



posco

2018 3Q Earnings Release

October 23, 2018

Disclaimer

This presentation was prepared and circulated to release the informations regarding the company's business performance to shareholders and investors prior to the completion of auditing for the period of the third quarter of 2018. As figures in this presentation are based on unaudited financial statements, certain contents may be subject to modification in the course of auditing process.

This presentation contains certain forward-looking statements relating to the business, financial performance and results of the company and/or the industry in which it operates. The forward-looking statements set forth herein concern future circumstances and results and other statements that not historical facts, and are solely opinions and forecasts which are uncertain and subject to risks. Therefore, the recipients of this presentation shall be aware of that the forward-looking statements set forth herein may not correspond to the actual business performance of the company due to changes and risks in business environments and conditions.

The sole purpose of this presentation is to assist persons in deciding whether they wish to proceed with certain investments to the company. The company does not make any representation or warranty, expressly or impliedly, as to the accuracy and completeness of this presentation or of the information contained herein and shall not have any liability for the informations contained in this presentation.

Parent Performance (Production/Sales)

Production and Sales Volume Increased, Upward Trend of Sales Price Continued

(thousand tons, thousand KRW/ton)

	3Q 17	2Q 18	3Q 18	QoQ
Crude Steel Production	9,755	9,377	9,565	+188
Product Production	9,026	9,027	9,096	+69
STS	518	534	540	+6
Product Sales	8,961	8,960	8,983	+23
STS	521	528	518	-10
Carbon Steel ASP	687	730	747	+17
WP Sales Ratio(%)	53.2	55.6	54.2	-1.4%p
Export Ratio(%)	46.3	42.5	44.7	+2.2%p
Product Inventory	991	1,070	1,126	+56

[QoQ Analysis]

- **Crude steel and product production increased on more production days and completion of plant maintenance in Gwangyang Works**
 - Crude Steel : P) +43, G) +145 thousand tons
 - Product : P) -5, G) +73 thousand tons
- **Sales volume increased on larger volume of production and export**
 - HR (-7k tons) : G) #4HR rationalization
 - CR (+48k tons) : Maintenance projects completed (5.11~6.27)
- **Product price raised**
 - Carbon Steel(+17k KRW/ton) : Plate and HR prices went up
 - Stainless Steel(+29k KRW/ton)
- **WP sales ratio lowered due to increased sales of HR and plate, domestic sales ratio fell to maximize shipment responding to EU safeguard**
 - WP Sales Volume : ('18.2Q) 4,663 → ('18.3Q) 4,585k tons
 - Domestic Sales Ratio : ('18.2Q) 57.5% → ('18.3Q) 55.3%

*P) Pohang Works, G) Gwangyang Works

Parent Performance (P/L)

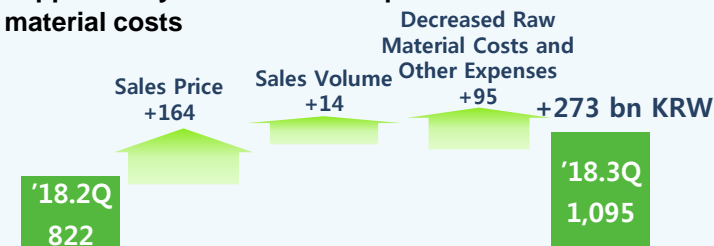
Achieved Highest Quarterly Earnings - Revenue, OP, NP since 2012

(billion KRW)

	3Q 17	2Q 18	3Q 18	QoQ
Revenue	7,255	7,705	7,906	+201
Cost of Goods Sold	6,083	6,431	6,354	-77
Gross Profit	1,172	1,274	1,552	+278
(Gross Margin)	(16.2%)	(16.5%)	(19.6%)	
SG&A	451	452	457	+5
Operating Profit	722	822	1,095	+273
(Operating Margin)	(9.9%)	(10.7%)	(13.8%)	
Non-Operating Profit	197	-33	87	+120
Net Profit	730	580	891	+311
(Net Margin)	(10.1%)	(7.5%)	(11.3%)	

[QoQ Analysis]

- Operating profit went up by 273 billion KRW (33%↑) supported by increased sales price and decreased raw material costs



- Net profit leaped by 311 billion KRW on increased operating profit, reimbursement impact of LNG value-added tax

- Operating profit: +273 bn KRW
- Impact of LNG value-added tax reimbursement: +256 bn KRW
- Dividend income: -44 bn KRW
- Corporate income tax: -173 bn KRW

[Financial Structure]



Consolidated Performance (P/L)

Operating Profit Leaped on Domestic Steel and Energy Segments

(billion KRW)

