

# 2Q 2019 Earnings Release

July 23, 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 second 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.

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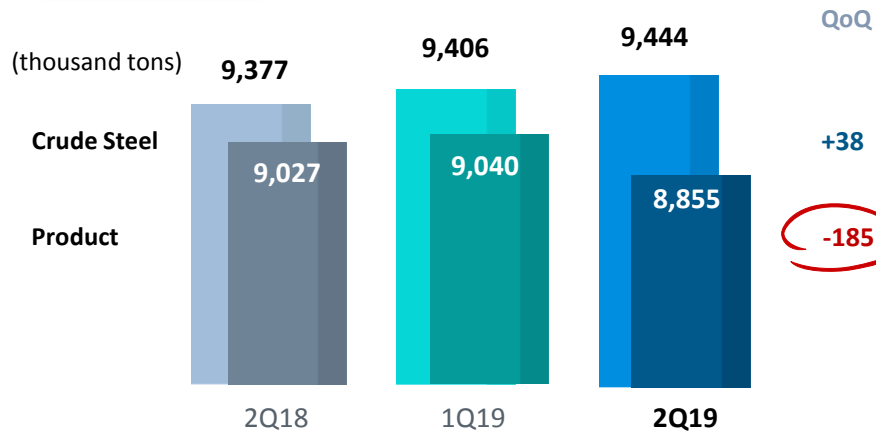
## ■ 2Q 2019 Business Performance

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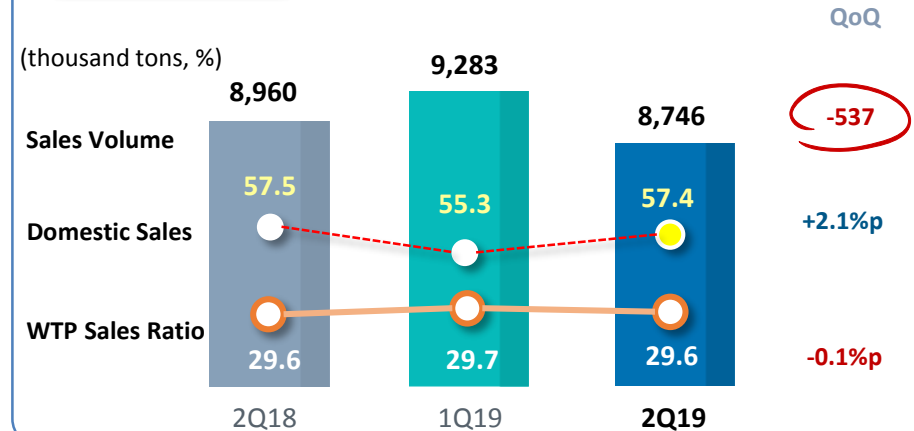
- Parent Performance
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# Parent Performance\_Production/Sales

## Production



## Sales



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

- While crude steel production increased, product production decreased by 185 thousand tons due to production line maintenance

- Pohang) #2HR/CR, CGL, Gwangyang) #4HR/CR, #7CGL
- Production volume : HR -84, CR -94 thousand tons

(thousand tons)	2Q18	1Q19	2Q19	QoQ
Carbon Steel	8,493	8,542	8,389	-153
STS	534	498	466	-32

- Planned maintenance carried out heavily in 2Q affected production volume, and sales reduced by 537k tons

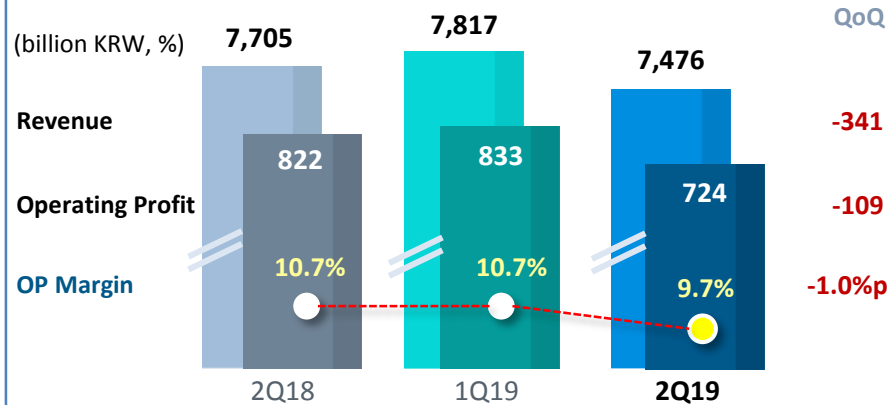
- Sales volume : HR -197, Plate -23 thousand tons

(thousand tons)	2Q18	1Q19	2Q19	QoQ
Domestic	5,151	5,131	5,024	-107
Export	3,809	4,152	3,722	-430
WTP*	2,482	2,611	2,449	-162
Product Inventory	1,070	1,198	1,227	+29

