

# 2Q 2020 Earnings Release

July 21, 2020

posco

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# Disclaimer

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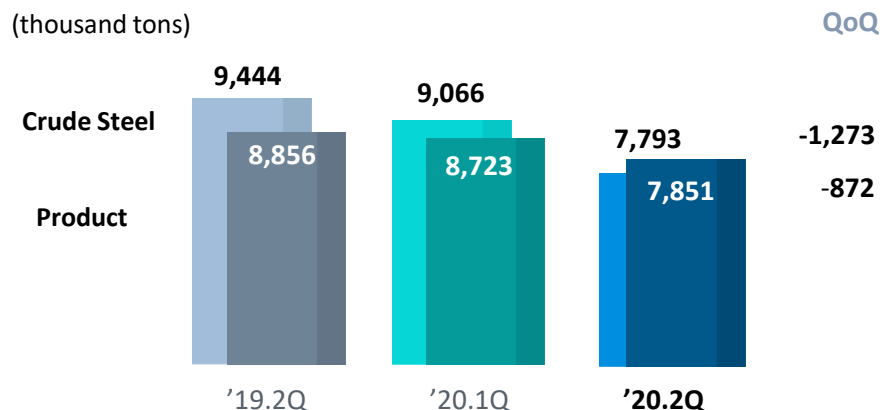
# Contents

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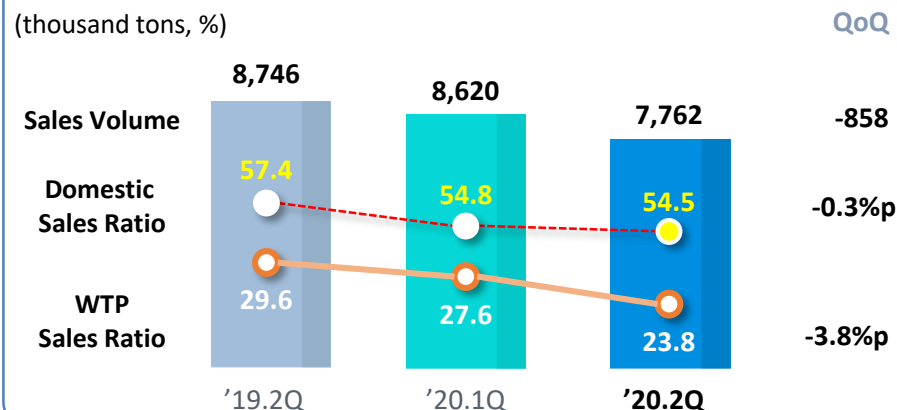
- **2Q 2020 Business Performance**
  - Parent Performance
  - Consolidated Performance
  - Subsidiary Performance
- **Key Business Activities**
- **2020 Business Outlook**

# Parent Performance\_Production / Sales

## Production



## Sales



- In response to weakened demand due to COVID-19, minimized impact from production decrease by adopting flexible production and sales system

- **(Iron & Steel-making Processes)** Restart of Gwangyang #3 Blast Furnace postponed from June to July and adjust HMR(Hot Metal Ratio) flexibly
- **(Rolling Mill)** Production/halt managed considering processing cost

### [Product Production]

(thousand tons)	'19.2Q	'20.1Q	'20.2Q	QoQ
Carbon	8,390	8,242	7,460	-782*
STS	466	481	391	-90

\* HR +123, CR -870, Plate -184, etc.

- Sales volume declined from sluggish market while product inventory maintained last quarter level

- Product sales decrease (thousand tons) : CR -718, Plate -128, etc.
- WTP sales (thousand tons) : '20.1Q) 2,267 → '20.2Q) 1,711(-556)

\* WTP sales reduced especially to automobile sector

### [Product Sales]

(thousand tons)	'19.2Q	'20.1Q	'20.2Q	QoQ
Domestic	5,024	4,728	4,234	-494
Export	3,722	3,892	3,528	-364
Inventory	1,227	1,107	1,121	+14

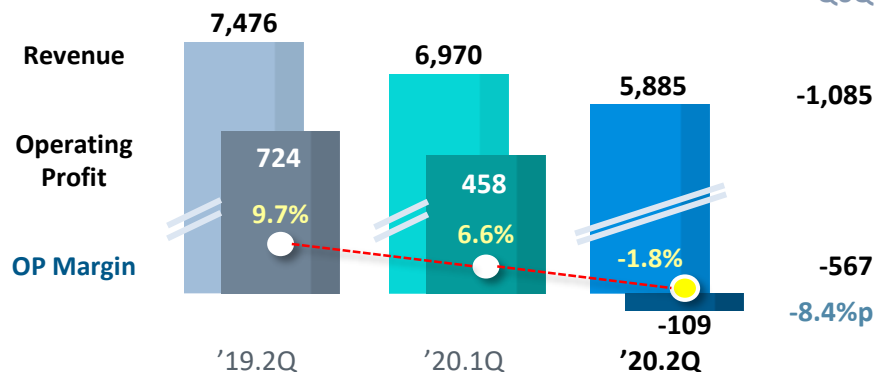
\*WTP(World Top Premium) includes World First/World Best products