	3Q 17	2Q 18	3Q 18	QoQ
Revenue	15,036	16,083	16,411	+328
Gross Profit	1,999	2,164	2,390	+226
(Gross Margin)	(13.3%)	(13.5%)	(14.6%)	
SG&A	873	912	859	-53
Operating Profit	1,126	1,252	1,531	+279
(Operating Margin)	(7.5%)	(7.8%)	(9.3%)	
Non-Operating Profit	-51	-93	122	+215
Share of Profit(Loss) of Equity-accounted Investees	54	-56	44	+100
Finance Income and Costs	103	-174	-251	-77
Foreign Currency Transaction & Translation Gain(Loss)	5	-150	-103	+47
Net Profit	907	580	1,058	+478
(Net Margin)	(6.0%)	(4.0%)	(6.4%)	
Profit Attributable to Owners of the Controlling Company	869	545	1,020	+475

[QoQ Analysis]

- Strongest earnings since 2011 supported by domestic steel and energy businesses

- Steel (+271bn KRW) : Mainly from POSCO and PT.KP
- Non-Steel(-5bn KRW) : Energy segment showed strong performance while gasfield earnings weakened

※ Aggregated Operating Profit by Segment

(bn KRW)	2Q18	3Q18	QoQ
Steel	1,024	1,295	+271
POSCO	822	1,095	+273
Overseas Steel	155	150	-5
Non-Steel	293	288	-5
Total	1,317	1,583	+266

- Net profit improved on operating profit and equity-method gains

- Operating profit +279 bn KRW
- Reimbursement impact of LNG value-added tax +256 bn KRW
- Equity-method gains +100 bn KRW
- Increase of corporate income tax and others -157 bn KRW

Aggregated Earnings by Segment

(billion KRW)

Segment	Revenue			Operating Profit			Net Profit		
	3Q 17	2Q 18	3Q 18	3Q 17	2Q 18	3Q 18	3Q 17	2Q 18	3Q 18
Steel	11,919	12,724	12,992	912	1,024	1,295	755	668	957
Trading	8,477	9,507	10,021	93	140	88	13	-6	36
E & C	1,821	1,824	1,886	32	86	99	31	38	22
Energy	439	450	495	60	12	35	10	8	23
I C T	236	222	224	15	16	12	34	-44	7
Chemicals/ Materials, etc.	667	748	748	39	39	54	27	30	36
Total	23,559	25,475	26,366	1,151	1,317	1,583	870	694	1,081

Consolidated Performance (B/S)

Current Ratio Improved on Increase of Cash Balance & Inventories

(billion KRW)

	3Q 17	2Q 18	3Q 18	QoQ	Remarks
Current Asset	30,895	33,348	35,395	+2,047	<ul style="list-style-type: none"> • POSCO Cash Balance(+2,185bn KRW) : Issuance of long-term bond (1bn KRW) • A/R and inventories went up on increased sales price and production
Cash Balance*	8,548	9,569	11,723	+2,154	
Accounts Receivable	9,759	9,661	9,829	+168	
Inventories	9,820	10,639	10,911	+272	
Current Ratio (%)	167.7	167.2	175.5	+8.3%p	
Non-Current Asset	49,086	46,587	45,948	-639	<ul style="list-style-type: none"> • PP&E : Acquisition (+349bn KRW), Depreciation (-735bn KRW)
Other Long-term Financial Assets**	3,152	2,741	2,743	+2	
PP&E	32,614	31,426	31,040	-386	
Total Assets	79,981	79,935	81,343	+1,408	
Liabilities	32,407	32,266	33,270	+1,004	<ul style="list-style-type: none"> • Interest-bearing debt : POSCO (+982bn KRW), PT.KP(-114bn KRW)
Current Liabilities	18,423	19,939	20,166	+227	
Non-Current Liabilities (Interest-bearing Debt)	13,985	12,327	13,104	+777	
Liabilities Ratio (%)	22,470	21,270	22,068	+798	
Liabilities Ratio (%)	68.1	67.7	69.2	+1.5%p	
Equity	47,574	47,669	48,073	+404	<ul style="list-style-type: none"> • Net Profit (+1,058bn KRW), P-Energy hybrid bond repayment (-360bn KRW), etc.
Owners of the controlling company	43,774	43,933	44,694	+761	

* 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

- While trading recorded strong revenue, gasfield profit decreased due to pipeline repair in China

- Myanmar gas sales volume reduced by 69% QoQ

	3Q 17	2Q 18	3Q 18	QoQ
Revenue	5,110	5,688	6,099	+411
Operating Profit	91	113	61	-52
Net Profit	33	37	25	-12

* Pipeline repair to be completed on Nov 15 with gasfield profit back to normal

■ POSCO E&C

(billion KRW)

- Non-construction segment supported operating profit to be maintained at last quarter level

- Accumulated new order-taking in 3Q : 7.8 trillion KRW (YoY +0.7 trillion KRW)

	3Q 17	2Q 18	3Q 18	QoQ
Revenue	1,600	1,647	1,712	+65
Operating Profit	27	87	89	+2
Net Profit	19	67	36	-31

* New orders in 3Q : Busan Geojeong Block 5 development project, etc.

