2018 POSCO Earnings Release

Q&A Transcript

January 30, 2019

One-off Costs

For the year 2018, there were asset impairment losses on affiliate securities and PP&E, which were mostly recognized in 4Q. Impairment losses on securities are related with fair value evaluation, which will not create any cash inflow.

The largest size among PP&E impairment is SNG (Synthetic Natural Gas) facility. The business has been pursued since 2011, but profitability was not secured as LNG price has decreased and coal price has risen along with additional capex required. As a result of going concern valuation, 140 billion won operating loss on an annual basis was expected. We concluded to end the business in December 2018 and thereby impairment had to be reflected in 4Q.

Out of its book value of 1.2 trillion won, we recognized about 800 billion won loss on a consolidated basis. For the remaining 370 billion won, we evaluate that 200 billion won worth asset can be re-used in our steelworks in Gwangyang and 170 billion won worth is planned to be sold. We will have to split those assets for sale and in that case, further impairment from SNG would be less likely.

In 2019, restructuring can still be ongoing with businesses with low performance, but it is unlikely that we recognize another big size of one-off losses as we saw in 2018. We will actively communicate with investors on possible impairments beforehand if any.

1Q Steel Price Outlook

Steel price had plummeted since October last year, but has been on a recovery from about a month ago. It now shows to rebound as high as $20 starting about two weeks ago.

As steelmakers are facing cost pressure and the Chinese government recently announced expansionary policy, the market expects to see a rebound of prices after the Chinese New Year Festival. Considering all these circumstances, we will negotiate with our customers of different industries for price in 1Q.

Out basic direction is to keep the prices for the products that cannot respond to low grade products and has no replacement. For auto steel, we are almost finalizing the negotiation to remain the same price for the 1H. The situation is similar with home appliances manufacturers.

For shipbuilding, the status is slightly different as the shipbuilders are seeing better order-taking and the market is turning around. We expect that we can raise the plate price as we have been supplying the products without increasing the price and enduring losses to support the industry's improved competitiveness. We are planning to talk with the customers to raise the price considering the recent cost pressure as well.

Tariff Issue

Against the high tariff rate on our steel products to the U.S. market, the first trial is ongoing. Preliminary ruling stated significantly lower rate of AD/CVD on HR from 59% of last year to 9.4%. We will have to see the final ruling expected in June. We have HR quota of 360 thousand tons, all of which we could not sell last year. If the tariff rate is normalized we will have at least 200-300 thousand tons for possible sales. For other products such as CG, CR and plate, we are also cooperating with related companies to better respond to the tariff issue.

Stainless Steel Business – Competition with Qingshan

Qingshan Steel in Indonesia produces 2-3 million tons of stainless steel and carbon steel mixed in a flexible manner in the actual figure, and it announced further investment on carbon steel facility expansion. Its STS products are not high quality but low grade ones. In the short run, we will focus on the market for STS 400 series and high Cr content STS products used in auto emission parts, which we have strength to differentiate from Qingshan. Also, we released new low-cost based products to substitute Qingshan's low-price, low-grade ones and we are considering a plan to set up the low cost, innovative process against competitors to have a cost competitive edge.

Raw Materials – Iron Ore Price outlook

Iron ore price has surged in the wake of Brazil tailings dam collapse that has stopped production at Vale's Feijao iron ore mine. However, the size of the mine and the production volume are fairly small, and its iron ore has a low grade quality. POSCO has not purchased any volume from the mine so it has no direct impact on us. We might see a price hike in fine ore in the short term, but we expect no material impact on our average purchase price in the long term. As for the price negotiation with suppliers, the prices are set on the basis of the Platts Index since 2010 and the current $80 spot price would have little impact on the three-month average price for iron ore suppliers to hold a dominant position in the price negotiation.

Mid-term Business Plan

We plan to achieve 78 trillion consolidated revenue in 2021 increasing 13 trillion won from 65 trillion won in 2018. About 7 trillion will come from POSCO Daewoo specifically in trading and expanded new agro business. Also, our target is to increase 3 trillion won in energy segment, 1.5 trillion won in E&C and 2.2 trillion won in new growth business, mainly secondary battery material.