# Parent Performance

## P/L

(billion KRW)

QoQ



※ Net Profit 545 453 7 -446

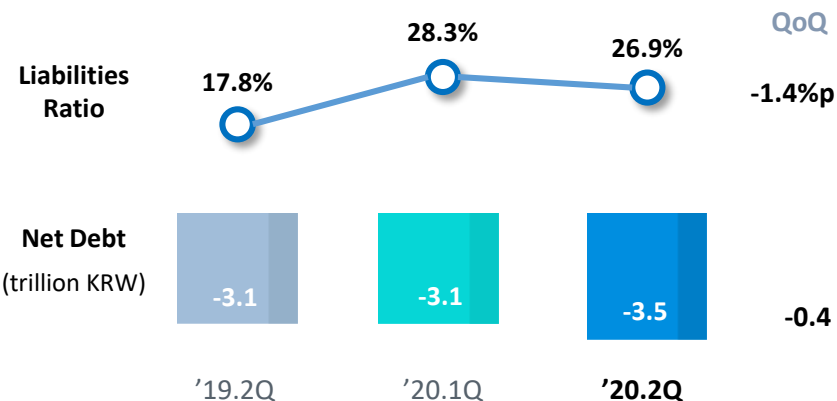
### ○ Recorded operating loss on weak demand and fallen sales price from COVID-19

- Sales dropped due to lockdowns in major export countries
- Price declined with slump of global demand industries

#### 【Operating Profit】



## Financial Structure



### ○ Cash balance increased by putting the highest priority on cash-flow management, and raised financial soundness by lowering liabilities

- Made company-wide efforts to lower inventory and save costs by reducing raw material purchase volume

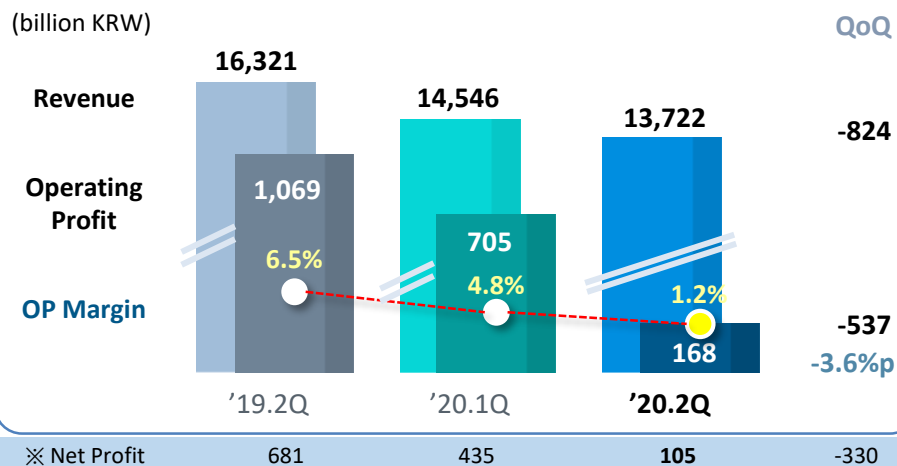
\* Inventory assets (1Q) 4.8 → (2Q) 4.2 trillion KRW

#### 【Cash Balance & Debt】

(bn KRW)	'19.2Q	'20.1Q	'20.2Q	QoQ
Cash Balance	7,110	11,723	12,064	+341
Debt	3,991	8,662	8,562	-100

# Consolidated Performance

## P/L



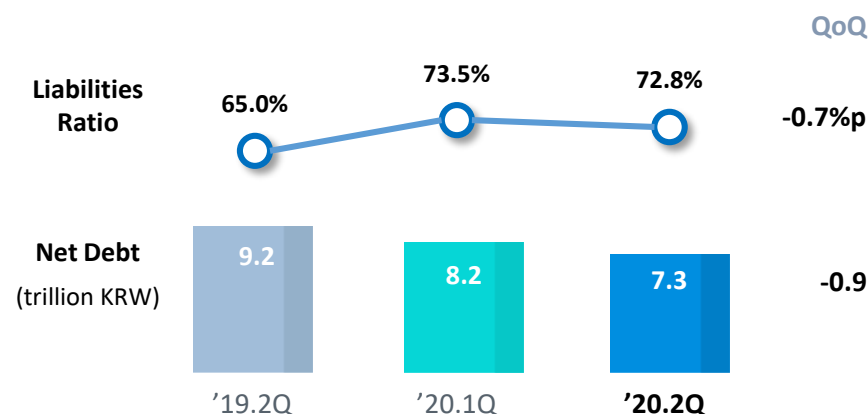
- Consolidated earnings decreased as steel business performance aggravated while robust earnings of companies in Global & Infra business sustained

