[2016 1Q Q&A]

Q. POSCO has recognized heavy one-off losses in 2015. Do you expect any additional one-off losses this year? (Including Roy Hill)

A. Due to the one-off issues, such as valuation on the mining assets, the company recorded consolidated net loss in 2015. As of 1Q 2016, we are not expecting big-time one-off losses. In parent basis, the company recognized 30 billion KRW forex-related losses, due to the yen-denominated debt, impact by the strong yen. Considering non-operating loss being 136 billion KRW while operating profit was 582 billion KRW, on parent basis, the impact of one-off loss decreased than 4Q.
In consolidated basis, we reviewed value in use of POSCO Plantec, which was delisted from the stock market in April, and recognized 40 billion of impairment losses.

Considering recent uptrend in raw materials and the fact that the company conducted full valuation test on raw material mines in 2015, we do not expect additional loss from mining assets in 2016. However in 2Q, we would have to recognize valuation loss from cross-holding securities, such as NSSMC, however the impact would be marginal. As such, possible one-off losses for this year would mostly be forex-related.

Q. Please provide us with more detail on the cost-cutting efforts conducted during 1Q.

A. POSCO has set to cut the fixed-cost reduction of 1 trillion KRW during 2015~2016. In parent basis, POSCO has target to reduce 500 billion KRW this year. Cost reduction will mostly come from materials, maintenance, and expense costs. Up to this point, the process is going as scheduled.

Q. Up to recent April, Chinese domestic steel price has increased by U$100/ton. Does the company see this trend to be sustainable throughout the year?

A. Market outlook for 2H 2016 is everyone's concern. Recent price increase is based on three major factors. First, as the steel price has plummeted during 2H 2015, to an unreasonable level below the cash cost, recent hike was a base-effect. Secondly, as post-Lunar New Years is considered as the peak-season, restocking demand has pushed the price. Also as anticipation rose on the capacity cut from China, such as strong tone for restructuring from Chinese government and Tangshan's gardening exhibition event.

However, we have to note that the overcapacity still exists in the market. Even so, we do not expect the price to fall back again on the 4Q15 level. If the restructuring from China takes progress and Chinese demand sustains, we believe current uptrend is sustainable.

Q. If the recent market rebound continues, does the company see annual outlook for overseas steel affiliates' utilization rate and operating results to improve?

A. Indonesian integrated mill has recorded heavy operating loss last year, as its product mix was centered to slab and plate. However, as global steel price picked up, 1Q operating profit increased from the previous quarter. While plate faces more oversupply in the region, slab will more easily benefit from the market upturn and could reach breakeven point by June. Overall, 2H results will be improved.

We expect CSP to start operation from June. However, as the utilization rate is low due to initial operating stage, we expect inevitable losses this year, despite recent price increase in the region.

Q. Does the company have a roadmap for price increase in 2Q, especially considering recent HR/CR price hike?

A. POSCO's product mix is not entirely affected by commodity price trend. Monthly-contract volume is more fluctuated by market trend, whereas major demand industries, which price contract period are more than a quarter, do not receive immediate impact. Monthly-contract volume is between 10~15% of total product mix. Although we believe the HR/CR commodity price could go up in April by 50,000KRW/ton compared to January, the long-term contract price is fixed as of now. Shipbuilders are asking for price cuts as they recorded extreme losses in the previous year.

When we negotiate the long-term price with customers, multiple factors are applied, such as raw material price trend, Chinese market situation, and customer's operating performance. It explains why the recent price increase is not immediately applied in our ASP. However, as major contracts are in long-term basis, POSCO benefits in terms of stable pricing.

Q. In consolidated basis, operating results of trading and energy segments improved, whereas E&C segment worsened. Please elaborate in detail.

A. Trading sector, largely POSCO Daewoo, has recognized provisions for bad debts regarding loss-making projects in 2015, but excluded from 1Q. As for Myanmar gasfield, despite the oil price decline, production level went up and recorded better result than expected.

Even though the energy market still faces oversupply, Energy sector result improved from 4Q. The factors were the capacity payment (CP) increase during the winter season and decreased sales of fuel cell, bringing down the related losses accordingly. We are reviewing all options to improve fuel cell business. Until then, we plan to be cautious in expanding sales.

