

# 1Q 2019 Earnings Release

April 24, 2019

posco

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# Disclaimer

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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 first quarter of 2019. 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.

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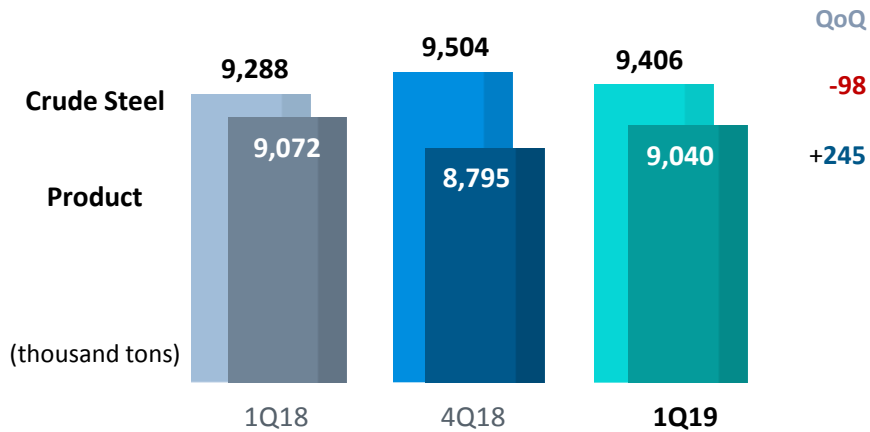
## ■ 1Q 2019 Business Performance

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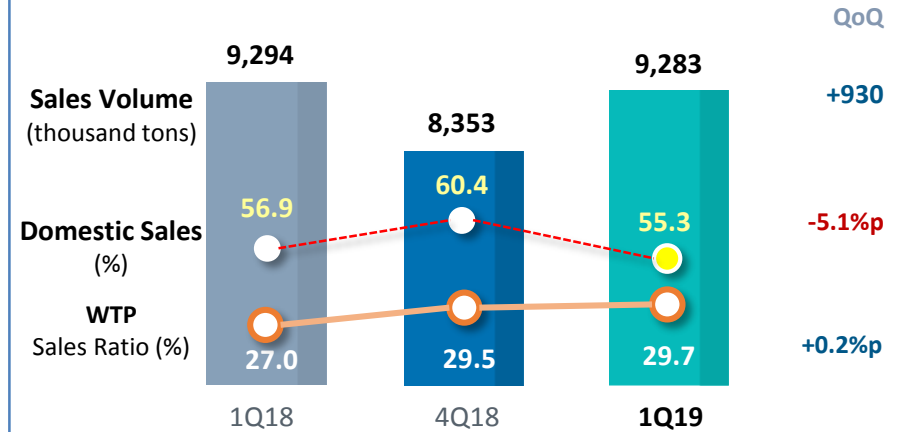
- Parent Performance
- Consolidated Performance
- Subsidiary Performance

# Parent Performance\_Production/Sales

## Production



## Sales



※ In WTP volume, semi-products and un-ordered products are excluded from total sales

- Despite reduced crude steel production, product production increased on the completion of rationalization in #2HR and # 4CGL of Gwangyang Works

• Production volume :  
HR +200, CR +138, Plate -102 thousand tons

(thousand tons)	1Q18	4Q18	1Q19	QoQ
Carbon Steel	8,578	8,328	8,542	+214
STS	494	467	498	+31

- Sales volume increased mainly in export, while inventory went down

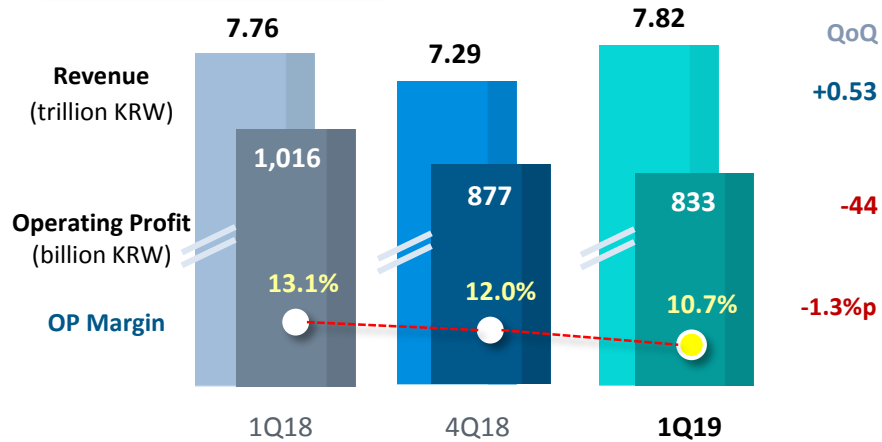
• Sales volume : HR +374, Plate +118 thousand tons