### 【Aggregated Operating Profit】

(billion KRW)	'19.2Q	'20.1Q	'20.2Q	QoQ
<b>Steel</b>	805	383	-197	-580
Overseas steel	38	-81	-93	-12
<b>Global&amp;Infra</b>	299	375	304	-71
<b>New Growth</b>	15	14	1	-13

• Overseas steel subsidiaries operating profit in '20.1Q (million USD)  
PT.KP -28, PZSS 8, POSCO Maharashtra -13, PY VINA -9

## Financial Structure



- Despite total debt growth from subsidiaries' preemptive financing, net debt was lowered with cash increased by reducing working capital

• Debt(bn KRW): P-Chemical +507 (Incl. Bonds for facility investment 210, US\$ 100 million), P-Energy +333 (Incl. Long-term bond for refinancing 200)

### 【Cash Balance & Debt】

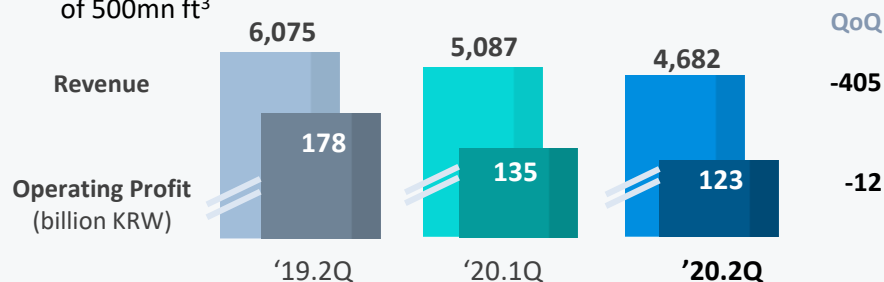
(billion KRW)	'19.2Q	'20.1Q	'20.2Q	QoQ
<b>Cash Balance</b>	10,021	15,351	16,913	+1,562
<b>Debt</b>	19,199	23,503	24,238	+735

# Subsidiary Performance

## POSCO International

- Solid operating profit recorded on continuously strong Myanmar gas sales despite weaker trading performance from COVID-19

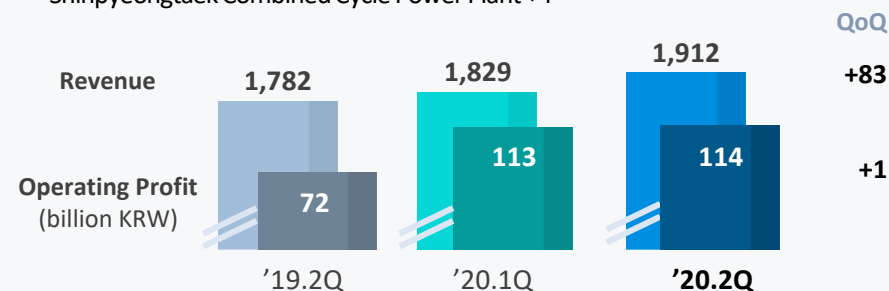
- 2Q gas sales was 550mn ft<sup>3</sup>/day, exceeding daily contract volume of 500mn ft<sup>3</sup>



## POSCO E&C

- Supported by building works and plant businesses, revenue and operating profit increased

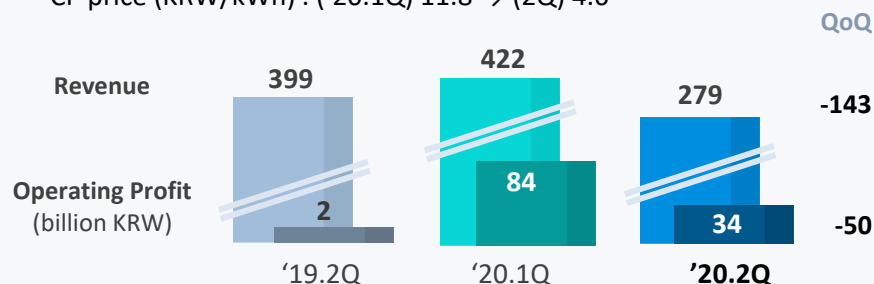
- Operating profit (bn KRW) : Pyeongtaek Jije Segyo +6, Shinpyeongtaek Combined Cycle Power Plant +4



## POSCO Energy

- Profits in power generation was lowered due to seasonality and weak market, but expanded terminal business and renewal of fuel cell LTSA minimized size of profit decrease

