

2018 Earnings Release

January 30, 2019

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Parent Performance (Production/Sales)

Production and sales volume increased on revamp of Pohang BF#3 in 2017, World Premium(WP) and domestic sales ratio jumped

(thousand tons, thousand KRW/ton)

	2016	2017	2018	YoY
Crude Steel Production	37,496	37,206	37,738	+532
Product Production	35,940	35,210	35,989	+779
STS	1,971	2,028	2,033	+5
Product Sales	35,875	34,709	35,588	+879
STS	1,964	1,997	2,001	+4
Carbon Steel ASP	566	691	733	+42
WP Sales Ratio(%)	47.3	53.4	55.1	+1.7%p
Export Ratio(%)	49.4	46.0	42.5	-3.5%p
Product Inventory	1,045	1,323	1,500	+177

[YoY Analysis]

- Crude steel and product production volume went up on revamping of Pohang BF#3

- Products : HR +337k tons,
 - CR +272k tons,
 - Plate + 257k tons

- Product sales volume increased
 - HR (+498k tons), Plate (+185k tons)

- Average product selling price lifted
 - Carbon steel (+42k KRW/ton)
 - Stainless steel (+30k KRW/ton)

- WP sales volume and domestic sales ratio increased
 - WP sales : '17) 17,333 → '18) 18,377k tons (+6%p)
 - Domestic ratio : '17) 54.0 → '18) 57.5% (+3.5%p)

Parent Performance (P/L)

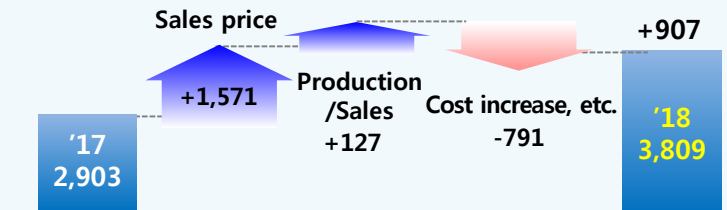
**Steel prices were lifted on positive market trend,
Operating profit recorded highest after 2011(4.3tn KRW)**

(billion KRW)

	2016	2017	2018	YoY
Revenue	24,325	28,554	30,659	+2,105
Cost of Goods Sold	19,904	23,833	25,728	+1,895
Gross Profit	4,421	4,721	4,931	+210
(Gross Margin)	(18.2%)	(16.5%)	(16.1%)	
SG&A	1,786	1,819	1,122	-697
Operating Profit	2,635	2,902	3,809	+907
(Operating Margin)	(10.8%)	(10.2%)	(12.4%)	
Non-Operating Profit	-446	452	-1,575	-2,027
Net Profit	1,785	2,546	1,073	-1,473
(Net Margin)	(7.3%)	(8.9%)	(3.5%)	

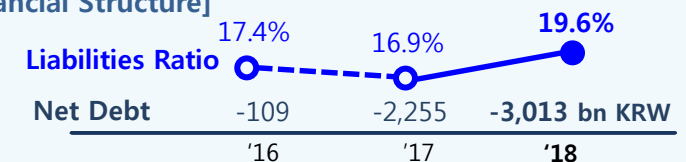
[YoY Analysis]

- Operating profit improved by 907 billion KRW supported by increased product price and growth of production and shipment in volume



- Impairment losses on assets affected net profit (-1,473 bn KRW)
 - Operating profit (+907 bn KRW)
 - R&D and other tangible assets impairment (-911 bn KRW)
 - Impairment losses on affiliate stocks (-784 bn KRW)
 - Decrease of gain from selling available-for-sale securities (-422 bn KRW)
 - Increase of corporate income tax, etc. (-263 bn KRW)

[Financial Structure]



Consolidated Performance (P/L)

**Consolidated operating profit marked 5.5tn KRW,
highest in 8 years after 2010(5.6tn KRW)**

(billion KRW)

	2016	2017	2018	YoY
Revenue	53,084	60,655	64,978	+4,323
Gross Profit	6,690	8,356	7,972	-384
(Gross Margin)	(12.6%)	(13.8%)	(12.3%)	
SG&A	3,845	3,734	2,430	-1,304
Operating Profit	2,844	4,622	5,543	+921
(Operating Margin)	(5.4%)	(7.6%)	(8.5%)	
Non-Operating Profit	-541	-341	-1,554	-1,213
Share of Profit(Loss) of Equity-accounted Investees	-89	11	113	+102
Finance Income and Costs	-782	-112	-538	-426
Foreign Currency Transaction & Translation Gain(Loss)	-142	170	-204	-374
Net Profit	1,048	2,974	1,892	-1,082
(Net Margin)	(2.0%)	(4.9%)	(2.9%)	
Profit Attributable to Owners of the Controlling Company	1,363	2,790	1,691	-1,099