(thousand tons)	1Q18	4Q18	1Q19	QoQ
Domestic	5,292	5,044	5,131	+87
Export	4,002	3,309	4,152	+843
WTP*	2,353	2,301	2,611	+310
Product Inventory	1,055	1,500	1,198	-302

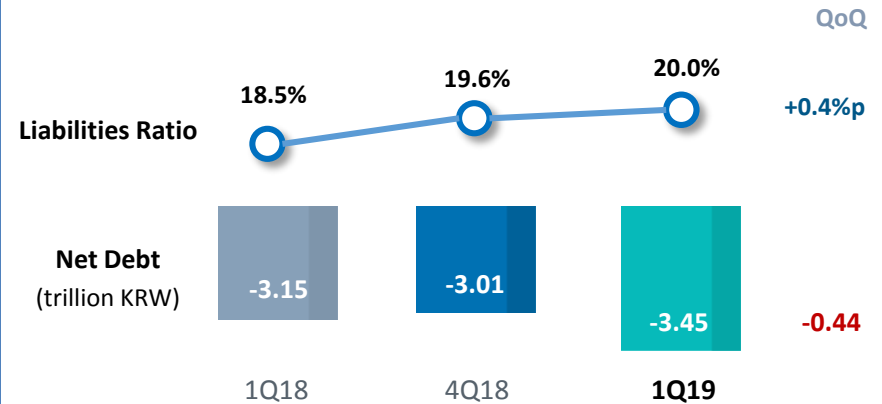
\*WTP(World Top Premium) includes World First/World Best products

# Parent Performance\_Financials

## P/L

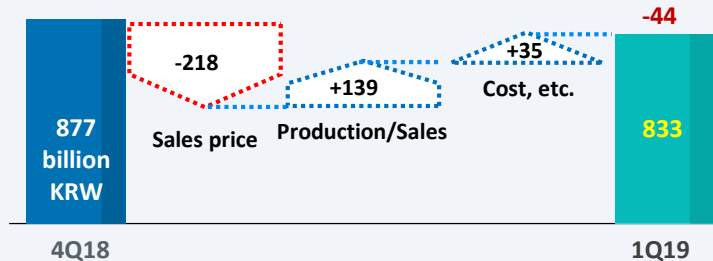


## Financial Structure



- Operating profit slightly decreased on price decline while sales volume went up
  - Sales price : Carbon Steel -24, STS -22 thousand KRW

### 【Operating Profit QoQ Analysis】



- Liabilities ratio moderately rose on the increase of dividends payable, net debt decreased due to cash balance build

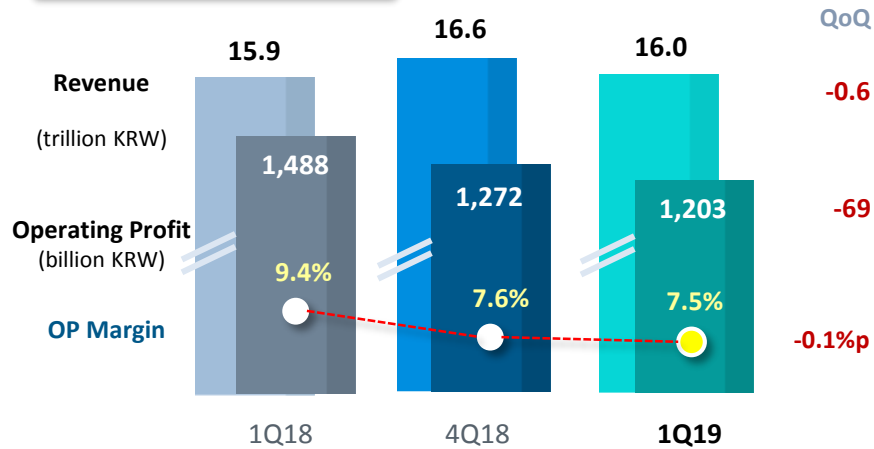
- Dividends payable 400 billion KRW

### 【Cash Balance & Debt】

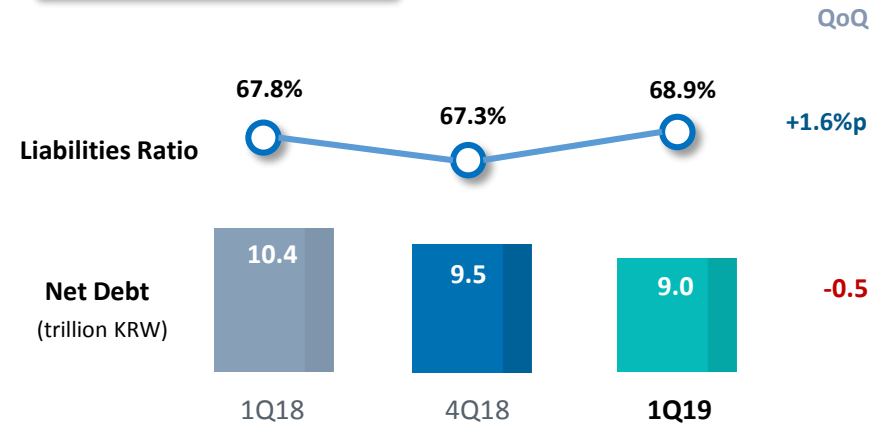
(billion KRW)	1Q18	4Q18	1Q19	QoQ
Cash Balance	7,168	7,284	7,734	+450
Debt	4,014	4,271	4,282	+11