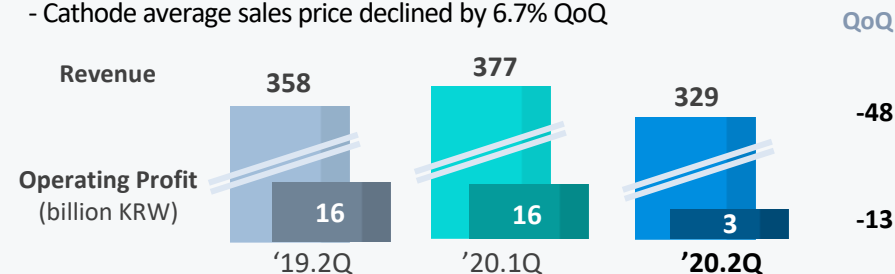
- CP price (KRW/kWh) : ('20.1Q) 11.8 → (2Q) 4.6



## POSCO Chemical

- Revenue in chemical business decreased from oil price drop, operating profit weakened due to inventory valuation loss on cathode business

- Cathode average sales price declined by 6.7% QoQ

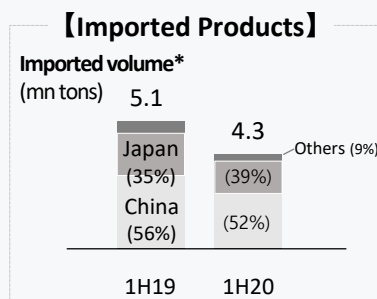


# Key Business Activities\_Steel

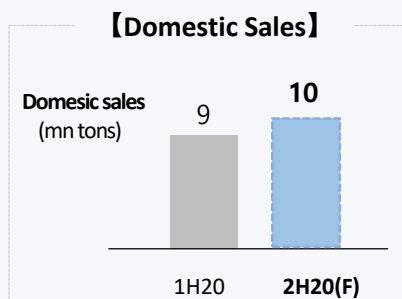
## Enhance Sales Profitability

### Strengthen domestic sales responding to trade protectionism in major countries

- Replace imported products from China and Japan for domestic customers by providing tailored solutions

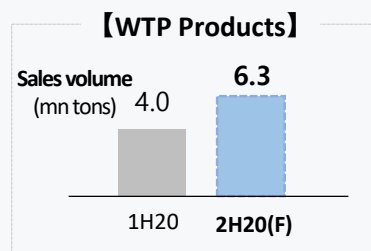
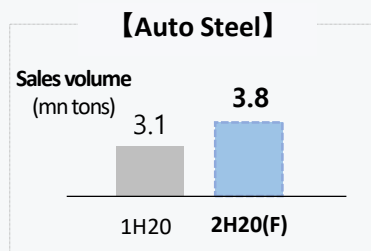


\* Based on products manufactured by POSCO



### Optimize sales-mix focused on high-margin sectors

- Improve profitability by boosting sales of World Top Premium (WTP) products incl. Giga Steel for automobile and solar power structural steel PosMAC

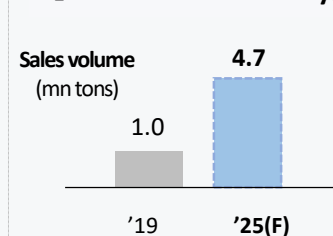


## Boost Sales to Industries Leading Future Trend

### Expand sales to environment-friendly vehicles & energy, mega-city industries

- Lock customers earlier in three future new demand industries
- Foster and support industries related with eco-friendly products

#### 【Future Trend Industry】



LNG-fueled Ship



Solar/Wind Power



Premium Steel for Construction

INNOVILT

### Create a strong and robust steel industry ecosystem through co-existence with customers

#### Support overseas business

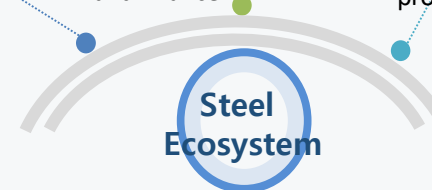
- Assist with POSCO's overseas infrastructure and networks

#### Foster small but strong companies

- Provide solutions incl. application technology, product quality, trade and finance












#### Safe industrial environment

- Block imports dissatisfying safety standards, cooperate in responding to low quality products