[YoY Analysis]

○ Operating profit jumped 20% on earnings growth of POSCO and subsidiaries

- Steel (+908) : POSCO +907, PT.KP +186 bn KRW
- Non-steel (+47) : Daewoo +33, E&C +57 bn KRW

※ Aggregation of profit by segment

(billion KRW)	2017	2018	YoY
Steel	3,605	4,513	+908
POSCO	2,902	3,809	+907
Overseas Steel	476	485	+9
Non-steel	1,093	1,140	+47

○ Net profit dropped from impairment losses on assets

- Operating profit (+921 billion KRW)
- Impairment losses on assets (-1,142 billion KRW)
- Decrease of gain on selling available-for-sale securities (-426 billion KRW)
- Increase of income tax, etc. (-435 billion KRW)

Consolidated Performance (B/S)

**Cash balance increased on largely improved earnings,
Financial structure strengthened by debt repayment**

(billion KRW)

	2016	2017	2018	YoY	Remarks
Current Assets	29,304	31,127	33,651	+2,524	
Cash Balance*	7,623	9,595	10,678	+1,083	· Operating profit improved, Bonds issued by POSCO
(Parent-based Cash Balance)	4,252	6,157	7,284	+1,127	
Accounts Receivable	9,787	8,951	9,283	+332	· Inventory of POSCO & PT.KP increased due to production expansion, cost rise
Inventories	9,052	9,951	11,500	+1,549	
Current Ratio(%)	154.9	164.3	177.7	+13.4%p	
Non-Current Assets	50,459	47,898	44,597	-3,301	
Other Long-term financial assets**	3,421	2,791	2,578	-213	· Depreciation -2.9tn KRW, Facility investment, etc. 1tn KRW
PP&E	33,770	31,884	30,018	-1,866	
Total Assets	79,763	79,025	78,248	-777	
Liabilities	33,925	31,561	31,489	-72	
Current Liabilities	18,915	18,946	18,938	-8	· Debt repayment(-854), Accounts payable(+558), Income tax payable (+433), etc.
Non-Current Liabilities	15,009	12,615	12,551	-64	
Interest-bearing Debt	22,705	21,064	20,209	-855	· Net debt 9.5tn KRW
(Parent-based Debt)	4,143	3,901	4,271	+370	
Liabilities Ratio(%)	74.0	66.5	67.3	+0.8%p	
Equity	45,838	47,464	46,760	-704	· Hybrid bond repayment -1.16tn KRW
Owners of the Controlling Company	42,373	43,733	43,371	-362	

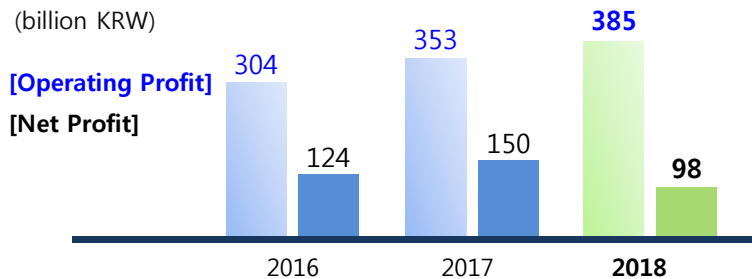
* Cash Balance : Cash and cash equivalents, Short-term financial instruments, Short-term trading securities, Short-term securities, Current portion of held-to-maturity securities

** Includes other receivables

Domestic Subsidiaries (Parent-based)

