

2018 3Q POSCO Earnings Release

Q&A Transcript

October 23, 2018

Chinese Steel - Winter Production Cut, POSCO's Strategy to Industry Change

Chinese government first announced to extend the winter curtailment to 6 months, but following announcement of relaxing the program was disappointing to the market. However, 4Q is traditionally a peak season when demand picks up and the production cut will happen anyways. Regarding 4Q steel price, while raw material prices are continuously strong, major steel consuming sectors are still sluggish in Korea. Although it would be difficult to say which sector will be stronger than others, we will flexibly respond to the market condition.

It is inevitable that we are affected by China as it is the nearest country to Korea while being globally the largest steel supplier and consuming country. It seems that China's target to close 150 million tons of effective steel capacity by 2020 could be reached earlier. This led to strong regional steel prices and created a positive sales environment. POSCO started to invest in developing high value-added steel, mainly auto sheets many years ago. As Chinese mills are equipped with highly advanced facilities, we strive to further develop giga steel, high Manganese steel and other premium products. Moreover, we will strengthen activities with large accounts by providing solutions to expand our domestic share.

Chinese Steel Price

Current Chinese price level should be compared historically. Compared with 300 USD range for HR price in 2014, current 500 USD is the highest ever. Chinese price is currently going

through a slight adjustment, but we see it as short term coming from the disappointment on loosened winter cut and inventory build-up.

Export Profitability

3Q average export price is 5-7% higher than domestic price. Considering the recent domestic end industries excluding shipbuilding sector, possibility of domestic price increase is limited while export price is on a continuous increase supported by positive global economy. For instance, POSCO's sales volume to China takes up 7% of total sales. However, we are not largely affected by current fluctuation of Chinese distribution price as 70% of our volume goes to automakers based on long-term contracts.

Our marketing strategy is focused on WP and WP+ products to reinforce profitability. Due to the EU safeguard quota, we maximized exports to the region this quarter and will try hard to secure profitability in 4Q.

CEO Strategy Announcement, Shareholder Return Policy

CEO put a great emphasis on Practicality, Action and Real Value while delivering his inauguration speech. Although his strategy announcement will be addressed to POSCO executives and employees not to public audience as he wished to make it a small event. He has been collecting around 100 innovation tasks ranging from business, society, organizational culture and people. Innovation tasks should include shareholder friendly policy through intensive discussions with BOD.

Recently, POSCO's share price has dropped even though our earnings have been improving. Employee stock purchase program is in progress. Outside directors will be more active to communicate with shareholders and, as part of such efforts, will meet shareholders face-to-face in November.

POSCO's dividend policy is long-term and stable cash payout. Since there is a continuous improvement on business performance including this quarter, we try to increase dividend as enhancing shareholder's trust is critical. The BOD is discussing the dividend increase actively.

Overseas Steel Business – Emerging Market, PT. KP

Performance from overseas steel in 2019 is expected to be similar level to the results in 2018. Recently due to the volatile exchange rate, some investors are concerned about the overseas subsidiaries in emerging markets. But most of the projects in emerging countries except Turkey are going well. The domestic market in Turkey can be hurt from the negative effect of exchange rate and interest rate rise, and we are making contingency plans even though the situation will not become worse as much as we worry about.

PT.KP is under construction of an HR mill, which is 1.5million ton capacity with its completion scheduled for 2H 2019. We expect to create a synergy effect from this mill next year. Also, we are under discussion for construction of a CR mill with JV partner and government, but it is currently at the planning stage and nothing is fixed yet.

Capex Plan

We understand that all of investors have expectations and concern at the same time on 45 trillion KRW capex. The principle of investment is that we only focus on the areas which we have competitiveness and capabilities. Since every investment is implemented after reviewing the business value, actual capex will be raised after 2021. Capex will be executed within the range of cash, cash equivalents and cash generation ability without borrowings. Therefore, our financial structure will not be deteriorated. Also, we have been continuously reviewing how we can increase shareholders' return. At this point, it is hard to guarantee the investment amounts in accuracy for the next 5 years, so we allocated some amount of capex plan for reserve. Most of all, through the Investment Deliberation Committee, each

investment proposal has to be approved by the Board of Directors before execution so that the feasibility is clearly verified. We have gone through a painful business restructuring period, and we can assure you that our future investments will be carried out only by strictly complying with the internal processes.

Overseas M&A

Arcelor-Mittal and other global steelmakers have announced M&A plans in the steel market. We consider such opportunities in countries where we have downstream mills such as North America, India, Southeast Asia and China as one of the ways to tackle the trade protectionism. We will announce it once we have more specific plans.

Coking Coal Price Outlook

In 4Q, North Goonyella hard coking coal mine of 4 million capacity in Australia has been halted by fire and there are also concerns over loading congestion. Supply is expected to be tight in East Australia for a while and 4Q HCC price is expected to hover around 190 USD. We forecast the 2019 HCC price would be around 180 USD showing a strong trend in 1Q and easing from 2Q.

New Growth Businesses

- Merger of POSCO Chemtech and POSCO ESM

POSCO Chemtech is producing anode material and POSCO ESM is a cathode producer engaged in secondary battery material business. They have similar needs for technology development and common customer base such as LG Chem and Samsung SDI. The merger is under review to enhance responsiveness to customers and competitiveness in business, but it is premature to forecast how much the company will grow in the future. We are trying to unify the secondary battery material business through the merger and we will find tangible results in 1H19.

- **New Growth Engine**

We expect that the LNG mid-stream area will create a synergy groupwide. Therefore, we try to expand the energy business and we established a Singapore LNG trading company in that context.

Accounting Inspection

In 2010, POSCO acquired a company for a business in Central and South America to pursue power generation construction. During the course, the construction suspended and the business got cancelled thereby experiencing severe deterioration of profitability. Accordingly, from 2013 to 2016, POSCO recognized 80 billion KRW as impairment loss and the independent auditor gave unqualified opinion on that. As such, we can assure you that we have dealt with this case in lawful manner and our precise explanation will dismiss the market concern over this issue.