1. Introduction

Business overview

POSCO (formerly Pohang Iron and Steel Company) is a multinational steel-making company headquartered in Pohang, South Korea. It had an output of 42 million tonnes of crude steel in 2015, making it the world's fourth-largest steelmaker by this measure. In 2010, it was the world's largest steel manufacturing company by market value. Also, in 2012, it was named as the 146th world's largest corporations by the Fortune global 500.

POSCO currently operates two integrated steel mills in South Korea, in Pohang and Gwangyang. In addition, POSCO operates a joint venture with U.S. Steel, USS-POSCO, which is located in Pittsburg, California, United States.

POSCO’s sustainability vision and policy

POSCO defines sustainability to be achieving economic performance based on environmental and social responsibility. POSCO's sustainability policy to meet this goal is to ensure responsible management based on trust with the stakeholders and providing sustainable solutions for the customers and society.

POSCO strives to enhance customer value through product development and continuous innovation. In 2018, POSCO declared the start of solution marketing that aims to foster POSCO's fundamental steel competitiveness. In 2019, we will continue our efforts to secure a global competitive edge and grow together with our customers. To this end, we will achieve two goals - increased revenue and enhanced competitiveness - by developing world premium products that brings high added value to our customers and advanced solution marketing. In addition, we will continue our efforts to develop eco-friendly and high-energy efficiency technologies and products that will contribute to a global sustainable development.

POSCO strictly adheres to code of conduct, safety and health policies and human rights policies, and tries to ensure that these regulations are compatible with global standards. As such, POSCO recognizes and supports internationally accepted sustainability management standards such as the UN Global Compact, OECD Guidelines for Multinational Enterprises and ISO 26000. In addition, POSCO prohibit child labour and forced labour both in domestic and overseas business sites, and support human rights related international regulations such as the Universal Declaration of Human Rights and United Nations Guiding Principles on Business and Human Rights.
Environmental Management Vision and Strategy

POSCO’s Voluntary GHG Reduction Target by 2020

POSCO declared its GHG Reduction Target to be achieved by 2020 at the 7th Green Growth Committee meeting chaired by the President of Korea in February 2010. In this regard, POSCO intends to reduce CO2 emissions per ton of steel in our steelworks to 2.00 t-CO2/t-S by 2020, a 9% decrease from the average level between 2007 and 2009 (2.20 t-CO2/ t-S).

To achieve the goal, POSCO is focusing on decreasing coal consumption, improving energy efficiency, and developing innovative CO2-reducing technologies. Other activities for reducing social GHG emissions include the development and distribution of high-strength automotive steel sheet improving car’s mileage, high-quality electrical steel increasing energy efficiency of motors or transformers, and granulated blast furnace slag to be used for eco-friendly cement.
2. Framework concept

This bespoke POSCO Sustainable Financing Framework (“SFF” or the “Framework”) has been developed to demonstrate how the Group and its other entities intend to enter into Sustainable Financing Transactions (“SFT”) to fund projects that will deliver environmental and social benefits to support POSCO’s business strategy and vision.

Sustainable Financing Transactions will include bonds, loans and other financing structures tailored to apply Eligible Projects as defined in this Framework.

With respect to bonds, bonds issued under SFF will be in alignment with the Green Bond Principles\(^1\) (GBP 2018), Social Bond Principles (SBP 2018), and Sustainability Bond Guidelines (SBG 2018) or as they may be subsequently amended.

With respect to loans, loans issued under SFF will be in alignment with the Green Loan Principles\(^2\) (GLP 2018) or as they may be subsequently amended.

Other forms of financing may conform to other sustainable or green finance principles as may have been established at the time of such financing transaction being undertaken.

SFT may be done in any currency or tenor and with other terms and conditions including covenants, to reflect the financing strategy and plan of POSCO as well as the outcome of the commercial discussions between the Issuer/Borrower and Manager/Arranger/Lender.

