel(+20k KRW/ton), STS Steel(+6k KRW/ton)
- **WP sales ratio went up (57% target for '18)**
 - WP Sales Volume : ('18.1Q) 4,788k → ('18.2Q) 4,663k tons
- **Strategy to expand domestic sales ratio continued (60% target for '18)**

*P) Pohang Works, G) Gwangyang Works

Parent Performance

Lower Profits from Sales Volume Decrease, Raw Material Price and Cost Increase

(billion KRW)

	2Q 17	1Q 18	2Q 18	QoQ
Revenue	7,134	7,761	7,705	-56
Cost of Goods Sold	6,133	6,290	6,431	+141
Gross Profit	1,001	1,471	1,274	-197
(Gross Margin)	(14.0%)	(19.0%)	(16.5%)	
SG&A	416	455	452	-3
Operating Profit	585	1,016	822	-194
(Operating Margin)	(8.2%)	(13.1%)	(10.7%)	
Non-Operating Profit	66	37	-33	-70
Net Profit	509	769	580	-189
(Net Margin)	(7.1%)	(9.9%)	(7.5%)	

[QoQ Analysis]

- Despite sales price hike, operating profit reduced due to shrink in sales volume and cost increase (-194bn KRW)

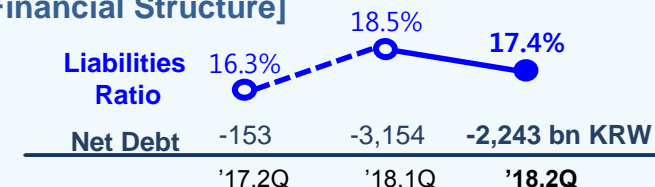
• Revenue (-56bn KRW) : Sales volume down -233
Sales price up +177

• COGS (+141bn KRW) : Sales volume down -185
Raw material price up +116
Property tax and other costs +210

- Net profit decreased on operating profit decline, LNG value-added tax, etc. (-189bn KRW)

• Operating profit -194bn KRW
• Payment of LNG value-added tax -132bn KRW
• Decline in dividend income -44bn KRW
• Reduced impairment losses on assets, corporate income tax, etc. +181bn KRW

[Financial Structure]



Consolidated Performance

Weakened Domestic Steel and Non-Steel Businesses Affected Lower Consolidated Earnings Despite Improved Overseas Steel Performance

(billion KRW)

	2Q 17	1Q 18	2Q 18	QoQ
Revenue	14,944	15,862	16,083	+221
Gross Profit	1,869	2,386	2,164	-222
(Gross Margin)	(12.5%)	(15.0%)	(13.5%)	
SG&A	890	898	912	+14
Operating Profit	979	1,488	1,252	-236
(Operating Margin)	(6.6%)	(9.4%)	(7.8%)	
Non-Operating Profit	-59	-29	-19	+10
Share of Profit(Loss) of Equity-accounted Investees	-65	87	-56	-143
Finance Income and Costs	-82	-63	-174	-111
Foreign Currency Transaction & Translation Gain(Loss)	-24	11	-150	-161
Net Profit	530	1,084	637	-447
(Net Margin)	(3.5%)	(6.8%)	(4.0%)	
Profit Attributable to Owners of the Controlling Company	513	994	582	-412

[QoQ Analysis]

○ Domestic steel and non-steel including trading and energy sectors saw reduction of operating profit

- Steel (-160bn KRW) : POSCO earnings down despite improvement in overseas steel businesses
- Non-steel (-60bn KRW) : Daewoo and Energy profit decreased

※ Aggregated Operating Profit by Segment

(bn KRW)	1Q18	2Q18	QoQ
Steel	1,184	1,024	-160
POSCO	1,016	822	-194
Overseas Steel	120	155	+35
Non-Steel	353	293	-60
Total	1,537	1,317	-220

○ Net profit went down due to equity method and F/X-related losses

- Operating profit -236bn KRW
- Losses of equity-accounted investees -143bn KRW
- Foreign currency transaction & translation loss, etc. -68bn KRW

Aggregated Earnings by Segment

(billion KRW)