# Key Business Activities\_Global & Infra/New Growth

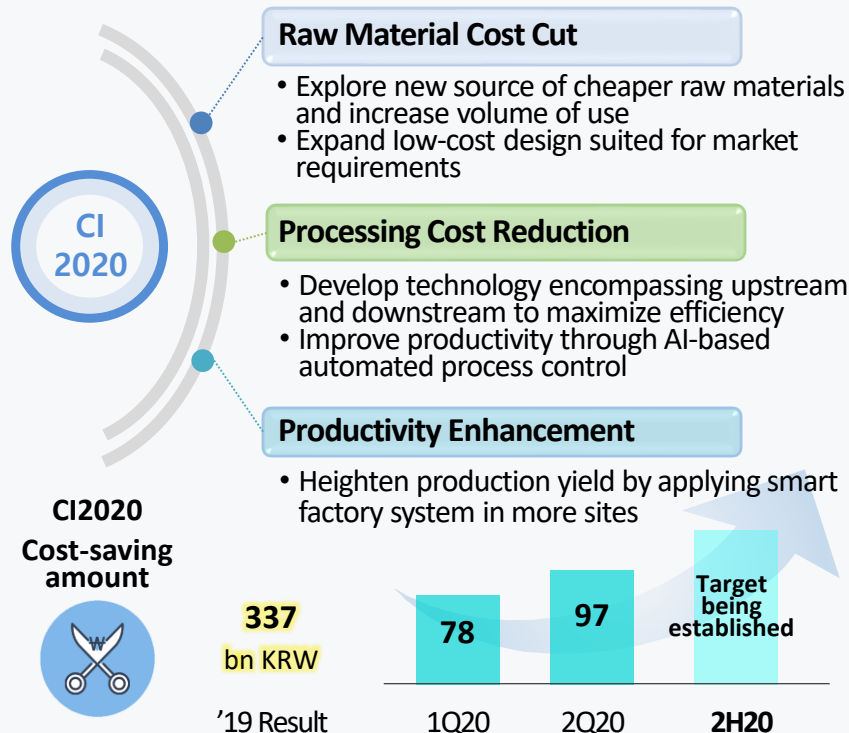
POSCO International	POSCO E&C	POSCO Energy	POSCO Chemical
 <b>Stable operation of Myanmar gasfield</b> <ul style="list-style-type: none"> <li>▪ Maintain daily production of 500 million ft<sup>3</sup></li> <li>▪ Continue to explore additional mine including Block A-3</li> </ul>  <b>Increase food trading and fully operate grain terminal</b> <ul style="list-style-type: none"> <li>▪ Expand trading volume mainly in Asia               <ul style="list-style-type: none"> <li>· ('19) 5.5 → ('20) 6million tons target</li> </ul> </li> <li>▪ Commercial operation of Ukraine grain terminal               <ul style="list-style-type: none"> <li>· First year target volume 1.5 million tons</li> </ul> </li> </ul>  <b>Qualitative growth of trading business</b> <ul style="list-style-type: none"> <li>▪ Raise trading profitability in three strategic businesses of steel, LNG and food</li> </ul>	 <b>Enhance profits in Building Works Business</b> <ul style="list-style-type: none"> <li>▪ Strong performance in apartment sales               <ul style="list-style-type: none"> <li>· ('19) 21k → ('20) 22k apartments target</li> </ul> </li> <li>▪ Respond flexibly to housing market fluctuation by increasingly taking city rebuilding projects               <ul style="list-style-type: none"> <li>· Selected for rebuilding Sinbanpo 21 lot (May, 102bn KRW)</li> </ul> </li> </ul>  <b>Risk management in plant business</b> <ul style="list-style-type: none"> <li>▪ Orders of low profit-making projects are not taken</li> <li>▪ Participate in overseas projects selectively               <ul style="list-style-type: none"> <li>· Focus on four strategic countries and key products</li> </ul> </li> </ul>  <b>Continue to improve financial soundness</b> <ul style="list-style-type: none"> <li>▪ Normalize Songdo International Business District Project               <ul style="list-style-type: none"> <li>· Collect account receivables and reduce contingent liabilities</li> </ul> </li> <li>▪ Credit rating raised in Jun '20               <ul style="list-style-type: none"> <li>· A0 Positive → A+ Stable (Korea Investors Service)</li> </ul> </li> </ul>	 <b>Raise profitability of LNG power generation</b> <ul style="list-style-type: none"> <li>▪ Expand direct LNG purchase contract to secure cost competitiveness               <ul style="list-style-type: none"> <li>· New direct buying contract for #4 (Jul '20 ~)</li> </ul> </li> </ul>  <b>Grow businesses utilizing LNG terminal</b> <ul style="list-style-type: none"> <li>▪ Strengthen base for terminal business by building #2 Terminal</li> <li>▪ Expand terminal-affiliated business including LNG carrier test run               <ul style="list-style-type: none"> <li>· Completed building Gwangyang #5 Tank (Apr '20, 200k kℓ) with total capacity reaching from 530 to 730k kℓ</li> </ul> </li> </ul>	 <b>Invest in LiB battery material business and develop next-generation product</b> <ul style="list-style-type: none"> <li>▪ Continue to invest in cathode production to secure capacity in line with growth of EV market</li> <li>▪ Diversify customers and increase revenue by advancing product portfolio               <ul style="list-style-type: none"> <li>· Natural graphite/artificial graphite anode</li> </ul> </li> </ul>  <b>Enter downstream business using byproduct</b> <ul style="list-style-type: none"> <li>▪ Start joint venture producing hydrogen peroxide using steelmaking byproduct (COG)               <ul style="list-style-type: none"> <li>· Form a joint venture with OCI for a business to produce super-pure hydrogen peroxide for semiconductor with annual capacity of 50k tons (from '22~)</li> </ul> </li> </ul>  <b>Improve profitability</b> <ul style="list-style-type: none"> <li>▪ Strengthen cost competitiveness by innovating processes and reducing fixed cost</li> </ul>

