POSCO
Investor Conference on POSCO's Transition to a Holding Company
Q&A Summary
Dec 10, 2021

Rationale to transition to a holding company

POSCO has engaged in efforts to promote both steel and non-steel new businesses under a steel-centered management system. As a result, neither have enjoyed the level or intensity of support and interest that were due.

By transitioning to a holding company, the steel business will be released from its need to engage in the management of the Group. Hence, the operating company will be able to focus exclusively on the business of steel and being an innovative eco-friendly steelmaker.

Additionally, by removing the limitations of a steel-centered management structure, new growth businesses will be offered the full latitude they deserve to develop expertise, acquire talent, and take advantage of the Group's management resources.

The discussion about a holding company structure is not new; it was previously discussed several times by the Board of Directors . The rapid changes in the business environment have prompted the Board to reach a broad consensus on the need to take steps this time to transition to the 'holding company structure.'

The transition will be implemented by way of a "vertical spin-off." We have studied the recent negative consequences of vertical spin-off events in the South Korean market. However, our research suggests that this adverse impact was the result of post-spinoff listing of the new operating company. Based on this observation, with the goal to protect our stock value, we have committed to keep our spinoff business unlisted. Therefore, the only entity that will be listed in the market is the holding company.

We did not entirely rule out equity spin-off from the outset; however, it failed to meet our standard of advanced governance because equity spinoff would require the spinoff company to list. In addition, to meet statutory requirements, because the surviving company must acquire 30% of the shares of the new company, equity spinoff could also be cost-prohibitive. Ultimately, vertical spinoff was assessed as the most appropriate means of transition to a holding company structure of governance.

Shareholder value enhancing programs
(e.g., dividend policy, share of treasury stocks, etc.)

POSCO's dividend payout policy has been announced for the period 2020 – 2022. Given that this transition will not greatly impact our balance sheet, we will continue to honor our commitment to dispense dividends from 30% of our consolidated net income. However, the Board of Directors will convene to discuss the dividend policy to take effect in 2023. We will share the outcome of the discussions once they become available.

On the topic of treasury stock, we remain open to options that will help to maximize our stock value. When deemed necessary, it may serve as an instrument to help make new investments or to build strategic partnerships. We do not rule out the possibility of treasury stock cancellation.

Financial & CAPEX forecast

Currently, the steel business comprises 50% of revenues and 80% of operating profits at POSCO. Because we forecast rapid growth in secondary battery materials and hydrogen businesses, by 2030 revenue ratio between steel and non-steel businesses is projected to be 40% and 60%, respectively. Ratio of operating margin for steel and non-steel businesses is expected to be 50% and 50%. Annual average CAPEX in the steel business is planned to be approximately *KRW* 4 trillion up to 2030.

Required financing instruments for the holding company's new businesses

Our primary means of financing is subsidiary dividends. Because the holding company's debt ratio will remain low, bank loans present another option.

Future portfolio management will result in restructuring of under-performing businesses, which could generate cash in-flow from divestments.

Our ultimate objective is to enhance the value of our shareholders. Throughout our investment decisions and CAPEX plans, we will make every effort to ensure that this goal is not compromised.

Potential to list unlisted subsidiaries

It is our firm belief that the advanced model of corporate governance suggests listing the holding company only. Listing both the holding company and its operating subsidiaries could create conflicts of interest between the shareholders of each listed company. Therefore, we have no plans to list currently unlisted subsidiaries .

As one evidence of this intent, the Articles of Incorporation (AOI) of the new company will not incorporate any clauses pertaining to third-party allotment and/or public offering.

Moreover, there are no plans to list our unlisted companies, such as POSCO E&C and POSCO Energy. Likewise, we do not intend to delist currently listed subsidiaries, such as POSCO International and POSCO Chemical. Any decision to list or delist will be made based on how it will align with our commitment to build an advanced model of Group governance.

Holding company royalty fees and rates

Brand fee constitutes trade between the holding company and the operating subsidiaries.

Once the holding company structure is set up, the brand fees and rates will have to be determined based on standards deemed reasonable by the market and by fair trade commission guidelines. To ensure we are in compliance, we will elicit advice from professional external services.