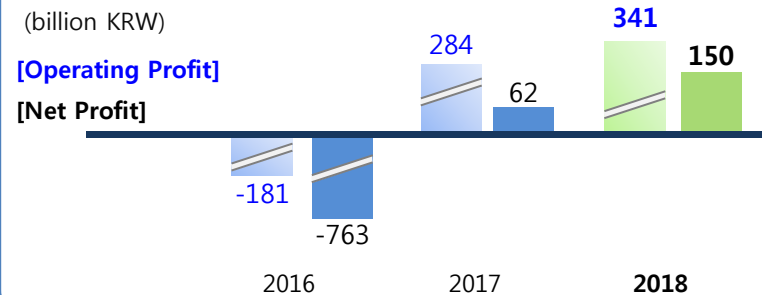
POSCO Daewoo

- Trading segment earnings strengthened contributed by positive steel market



POSCO E&C

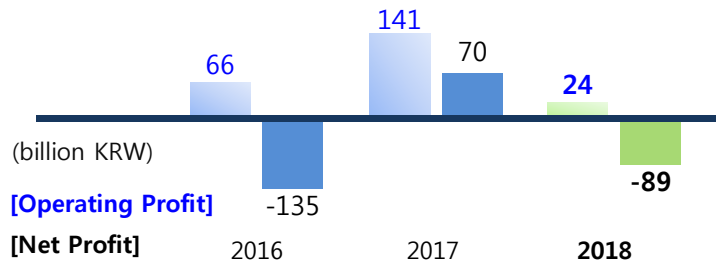
- Earnings improved on housing building segment
 - Housing building division OP : '17) 279 → '18) 317bn KRW (+38bn KRW)



POSCO Energy

- Operating profit slipped due to price increase for fuel of LNG and off-gas power generation, turned net loss by recognizing impairment of fuel cell business

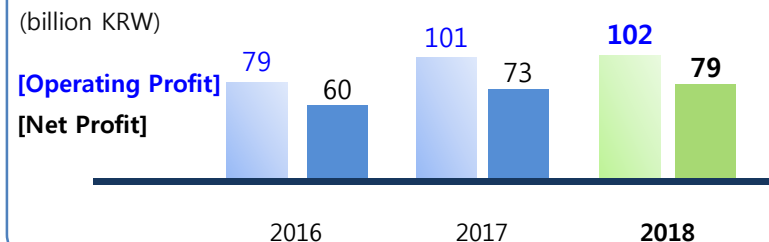
- LNG(KRW/kg) : '17) 661→'18) 758, Off-gas fuel(KRW/Mcal) : '17) 21.6→'18) 25.7



POSCO Chemtech

- Operating profit rose by strong anode materials sales

- Anode material sales : '17) 6,802 → '18) 15,915 tons (+9,113 tons)

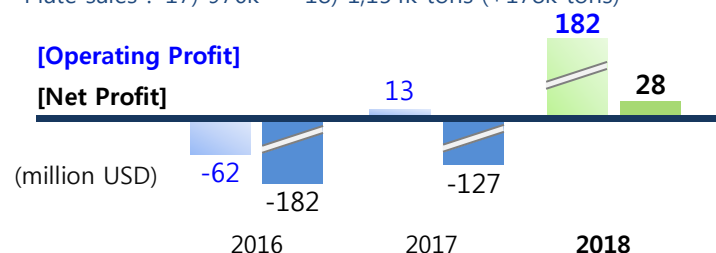


Overseas Subsidiaries (Parent-based)

PT. Krakatau POSCO

- Achieved strongest performance since operation started in 2014 backed by growth of high-priced plate sales and price increase, also turned net profit

- Plate sales : '17) 976k → '18) 1,154k tons (+178k tons)

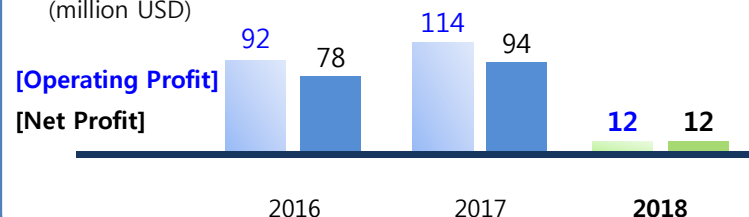


Jangjiagang STS (ZPSS)

- Operating profit down due to worsened mill margin affected by negative market environment

- LME Ni : U\$13.1k (+2.7k yoy)

(million USD)

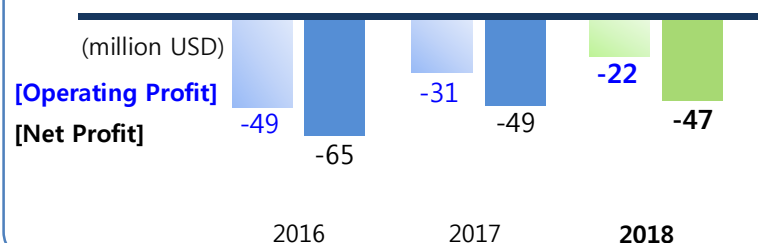


POSCO SS VINA

- Operating loss narrowed on H-beam market recovery

- H-beam price increased by 17.4% on AD tariffs on Chinese product

- H-beam sales : '17) 411k → '18) 475k tons (+64k tons)