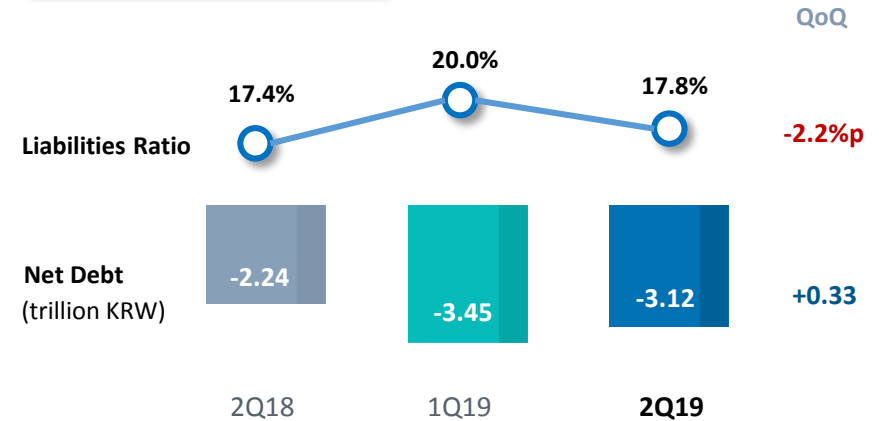
\*WTP(World Top Premium) includes World First/World Best products

# Parent Performance\_Financials

## P/L



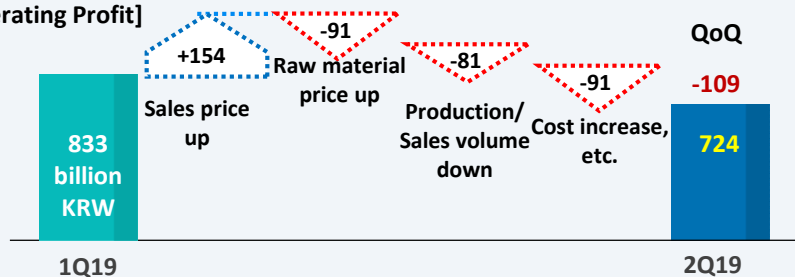
## Financial Structure



○ Despite sales price hike on strong dollar, OP decreased from lower sales volume and higher raw material price

- Sales Price : Carbon steel +13, STS +99 thousand won/ton
- Exchange rate +42KRW/US\$ : (1Q19) 1,125 → (2Q19) 1,167KRW/US\$

### 【Operating Profit】



○ Cash balance and liabilities reduced on paying income taxes, dividends and repaying bonds

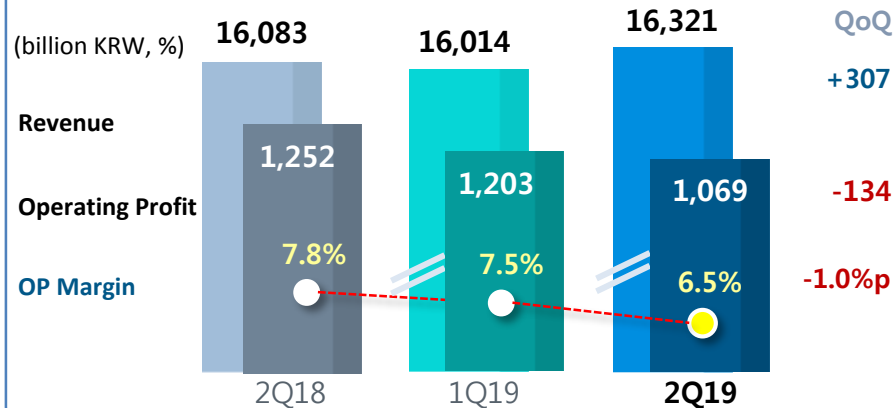
- Income taxes payable 540, dividends payable 400
- repayment of won-denominated bond 350 billion KRW

### 【Cash Balance & Debt】

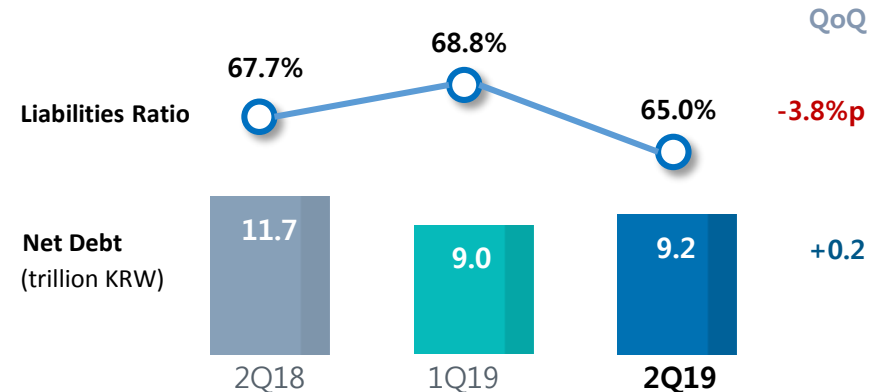
(billion KRW)	2Q18	1Q19	2Q19	QoQ
Cash Balance	6,317	7,735	7,110	-625
Debt	4,074	4,282	3,991	-291

# Consolidated Performance

## P/L



## Financial Structure



- While steel segment weakened, global&infra showed solid performance, mainly in Myanmar gasfield business, to record 1 trillion KRW OP for 8 consecutive quarters

- Steel : POSCO weakened as steel market continued to lackluster
- Global&Infra : Trading and E&C segments improved