# Consolidated Performance

## P/L



## Financial Structure



- Operating profit fell QoQ due to stagnant steel market, but recorded 1 trillion KRW for 7 consecutive quarters

- Steel business earnings went down on market slowness
- Non-steel segment showed positive performance, mainly in trading and energy

### 【Aggregated Operating Profit】

(billion KRW)	4Q18	1Q19	QoQ
<b>Steel</b>	1,014	893	-121
Overseas steel	64	12	-52
<b>Non-Steel</b>	176	293	+117
<b>New Growth</b>	26	21	-5

- While liabilities ratio is slightly up due to modification of lease accounting standards\*, financial structure enhanced on cash increase and debt reduction

\* IFRS16 : Lease contract is recognized as asset/liabilities by similar standards to those of financial lease

\*\* Based on the accounting standards before the amendment, liabilities ratio is 67.6% (+0.3%p)

- Debt/EBITDA : 2.5x → 2.7x (QoQ +0.2x)

### 【Cash Balance & Debt】

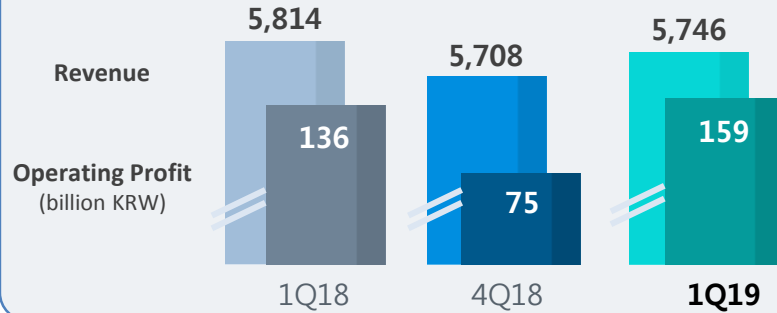
(billion KRW)	1Q18	4Q18	1Q19	QoQ
<b>Cash Balance</b>	10,676	10,678	10,887	+209
<b>Debt</b>	21,082	20,209	19,932	-277

# Subsidiary Performance\_Domestic

## POSCO International

- Operating profit more than doubled on improvement of Myanmar gas business performance

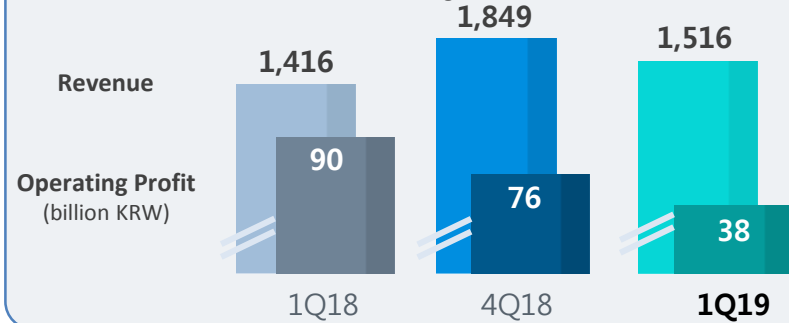
- Sales volume : ('18.4Q) 37 → ('19.1Q) 52 billion ft<sup>3</sup>



## POSCO E&C

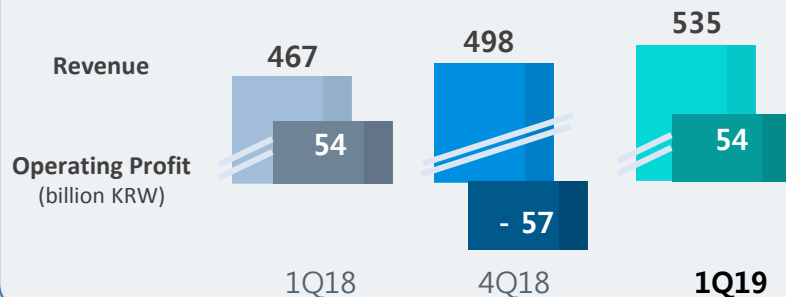
- Earning slipped due to extension of construction period in business sectors excluding building works