■ POSCO Energy

- Earnings improved due to increased power sales price for peak season and expanded off-gas power generation volume

- LNG CP price increase : 5.4 → 10.9 KRW/kWh (QoQ +102%)

	3Q 17	2Q 18	3Q 18	QoQ
Revenue	406	417	460	+43
Operating Profit	51	3	24	+21
Net Profit	28	-5	11	+16

■ POSCO Chemtech

- Operating profit increased as chemicals sales price hiked

- Chemicals(tar) price increase : 198 → 240 thousand KRW/ton (QoQ +21%)

	3Q 17	2Q 18	3Q 18	QoQ
Revenue	298	324	335	+11
Operating Profit	25	20	32	+12
Net Profit	20	16	23	+7

*PMCTech 3Q performance : Revenue 71, Operating Profit 36, Net Profit 33 bn KRW

Overseas Subsidiaries (Parent-based)

■ PT. Krakatau POSCO

- Highest quarterly profits on sales price increase, weaker raw material price and larger plate sales volume

	3Q 17	2Q 18	3Q 18	QoQ
Revenue	360	444	452	+8
Operating Profit	8	50	63	+13
Net Profit	-31	7	22	+15

* Turned net profit accumulated from Jan. to Sep. (13 million USD)

■ POSCO Maharashtra

- Earnings reduced due to decreased sales volume in rainy season and feedstock price hike

- Sales volume (QoQ -37k tons), feedstock price (QoQ +15 U\$/ton)

	3Q 17	2Q 18	3Q 18	QoQ
Revenue	310	384	361	-23
Operating Profit	10	38	24	-14
Net Profit	1	8	-5	-13

■ Zhangjiagang STS (ZPSS)

(million USD)

- Earnings improved on weaker Ni price despite sales volume decrease

- LME Ni price : U\$/ton15,111 (Jun) → 13,371 (Sep)

	3Q 17	2Q 18	3Q 18	QoQ
Revenue	666	729	674	-55
Operating Profit	48	2	3	+1
Net Profit	34	2	5	+3

■ POSCO SS VINA

- Sales volume declined on weaker domestic demand while export increased

- Sales volume : 247→236k tons (QoQ domestic sales -21.4, export +10.6k tons)

	3Q 17	2Q 18	3Q 18	QoQ
Revenue	107	150	147	-3
Operating Profit	-3	-8	-8	-
Net Profit	-7	-14	-15	-1

2018 Business Plan

(trillion KRW, million tons)

Business Plan		2017(A)	2018(E)
Parent	Revenue	28.6	30.7
	<i>Crude Steel Production</i>	37.2	37.7
	<i>Product Sales</i>	34.7	35.8
	Capex	1.7	3.0
	Debt	3.9	4.2
Consolidated	Revenue	60.7	64.8
	Capex	2.6	3.7
	Debt	21.1	20.9

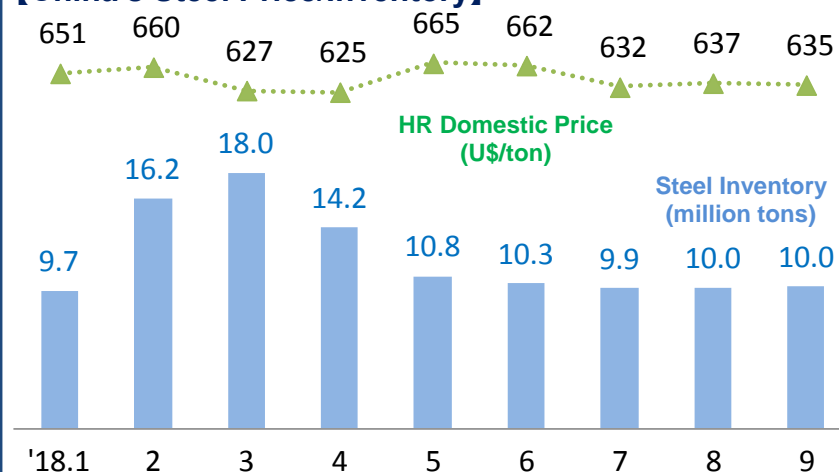
(Appendix) Global Steel Demand

Chinese Steel Market

“Strong price trend will continue supported by winter production curtailment”