3. POSCO Sustainable Financing Framework

For each SFT, POSCO management asserts that it will adopt the following 4 pillars as described in GBP, SBP, SBG 2018 and GLP 2018:

I. Use of Proceeds
II. Project Evaluation and Selection
III. Management of Proceeds, and
IV. Reporting

I. Use of Proceeds

An amount equal to the net proceeds of each SFT (or its equivalent in other currencies) will be allocated to the financing or the re-financing of “Eligible Projects” that provide clear

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environmental sustainability and climate change benefits as well as social impact. This includes the projects that POSCO is currently engaged as well as any future projects it may develop or be engaged, except Exclusions as defined in Section 3.I.3.

Eligible projects include new projects, and refinancing of existing projects which investments have been started within 18 months prior to the date of issuance of the SFT.

The proceeds of a Green Bond/Loan and/or a Social Bond/Loan issued under the Framework will be allocated to projects that fall under the Green Eligible Categories set forth in Section 3.I.1 below or the Social Eligible Categories set forth in Section 3.I.2 below, respectively, while the proceeds of a Sustainability Bond/Loan will be allocated to a combination of Green and Social Eligible Categories (the “Eligible Use of Proceeds”)

The Eligible Projects means projects that comprise financing which fall within the categories below, which are or have been originated by the various business units of POSCO.

1) **Green Eligible Categories**

<table>
<thead>
<tr>
<th>Eligible Projects for POSCO</th>
<th>Alignment with Green Bond Principles (GBP2018)</th>
<th>Description and Examples</th>
<th>Alignment with the UN SDGs³</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electric Vehicle battery</td>
<td>Clean transportation</td>
<td>• Production of materials and components to be used for Electric Vehicle battery:  - Lithium Hydroxide  - Lithium Carbonate  • Such batteries are expected to be used in Electric Vehicles and energy storage</td>
<td>SDG 7.1: By 2030, ensure universal access to affordable, reliable and modern energy services  SDG 9.4: By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities</td>
</tr>
</tbody>
</table>

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³ UN Sustainable Development Goals - https://sustainabledevelopment.un.org/sdgs
| Renewable energy | Renewable energy | - Development, deployment, and generation of energy from renewable sources including the below and the ancillary infrastructure including but not limited to development of land, transmission lines and substations for each projects:  
- Wind (onshore and offshore)  
- Solar (including floating solar power plant)  
- Tidal  
- Hydro | SDG 7.2: By 2030, increase substantially the share of renewable energy in the global energy mix |

2) **Social Eligible Categories**

<table>
<thead>
<tr>
<th>Eligible Projects for POSCO</th>
<th>Alignment with Social Bond Principles (SBP2018)</th>
<th>Description and Examples</th>
<th>Alignment with the UN SDGs⁴</th>
</tr>
</thead>
</table>
| Support to Underprivileged  | Socioeconomic advancement and empowerment     | Training or employment of underprivileged group:  
- POSCO HUMANS which hired underprivileged group (disabled, elderly, low income) for their employees  
- It was awarded ‘Excellence for employment of the disabled’ by Korea Employment Agency for the Disabled in 2016, and President’s Commendation for employment generation in December 2018 | SDG 2.1: By 2030, end hunger and ensure access by all people, in particular the poor and people in vulnerable situations, including infants, to safe, nutritious and sufficient food all year round  
SDG 4.6: By 2030, ensure that all youth and a substantial proportion of adults, both men and women, achieve literacy and numeracy |

| Support to SME’s growth    | SME financing and microfinance                | Targeted SMEs which meet the following requirements:  
- Categorized as an SME under the Enforcement Decree of The Framework | SDG 8.3: Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, |