Segment	Revenue			Operating Profit			Net Profit		
	2Q 17	1Q 18	2Q 18	2Q 17	1Q 18	2Q 18	2Q 17	1Q 18	2Q 18
Steel	11,597	12,508	12,724	715	1,184	1,024	535	833	668
Trading	9,586	9,322	9,507	103	160	140	15	103	-6
E & C	1,808	1,592	1,824	65	84	86	-6	64	38
Energy	356	501	450	31	66	12	10	64	8
I C T	218	221	222	11	9	16	10	8	13
Chemicals/ Materials, etc.	639	708	748	43	34	39	27	22	30
Total	24,204	24,852	25,475	968	1,537	1,317	591	1,094	751

Consolidated Performance (B/S)

Cash Balance and Equity Reduced from Repaying Hybrid Bond

(billion KRW)

	2Q 17	1Q 18	2Q 18	QoQ	Remarks
Current Asset	29,876	32,908	33,386	+478	<ul style="list-style-type: none"> · POSCO cash balance (-851bn KRW) : Repayment of hybrid bond, dividend payment, etc. · A/P and inventory assets went up on increased sales price and manufacturing cost
Cash Balance*	7,533	10,676	9,569	-1,107	
Accounts Receivable	9,702	9,284	9,698	+414	
Inventories	9,712	10,303	10,639	+336	
Current Ratio (%)	157.6	168.0	167.7	-0.3%p	
Non-Current Asset	49,632	47,574	46,577	-997	<ul style="list-style-type: none"> · Held for sale of POSCO Power(625bn KRW)
Other Long-term Financial Assets**	3,566	2,764	2,741	-23	
PP&E	32,843	31,595	31,431	-164	
Total Assets	79,508	80,482	79,963	-519	
Liabilities	32,616	32,531	32,238	-293	<ul style="list-style-type: none"> · Current portion of long-term bond (350bn KRW)
Current Liabilities	18,963	19,587	19,910	+323	
Non-Current Liabilities	13,653	12,944	12,328	-616	
(Interest-bearing Debt)	22,375	21,082	21,270	+188	
Liabilities Ratio (%)	69.6	67.8	67.5	-0.3%p	
Equity	46,892	47,951	47,725	-226	<ul style="list-style-type: none"> · Repayment of hybrid bond -800bn KRW, Net profit +637bn KRW, etc.
Owners of the controlling company	43,120	44,260	43,970	-290	

* Cash Balance : Cash and cash equivalents, Short-term financial instruments, Short-term trading securities, Short-term securities, Current portion of held-to-maturity securities

** Includes other receivables

Domestic Subsidiaries (Parent-based)

■ POSCO Daewoo

- Sales volume reduced in Myanmar gasfield due to the pipeline repair in China

- Gas sales volume reduction (QoQ -21%)

	2Q 17	1Q 18	2Q 18	QoQ
Revenue	5,663	5,814	5,688	-126
Operating Profit	87	136	113	-23
Net Profit	16	92	37	-55

■ POSCO E&C

(billion KRW)

- Profits sustained on a favorable trend in housing building segment despite extra costs occurred in overseas projects

- 1H Consolidated new order taking : 6.1tn KRW (YoY+1.3tn KRW)

	2Q 17	1Q 18	2Q 18	QoQ
Revenue	1,564	1,416	1,647	+231
Operating Profit	55	90	87	-3
Net Profit	23	75	67	-8

■ POSCO Energy

- Power sales price plunged in low season whereas LNG power generation volume increased

- CP price decrease (12.1 → 5.4 KRW/kWh, QoQ -55%)

	2Q 17	1Q 18	2Q 18	QoQ
Revenue	329	467	417	-50
Operating Profit	21	54	3	-51
Net Profit	-1	46	-5	-51

■ POSCO Chemtech

- Sales of anode materials propelled whereas refractories temporarily slow down

- Sales volume of anode materials +940tons (QoQ +31%)

	2Q 17	1Q 18	2Q 18	QoQ
Revenue	287	328	324	-4
Operating Profit	26	22	20	-2
Net Profit	20	18	16	-2

Overseas Subsidiaries (Parent-based)

■ PT. Krakatau POSCO

- Recorded highest quarterly earnings on sales price hike and expansion of production/sales