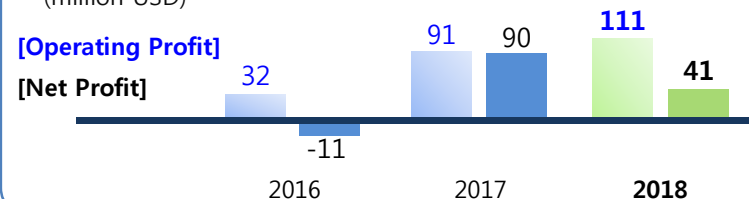
POSCO Maharashtra

- Highest profit since 2015 supported by bullish domestic market, Net profit down from f/x-related losses

- Sales volume : '17) 1,698k → '18) 1,781k (+83k tons)

- Exchange rate(INR/U\$) : '17) 64.1 → '18) 69.9

(million USD)



Mid-term Business Strategy

Fortify leadership in steel, Strengthen competitiveness of non-steel, Foster new growth businesses

Steel



Expand premium product sales/Effectively respond to trade protectionism

[Premium] Optimize mass production of high-value added products incl. World First/World Best products

[Market] Prepare for trade issues & improve strength of overseas steel subsidiaries

[Low Cost] Technology development to secure cost competitiveness

Non Steel

Innovate business and profitability models to reinforce core competence

[Trading] Improve business models & Project developing capability

[E&C] Promote smart Construction & Focus on core product/country

[Energy]

Improve capabilities of E&P and profitability-based power generation

New Growth

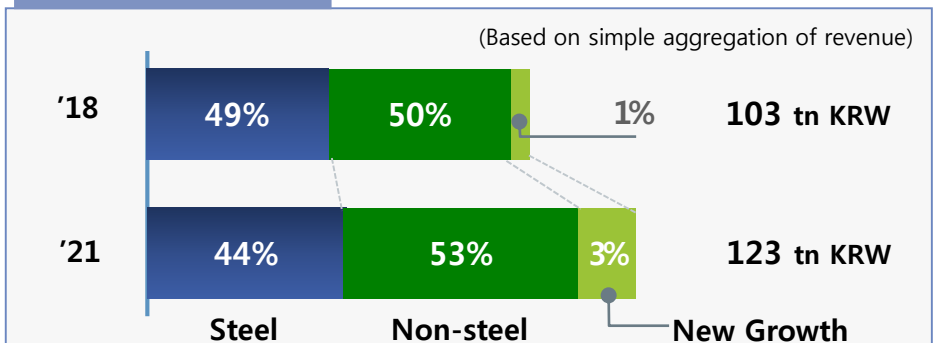


Re-establish business structure/intensively pursue energy material business

[Secondary battery materials]

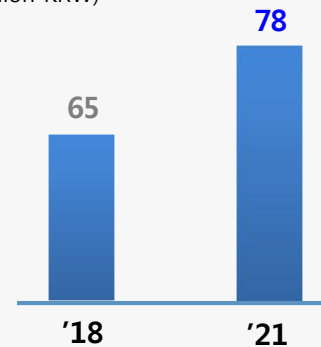
Boost competence, maximize synergy from integration

Larger contribution of non-steel and new growth businesses

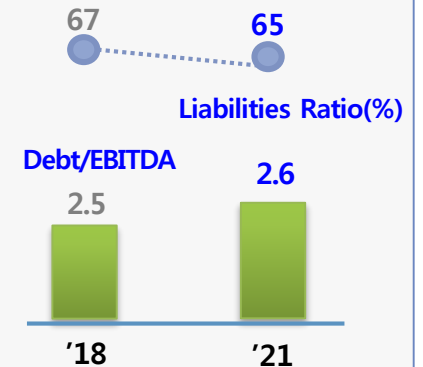


Consolidated Revenue

(trillion KRW)



Financial Structure



New Growth Business – Energy Materials

Strengthen secondary battery business and maximize synergy between cathode and anode materials through business integration

Secondary battery material business aimed to achieve 2 trillion KRW revenue in 2021

