

Steel Business Outlook for 2H20

Strong demand for iron ore in China has led to the price exceeding US\$100/t. We believe iron ore price will be lower in 2H20 at about US\$90/t with Chinese demand weakening and increase of supply. As steel price negotiations reflect actual input cost burden from previous quarter and with the current quarter iron ore price lowering down, we expect our margin to improve in 2H20.

The domestic steel price in China is rising as well, reflecting the iron ore price hike. We have been negotiating with the distribution market and shipbuilding customer. We have already raised prices for products to the spot market, and it is our strategy to further increase the prices in the 2H20 given still high raw material input cost.

POSCO's profitability in 2H20 will largely improve compared with 2Q20. Especially in terms of production and sales volume, our guidance were raised as well.

Outlook on the Export Market

Export markets have been difficult given COVID-19 and lockdowns, which is why we are focused on the domestic market. However, we see global automakers' utilization rate has been rising since 2Q20 and we expect in 3Q20 utilization rate for automakers will rise by 10-15% compared with May and June as economies reopen. Especially in China, a 100%-utilization rate is expected in 2H20 which is better than expected. In line with the demand increase, we expect steel price will also rise as well.

On inventory, POSCO maintained similar level of finished product inventory in 2Q20 compared with 1Q20 as we have been responding to the market flexibly by decreasing production. Our overseas customers' inventory levels are also currently low due to lockdowns so we think inventory digestion will speed up in 2H20, and thus recovery in sales is expected for POSCO.

WTP Sales

Volume and the ratio of WTP products decreased in 2Q20 because of COVID-19, as auto steel accounts for the majority of our WTP product. Accordingly, profitability of WTP decreased as well. However, it is expected that global automaker customers will see utilization rate rising in the 2H20 to reach last year's level by end of 4Q20. In terms of our WTP sales mix, we expect to reach c80% of last year's usual mix in 4Q20, and as we approach November and December 2020 we hope to have recovered the volume and margin for WTP products.

Outlook on Iron Ore & Steel Price

Iron ore price fluctuated above US\$100/t in 2Q20 given supply disruptions in Brazil due to COVID-19 and strong demand from Chinese mills where the economy is reopening slightly faster than other countries. In 3Q20, we believe that supply situation will get better in Brazil and the demand for iron ore will decrease in China given seasonality and environmental regulations. Therefore we believe that the iron ore price will be around US\$90/t in 3Q20.

It is not expected that there will be major impact on our steel price negotiation for 2H20 even if iron ore price comes down to about US\$90/t as the price in 2Q20 was higher than expected.

Buyback

As of July 14th, we repurchased 8.6% of our Won1trn committed buyback. It may seem very slow but we will speed up the pace in 2H20 to complete the repurchase until April 2021. As we do not have any liquidity issue, we can keep our pledge to the market.

We do not have a concrete plan for cancellation of repurchased shares yet. When we finish our repurchase program, the ratio will become 13% of total issued shares combining our already existing treasury shares. After completing the buyback, we will review what to do with the shares among the various options including cancellations.

Steel Volume Outlook

POSCO's galvanized lines and CR mills were heavily affected due to the COVID-19 outbreak since 1Q20 given dramatic decline of the demand as customers shut down factories. This was reflected in our revised full-year guidance announced in April 2020. Also the restart of Gwangyang #3 blast furnace, which was under a revamp, had been postponed for about 45

days because of the pandemic. However, the external environment has been recovering faster than we had expected, and we restarted the furnace on July 10th. In terms of product mix, we believe that the demand for CR, CG and PO will recover stronger than we first thought. Our guidance for this year for volume is now 3-5% down YoY.

2Q20 Earnings

In terms of raw material input cost, Iron ore spot price was high in 2Q20 but this was offset by lower coking coal price. There is a lag of about 4-5 months for raw material prices to be reflected on our P&L. The current spot prices of raw materials will affect our earnings until 3Q20.

Behind the parent operating loss in 2Q20, there was sales mix worsened due to the decrease of auto steel volume and increase of HR and plate sales, which dragged our overall sales price down. Secondly, there was fixed cost burden in 2Q20 as the utilization rates of our downstream lines decreased. However, in July the utilization rate of CR, CG and PO lines reached 80%. Therefore, we expect better results from 3Q20 given better sales-mix and lower cost burden.

Dividends

Our dividend policy for many years has been long-term stable cash dividend. Early this year, we announced a new mid-term dividend policy to raise visibility and stability for our shareholders. Our 1Q20 dividend amount was in line with our new policy. For upcoming quarterly and annual dividends, we will not only consider the quarterly or annual earnings but also reflect shareholders' voice and we will try to reflect our long term shareholders' expectations.

We are currently reviewing on the dividend for 2Q20 considering various factors, and BOD will decide and the announcement will be made in early August. There is a possibility that the dividend amount may decrease compared with 1Q20 but it remains to be seen for the BOD discussion result.

Capacity Plans

We had #3 Blast Furnace revamped in Gwangyang, and it will not have a major impact on our crude steel production capacity. As our priority was to maximize production given the need for outside procuring of 1.5 million ton slabs annually. Expanded capacity from blast furnace revamp will allow us to optimize upstream operation. As a result, we can operate molten iron-

making process at a more optimal level through adjusting hot metal ratio without buying from outside.

Non-Steel Business / Lithium Business

In lithium, we will have two operation sites in Gwangyang and in Argentina. We are using hard rock mine lithium from Australia for lithium production in Gwangyang. In Argentina, we will use the materials from salt lake. Due to the COVID-19, we have seen 3 to 4 months delay in proceeding for both sites. In Gwangyang, the commercial plant was to start construction in 4Q20 or 1Q21 but it has been delayed, and currently we are doing technical verification of demo plant. For the 25K ton capacity of lithium production in Argentina, the demo plant has been completed but the technicians from POSCO could not enter the country because of the COVID-19 and it has been also delayed for about 4 months from initial plan to start building the commercial plant in 1Q20.

Our mid-to long-term secondary battery business masterplan suggests that POSCO's lithium business could be eventually transferred to POSCO Chemical for synergy among the POSCO Group's battery-related businesses although it can change depending on management environment.