Plans for steel subsidiaries located overseas

Based on our investigation, under current laws and regulations, not many overseas steel subsidiaries can meet the requirements for a qualified spin-off. In the event that a qualified spin-off requirement cannot be met, transfer of any overseas subsidiary results in adverse tax implications (i.e., transfer gains). Consequently, we will not transfer overseas subsidiaries to the new steel operating company during this transition. However, we will seek ways to place the management of the overseas subsidiaries under the operating company. As a result, the overseas subsidiaries will be encouraged to cooperate to create business synergy under the new structure.

CAPEX plan and financial forecast of new businesses (lithium/nickel, hydrogen)

Lithium – Since 2018, we have invested *KRW* 400 billion to gain access to lithium raw materials by acquiring salt lakes and lithium mines. This year, the Board approved *KRW* 1.8 trillion for a lithium extraction plant that will have production capacity of 68K tons, comprised of 43K tons of ore and 25K tons of brine. In this lithium business, projected 2025 revenue is *KRW* 1.7 trillion.

Nickel – Investment is planned in 3 areas. First, *KRW* 230 billion is allocated to transform SNNC plants to produce battery materials. Second, *KRW* 300 billion will help to secure intermediate nickel materials from overseas mines. Finally, *KRW* 140 billion will be spent to produce nickel by recycling. By 2025, these investments are expected to generate revenues totaling *KRW* 1.2 trillion .

Hydrogen – By 2030, we aim to have production capacity and sales (captive sales included) totaling 500K tons. Staying on track, this capacity will generate *KRW* 2.3 trillion in revenues by 2030. Although operating margin of the hydrogen business will depend heavily on government policy and regulations, we are targeting 10%, which is equivalent to *KRW* 250 billion by 2030. This operating margin projection uses *KRW* 3,500 per kg as the standard cost estimate, which includes units produced overseas.

Contingency plan if the plan is rejected

POSCO management is actively communicating to shareholders that we will commit to achieving our Vision 2030 goals under the new holding company structure. At this point in time, we cannot respond to the potentiality of votes to reject the transition.

Restructuring plan including divestment

One of the most prominent objectives of the transition to a holding company structure is to better evaluate and manage our Group portfolio. By creating a professional organization at the holding company, POSCO will perform a thorough examination of past and future capital injections. Should we find that profitability and growth potential fail to meet our threshold, we will undertake bold restructuring..

Return on investment for new businesses

POSCO's new businesses, such as rechargeable battery materials and hydrogen, are not likely to generate quick return on capital invested. As business that require mid- to long-term development and cultivation, return on investment will be considered after 2030.

Management's view of market response and POSCO stock price

Despite historical earnings, POSCO's stock value is not aligned with its performance. In the management's view, this poor valuation is ascribable not to any dividend policy or shareholder payback program, but to low growth expectation.

Moreover, the world is witnessing various industries merging and business goals converging. In reality, POSCO does a lot more than manufacture steel; however, we continues to be perceived as a steel business. Hence, to address this misperception, our new identity should define POSCO as an 'eco-friendly materials producer.' We would like to be evaluated in the market under this new identity as a producer of secondary battery materials and hydrogen, in addition to a steelmaker.

Vertical spin-off case that has resulted in stock value hike

We have studied a wide variety of domestic spinoff cases. Most recently, a battery manufacturer underwent a vertical spin-off for the purpose of financing new investment. To do so, they listed the spinoff company, which resulted in depreciation of its stock value. The goal of another vertical spinoff case was to keep or to increase the shares owned by its major shareholder. In stark contrast, POSCO's goal is simple; we wish to establish an advanced model of governance structure that would allow management to better structure and manage its Group businesses. Therefore, having failed to identify a comparable model, it remains difficult to accurately project the impact the transition will have on the stock value.

While questions remain about whether the spinoff was undertaken with the goal to transform governance structure, a Korean company H did experience stock price hikes after the transition. The positive valuation was based on its growth potential. POSCO would also like to be fairly assessed by the market in each of its growth businesses, hydrogen, lithium and nickel; they each deserve to be recognized for their growth potential. Rather than arguing over which type of spinoff would impact stock values either positively or negatively, we are refining our long-term strategies on the best way to establish an advanced governance model and how to enhance shareholder value.

Additional plans to spin-off new businesses

We have already set up numerous subsidiaries in our effort to launch new businesses. For example, the subsidiary in Argentina has been set up to produce lithium brine, while POSCO Lithium Solution is dedicated to the lithium ore business. Should we identify needs to set up new subsidiaries, they will be determined after due consideration about what and when. In addition, a business management system will be put in place to evaluate the operating companies and to seek maximum synergy across various businesses.