- OP of businesses excl. building works down -42 billion KRW, QoQ



## POSCO Energy

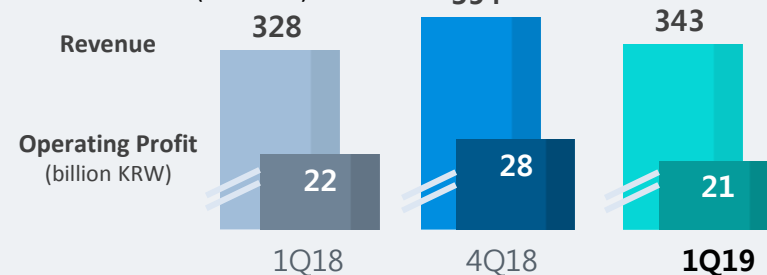
- Profits turned around from recognizing losses on inventory valuation of fuel cell business end of '18 and LNG sales price increase (7.8 → 11.6 KRW/Kwh)



## POSCO Chemical

- Sales price of light oil and tar weakened, revenue from refractories business decreased

- Anode material business profit improved by expanding supply to LG Chem (+1k tons)



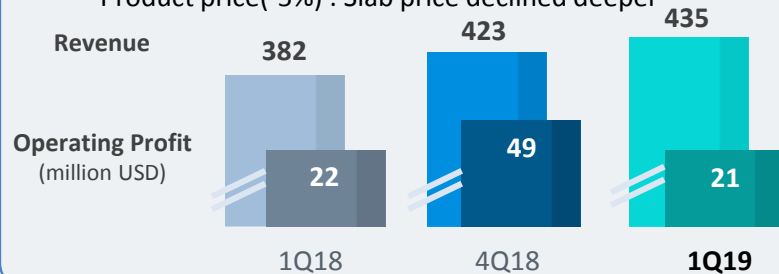


# Subsidiary Performance\_Overseas

## PT. Krakatau POSCO

- Sales price decrease led to a shrink in earnings while volume improved

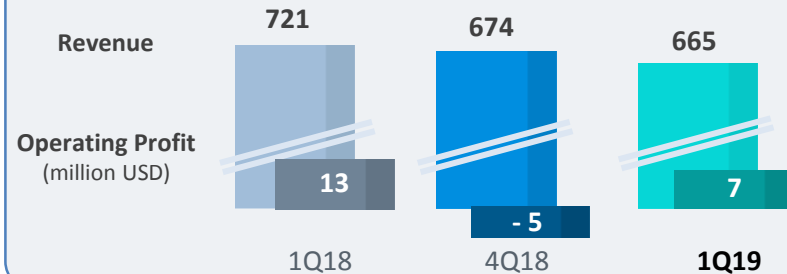
- Sales volume(+52k tons) : ('18.4Q) 691 → ('19.1Q) 743
- Product price(-5%) : Slab price declined deeper



## Zhangjiagang STS (ZPSS)

- Recorded profit on improved mill margin, decrease of conversion cost and increased sales of high margin products

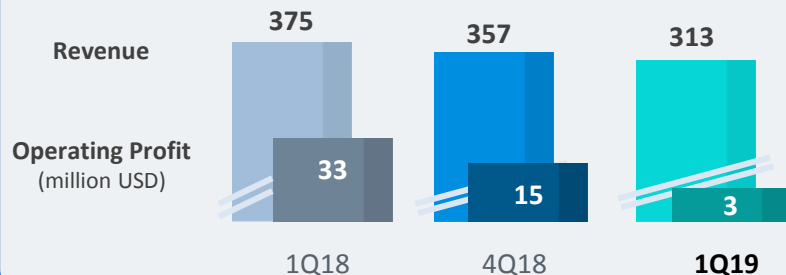
- Premium products for shipbuilding (+1.6k tons) : 0.2 → 1.8k tons



## POSCO Maharashtra

- Temporary slowdown of domestic consumption dragged down sales volume and product price

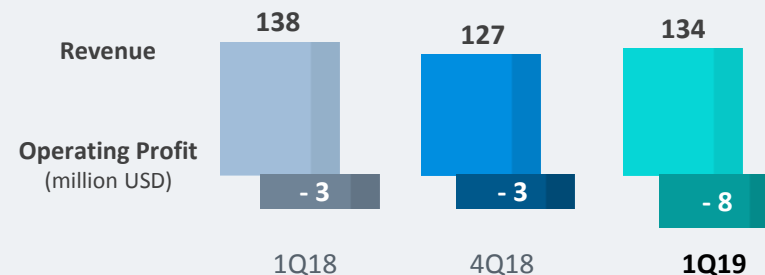
- Sales volume(-47k tons) : 442 → 395k tons