[Lithium/Graphite] Stronger competitiveness in producing battery materials

[Lithium] Optimize operation technology, 65k ton capacity

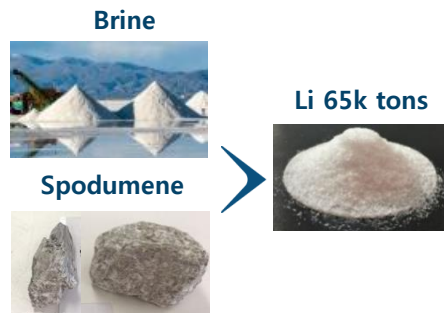
▪ **Argentine saltlake (Galaxy)**

- Acquired mining right ('18.8)
- 25k ton capacity

▪ **JV with Pilbara, Australia**

- Lithium spodumene purchase 315k tons
- 40k ton capacity

[Cathode Material]



[Graphite] Promote stable sourcing of natural/artificial graphite by raising self-sufficiency

- **Natural graphite**
 - Stable sourcing of raw materials from overseas
- **Artificial graphite**
 - Technology development
 - Needlecoke investment (Pohang #2 Factory)

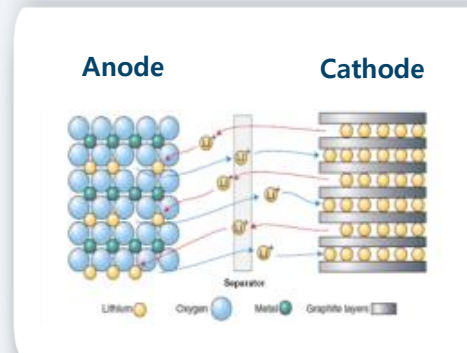
[Anode Material]



[Cathode/Anode] Business integration & Scale-up

[POSCO Chemtech-ESM] Improve efficiency and responsiveness to customers by integrating marketing, production and R&D

[Battery Materials]



▪ **Anode material**

- Natural graphite : Expansion of Sejong Line #2
- ▶ '18) 24k → '21) 74k tons

- Artificial graphite : Commercialization ('21)

▪ **Cathode material**

- Facility expansion in Gwangyang
- JV w/ China's Huayou Cobalt
- JV w/ Samsung SDI in Chile
- ▶ '18) 10k → '21) 63k tons



Battery



Electric Vehicle

2019 Business Plan

(trillion KRW, million tons)

Business Plan		2018	2019
Parent	Revenue	30.7	30.1
	<i>Crude Steel Production</i>	<i>37.7</i>	<i>37.5</i>
	<i>Product Sales</i>	<i>35.6</i>	<i>35.7</i>
	Capex	2.6 ¹⁾	5.4 ²⁾
	Debt	4.3	4.5
Consolidated	Revenue	65.0	66.3
	Capex	2.7 ¹⁾	6.1 ²⁾
	Debt	20.2	20.1

1) 90% on parent and 64% on consolidated of 2018 planned capex were actually executed, 2) Includes reserve of 1 trillion KRW

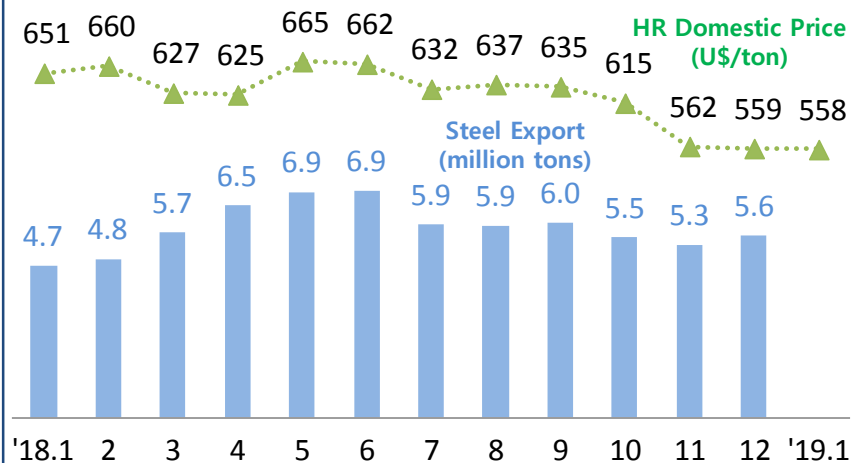
[Appendix] Global Steel Demand

Chinese Steel Market

“Weak pricing continues due to relaxed supply reduction coupled with demand slowing down”