Capex

This year we plan 5.4 trillion won capex on a parent basis and 6.1 trillion won on a consolidated basis. In this, 1 trillion won reserve is included, which is not allocated to specific projects or areas as of yet.

For POSCO capex, as steel peers in China and Japan are strengthening efforts to save cost, we also have allocated on rationalization of steelmaking facility to reinforce our core competence and investment for cost-saving in relation to environment regulations. From 1.6 trillion won in 2018, about 1 trillion won is increased to 2.5 for this year's steel capex. In materials and energy, 1 trillion is set aside and for all other subsidiaries, 1.8 trillion won is planned particularly in Myanmar gasfield exploration, expansion of POSCO ESM cathode factory.

In 2018, capex was 2.7 trillion won on consolidated and 2.6 trillion won on parent level. Compared with our early year plan, 90% was executed for POSCO and 64% was spent on group level. It is not that some projects were rolled over to this year, but mainly because some investment plans were cancelled during the course of investment deliberation.

Dividend policy

Today we had discussions in BOD meeting on dividend for the period of 2018. POSCO maintains its long-term stable dividend policy as the basic direction, which will also remain the same in 2019. Although we keep such policy, we will not always stick to the same DPS every year. It could change in accordance with our performance. In 2018, consolidated operating profit recorded 5.5 trillion won and this level was seen in 2010 and 2011 when the annual dividend was 10,000 won per share. Based on this, we resolved today on the DPS of 10,000 won for 2018. This year we expect that operating profit will be lower year-on-year, but net profit will improve. Although steel operating profit will slightly decrease, we will try our best to better perform in non-steel businesses so we can keep the same dividend this year. As of now, the management or the Board have not discussed on whether to buy back or cancel treasure shares.

Secondary Battery Material Business

POSCO Group will operate anode and cathode businesses through POSCO Chemtech after merger with POSCO ESM in April this year. The revenue for anode was 170 billion won in 2018 and is expected to double from last year as POSCO Chemtech is aggressively expanding capacity of anode and cathode businesses. POSCO operates lithium business directly through PosLX in Gwangyang. The revenue was 7.5 billion won in 2018 and is expected to be doubled to 15 billion won in 2019 by improving productivity and procuring more raw materials.

Construction of 40,000 ton capacity of PosLX will be commenced in the Yulchon industrial complex in Gwangyang this year once we attain the BOD approval. We expect sales to occur as the construction is completed in 2H 2020 and 600 billion won of revenue in 2021. Also, POSCO has a JV with Chinese company which the

5,000 ton capacity cathode facility are under construction in the target of 100 billion revenue in 2020.

2019 Non-Steel Business Plan

We're changing our trading business model to investment-connected trading model. By making business model such as joint venture with strategic partners, we will expand sales and improve profitability.

In E&C, we are trying to differentiate ourselves from peer companies by providing smart construction package. Also, to increase overseas orders we will focus on regional/product specific strategy.

For energy business, we are reviewing reorganization of the segment to increase the synergy between LNG terminal and off-gas power generation businesses. We will communicate with investors once the reorganization plan becomes concrete.

Energy Business – Fuel Cell & Coal-fired Power Plant

Fuel cell business has been chronically making losses so we're in the process of restructuring. As a result, we expect to see improved profitability from 2019. Also, we have been trying to amend LTSA (Long Term Service Agreement) conditions with FCE, our U.S. partner holding original technology, to minimize loss size.

POSCO Energy received an approval for construction of Samcheok coal-fired power plant from the Korean government in January, 2018. In June, stock trading agreement and a financial agreement were concluded.

Subsidiary facility construction started in the third quarter of last year and the main construction is scheduled to begin in August this year. We expect to receive environmental effects evaluation result earlier than the original schedule. If so, we can start construction earlier than August. The time of completion is uncertain, but we expect it to be around June 2024.

Hydrogen Fuel Cell Vehicle

There are many debates on hydrogen fuel cell car whether the era will come soon or how it will compete with electric vehicle. POSCO started earlier to develop technology of electric vehicle battery materials as we considered the EV era is coming faster. This year we newly formed a team dedicated to EV industry to cooperate more closely with electric car manufacturers.