(million USD)

	2Q 17	1Q 18	2Q 18	QoQ
Revenue	350	381	446	+65
Operating Profit	-4	22	50	+28
Net Profit	-37	-16	7	+23

■ Zhangjiagang STS (ZPSS)

- Despite Ni price increase, profit shrank due to the weak market condition

- LME Ni price : (Mar) 13,404 → (Jun) 15,111 U\$/ton (million USD)

	2Q 17	1Q 18	2Q 18	QoQ
Revenue	591	721	729	+8
Operating Profit	7	13	2	-11
Net Profit	4	9	2	-7

■ POSCO Maharashtra

- Sound domestic market contributed to increasing sales volume and price, leading to the highest quarterly operating profit

(million USD)

	2Q 17	1Q 18	2Q 18	QoQ
Revenue	333	375	384	+9
Operating Profit	33	33	38	+5
Net Profit	23	19	8	-11

■ POSCO SS VINA

- Losses continued due to raw material price increase such as high scrap price

- Increase of scrap price (QoQ +7.4%) (million USD)

	2Q 17	1Q 18	2Q 18	QoQ
Revenue	96	138	150	+12
Operating Profit	-18	-3	-8	-5
Net Profit	-22	-8	-14	-6

2018 Business Plan

(trillion KRW, million tons)

Business Plan		2017(A)	2018(E)
Parent	Revenue	28.6	30.3
	Crude Steel Production	37.2	37.7
	Product Sales	34.7	36.1
	Capex	1.7	2.9
	Debt	3.9	4.2
Consolidated	Revenue	60.7	64.1
	Capex	2.6	4.2
	Debt	21.1	20.2

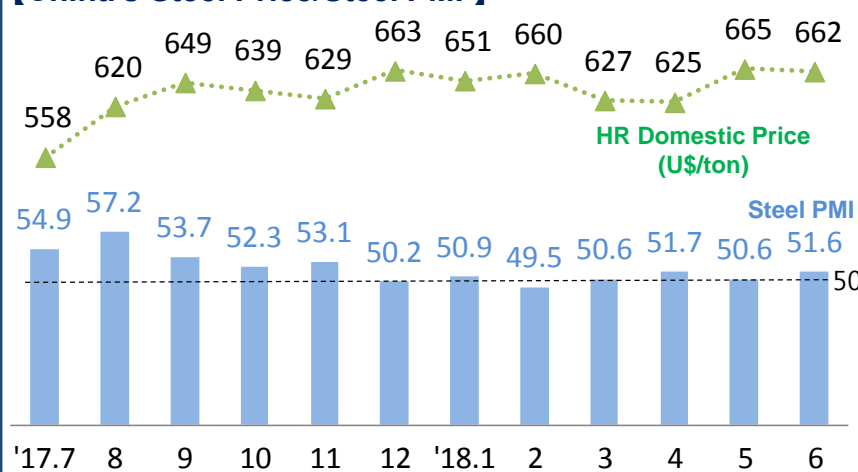
(Appendix) Global Steel Demand

Chinese Steel Market

“China’s constant production cut and industry restructuring expected to drive strong price trend”

- ✓ Steel price rebounded in 2Q with stable demand and constant production curtailment measures from environment regulations
 - HR price hit the highest in May '18 since Dec '17
 - Steel PMI went up over 50 after Mar '18
- ✓ Chinese government's continuous restructuring including closure of 30 million tons of old facilities will help the current strong price level to sustain

[China's Steel Price/Steel PMI]



* Bloomberg(2018.6), China Federation of Logistics & Purchasing(2018.7)

Demand by Region

“Global steel demand is forecast to increase by 1.8% with recovery of emerging market”

- ✓ The U.S. and developed countries will show 2% range demand growth on a gradual economic recovery and demand increase for energy-related steel products
- ✓ Steel demand in emerging market is expected to grow at 5~6% on expansion of infrastructure investment backed by sound economic growth
- ✓ Chinese demand will remain the similar level from solid construction market despite weakened manufacturing industry due to trade war

[Steel Demand Outlook]

(million tons)