### 【Aggregated Operating Profit】

(billion KRW)	1Q19	2Q19	QoQ
Steel	893	805	-88
Overseas steel	12	38	+26
Global&Infra*	293	300	+7
New Growth*	21	15	-6

\* Global&Infra includes non-steel businesses excluding chemical, New Growth segment includes chemical business

- Liabilities declined on continuous debt reduction and payment of income tax payable to mark the lowest consolidated liabilities ratio since 2010

- Overseas/Domestic subsidiaries' debt reduction (-732 billion KRW)
  - POSCO -291 billion KRW, POSCO Energy -44 billion KRW
  - Overseas incl. PT.KP, P-Maharashtra, CSPC\* -342 billion KRW

### 【Cash Balance & Debt】

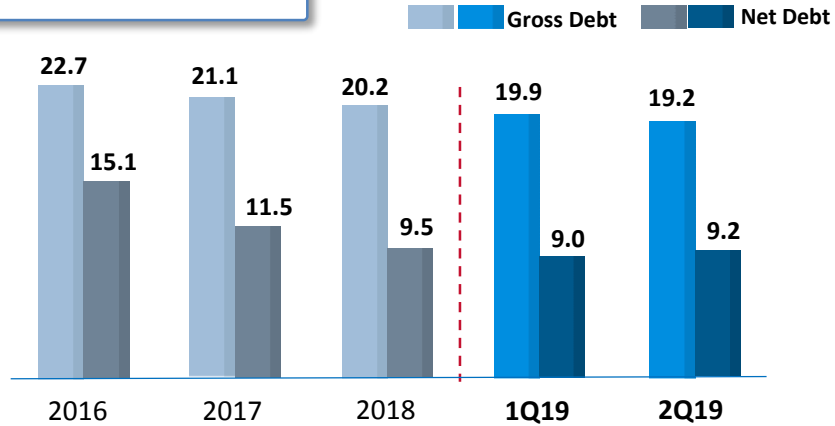
(billion KRW)	2Q18	1Q19	2Q19	QoQ
Cash Balance	9,569	10,887	10,021	-866
Debt	21,270	19,932	19,199	-733

\* CSPC : China Suzhou Processing Center

# Financial Soundness Consolidated

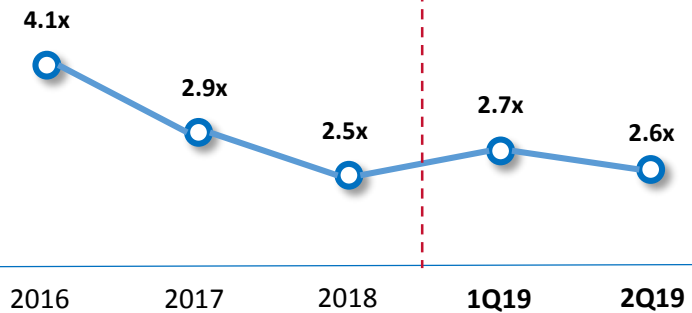
Continued to enhance financial soundness maintaining consolidated debt below 20 tril KRW and D/E at 2.6x

## Debt



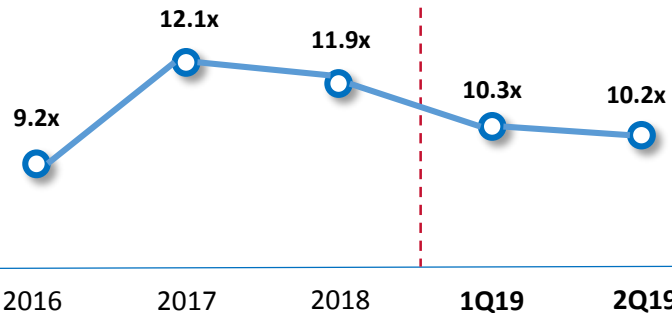
## Debt to EBITDA

\*Based on Moody's, Quarterly figures are annualized

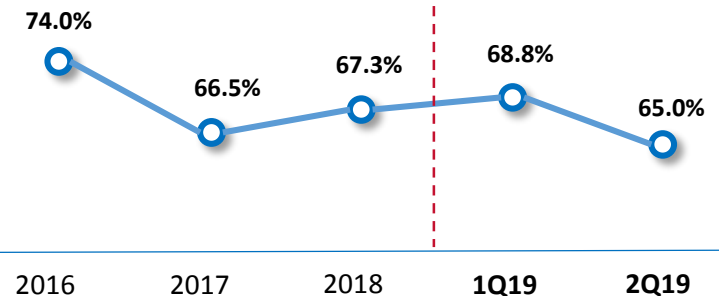


## Interest Coverage Ratio

\*Quarterly figures are annualized



## Liabilities Ratio



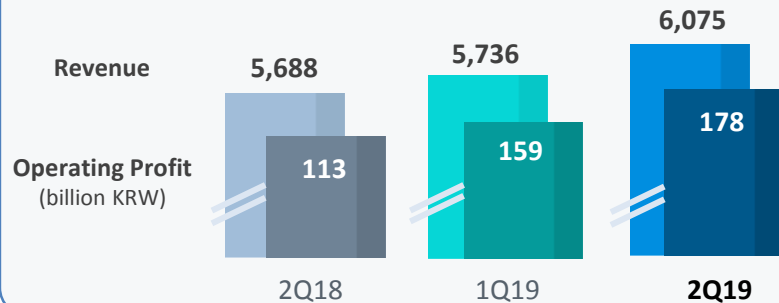


# Subsidiary Performance\_Domestic

## POSCO International

- Earnings improved as Myanmar gas sales increased and performance of trading segment remained steady