# Key Business Activities

## Cost Competitiveness

### • Company-wide efforts to save costs through Cost Innovation 2020 (CI2020)

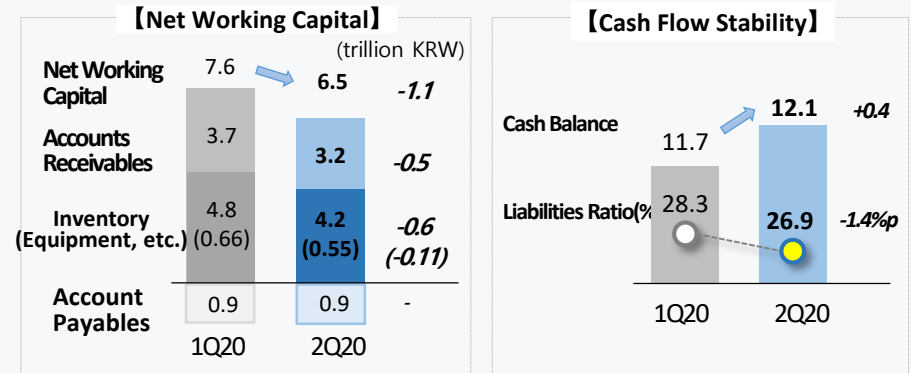
- CI2020 is an initiative to strengthen manufacturing cost competitiveness
- Innovation tasks are performed in cooperation among procurement, steelworks and marketing departments
- Cost competitiveness is secured by expanding using low-priced raw materials and advancing process technology



## Financial Soundness

### • Enhance financial soundness by focusing on cash flow

- Reduced working capital by decreasing accounts receivables and tightening inventory assets management
- Improved financial soundness by increasing cash balance and lowering liabilities ratio
- Maintaining the highest credit rating among global peers
  - S&P : BBB+ Stable, Moody's : Baa1 Stable (July '20)



\*Parent-based

### • Strengthen liquidity management on each subsidiary level by reducing net working capital and adjusting priorities of investment

- Decrease net working capital on group-level through cash flow-focused management
- Adjust timeline of investment projects focusing on essential investments to boost competitiveness

# Key Business Activities\_ESG

## Established ESG management system to minimize risks under Corporate Citizenship Philosophy

E

- **Became the first TCFD Supporter as a Korean manufacturer and run Low-Carbon Environment-Friendly Council led by Head of Steel Division\***

- Published 'Corporate Citizenship Report' in line with TCFD guidelines and SASB standards in Apr '20

- \*Head of Steel Division : Representative Director Chang In-Hwa

- **[2H20] Separate publication of climate report containing low-carbon strategy, Start operation of Gwangyang #3 Blast Furnace reinforced with environment-friendly facilities**

- Setting up mid-to long-term carbon reduction target and strategy aligned with long-term low carbon development strategy formed by the Korean government targeting the year 2050

S

- **Joined Responsible Minerals Initiative(RMI) and established a group-wide management system to cope with responsible minerals issue**

- Efforts made to minimize risks associated with child labor and human rights violation issues in conflict minerals incl. cobalt, tin, tungsten, etc.

- **[2H20] Corporate citizenship activities to continue centered on six major programs**

- Six Major Programs : Shared Growth, Establishing Venture Platform, Approach to Enhancing Fertility, Support for Youth Employment and Startups, Creating a Marine Forest, Becoming and Nurturing Good Global Citizens