## POSCO SS VINA

- Operating loss widened due to continued negative market condition and weak sales price

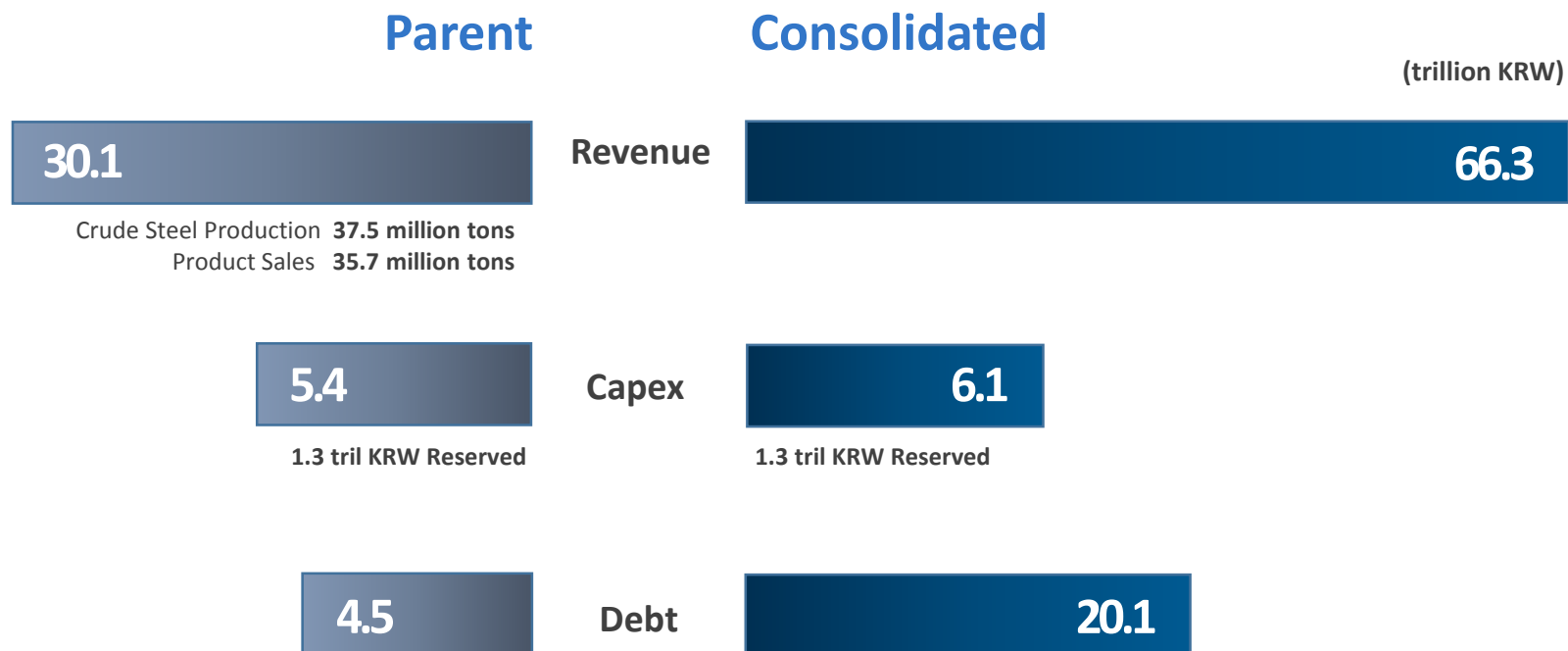
- Sales price(QoQ) : H-beam -7%, Rebar -3%



- **2019 Business Plan**

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# 2019 Business Plan



## ※ Appendix

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- **Market & Outlook**
  - Global Steel Demand
  - Domestic Steel Demand
  - Raw Materials Outlook
- **Summarized F/S\_Parent**
- **Summarized F/S\_Consolidated**