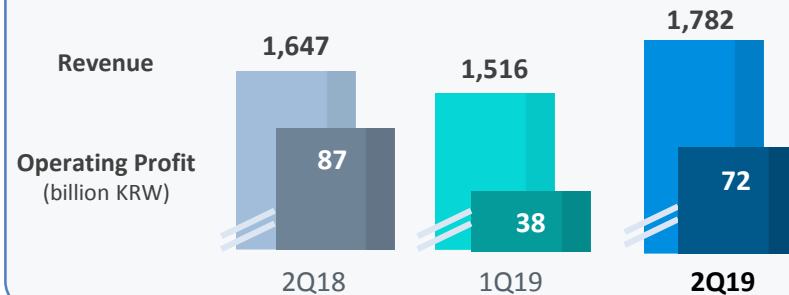
- Gas sales: ('19.1Q) 51.3 → ('19.2Q) 53.9 billion ft<sup>3</sup>



## POSCO E&C

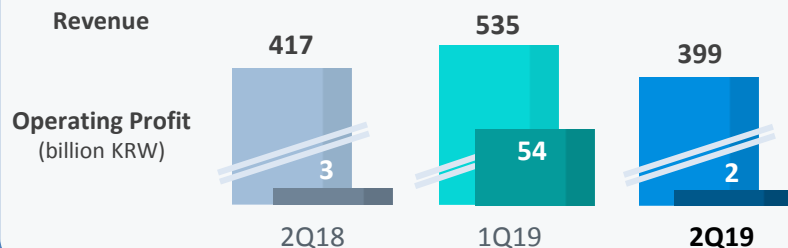
- Operating profit recovered supported by the base effect from 1Q and accelerated progress rate of housing business

- Yeouido Parc 1, Pyeongtaek Jije housing project, etc.



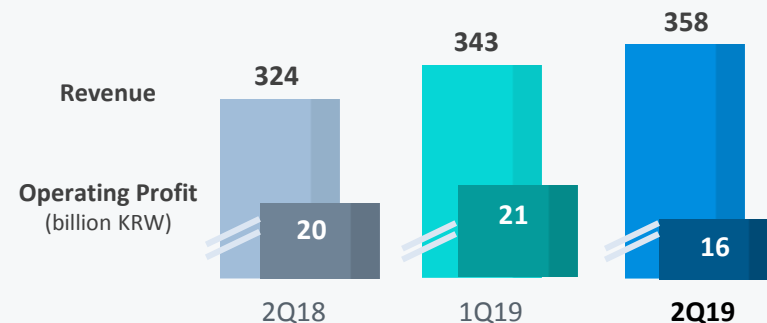
## POSCO Energy

- Earnings squeezed as electricity price(SMP) dropped (109→85KRW/kWh) entering off-season



## POSCO Chemical

- Operating profit reduced as sales volume of refractories fell and lime calcination plant was under maintenance

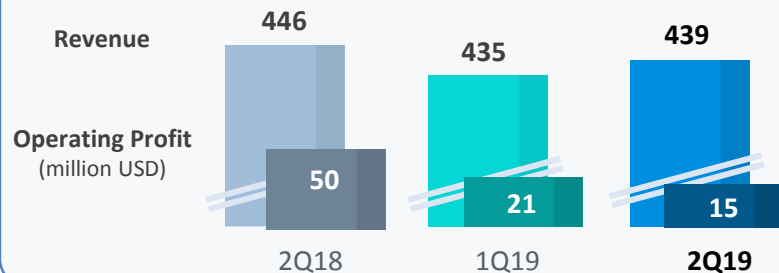


# Subsidiary\_Overseas

## PT. Krakatau POSCO

- While sales volume went up, operating profit slipped as raw material prices hiked

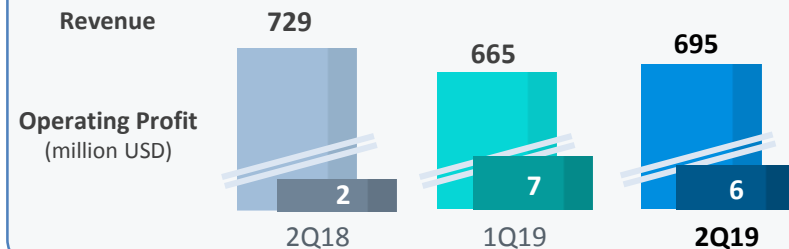
- Sales volume(+29k tons) : (1Q) 742 → (2Q) 771



## Zhangjiagang STS (ZPSS)

- While demand still weakens with STS market inventory increase, profitability sustained by expanding WTP sales and reducing costs

