

2020 POSCO Earnings Release

Q&A Summary

January 31, 2020

Dividend Policy

Today POSCO Board of Directors approved a new dividend policy. Our previous dividend policy is to maintain “a long-term stable cash dividend,” but it was improved to pay in accordance with a dividend pay-out ratio of 30% for the next three years(FY2020~FY2022). It will be based on consolidated profit attributable to owners of the controlling company. There are three factors that we will consider in determining the dividend. In calculating the profit, one-off costs not generating cash outflow will be adjusted. Year-end dividend will be decided after comprehensive consideration of factors such as mid-term business plan, dividend yield, and FCF. Mid-term dividend policy will be reviewed and announced on a 3-year basis. Quarterly dividend scheme will remain the same to return to shareholders throughout the year. In the same Board meeting today, 2019 dividend amount was resolved as 10,000 KRW based on the same formula.

※ Pay-out ratio : 32%(2019), 26%(2018)

Steel Price Outlook

We expect our ASP may not be picking up enough in 1Q but should see a bigger recovery in 2Q. Steel price negotiation in this quarter is still at an early stage, but we will try to raise the prices in line with the global prices.

Iron Ore Price

In 2019, iron ore price stayed around U\$94/ton mainly due to Vale dam collapse, and global supply volume will slowly recover to reach the level before the accident due to environmental control. While 1Q20 price is expected around U\$85~90, annual price outlook is U\$80~85 in 2020.

Impact of Coronavirus

Coronavirus has not a major impact on POSCO as of yet as the Chinese holidays have been extended. Except for Wuhan region, there is no signal of delay or troubles in exporting to China for POSCO. Also, the Chinese government should release stimulus and steel customers in China usually increase production after holidays, which also suggest that annual volume would be intact. Therefore, for now, we do not have any concern from the outbreak in a longer term.

Company Efforts to Tackle Slow Market

Since 2H19, we expected business environment will become more hostile, and established budget-tightening plan. In this regard, we will also continue to pursue Cost Innovation 2020(CI 2020) this year, which encompasses process innovation and raw material cost reduction. By making such efforts, we expect to reduce more than 200 billion KRW this year. To weather difficult market conditions, we will place a bigger emphasis on highly profitable WTP, especially premium construction materials and environment-friendly products. Innovative products will continue to be developed so that we can secure with competitive edge over global peers. For non-steel businesses, we will pursue growth in areas that are prominent and we have competitiveness.

Non-Steel Businesses

Last year, non-steel segment marked the highest earnings, especially POSCO International recorded historic high operating profit supported by gas business. While this year it may be difficult to see about the same level of earnings, it will make every effort to maintain last year's earning level by expanding grain trading and improving profit structure. POSCO E&C also endeavors toward solid profitability this year. With slow construction investment domestically, the company also has a downside. To tackle this, it will focus on high margin private projects and new business of constructing LNG terminal. Particularly, POSCO E&C is expected to see a significant improvement in net profit as the impact of overseas project losses will disappear. POSCO Energy also has a new business opportunity based on LNG terminal as the market grows.

Stainless Steel Raw Material(NPI)

As a stainless steel producer, Nickel price is surely a burden when the market is not so positive. POSCO operates a Nickel subsidiary SNNC, which currently produces in full capacity. If we invest in Nickel pig iron(NPI) in Indonesia, it would be a duplicated investment and cause a problem of using the existing facilities. Our response will be reducing cost of production in SNNC and developing high purity Nickel that can be differentiated from NPI. Our targeted market is premium STS, which cannot be produced with NPI.

EV Battery Material Business

POSCO Chemical recently invested in cathode and anode plants in a large scale. As of last year, cathode production was 3,500 tons and anode was 20,000 tons, which generated 250 billion KRW of revenue combined. This year, cathode will be expanded to 44,000 tons and anode will be 55,000 ton capacity. Sales volume is expected to reach 60,000 tons and revenue will almost triple to 700 billion KRW. Numbers will be even bigger in 2021 to reach half of the company's revenue.

POSCO has two types of lithium assets in Australian hard rock mine and a brine in Argentina. A demo plant using hard rock is currently being operated in Gwangyang, and commercialized 40,000 ton capacity plant will be constructed in Yulchon, Korea. The demo plant nearby the brine is scheduled to be completed in May and converted to a commercialized plant during 1H21. A vertical integration of EV battery material business can be considered, but only in the longer term. As for today, however, POSCO Chemical is focusing on capacity expansion and quality improvement in terms of operation while POSCO is involved in R&D for next-generation products and lithium mining assets development.

Asset Impairment Losses

Asset impairment amount recognized in 2019 on a consolidated basis was about 700 billion KRW, significantly down from the year before of 1.4 trillion KRW, mainly from synthetic natural gas business. Part of last year's includes POSCO SS VINA as tangible asset impairment, but the rest of it is from low-performance R&D and market development projects that are small sizes. Impairment recognition was done in line with the accounting standards and categorized as non-operating loss. Meanwhile, we do not expect any impairment loss in a major scale this year as loss-making and ailing businesses were mostly restructured in 2019 in non-steel segment. In steel segment as well, as the lowest period for the sector has passed, it is not likely that we will see a major impairments from it.

Debt Outlook

As of year-end 2019, parent-based debt size increased temporarily as POSCO issued bonds in 2H19 to prepare for repayments scheduled in 2020 and 2021.

Carbon Credits

POSCO was in short of 2.8 million tons of carbon credits last year, but it did not occur as cost we had excess carbon credits in 2018, which rolled over to last year. This year's expected shortage can be also covered with the surplus from last year. Carbon trading scheme is reshuffled every 3 years. POSCO did not have any cost burden during the years 2018~2020. Under future scheme, we will try to minimize the impact by securing as much credits as possible through increasing energy efficiency within the company and other measures.

Restructuring of Korean Steel Industry

Northeast Asian countries including China, Japan and Korea are a sole regional market after all. China is currently experiencing a major industry restructuring among steel mills led by the government and Japanese steel industry has long been through a restructuring by the private sector. Restructuring of Korean steel industry is necessary, but the preconditions should be met such as regulatory issues governing the antitrust laws.