Region	2015	2016	2017	YoY	2018(f)	YoY
U.S.	96.1	91.9	97.7	6.4%	100.3	2.7%
EU	153.9	158.4	162.3	2.5%	165.6	2.0%
China	672.3	680.3	736.8	8.3%	736.8	0.0%
India	80.2	83.6	87.2	4.3%	92.0	5.5%
ASEAN	65.1	74.1	70.3	-5.2%	74.9	6.6%
MENA	72.9	72.6	71.7	-1.1%	75.3	5.0%
World	1,501	1,516	1,587	4.7%	1,616	1.8%

* World Steel Association(2018.4)

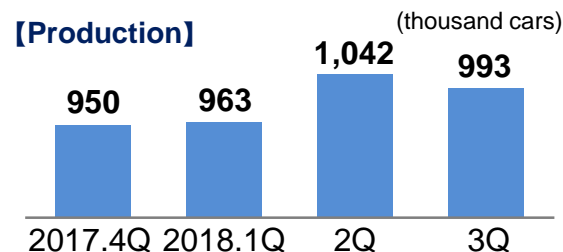
(Appendix) Domestic Steel Demand

Demand Industry Outlook



Automobile

- ✓ Production remained weak year-on-year due to worsened domestic consumer sentiment and export decrease caused by undermined price competitiveness

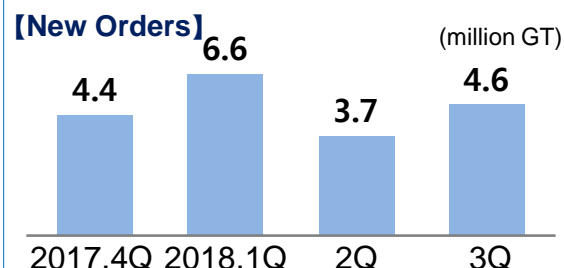


* Korea Automobile Manufacturers Association(2018.7), POSRI(2018.7)



Shipbuilding

- ✓ Although global shipbuilding market bottomed out from the order draught, domestic new orders will be slow as recent global orders are going down

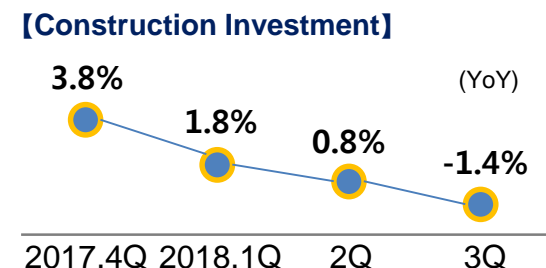


* Clarkson(2018.7), POSRI(2018.7)



Construction

- ✓ Construction investment softened as new orders are decreasing from sluggish housing market and weakening public infra investment



*Bank of Korea(2018.6), POSRI(2018.7)

Steel Supply and Demand

(million tons)

	2015	2016	2017	2018(f)	1Q	2Q	3Q	YoY
Nominal Consumption	55.8	57.1	56.4	53.8	13.1	13.2	13.8	- 1.7%
Export	31.6	31.0	31.7	31.0	7.9	7.8	7.8	- 5.6%
Production	74.1	74.3	77.2	76.0	18.8	18.9	19.3	- 2.3%
Import	13.2	13.7	10.9	8.8	2.2	2.2	2.3	- 9.7%
Including Semi-Product	22.1	23.7	19.7	15.4	4.1	3.8	3.9	- 15.0%

* POSRI(2018.7)

(Appendix) Raw Materials Outlook

Iron Ore

2018.2Q

Iron ore price moved at mid-U\$60/ton range and maintained stable trend due to sufficient supply in the market with Chinese iron ore port inventory hitting another record high in Mar '18 at 160 million tons and major suppliers expanding production

2018.3Q

“3Q fine ore price forecast at U\$60~65/ton”

Weaker demand is expected as China enters into a slow construction season. Iron ore price is likely to trend around U\$60/ton range similar to 2Q