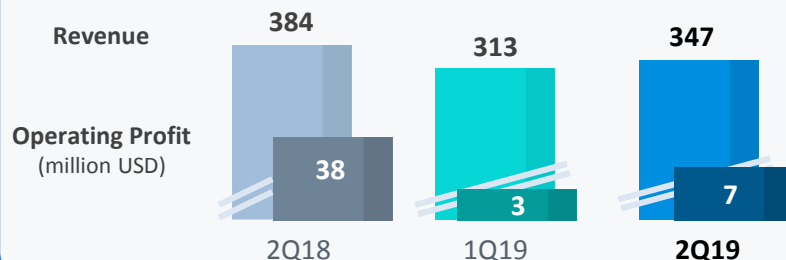
- WTP sales volume(+9k tons) : (1Q) 86 → (2Q) 95



## POSCO Maharashtra

- Revenue and OP improved on increase of shipment and sales price

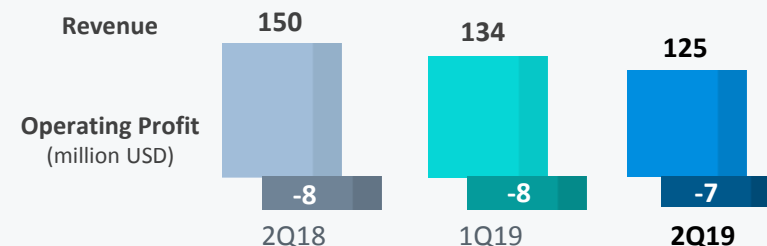
- Sales volume(+36k tons) : ('19.1Q) 395 → ('19.2Q) 431



## POSCO SS VINA

- Revenue decreased from weaker sales volume due to intensified domestic competition

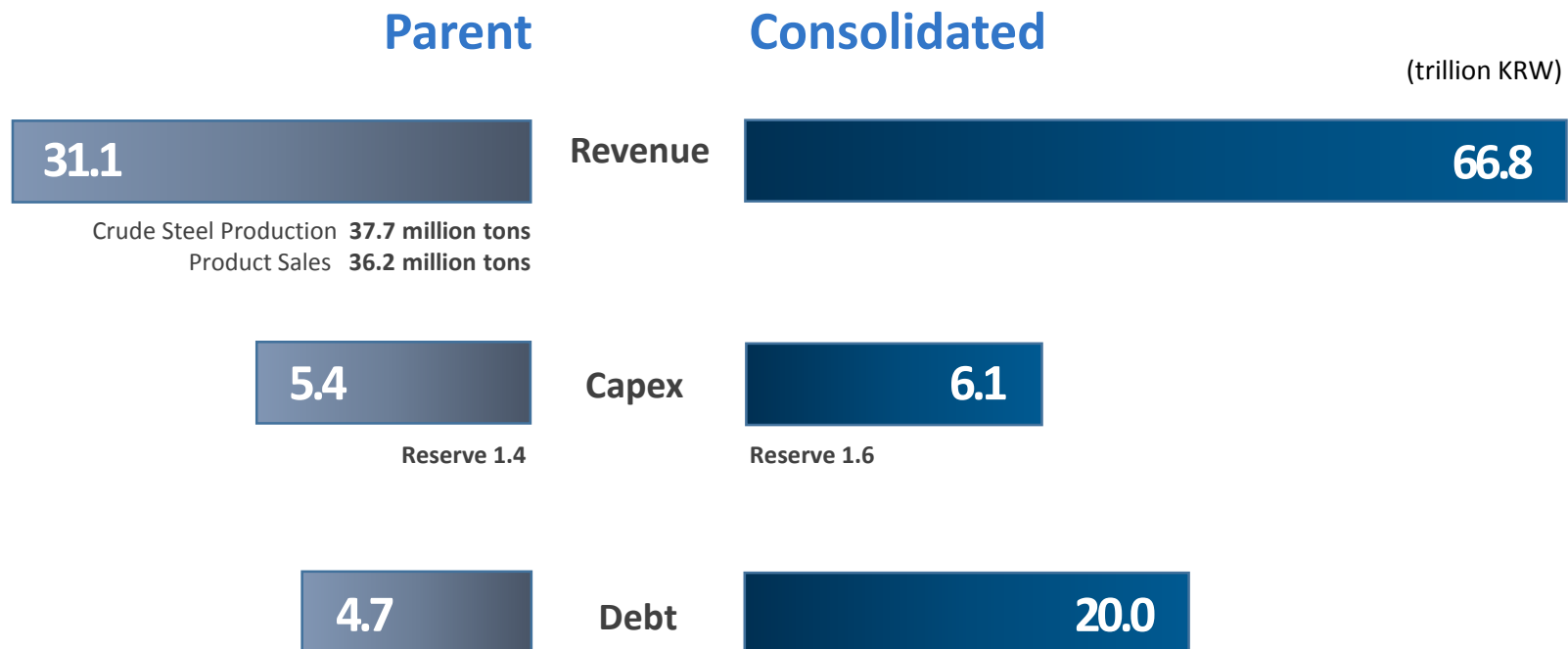
- Sales volume (-17k tons) : ('19.1Q) 229 → ('19.2Q) 212



