2018 2Q POSCO Earnings Release

Q&A Summary

July 23, 2018

Domestic Market Outlook

Shipbuilding sector is showing the most positive trend among other industries including automobile and construction. Shipbuilding plate demand is good as imports from Japan and China are hitting record low backed with strong domestic demand and industry restructuring in the countries. We were able to raise plate price in 1H, and expect similar trend in 2H.

In 2Q, sales volume decreased due to the maintenance and base-effect of inventory sales in previous quarter, not because of trade barriers. In 3Q, steel market enters into a slow season. Ahead of winter cut period, China will see production increase and inventory build-up in 3Q , but pricing trend is not so negative. It is mostly driven by the capacity shutdown on 260 million tons from total capacity, of which 100 million tons are effective capacity. Chinese HR price moved from USD590/ton to USD560/ton during 1Q and 2Q, and is currently under adjustment, but there will not be any big fall in prices moving toward 4Q because of winter curtailment.

Impact of Trade Dispute

We expected that EU provisional safeguard measures might be introduced from May and already set up strategies to respond to such barriers. The EU steel safeguard is different from Section 232 of the U.S. As the quota is based on 3 previous year average, our sales volume will not be affected. As of now, we have already filled 80% of our annual sales plan to EU. However, the quota is based on global volume not on each country’s export volume, so we try to produce and ship our products as ordered as early as possible.

In terms of Section 232, it is a concern if 25% tariff is applied on automobile export from Korea. Total number of cars exported from Korea to the U.S. is 845 thousand. If the entire volume is blocked from exporting, POSCO's affected sales would be from 400,000 to 430,000 tons. Considering our total annual shipment of 36 million tons, it is a small portion. If the tariff is realized, we will divert the volume to China and Southeast Asian countries. Also, we will absorb the impact by expanding sales to Global Big 10 carmakers and carpart companies.

Cost Increase in 2Q Result

One of the factors in earnings reduction this quarter is an increase of costs. Out of 210 billion KRW cost increase, 100 billion KRW was from high-priced early quarter inventory, which includes 50th anniversary bonus for employees of 59 billion KRW and high-priced raw materials of 48 billion KRW. Secondly, maintenance projects increased and spent 26 billion KRW more on outsourcing and maintenance cost. Property tax and others were 32 billion KRW and carbon emissions liability was increased by 5 billion KRW. Most of the cost increase such as outsourcing cost is one-off and will not occur in coming quarters.

Stainless Steel Business

STS earnings in 2Q went down QoQ due to high Ni and Cr prices and Qingshan Steel's aggressive marketing in the region for entrance. In 2H, to differentiate from Qingshan, we will take the strategy to sell more 400 series and focus on profitability while securing contract-based customers.

Non-Operating Losses on a Consolidated Basis

Largest part of the non-operating loss occurred from Brazil CSP. We recognized 100 billion KRW loss from CSP as equity method investment due to weak Brazilian Real although operation of the company is going well.

Coking Coal Price Outlook

Strong trend of coking coal price in 1H is now stabilized as Chinese domestic demand is decreasing . In 3Q, it will range from USD175-185/ton and rebound to USD185-195/ton in 4Q due to weather issues.

Overseas Steel Business

PT.KP is noticeable in its earnings growth, recording USD 50milion of operating profit in 2Q after getting over slowness of the early operation. As it enters the normality of stabilized operation, sales and quality of the products, we expect that it will continue to generate stable earnings.

Vietnam SS VINA recognized loss due to raw material price increase such as high electrode and scrap prices. The reason for slower-than-expected pick-up is low price of section steel, while the company generates profit in rebar. However, we expect that AD restriction on Chinese section steel will drive the product price higher in 3Q, and the company will turn breakeven in September this year.

Outlook for EV Battery Material Business

POSCO has 4 divisions under EV battery materials, Cathode, Anode, Lithium and Nichel. By 2030, we are targeting to generate 17 trillion KRW as total revenue from this business. Among the divisions, we target higher than 11 trillion KRW from cathode materials. Compared with cathode, Lithium and Nichel will take smaller portion in terms of revenue, but they are important as being used for raw materials of batteries.

Samcheok Coal-fired Power Plant

The total capex of the coal fired plant is 5.2 trillion KRW. POSCO Energy completed to sell 68.5% of stake to financial investors in June '18. The construction of the plant is expected to begin in June '19 and finish in '24.

Electricity Cost Outlook

In 2017, we spent 630 billion KRW in electricity and expect similar amount this year while trying to reduce the cost. Assuming a 10% increase of industrial electricity rate, we pay 60 billion KRW more on an annual basis.

Hybrid Bonds

We completed repayment of 800 billion KRW Hybrid in June and have successfully issued 500 billion KRW corporate bond in the domestic market early July. We plan to issue global bond of USD 500 million, and pricing will be made within July.

New CEO's Strategy

The new CEO will announce new corporate strategies around the 100th day after his inauguration on July 27 when the Extraordinary General Meeting of Shareholders is scheduled. We expect that he will adhere to the current investment strategy and the stance on the shareholders' return policy as he has much experience in POSCO as a CFO until this February.

52 Weekly Work Hour Policy

POSCO's extended weekly work hours have been less than 5 hours which is within the allowed 12 hour of the new amendment in the Labor Standards Act even before the execution of the Act. Although overtime working exceeding 12 hours happens occasionally due to temporary workload increase, we improved our working system by introducing a flexible work system and a selective work hour system. We are prepared for the amendment by expanding new recruit and rehiring about 300 retirees in order to resolve any risk of extended work beyond legal time and relieve employees' workload in spite of the improvement of work system.