Coking Coal

2018.2Q

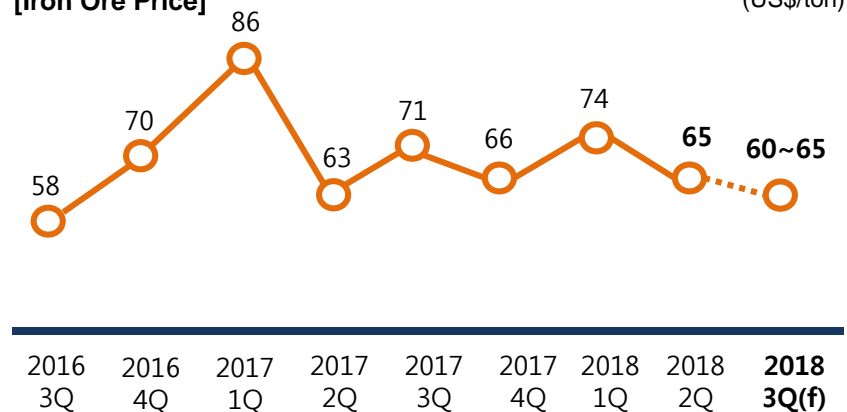
Hard coking coal price seemed stabilized at U\$180/ton level with seasonal supply disruption resolved, but was lifted to U\$200/ton level again due to market concerns that regular maintenance of East Australian railroads could lead to supply decrease

2018.3Q

“3Q HCC price forecast at U\$175~185/ton”

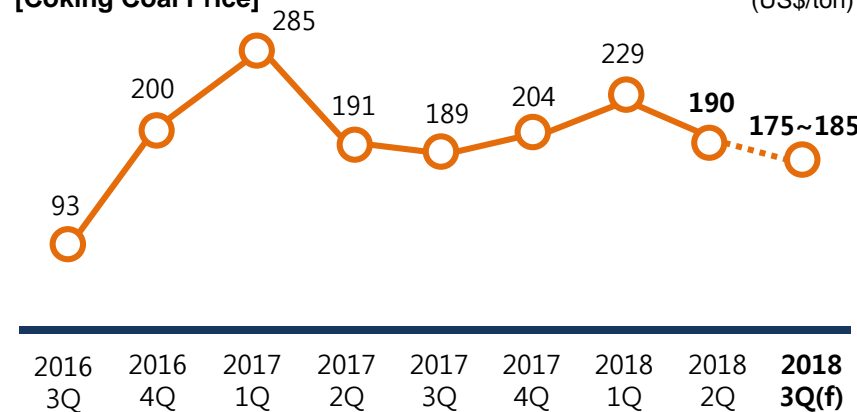
Coal demand will be stable with China entering off-season, but downward price will trend in a limited range as supply disruption risk is not completely removed with the possibility of East Australian railroad companies to reduce coal shipping volume

[Iron Ore Price] (US\$/ton)



*62% Fe IODEX CFR China (Quarterly Average Spot Price)

[Coking Coal Price] (US\$/ton)



*Premium LV HCC FOB Australia (Quarterly Price)

(Appendix) Parent-based Earnings (P/L)

Following 1Q, Operating Profit in 2Q Leaped Compared Year-on-Year

(billion KRW)

	2017					2018			
	1Q	2Q	3Q	4Q		1Q	2Q	QoQ	YoY
Revenue	7,067	7,134	7,255	7,097	28,554	7,761	7,705	-56	+571
Cost of Goods Sold	5,843	6,133	6,083	5,774	23,833	6,290	6,431	+141	+298
Gross Profit	1,224	1,001	1,173	1,323	4,721	1,471	1,274	-197	+273
(Gross Margin)	(17.3%)	(14.0%)	(16.2%)	(18.6%)	(16.5%)	(19.0%)	(16.5%)		
SG&A	429	416	451	523	1,819	455	452	-3	+36
Operating Profit	795	585	722	800	2,903	1,016	822	-194	+237
(Operating Margin)	(11.3%)	(8.2%)	(9.9%)	(11.3%)	(10.2%)	(13.1%)	(10.7%)		
Non-Operating Profit	275	66	197	-86	452	37	-33	-70	-99
Net Profit	840	509	730	467	2,546	769	580	-189	+71
(Net Margin)	(11.9%)	(7.1%)	(10.1%)	(6.6%)	(8.9%)	(9.9%)	(7.5%)		