E&C sector performance weakened as delayed construction of Brazil CSP has increased estimated cost.

Q. Selling and administrative expenses has decreased by 220 billion KRW, from the previous quarter. What factor contributed to the decrease?

A. At the end of 2015, we had set allowance for bad debts, which did not occur in 1Q, such as provision of POSCO Daewoo's Account Receivables in 4Q and POSCO E&C's provision on Asan housing projects. Moreover, as export portion slightly declined, the logistics cost fell.

Q. As Indonesian mill is close to facing capital impairment, does POSCO have any plan to raise capital to the mill?

A. Taking recent global price uptrend into account, capital impairment for Indonesian mill would not likely to happen within this year. Currently, we are not considering the option of capital increase.

Q. Please breakdown how 1Q price moved by domestic/overseas sales and outlook for 2Q.

A. 1Q domestic price level has been flat or slightly declined, whereas export price, which is dollar-terms, increased as USD/KRW exchange rate dropped. Also pricing towards overseas downstream went up, adopting the exchange rate in advance.
However, as for contract-pricing customers, such as automakers, we lowered the

price.
As for 2Q outlook, we forecast domestic pricing to be similar to that of 1Q, but monthly-contract volumes could see price increase by 5~70,000 KRW/ton. Export pricing could go up by U$30~50/ton from 1Q, however, we would have to monitor the April exchange rate trend as recently Won is getting stronger to the dollar.

Q. How do you forecast the iron ore price for 2016?

A. Recently iron ore price has increased to the level of U$60/ton, however, the company sees current uptrend to be temporary. We see the oversupply in iron ore to continue this year, as China's iron ore demand is to decrease by 20 million tons, while major miners continue the current production level of 10.9 billion tons, up by 25 million tons, year-on-year. So the 2H iron ore price is expected to be around U$48~55/ton.

Q. As the company described, under tough pricing situation regarding long-term contracts, how is the price negotiation going with major demand industries?

A. As for automakers, we cut the price by 60,000~80,000 KRW/ton, early this year. Pricing with home appliance is mixed, as contract terms are different by customers. Shipbuilders are asking for price cuts, under difficult market situations. Regarding negotiations which are being delayed, we expect to reach agreement shortly as the gap between commodity price and high-end product price is shortened. Distribution pricing could see upside by 50,000~100,000 KRW/ton by 2Q.

Q. Does the company plan to integrate materials business to increase management efficiency?

A. We had reviewed the possibility of combining materials business, related to secondary batteries, such as POSCO Chemtech (anode) and ESM (cathode). Considering the distance of each subsidiaries and too-early a market stage to increase economy of scale, the integration will not take place in short period of time.

Q. Could you explain which factor contributes to increase in consolidated revenue, when parent revenue is expected to decline this year?

A. Consolidated revenue increase comes largely from strengthened steel trading of POSCO Daewoo and increased sales volume of overseas steel subsidiaries.

Q. Brazil steel project, CSP, has only 75 billion KRW left in book value. How do you see the project and its profitability?

A. In 2015, we had recognized huge sum of equity-based valuation losses in CSP as Brazilian real plunged. However in 1Q, as dollar weakened, we had recognized equity gain of 51 billion KRW from CSP.
Such gains and losses, were valuation loss, however, it is inevitable to realize net loss from initial production stage. Yet again, POSCO only takes 20% in stakes and the impact will be marginal.

Q. As the company announced to initiate quarterly dividend, would there be any changes in the dividend policy from current DPS policy? Would it be fair to expect the level of the previous year of 8,000 KRW/share?

A. The company introduced quarterly dividend policy in Articles of Incorporation in the General Shareholders' Meeting. As the 1Q closing period had already passed, details of the quarterly dividend will be decided at the Board of Directors meeting in May.

If we only take the recent market trend and flat earnings from last year, we could expect the dividend level of last year. However, we also have to consider factors, such as market sustainability, subsidiaries performance level, potential cost from intensive restructuring, and need to secure cash for future growth.

There are some talks in the board regarding the next stage, when restructuring completes. When we complete the restructuring by next year, we would have to find source to invest in future growth. In that perspective, there are some ideas that we may have to lower the dividend to reserve cash. However, nothing has been decided yet and we will take all the ideas into consideration and finalize at the BOD meeting in May.