- **2019 Business Outlook**

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# 2019 Business Outlook



## ※ Appendix

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

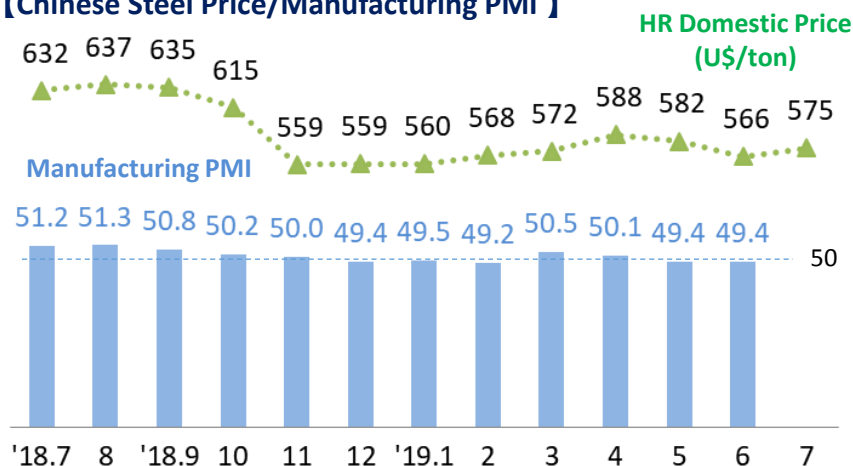
# Global Steel Demand

## Chinese Steel Market

**“Economic boost in China, strong raw material prices will sustain steel prices steady”**

- ✓ Concerns exist over downward trend of economic growth rate (1Q) 6.4%→(2Q) 6.2%
  - Automobile, machinery, and overall manufacturing industries show weak production level, which leads to manufacturing PMI going below base line of 50 to 49.4 in May and June
- ✓ In contrast, 2nd half will demonstrate demand improvement on economic boost policy and additional support measures
  - In 2H, effects from expanding infrastructure investment and tax reduction will be seen in full swing

### [Chinese Steel Price/Manufacturing PMI]



\* Bloomberg(2019.7), National Bureau of Statistics of China(2019.7)

## Demand by Region

**“Global steel demand growth is forecast to slow down in 2019 due to economic uncertainties”**

- ✓ Despite slowing economy and trade disputes between the U.S. and China, Chinese steel demand forecast is lifted in 2019 from previous zero growth to 1% supported by the expectations over government’s boost policy
- ✓ Advanced countries will see slightly moderate demand growth from economic weakness
- ✓ Emerging economies including India and Southeast Asia will show 5~7% growth while geographical risks will drag demand growth in MENA region

### [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)

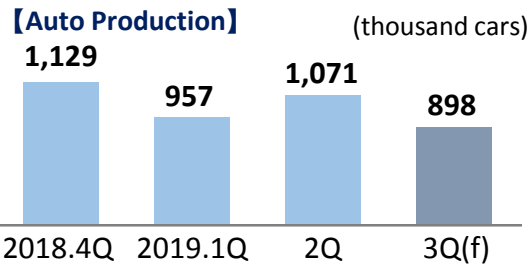
# Domestic Steel Demand

## Demand Industry



### Automobile

- ✓ Despite consumption promoting measures, production recovery will be delayed with weak consumer sentiment and end of OEM manufacturing

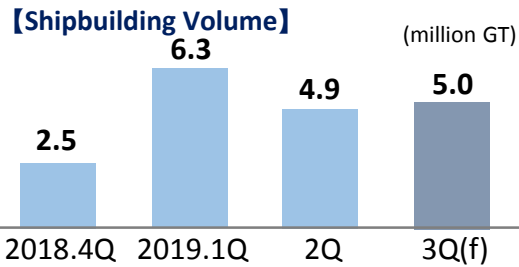


\* Korea Automobile Manufacturers Association(2019.7), POSRI(2019.7)



### Shipbuilding

- ✓ Shipbuilding volume will show sound growth in 2019 backed by increased new orders in 2017 and 2018

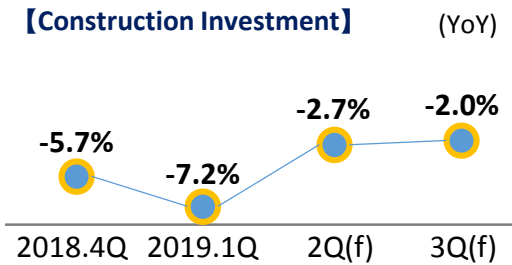


\* Clarkson(2019.7), POSRI(2019.7)



### Construction

- ✓ Construction investment will moderately improve in 2019 on increasing SOC orders in 2H while private housing sector is sluggish



\* Bank of Korea(2019.7) , POSRI(2019.7)

## Steel Supply and Demand

	2016	2017	2018	2019(f)	(million tons)			
					1Q	2Q(f)	3Q(f)	YoY
Nominal Consumption	57.2	56.3	53.7	54.1	13.5	14.2	12.9	+ 2.1%
Export	30.8	31.7	30.4	30.2	7.7	7.5	7.7	- 1.7%
Production	74.3	77.1	75.2	74.4	18.4	19.0	18.4	- 0.0%
Import	13.7	10.9	8.9	9.9	2.7	2.7	2.2	+ 6.8%
Including Semi-Product	23.7	19.7	15.4	16.4	4.5	4.5	3.5	+ 4.1%