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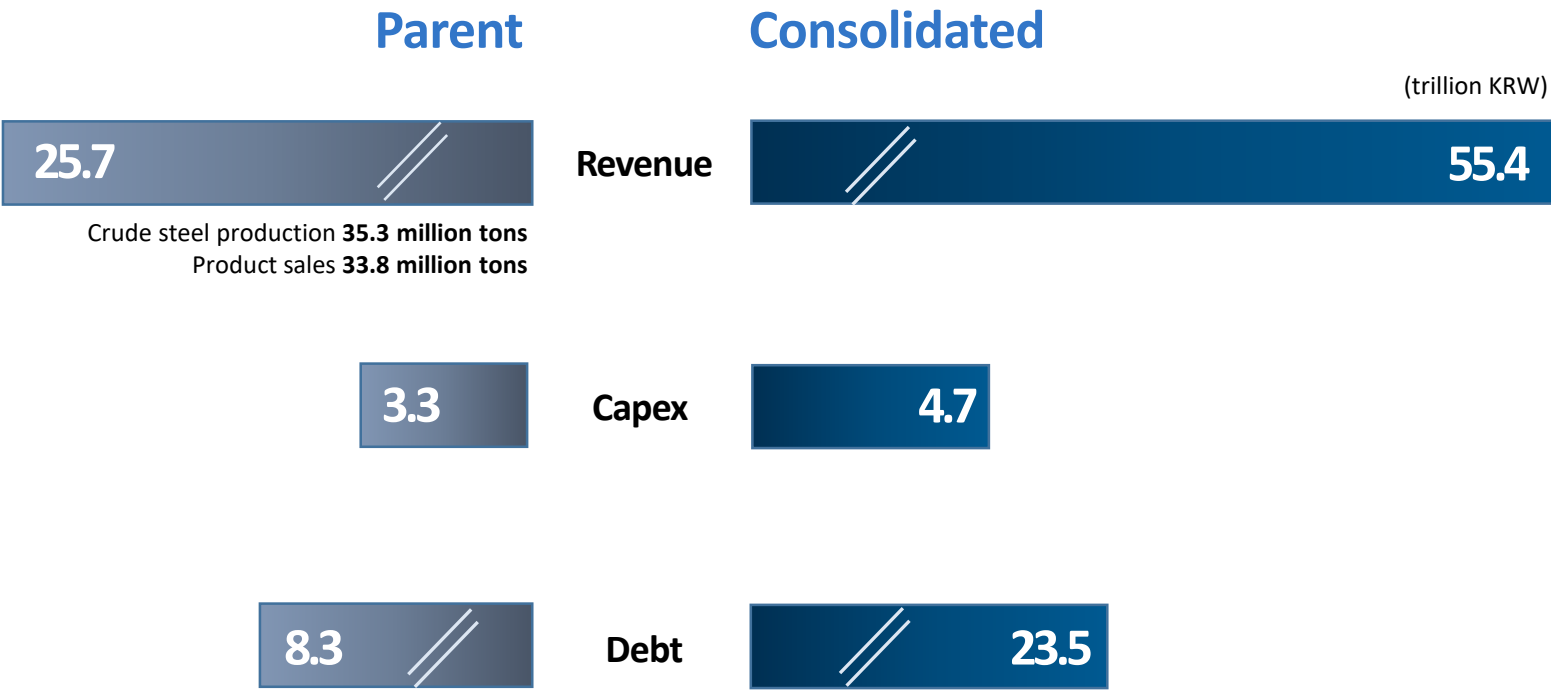
- **ESG Department is newly formed to strengthen the system for comprehensive management of ESG risks along with 「Corporate Citizenship Committee」**

- Monitor issues in ESG areas, disclose information on 'Corporate Citizenship Report', communicate with internal and external stakeholders

- **[2H20] Review various measures to better manage ESG risks on BOD level**

- Agenda on ESG strategy, policy, implementation plan and risk management are raised to BOD on a regular basis for in-depth discussion

# 2020 Business Outlook (Modified)



## ※ Appendix

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- Summarized Financial Statements
- Aggregated Earnings by Segment

# Summarized F/S\_Parent Income Statement

	'19.2Q	'20.1Q	'20.2Q	QoQ
<b>Crude Steel Production</b> (thousand tons)	9,444	9,066	<b>7,793</b>	-1,273
<b>Product Sales</b> (thousand tons)	8,746	8,620	<b>7,762</b>	-858
<b>STS</b>	448	469	<b>415</b>	-54
<b>Carbon Steel Sales Price</b> (thousand KRW)	735	692	<b>643</b>	-49
(billion KRW)				
<b>Revenue</b>	7,476	6,970	<b>5,885</b>	-1,085
<b>Cost of Goods Sold</b>	6,484	6,230	<b>5,743</b>	-487
<b>Gross Profit</b>	992	740	<b>142</b>	-598
<b>SG&amp;A</b>	268	282	<b>251</b>	-31
<b>Operating Profit</b>	724	458	<b>-109</b>	-567
<b>(Operating Margin)</b>	(9.7%)	(6.6%)	<b>(-1.8%)</b>	-8.4%p
<b>Non-Operating Profit</b>	21	159	<b>58</b>	-101
<b>Net Profit</b>	545	453	<b>7</b>	-446
<b>(Net Margin)</b>	(7.3%)	(6.5%)	<b>(0.1%)</b>	-6.4%p