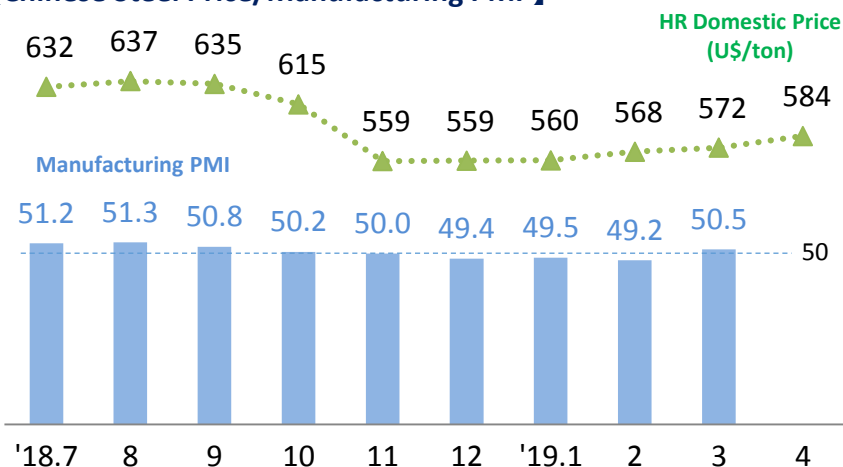
# Global Steel Demand

## Chinese Steel Market

### “Prices will steadily increase on the expectations of Chinese government’s economic stimulus measures”

- ✓ Chinese government announced economic stimulus package such as tax reduction and infrastructure investment in the March national political gathering
  - VAT reduction(16%→13%), 2.6 trillion RMB spending on railways and roads
- ✓ Consumer sentiment improves with concerns over slow economy eased
  - Manufacturing PMI rebounded to above 50 after 4 months in March
- ✓ Seasonality and strong raw material price will lift the steel prices slightly to maintain the same

### 【Chinese Steel Price/Manufacturing PMI】



\* Bloomberg(2019.4), National Bureau of Statistics of China(2019.4)

## Demand by Region

### “Global steel demand growth will weaken in 2019 due to uncertainties in the global economy”

- ✓ In 2019, Chinese steel demand is expected to grow at 1% modified from zero growth supported by expectations on economic boost policy while concerns are not completely dismissed over slowness of the economy and China-U.S. trade dispute
- ✓ Demand in advanced countries is forecast to grow at a modest pace as the economy slows down
- ✓ India, Southeast Asia and other emerging markets will see a sound demand growth rate of 5~7% while MENA will continue to be weak from geopolitical risks

### 【Steel Demand Outlook】

(million tons)

Region	2016	2017	2018(f)	YoY	2019(f)	YoY
US	91.9	97.7	100.2	2.5%	101.4	1.3%
EU	157.9	162.7	169.7	4.3%	170.2	0.3%
China	681.0	773.8	835.0	7.9%	843.3	1.0%
India	83.6	88.7	96.0	8.3%	102.8	7.1%
ASEAN	74.1	71.0	74.6	5.0%	78.8	5.6%
MENA	72.6	71.7	68.6	-4.3%	68.2	-0.6%
World	1,520	1,632	1,712	4.9%	1,735	1.3%

\* World Steel Association(2019.4)

# Domestic Steel Demand

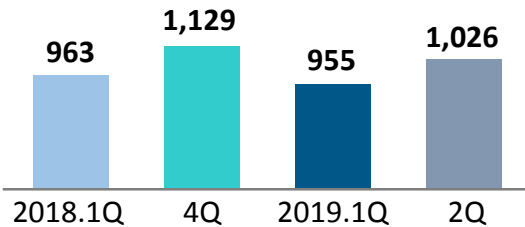
## Demand Industry



### Automobile

- ✓ Despite weak domestic demand, government measures to boost consumption will slow decreasing trend of auto production in 2019

#### 【Production】 (thousand cars)



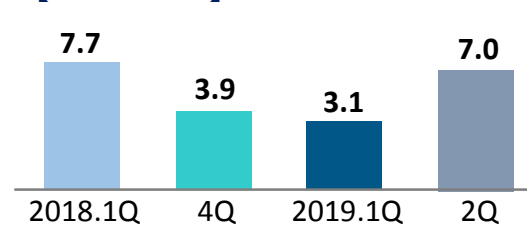
\* Korea Automobile Manufacturers Association(2019.4), POSRI(2019.4)



### Shipbuilding

- ✓ In 1Q 2019, new order volume was down due to a hike in ship price, but is expected to recover from 2Q

#### 【New Orders】 (million GT)



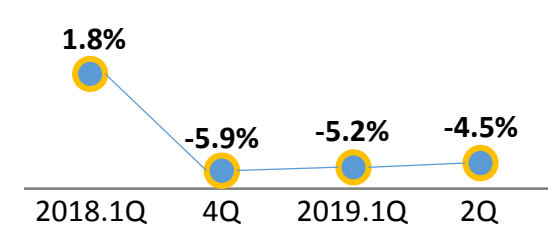
\* Clarkson(2019.4), POSRI(2019.4)



### Construction

- ✓ Construction investment will decrease in 2019 mainly due to weak private housing sector while SOC budget expands

#### 【Construction Investment】 (YoY)



\* Bank of Korea(2019.4), POSRI(2019.4)

## Steel Supply and Demand

(million tons)

	2016	2017	2018	2019(f)	1Q	2Q	YoY
Nominal Consumption	57.2	56.3	53.7	53.0	13.2	13.6	+ 0.4%
Export	30.8	31.7	30.4	30.7	7.7	7.7	- 0.6%
Production	74.3	77.1	75.2	74.2	18.1	19.0	- 1.1%
Import	13.7	10.9	8.9	9.5	2.7	2.4	+ 10.5%
Including Semi-Product	23.7	19.7	15.4	15.8	4.5	4.0	+ 5.0%