- ✓ Economic growth slows and demand industries are weak
 - Economic growth rate in '18 down to 6.6%, car production reduced by 4.2%
- ✓ Eased environment control to stimulate depressed economy resulted in less than expected production cut volume, but export remained low (-4.2% in '18) despite supply increase
- ✓ Price is expected to bottom out from '18 end by re-stocking demand and rebound after Chinese Spring Festival

[Chinese Steel Price / Export]



* Bloomberg(2019.1), CISA(2019.1)

Demand by Region

“Global demand expected to grow moderately in 2019 on solid emerging market”

- ✓ Chinese demand in '19 will remain similar yoy backed by economic stimulus despite depressed economic indicators and trade disputes between China and the U.S.
- ✓ Demand in developed countries will show weaker trend due to slow consumption including car purchase, but India, Southeast Asian countries, and emerging markets will show solid growth rate of 6~7% in '19 on continued infrastructure investment

[Steel Demand Outlook]

(million tons)

Region	2016	2017	2018(f)	YoY	2019(f)	YoY
US	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

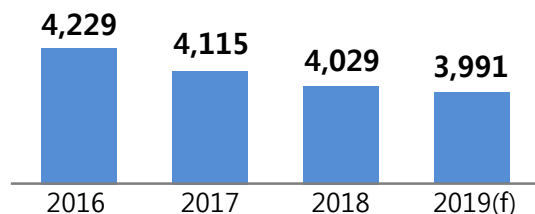


Automobile

- ✓ Production decrease will slow down on slight recovery of domestic demand supported by government policy in '19

[Production]

(thousand cars)



* Korea Automobile Manufacturers Association(2019.1), POSRI(2019.1)

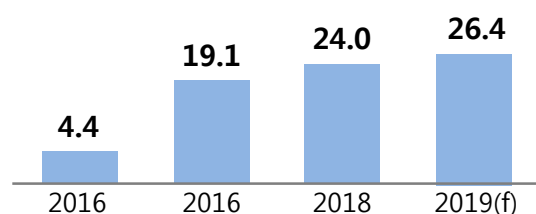


Shipbuilding

- ✓ More new orders of environment-friendly ships will come in this year with the industry recovering for 3 consecutive years

[New Orders]

(million GT)



* Clarkson(2019.1), POSRI(2019.1)

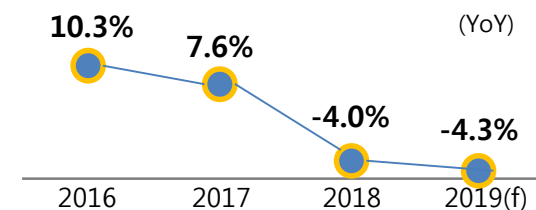


Construction

- ✓ Construction investment will decline from property market slowness despite SOC budget expansion

[Construction Investment]

(YoY)



* Bank of Korea(2019.1), POSRI(2019.1)

Steel Supply and Demand

(million tons)

	2016	2017	2018(e)	YoY	2019(f)	YoY
Nominal Consumption	57.2	56.3	53.2	- 5.6%	53.0	- 0.3%
Export	30.8	31.7	30.5	- 3.8%	30.2	- 0.7%
Production	74.3	77.1	74.7	- 3.1%	74.4	- 0.4%
Import	13.7	10.9	8.9	- 18.1%	8.8	- 1.3%
Including Semi-Product	23.7	19.7	15.4	- 22.2%	15.1	- 1.7%

* POSRI(2019.1)

[Appendix] Raw Materials Outlook

Iron Ore

2018.4Q

- Increased demand with upcoming environmental control by Chinese government during winter season pushed up the price higher than U\$75/ton for a short period
- With steel price coming down, 4Q iron ore price marked an average of \$72/ton

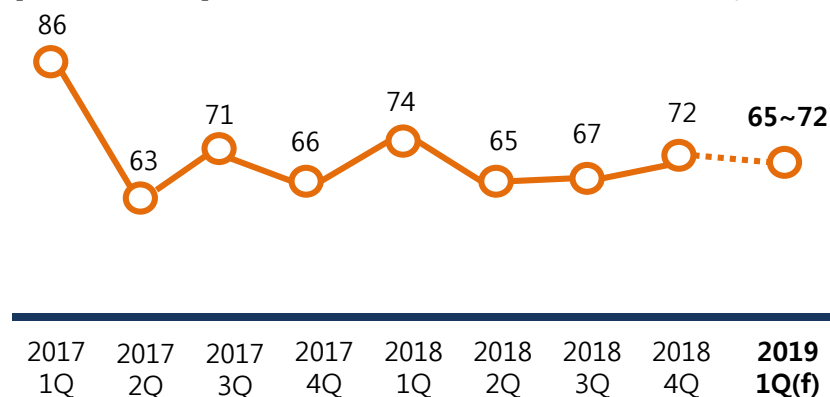
2019.1Q

“1Q fine ore price outlook : U\$65~72/ton”