# Summarized F/S\_Parent Balance Sheet

(billion KRW)				
	'19.2Q	'20.1Q	'20.2Q	QoQ
<b>Current Assets</b>	17,599	20,774	<b>20,017</b>	-758
<b>Cash Balance*</b>	7,110	11,723	<b>12,064</b>	+341
<b>Accounts Receivable</b>	4,281	3,680	<b>3,143</b>	-537
<b>Inventories</b>	5,385	4,768	<b>4,216</b>	-552
<b>Current Ratio</b>	566.7%	497.1%	<b>422.5%</b>	-74.6%p
<b>Non-Current Assets</b>	37,038	37,662	<b>37,603</b>	-59
<b>Other Long-term financial assets</b>	1,269	1,197	<b>1,177</b>	-21
<b>PP&amp;E</b>	19,321	20,182	<b>20,187</b>	+5
<b>Total Assets</b>	54,638	58,436	<b>57,620</b>	-816
<b>Liabilities</b>	8,245	12,886	<b>12,217</b>	-669
<b>Current Liabilities</b>	3,106	4,179	<b>4,738</b>	+559
<b>Non-Current Liabilities</b>	5,139	8,707	<b>7,480</b>	-1,228
<b>Interest-bearing Debt</b>	3,991	8,662	<b>8,562</b>	-100
<b>Liabilities Ratio</b>	17.8%	28.3%	<b>26.9%</b>	-1.4%p
<b>Equity</b>	46,393	45,550	<b>45,403</b>	-147

\* 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)				
	'19.2Q	'20.1Q	'20.2Q	QoQ
Revenue	16,321	14,546	13,722	-824
Gross Profit	1,614	1,310	734	-576
(Gross Margin)	(9.9%)	(9.0%)	(5.3%)	-3.7%p
SG&A	545	605	566	-39
Operating Profit	1,069	705	168	-537
(Operating Margin)	(6.5%)	(4.8%)	(1.2%)	-3.6%p
Non-Operating Profit	-96	-51	-1	+50
Share of Profit(Loss) of Equity-accounted Investees	75	32	-11	-43
Finance Income and Costs	-77	-26	-21	+5
Foreign Currency Transaction & Translation Gain(Loss)	-17	-168	49	+217
Net Profit	681	435	105	-330
(Net Margin)	(4.2%)	(3.0%)	(0.8%)	-2.2%p
Profit Attributable to Owners of the Controlling Company	612	395	40	-355



# Summarized F/S\_Consolidated Balance Sheet

(billion KRW)				
	'19.2Q	'20.1Q	'20.2Q	QoQ
<b>Current Assets</b>	34,058	37,813	<b>37,869</b>	+56
<b>Cash Balance*</b>	10,021	15,351	<b>16,913</b>	+1,562
<b>Accounts Receivable</b>	9,939	9,344	<b>8,562</b>	-782
<b>Inventories</b>	11,708	10,726	<b>9,744</b>	-982
<b>Current Ratio</b>	192.6%	206.8%	<b>205.6%</b>	-1.2%p
<b>Non-Current Assets</b>	44,933	44,448	<b>44,392</b>	-56
<b>Other Long-term financial assets</b>	1,717	1,604	<b>1,622</b>	+18
<b>PP&amp;E</b>	30,340	30,352	<b>30,131</b>	-221
<b>Total Assets</b>	78,991	82,261	<b>82,261</b>	-
<b>Liabilities</b>	31,117	34,846	<b>34,668</b>	-178
<b>Current Liabilities</b>	17,684	18,285	<b>18,415</b>	+130
<b>Non-Current Liabilities</b>	13,433	16,561	<b>16,253</b>	-308
<b>Interest-bearing Debt</b>	19,199	23,503	<b>24,238</b>	+735
<b>Liabilities Ratio</b>	65.0%	73.5%	<b>72.8%</b>	-0.7%p
<b>Equity</b>	47,874	47,415	<b>47,593</b>	+178
<b>Owners of the Controlling Company</b>	44,457	44,235	<b>44,331</b>	+96

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

# Aggregated Earnings by Segment

(billion KRW)

Segment	Revenue			Operating Profit			Net Profit		
	'19.2Q	'20.1Q	'20.2Q	'19.2Q	'20.1Q	'20.2Q	'19.2Q	'20.1Q	'20.2Q
Steel	12,509	11,075	9,788	805	383	-197	520	285	-148
Global&Infra	12,875	11,435	10,906	299	375	304	147	260	306
Trading	9,950	8,424	8,030	206	148	115	90	78	72
E & C	1,884	1,937	1,986	53	124	97	12	103	137
Energy	433	454	316	12	84	45	13	63	50
I C T	232	269	224	15	11	13	16	8	10
New Growth*	370	388	340	15	14	1	15	34	-3
Total	25,754	22,898	21,034	1,119	772	108	682	579	155