⁴ UN Sustainable Development Goals - https://sustainabledevelopment.un.org/sdgs
| Venture Investment & Incubation | Employment generation | Act on Small and Medium Enterprises (see Appendix III for more information)  
- Less than 20 employees  
Examples:  
- Support R&D expenses of SMEs  
- Cultivation of SMEs’ sales channels i.e. providing workshop, training and consulting  
- POSCO shares its patents to boost SME’s technological competitiveness  
- Operating funds to lend at low-interest to SMEs in collaboration with banks (e.g. Co-prosperity Special Fund, Partner Company Support Fund)  
- Operating a recruitment center for SMEs. It helps POSCO's suppliers find talents and contributes to solving the youth unemployment issue  
Creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services  
| SDG 8.6: By 2020, substantially reduce the proportion of youth not in employment, education or training  
|  
| Venture Investment & Incubation | Employment generation | Cultivation of eligible venture and start-up companies to enable their owners to enjoy decent work and economic growth. Eligible venture and start-up companies need to meet the following requirements  
- Recognized as venture as per the Act on Special Measures for the Promotion of Venture Business\(^5\); or  
- Less than 5 years since establishment  
Examples:  
- Investment to venture, start-ups  
- Runs Idea Market Place (IMP) programme to foster creativity and innovation  
|  
3) **Exclusions**

The following industries are excluded from consideration for eligibility ("Exclusions"):  

- Luxury sectors (precious metals wholesale or brokerage, precious minerals wholesale or brokerage, artworks and antiques wholesale or brokerage);  
- Child labour;  
- Adult entertainment;  
- Weapon;  
- Alcohol;  
- Tobacco;  
- Fossil fuel;  
- Nuclear;  
- Large-scale hydro-power projects with a generating capacity of over 20 megawatts; and  
- Biomass/feedstock that  
  - Will be derived from sources that compete with food production  
  - Will be grown in areas with currently or previously high in biodiversity  
  - Will decrease carbon pools in soil  
  - In addition, for facilities producing electricity from biofuel/feedstock, GHG emissions must be < 100gCO2e/kWh

**II. Project Evaluation and Selection**

POSCO has established a Sustainable Financing Working Group ("SFWG") with responsibility for governing and implementing the SFF.

SFWG will be made up of leaders of the following departments  
- Finance  
- Corporate Sustainability  
- Operation  
- Audit

Respective Project Team will identify potential Eligible Projects based on the eligibility criteria outlined in the SFF’s Use of Proceeds section.
Potential Eligible Projects will be submitted to the SFWG for review and confirmation that they qualify as Eligible Projects based on consideration of:

- Description of the project and the engineering approach setting out the environmental benefits to be obtained versus alternative approaches
- Preliminary or final certificates received in respect of compliance with relevant standards

If such project is considered as an Eligible Project by the SFWG in accordance with SFF, it may be earmarked as the use of proceeds.

The SFWG will annually review the allocation of the SFT proceeds and to facilitate ongoing reporting

### III. Management of Proceeds

The proceeds of each SFT will be deposited in the general funding accounts and to be earmarked to Eligible Projects.

POSCO will establish a Sustainable Financing Register (the “Register”) to record the allocations and track the use of SFT proceeds. POSCO will maintain the Register to keep track of the use of proceeds for each SFT. The Register will contain the following information including:

1. **Type of Funding Transaction**: key information including, issuer/borrower entity, transaction date, tranche(s) information, principal amount of proceeds, repayment or amortisation profile, maturity date, and interest or coupon (and in the case of bonds, the ISIN number).

2. **Allocation of Use of Proceeds**: Information including:
   - Name and description of Eligible Projects to which the proceeds of the SFT have been allocated in accordance with this Framework.
   - Amount of SFT proceeds allocated to each project.
   - The remaining balance of unallocated proceeds yet to be earmarked.
   - Other relevant information such as information of temporary investment for unallocated proceeds
Any balance of issuance proceeds which are not yet allocated to Eligible Green/Social Projects will be held in accordance with POSCO’s general liquidity management policy. The unallocated proceeds can be invested domestically and internationally in money market instruments with satisfactory credit ratings and market liquidity until they are allocated to Eligible Use of Proceeds.

**IV. Reporting**

POSCO will publish a Sustainable Financing Report on an annual basis on its website at http://www.posco.co.kr/homepage/docs/eng6/sp/invest/archive/s91b6010070l.jsp. The Sustainable Financing Report will contain information on allocation and impacts:

1. **Allocation Reporting**

POSCO will provide below information for the net proceeds of the all SFTs during the period:

- The aggregate amount allocated to various Eligible Projects
- The remaining balance of funds which have not yet been allocated and type of temporary investment
- Examples of Eligible Projects (subject to confidentiality disclosures)

2. **Impact Reporting**

Where possible, POSCO will report on the environmental and social (where relevant) impacts resulting from the Eligible Assets and Projects.