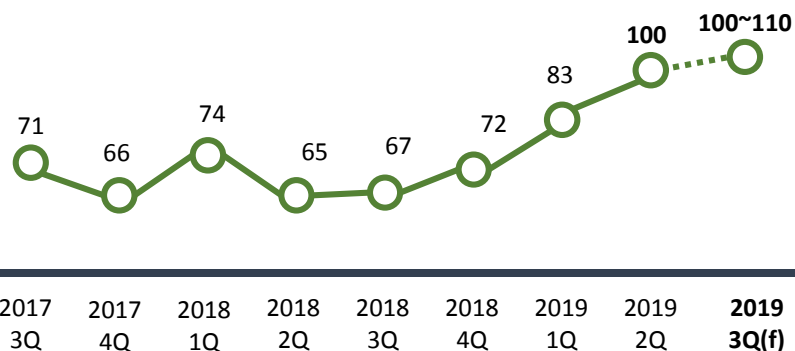
\* POSRI(2019.7)

# Raw Materials Outlook

## Iron Ore

<b>2019.2Q</b>	Strong demand from growth of steel production, coupled with supply disruption due to Vale's dam accident in Brazil in January and cyclone in West Australia in March, resulted in tight iron ore market. Non-market factors such as overheated Chinese futures market also affected the 2Q price to record U\$100/ton
<b>2019.3Q</b>	<p><b>"3Q fine ore price expected at U\$100~110/ton"</b></p> <p>While supply condition improves as Vale increases production, market will still be tight as Chinese port re-stocking is prolonged. Meanwhile, measures to cool down overheated futures market are expected, such as lifting trading fee on the Dalian Commodity Exchange (DCE), which will limit the magnitude of further price hike</p>

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

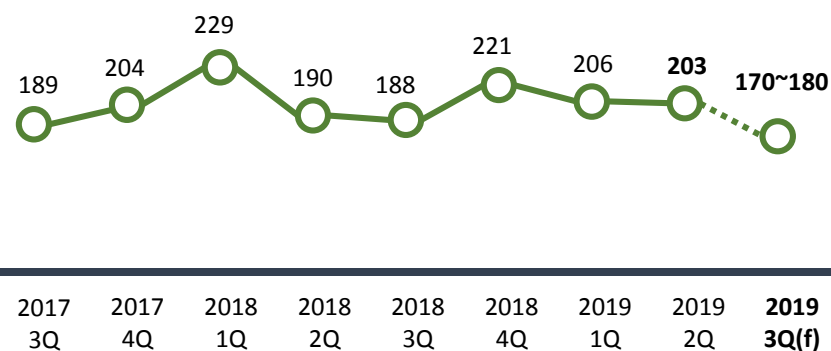


\*62% Fe IODEX CFR China (Quarterly Spot Average)

## Coking Coal

<b>2019.2Q</b>	Coal re-stocking demand keeps strong in China and India ahead of peak season for steel. 2Q average price was U\$203/ton from temporary supply disruption due to port maintenance in East Australia
<b>2019.3Q</b>	<p><b>"3Q HCC price expected at U\$170~180/ton"</b></p> <p>Price is forecast to decline QoQ as Chinese government puts stricter regulations regarding coal import on major ports such as Jintang and Caofeidian while operation of railways and port infrastructure in East Australia is back to normal as rainy season ended. Weakening spot trading in India with the start of monsoon period will also lower price</p>

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



\*Premium Coking Coal FOB Australia (Quarterly Price)



# Summarized F/S \_Parent Income Statement

	2Q 18	1Q 19	2Q 19	QoQ
<b>Crude Steel Production</b> (thousand tons)	9,377	9,406	<b>9,444</b>	+38
<b>Product Sales</b> (thousand tons)	8,960	9,283	<b>8,746</b>	-537
<b>STS</b>	528	506	<b>448</b>	-58
<b>Carbon Steel Sales Price</b> (thousand KRW)	730	722	<b>735</b>	+13
(billion KRW)				
<b>Revenue</b>	7,705	7,817	7,476	-341
<b>Cost of Goods Sold</b>	6,431	6,728	6,484	-244
<b>Gross Profit</b>	1,274	1,089	992	-97
<b>SG&amp;A</b>	452	256	268	+12
<b>Operating Profit</b>	822	833	724	-109
<b>(Operating Margin)</b>	(10.7%)	(10.7%)	<b>(9.7%)</b>	(-1.0%p)
<b>Non-Operating Profit</b>	-33	90	<b>21</b>	-69
<b>Net Profit</b>	580	671	545	-126
<b>(Net Margin)</b>	(7.5%)	(8.6%)	<b>(7.3%)</b>	(-1.3%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)