\* POSRI(2019.4)

# Raw Materials Outlook

## Iron Ore

**2019.1Q**

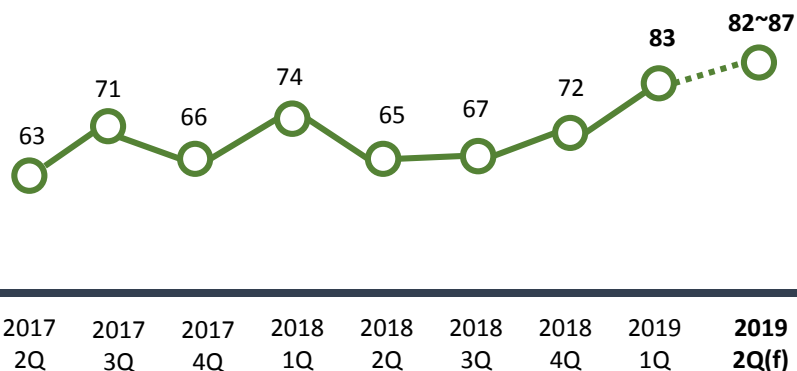
Collapse of Vale dam in Brazil in January and March cyclone in West Australia caused supply disruptions, which skyrocketed iron ore price to record an average of U\$83/ton

**2019.2Q**

**“2Q fine ore price expected at U\$82~87/ton”**

Supply uncertainties will continue until major suppliers completely recover from the disaster, so the price is expected to move around mid to high U\$80/ton in 2Q

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



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

## Coking Coal

**2019.1Q**

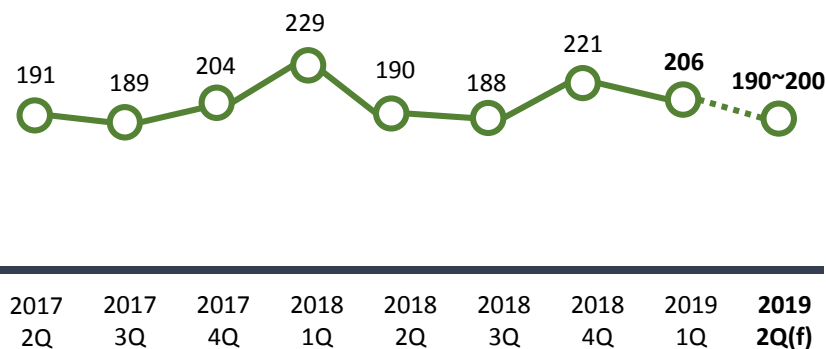
Price was temporarily down to U\$190/ton in mid-January due to Chinese government's restriction on coal import, but 1Q average price recorded U\$206/ton rebounding on tight supply resulted from Australia's rainfalls, port and railroad operation problems and coal production cut in China

**2019.2Q**

**“2Q HCC price expected at U\$190~200/ton”**

Overall supply demand situation will improve on resolved seasonal supply disruptions, but price will remain steady in 2Q due to temporary issues such as port maintenance in East Australia from April to May

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



\*Premium Coking Coal FOB Australia (Quarterly Price)

# Summarized F/S \_Parent Income Statement

	1Q 18	4Q 18	1Q 19	QoQ
<b>Crude Steel Production</b> (thousand tons)	9,288	9,504	<b>9,406</b>	-98
<b>Product Sales</b> (thousand tons)	9,294	8,353	<b>9,283</b>	+930
<b>STS</b>	510	446	<b>506</b>	+60
<b>Carbon Steel Sales Price</b> (thousand KRW)	710	746	<b>722</b>	-24
(billion KRW)				
<b>Revenue</b>	7,761	7,288	<b>7,817</b>	+529
<b>Cost of Goods Sold</b>	6,290	6,654	<b>6,728</b>	+74
<b>Gross Profit</b>	1,471	634	<b>1,089</b>	+455
<b>SG&amp;A</b>	455	-243*	<b>256</b>	+499
<b>Operating Profit</b>	1,016	877	<b>833</b>	-44
<b>(Operating Margin)</b>	(13.1%)	(12.0%)	<b>(10.7%)</b>	(-1.3%p)
<b>Non-Operating Profit</b>	37	-1,665	<b>90</b>	+1,755
<b>Net Profit</b>	769	-1,168	<b>671</b>	+1,839
<b>(Net Margin)</b>	(9.9%)	(-16.0%)	<b>(8.6%)</b>	(+24.6%p)

\* Transportation charge is re-categorized from SG&A to cost of goods sold in accordance with the amendment of K-IFRS 1115 (Recognized since 4Q18)