- ✓ Supply is tight due to increasing demand, reducing trend of production and low inventory
 - Chinese crude steel production went up by 7.8% during '18.1~8, inventory maintained at last year level
- ✓ Winter cut started 1 month earlier than last year mainly in Heibei Province ('18.10.1~'19.3.31), production regulation is tightened
 - Chinese Ministry of Ecology and Environment announced 'Air pollution control plan for winter' ('18.9)

[China's Steel Price/Inventory]



* Bloomberg(2018.10), China Federation of Logistics & Purchasing(2018.10)

Demand by Region

“Global demand forecast to grow 1.4% in 2019 on sound growth of emerging market”

- ✓ Developed countries continue to see gradual demand recovery, but auto and other consumptions will slow to drag steel demand growth at 1% range
- ✓ Despite trade risks, India and Southeast Asian countries will grow at 6~7% in 2019 on continued expansion of infrastructure investment
- ✓ Chinese demand increased in 2018 due to positive real estate market, but in 2019, steel demand will stay the same due to trade dispute with the U.S. and absence of economic stimulus

[Steel Demand Outlook]

(million tons)

Region	2016	2017	2018(f)	YoY	2019(f)	YoY
U.S.	91.9	97.7	99.9	2.3%	101.2	1.3%
EU	157.6	163.0	166.8	2.2%	169.4	1.7%
China	681.0	736.8	781.0	6.0%	781.0	0.0%
India	83.6	88.7	95.4	7.5%	102.3	7.3%
ASEAN	74.1	71.0	73.7	3.8%	78.3	6.2%
MENA	72.6	71.7	73.7	2.8%	75.3	2.2%
World	1,520	1,595	1,658	3.9%	1,681	1.4%

* World Steel Association(2018.10)

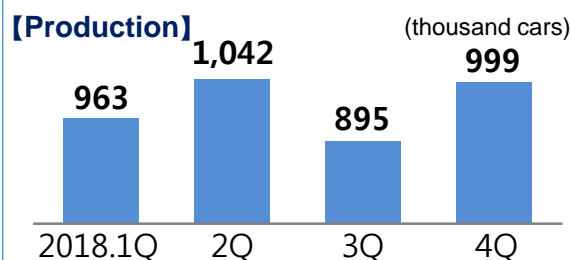
(Appendix) Domestic Steel Demand

Demand Industry Outlook



Automobile

- ✓ Temporary drop in special consumption tax affected consumer sentiment but production slipped due to closure of GM Korea Gunsan plant and slow export

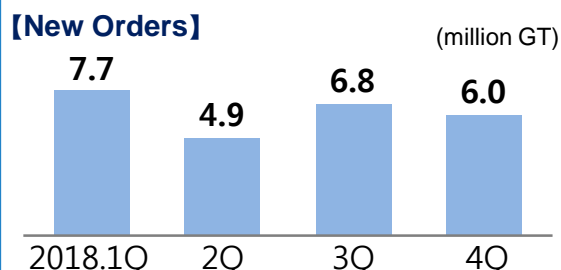


* Korea Automobile Manufacturers Association(2018.10), POSRI(2018.10)



Shipbuilding

- ✓ Continue to recover supported by Korean shipbuilders' increasing new orders taking up 45% of global total in 2018

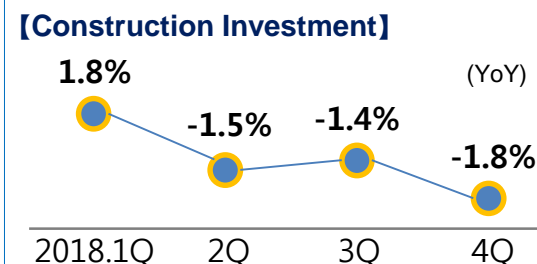


* Clarkson(2018.10), POSRI(2018.10)



Construction

- ✓ Concern over weakening construction investment continues due to contraction in real estate market and lack of public projects



*Bank of Korea(2018.9), POSRI(2018.10)

Steel Supply and Demand

(million tons)