- Chinese steel companies' re-stocking demand ahead of Spring Festival will keep the price strong early 1Q, which will be lowered afterwards
- 1Q iron ore price is expected at a range of \$65~72/ton

[Iron Ore Price]

(US\$/ton)



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

Coking Coal

2018.4Q

- While demand maintained strong to prepare for supply delay in 1Q, supply condition in 4Q worsened due to production disruption in some hard coking coal mines and port congestion in Australia
- This pushed up the price to move at a range between U\$210~230/ton in 4Q

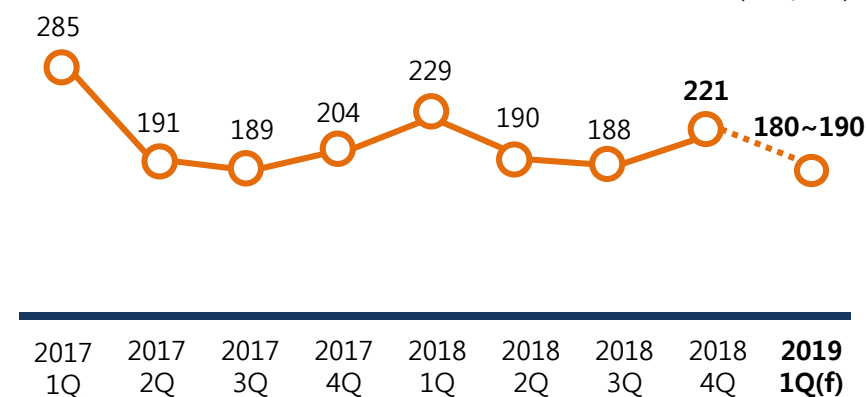
2019.1Q

“1Q HCC price outlook : U\$180~190/ton”

- Price is expected to go weaker and stabilized as spot demand will shrink while steelmakers are finished with inventory build-up, and additional supply volume will grow with Australian port congestion eased
- Price could be temporarily shot up on seasonal issue

[Coking Coal Price]