# Summarized F/S \_Parent Balance Sheet

	(billion KRW)			
	1Q 18	4Q 18	1Q 19	QoQ
<b>Current Assets</b>	16,292	16,796	<b>17,603</b>	+807
<b>Cash Balance*</b>	7,168	7,284	<b>7,734</b>	+450
<b>Accounts Receivable</b>	4,235	3,968	<b>4,449</b>	+481
<b>Inventories</b>	4,530	5,288	<b>4,998</b>	-290
<b>Current Ratio(%)</b>	384.4	431.1	<b>422.7</b>	-8.4%p
<b>Non-Current Assets</b>	38,643	37,330	<b>37,617</b>	+287
<b>Other Long-term financial assets**</b>	1,335	1,177	<b>1,209</b>	+32
<b>PP&amp;E</b>	21,418	20,154	<b>19,953</b>	-201
<b>Total Assets</b>	54,935	54,126	<b>55,220</b>	+1,094
<b>Liabilities</b>	8,557	8,854	<b>9,214</b>	+360
<b>Current Liabilities</b>	4,238	3,896	<b>4,164</b>	+268
<b>Non-Current Liabilities</b>	4,319	4,958	<b>5,049</b>	+91
<b>Interest-bearing Debt</b>	4,014	4,271	<b>4,282</b>	+11
<b>Liabilities Ratio(%)</b>	18.5	19.6	<b>20.0</b>	+0.4%p
<b>Equity</b>	46,377	45,272	<b>46,006</b>	+734

\* 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

# Summarized F/S \_Consolidated Income Statement

(billion KRW)				
	1Q 18	4Q 18	1Q 19	QoQ
<b>Revenue</b>	15,862	16,621	<b>16,014</b>	-607
<b>Gross Profit</b>	2,386	1,032	<b>1,813</b>	+782
<b>(Gross Margin)</b>	(15.0%)	(6.2%)	<b>(11.3%)</b>	(+5.1%p)
<b>SG&amp;A</b>	898	-240*	<b>610</b>	+851
<b>Operating Profit</b>	1,488	1,272	<b>1,203</b>	-69
<b>(Operating Margin)</b>	(9.4%)	(7.6%)	<b>(7.5%)</b>	(-0.1%p)
<b>Non-Operating Profit</b>	-29	-1,553	<b>-66</b>	+1,487
<b>Share of Profit(Loss) of Equity-accounted Investees</b>	87	37	<b>67</b>	+30
<b>Finance Income and Costs</b>	-63	-51	<b>-57</b>	-6
<b>Foreign Currency Transaction &amp; Translation Gain(Loss)</b>	11	38	<b>18</b>	-20
<b>Net Profit</b>	1,084	-830	<b>778</b>	+1,608
<b>(Net Margin)</b>	(6.8%)	(-5.0%)	<b>(4.9%)</b>	(+9.9%p)
<b>Profit Attributable to Owners of the Controlling Company</b>	994	-867	<b>741</b>	+1,608

\* Transportation charge is re-categorized from SG&A to cost of goods sold in accordance with the amendment of K-IFRS 1115 (Recognized since 4Q18)

# Summarized F/S \_Consolidated Balance Sheet

(billion KRW)				
	1Q 18	4Q 18	1Q 19	QoQ
<b>Current Assets</b>	32,908	33,651	<b>34,743</b>	+1,092
<b>Cash Balance*</b>	10,676	10,678	<b>10,887</b>	+209
<b>Accounts Receivable</b>	9,284	9,283	<b>10,067</b>	+784
<b>Inventories</b>	10,303	11,500	<b>11,259</b>	-241
<b>Current Ratio(%)</b>	168.0	177.7	<b>183.5</b>	+5.8%p
<b>Non-Current Assets</b>	47,574	44,597	<b>45,040</b>	+443
<b>Other Long-term financial assets**</b>	2,764	2,578	<b>2,493</b>	-85
<b>PP&amp;E</b>	31,595	30,018	<b>30,701</b>	+683
<b>Total Assets</b>	80,482	78,248	<b>79,783</b>	+1,535
<b>Liabilities</b>	32,531	31,489	<b>32,532</b>	+1,043
<b>Current Liabilities</b>	19,587	18,938	<b>18,936</b>	-2
<b>Non-Current Liabilities</b>	12,944	12,551	<b>13,596</b>	-1,045
<b>Interest-bearing Debt</b>	21,082	20,209	<b>19,932</b>	-277
<b>Liabilities Ratio(%)</b>	67.8	67.3	<b>68.9</b>	+1.6%p
<b>Equity</b>	47,951	46,759	<b>47,250</b>	+491
<b>Owners of the Controlling Company</b>	44,260	43,371	<b>43,951</b>	+580

\* 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