	2Q 18	1Q 19	2Q 19	QoQ
<b>Current Assets</b>	15,652	17,603	<b>17,599</b>	-4
<b>Cash Balance*</b>	6,317	7,734	<b>7,110</b>	-624
<b>Accounts Receivable</b>	4,420	4,449	<b>4,281</b>	-168
<b>Inventories</b>	4,463	4,998	<b>5,385</b>	+387
<b>Current Ratio(%)</b>	383.4%	422.7%	<b>566.7%</b>	+144.0%p
<b>Non-Current Assets</b>	38,356	37,609	<b>37,039</b>	-570
<b>Other Long-term financial assets</b>	1,269	1,200	<b>1,269</b>	+69
<b>PP&amp;E</b>	21,234	19,953	<b>19,321</b>	-632
<b>Total Assets</b>	54,008	55,212	<b>54,638</b>	-574
<b>Liabilities</b>	7,998	9,211	<b>8,245</b>	-966
<b>Current Liabilities</b>	4,082	4,164	<b>3,106</b>	-1,058
<b>Non-Current Liabilities</b>	3,916	5,047	<b>5,139</b>	+92
<b>Interest-bearing Debt</b>	4,074	4,282	<b>3,991</b>	-291
<b>Liabilities Ratio(%)</b>	17.4%	20.0%	<b>17.8%</b>	-2.2%p
<b>Equity</b>	46,010	46,001	<b>46,393</b>	+392

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

# Summarized F/S \_Consolidated Income Statement

(billion KRW)

	2Q 18	1Q 19	2Q 19	QoQ
<b>Revenue</b>	16,083	16,014	<b>16,321</b>	+307
<b>Gross Profit</b>	2,164	1,813	<b>1,614</b>	-199
<b>(Gross Margin)</b>	(13.5%)	(11.3%)	<b>(9.9%)</b>	(-1.4%p)
<b>SG&amp;A</b>	912	610	<b>545</b>	-65
<b>Operating Profit</b>	1,252	1,203	<b>1,069</b>	-134
<b>(Operating Margin)</b>	(7.8%)	(7.5%)	<b>(6.5%)</b>	(-1.0%p)
<b>Non-Operating Profit</b>	-93	-66	<b>-96</b>	-30
<b>Share of Profit(Loss) of Equity-accounted Investees</b>	-56	67	<b>75</b>	+8
<b>Finance Income and Costs</b>	-174	-57	<b>-77</b>	-20
Foreign Currency Transaction & Translation Gain(Loss)	-150	18	<b>-17</b>	-35
<b>Net Profit</b>	580	778	<b>681</b>	-97
<b>(Net Margin)</b>	(3.6%)	(4.9%)	<b>(4.2%)</b>	(-0.7%p)
Profit Attributable to Owners of the Controlling Company	545	741	<b>612</b>	-129

\* 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)

	2Q 18	1Q 19	2Q 19	QoQ
<b>Current Assets</b>	33,348	34,678	<b>34,046</b>	-632
<b>Cash Balance*</b>	9,569	10,887	<b>10,021</b>	-866
<b>Accounts Receivable</b>	9,661	10,110	<b>9,926</b>	-184
<b>Inventories</b>	10,639	11,259	<b>11,708</b>	+449
<b>Current Ratio(%)</b>	167.2%	183.0%	<b>192.7%</b>	+9.7%p
<b>Non-Current Assets</b>	46,587	45,062	<b>44,933</b>	-129
<b>Other Long-term financial assets**</b>	2,741	2,541	<b>2,598</b>	+57
<b>PP&amp;E</b>	31,426	30,486	<b>30,340</b>	-146
<b>Total Assets</b>	79,935	79,740	<b>78,979</b>	-761
<b>Liabilities</b>	32,266	32,495	<b>31,105</b>	-1,390
<b>Current Liabilities</b>	19,939	18,945	<b>17,672</b>	-1,273
<b>Non-Current Liabilities</b>	12,327	13,550	<b>13,433</b>	-117
<b>Interest-bearing Debt</b>	21,270	19,932	<b>19,199</b>	-733
<b>Liabilities Ratio(%)</b>	67.7%	68.8%	<b>65.0%</b>	-3.8%p
<b>Equity</b>	47,669	47,245	<b>47,874</b>	+629
<b>Owners of the Controlling Company</b>	43,933	43,945	<b>44,457</b>	+512

\* 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

# Aggregated Earnings by Segment

(billion KRW)

Segment	Revenue			Operating Profit			Net Profit		
	2Q18	1Q19	2Q19	2Q18	1Q19	2Q19	2Q18	1Q19	2Q19
<b>Steel</b>	12,724	12,556	<b>12,509</b>	1,024	893	<b>805</b>	668	635	<b>520</b>
<b>Global&amp;Infra*</b>	12,416	12,156	<b>12,876</b>	272	293	<b>300</b>	9	177	<b>147</b>
<b>Trading</b>	9,507	9,371	<b>9,950</b>	140	180	<b>206</b>	-6	73	<b>90</b>
<b>E &amp; C</b>	1,825	1,638	<b>1,884</b>	86	25	<b>53</b>	38	21	<b>12</b>
<b>Energy</b>	450	568	<b>433</b>	12	66	<b>12</b>	8	68	<b>13</b>
<b>I C T</b>	222	223	<b>232</b>	16	11	<b>15</b>	-44	7	<b>16</b>
<b>New Growth*</b>	335	383	<b>370</b>	21	21	<b>15</b>	17	31	<b>15</b>
<b>Total</b>	25,475	25,095	<b>25,755</b>	1,317	1,207	<b>1,200</b>	694	843	<b>682</b>

\* Global&Infra segment includes non-steel businesses excluding chemical, New Growth segment includes chemical business