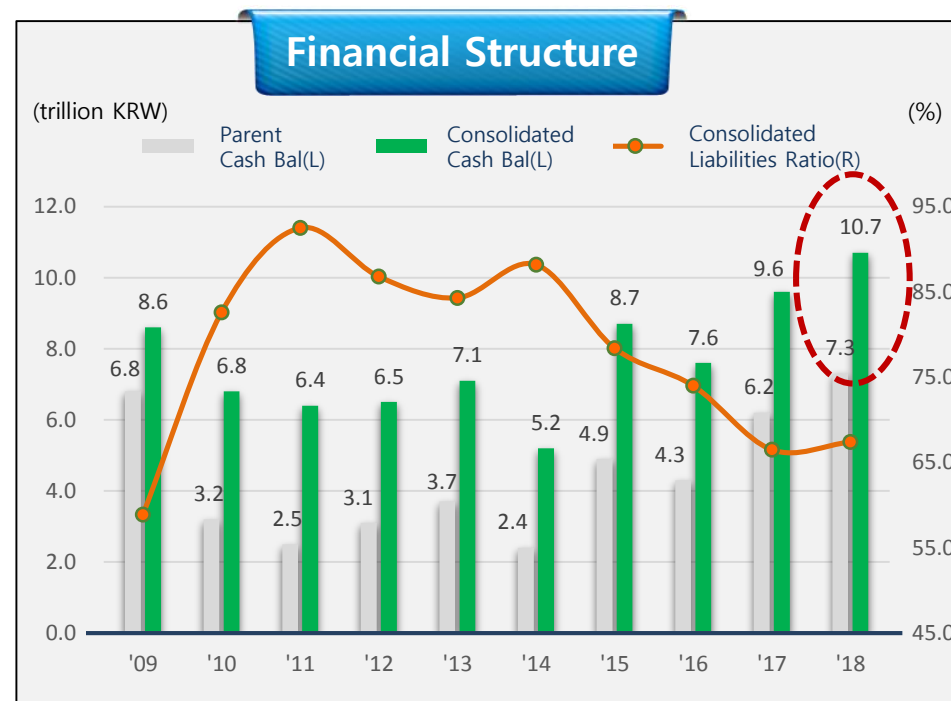
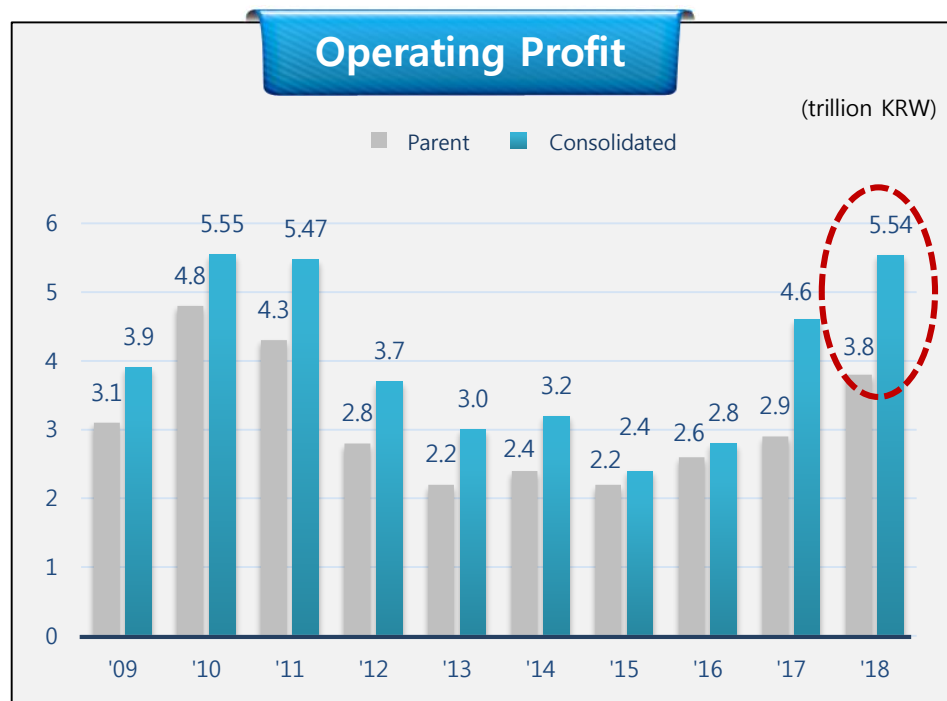
(US\$/ton)



* Premium LV HCC FOB Australia (Quarterly Price)

[Appendix] Annual Earnings Trend

Recorded highest consolidated earnings since 2010(5.6tn KRW),
Continued to enhance group financial structure



OP Margin(%)	'09	'10	'11	'12	'13	'14	'15	'16	'17	'18
Parent	11.7	14.7	11.1	7.8	7.3	8.0	8.7	10.8	10.2	12.4
Consolidated	10.5	11.3	7.8	5.7	4.8	4.9	4.1	5.4	7.6	8.5

	'09	'10	'11	'12	'13	'14	'15	'16	'17	'18
Debt /EBITDA*	1.9	2.5	3.5	4.0	4.6	4.5	4.7	4.1	2.9	2.5

* Debt/EBITDA : Moody's formula applied since 2006 (Off-balance sheet liabilities included in debt, finance costs included in EBITDA)

[Appendix] Aggregated Earnings by Segment

Operating profit improved on domestic and overseas steel, trading segments

(billion KRW)

Segment	Revenue			Operating Profit			Net Profit		
	2016	2017	2018	2016	2017	2018	2016	2017	2018
Steel	42,906	47,611	50,421	2,927	3,605	4,513 (+908)	1,511	2,791	1,268
Trading	26,420	34,878	38,319	361	423	491 (+68)	53	113	50
E & C	7,482	7,286	7,321	-626	289	326	-1,404	24	0.2
Energy	1,751	1,697	1,983	98	185	72	-103	100	-38
I C T	882	956	934	53	57	41	29	42	-34
Chemicals/ Materials, etc.	2,444	2,631	3,281	128	139	210 (+71)	49	91	89
Total	81,885	95,059	102,259	2,941	4,698	5,653	135	3,161	1,335