Subject to the nature of Eligible Assets and Projects and availability of information, POSCO aims to include, but not limited to, the following Impact Indicators

<table>
<thead>
<tr>
<th>Eligible Green Project Categories</th>
<th>Impact Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electric Vehicle battery</td>
<td>• Case study or sales volume of eligible projects to electric vehicles battery producers</td>
</tr>
</tbody>
</table>
| Renewable energy                | • Renewable energy generation (MWh)  
                                 | • CO₂ (or other GHG) emissions avoided / reduced (tonnes of CO₂e) |
The Sustainable Financing Report will be publicly available via annual updates on POSCO’s website.

POSCO may also make disclosure through other channels where feasible, such as annual reports and corporate social responsibility reports, which will also be published on the company website.

**External Review**

POSCO obtained an external review of this framework from an independent party, Sustainalytics in the form of a Second Party Opinion on the Framework, and to confirm alignment with the GBP, SBP, SBG and/or the GLP, as applicable.

Such Second Party Opinion will be made publicly available on POSCO’s website at http://www.posco.co.kr/homepage/docs/eng6/jsp/invest/archive/s91b6010070l.jsp

<table>
<thead>
<tr>
<th>Eligible Social Project Categories</th>
<th>Impact Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Impact</td>
<td>• Number of corporations financed by Eligible Use of Proceeds</td>
</tr>
<tr>
<td></td>
<td>• Number of jobs created</td>
</tr>
<tr>
<td></td>
<td>• Number and type of disadvantaged communities helped</td>
</tr>
</tbody>
</table>
Appendix I: Definition of Small and Medium Enterprises

Under the Enforcement Decree of The Framework Act on Small and Medium Enterprises⁶, a small and medium enterprise shall be a business entity that meets all the standards set forth in the following subparagraphs:

- The main type of business in which the business entity is engaged and its average sales or annual sales (hereinafter “average sales, etc.”) shall meet the standards set forth in attached Table 1

- A corporation whose total assets are less than 500 billion won

- A business entity whose actual separation of its management and ownership does not fall under any of the following:
  - A company that belongs to a conglomerate subject to restrictions on mutual investment, etc. under Article 14 (1) of the Monopoly Regulation and Fair Trade Act (hereafter “conglomerate subject to restrictions on mutual investment, etc.” in this subparagraph) or a company notified as a company incorporated as an affiliate into a conglomerate subject to restrictions on mutual investment, etc. pursuant to Article 14-3 of the same Act
  - A corporation whose total assets are at least 500 billion won (including a foreign corporation, with the exception of a non-profit corporation and the one falling under any of the subparagraphs in Article 3-2 (3)) which is the largest shareholder, directly or indirectly owning 30 percent or more of the total outstanding stocks, etc. The largest shareholder referred to in such cases means a corporation or an individual owning the largest share of the relevant company independently or jointly with any of the following, and Article 2 (2) of the Enforcement Decree of the Adjustment of International Taxes Act shall apply mutatis mutandis to the calculation of the ratio of indirectly owned outstanding stocks, etc.:
    - If the shareholder is a corporation: Executive officers of the corporation;
    - If the shareholder is an individual who does not fall under (i): Relatives by blood of such individual
  - In the case of a corporation belonging to a related company, a corporation whose average sales, etc. calculated according to Article 7-4 does not satisfy the standards under attached Table 1

A company which is excluded from the scope of a conglomerate under the control of the same person pursuant to Article 3-2 (2) 4 of the Enforcement Decree of the Monopoly Regulation and Fair Trade Act and no more belongs to a conglomerate subject to restrictions on mutual investment, etc., and for which three years have passed from the date it meets the requirements under Article 3 of the same Enforcement Decree