	2015	2016	2017	2018(f)	1Q	2Q	3Q	4Q	YoY
Nominal Consumption	55.8	57.1	56.4	53.1	13.2	13.6	13.0	13.3	- 3.1%
Export	31.6	31.0	31.7	30.8	7.9	7.8	7.8	7.4	- 1.3%
Production	74.1	74.3	77.2	75.5	18.8	19.2	18.8	18.8	- 1.0%
Import	13.2	13.7	10.9	8.4	2.2	2.2	2.1	1.9	- 14.9%
Including Semi-Product	22.1	23.7	19.7	14.5	4.1	3.8	3.4	3.2	- 16.6%

* POSRI(2018.10)

(Appendix) Raw Materials Outlook

Iron Ore

2018.3Q

- Positive steel market and decreasing Chinese steel mill and port inventories push iron ore price upward although uncertainties associated with trade disputes are ongoing
- 3Q average iron ore price marked U\$67/ton

2018.4Q

"4Q fine ore price outlook : U\$67~73/ton"

- As steel production is expected to decrease due to environment regulation during winter in China('18.10.1~'19.3.31), iron ore demand is forecast to weaken
- However, strong steel market will sustain iron ore price combined with seasonality to trend around U\$60/ton

Coking Coal

2018.3Q

- As summer off-peak season starts, spot purchase slowed and coal price fell to U\$170/ton end July
- Since then, demand for hard coking coal strengthened as Chinese and Indian mills increased production to push the coal price to U\$200/ton range

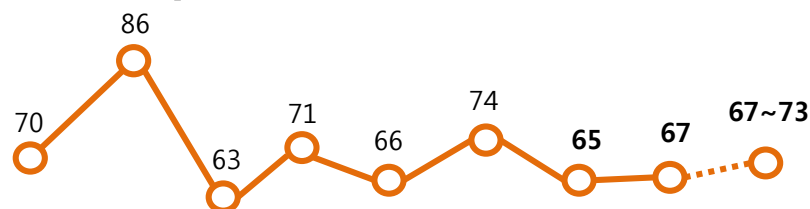
2018.4Q

"4Q HCC price outlook : U\$196~205/ton"

- Higher coal price is expected at U\$200/ton range due to production disruption for hard coking coal in Australia, continued shipment delay at ports and restocking demand from steel makers to prepare for winter shortage of coal

[Iron Ore Price]

(US\$/ton)

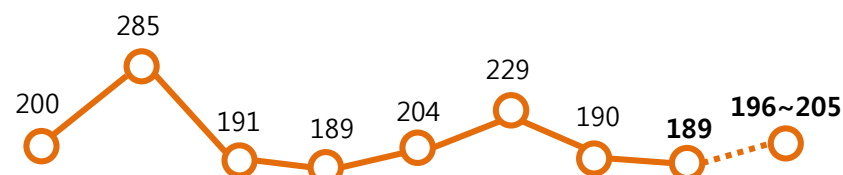


2016 4Q 2017 1Q 2017 2Q 2017 3Q 2017 4Q 2018 1Q 2018 2Q 2018 3Q 2018 4Q(f)

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

[Coking Coal Price]

(US\$/ton)



2016 4Q 2017 1Q 2017 2Q 2017 3Q 2017 4Q 2018 1Q 2018 2Q 2018 3Q 2018 4Q(f)

*Premium LV HCC FOB Australia (Quarterly Price)

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

3Q Operating Profit Increased by 52% YoY, 33% QoQ

(billion KRW)

	2017					2018				
	1Q	2Q	3Q	4Q		1Q	2Q	3Q	QoQ	YoY
Revenue	7,067	7,134	7,255	7,097	28,554	7,761	7,705	7,906	+201	+651
Cost of Goods Sold	5,843	6,133	6,083	5,774	23,833	6,290	6,431	6,354	-77	+271
Gross Profit	1,224	1,001	1,172	1,323	4,721	1,471	1,274	1,552	+278	+380
(Gross Margin)	(17.3%)	(14.0%)	(16.2%)	(18.6%)	(16.5%)	(19.0%)	(16.5%)	(19.6%)		
SG&A	429	416	451	523	1,819	455	452	457	+5	+6
Operating Profit	795	585	722	800	2,903	1,016	822	1,095	+273	+373
(Operating Margin)	(11.3%)	(8.2%)	(9.9%)	(11.3%)	(10.2%)	(13.1%)	(10.7%)	(13.8%)		
Non-Operating Profit	275	66	197	-86	452	37	-33	87	+120	-110
Net Profit	840	509	730	467	2,546	769	580	891	+311	+161
(Net Margin)	(11.9%)	(7.1%)	(10.1%)	(6.6%)	(8.9%)	(9.9%)	(7.5%)	(11.3%)		

(Appendix) Yearly Earnings (P/L)

Continuously Improved since 2015 and Recorded the Strongest Earnings since 2011

