[2016 2Q Q&A Transcript]

Q. Should the market expect additional cost from E&C division, as CSP start commercial production from September? What is the 2H16 outlook for E&C division?

A. We have applied most of the possible additional cost of E&C Brazil, regarding CSP construction. Although we do not expect additional cost to occur in 2H16, there are some concerns that there could be some discord when discussing future cost with related parties. Even so, however, the amount could be close to none or far less than that of 1H16.

Q. Update us on the price negotiation trend with demand industries. Especially, while general steel market sentiment seemed to pick up, whereas plate market is still under pressure. What is company's view on plate products?

A. As China's distribution price turned upward and export price offers in domestic market have increased as well, the company is trying to apply the upside to price negotiation for 2H16. Major demand industries up for 2Q negotiations are automakers and shipbuilders. As automakers are facing union strikes, the negotiation could be delayed but slight increase in price could be possible.

As for plate products, the sales are largely related to shipbuilding industries, so the volume towards shipbuilders is to decrease from next year. Volume for 2015 is quite stable as construction still continues this year. In the meantime, POSCO will continue to focus on World Premium products towards high-end ships and expand plate supply to other than shipbuilders, such as machinery and structural steel to the extent of market recovery.

Q. As the company announced to embark on quarterly dividend policy, can you give us any guidance on the total and quarterly amount of the dividend that the market should expect?

A. The concrete direction for dividend will be decided at Board of Directors meeting in early August. Although the general steel market is still yet to see full recovery, the company will take account on better-than-expected 1H16 performance result, considering dividend yield and payout ratio. We will apply our improved performance and try to meet the level of dividend that will not disappoint our shareholders.

Q. What is the progress regarding overseas projects, such as PKP steel mill project in Iran and automobile production line with Saudi Arabia and POSCO-Daewoo?

A. Although specific details on building FINEX with PKP of Iran have not been finalized, after the president visited Iran, we had signed MOU on discussing building FINEX in Iran. From June, Iran's state-owned engineering company is reviewing feasibility studies and expected to conclude by September. We would know the details of the project by then.

Regarding Daewoo's project with Saudi Arabia, there has been shift in high-ranking officials in the counterparty, so the project is going through the feasibility studies again. We are willing go through possible domestic procedures in the meantime, however, the feasibility study covers sales projections after the construction, so we expect it to take some time, which we expect to be around end of this year. By then, we would know whether the project would halt, amended, or continued.

Q. When does CSP expect to start commercial production? What is the expected profitability, considering current price level of raw materials and product price?

A. We expect to see first slab product to come out from CSP by August. This year, POSCO's off-take volume is 280 thousand tons and its customers are already fixed. The production is expected to be stabilized soon and since POSCO only take up 20% in the project, we are not responsible for profitability projections. However, based on CSP's projections, although this year is expected to see loss, as its first year of operation, it would reach breakeven point by 2017 and turn profit from 2018.

Q. World Premium product has steadily increased to 45.2% this year. What is the operating profit contribution from WP product to total operating profit? How strong is the lock-in effect of WP product to customers?

A. From 2015, POSCO has maintained operating profit margin of World Premium products around double digit. Average products being relatively sensitive to market situations and impact from Chinese commercial product price, it has been volatile. In difficult times, WP product tend to contribute over 100% of total operating profit, while some average products recorded losses.

As of 2016, the uptrend in commercial product price has increased the operating margin of average products as well.

Regarding lock-in effect, it is quite strong. World Premium product category is consist of World First (which POSCO solely produce), World Best (which only global 3 steelmakers can produce), and World Most (which has highest profitability) products. As the categories are consist of products with high-level of technology, its leverage is high against competitors. So we are quite confident on securing customer loyalty.

Q. Could you give us breakdown for 2Q finance items losses?

A. In consolidated base, POSCO recorded 510 billion KRW of finance items loss. Net interest expense, interest payment for borrowings, was 120 billion KRW. Forex-related loss was 110 billion KRW. Securities impairment, NSSMC shares we hold, was 190 billion KRW. And as we sold the remaining 20% of shares for SeAH Changwon Integrated Special Steel, the evaluation gain recognized previously was cancelled, resulting derivatives losses of 100 billion KRW.

Q. Regarding equity-related gains and losses, provide us with breakdown of each by region, such as Brazil, and Roy Hill, etc.

A. Due to Brazilian Real appreciated during 1H, we recognized equity gains of 120 billion KRW from CSP. On the contrary, as Australian dollar turned weak, we recognized equity loss from Roy Hill of 14.4 billion KRW.

Q. What is the 2H16 profitability outlook for Indonesian integrated mill, considering the recent downtrend of global slab price?

A. Indonesian integrated mill made up some losses with backdrop of slab price uptrend in 2Q. 1H16 operating loss was around U$70 million and 2H16 is expected to be better than the first half.

Q. The product price went up 6,000KRW/ton from the previous quarter and it is easy to expect the 3Q product price is to increase. What are the possibilities to increase export price? As the company mentioned, which point will the price increase to be applied?

A. Export price contracts gone through June have been settled, so the price is quite stable until September. As for automakers, their contract base being half-year, the negotiation is still underway. We expect price towards Japanese automakers could see slight increase, and flat for other regions. The contract period differs by customers, but we expect to see the result at least by September.

Q. Performance from non-steel division seems to offset the upturn from steel division. Does the company have strategy to change such structure?

A. The revenue of major 5 subsidiaries, including POSCO-Daewoo, POSCO E&C, POSCO Chemtech, POSCO Energy, and POSCO ICT, consist of 85% of non-steel businesses. POSCO Daewoo is better than expected, due to stable performance of gasfield and trading sector. POSCO Chemtech was slow during 1H, due to low oil price, but expected to see better 2H. POSCO ICT went through heavy restructuring in 2015, so as of base-effect, will see better yearly profit. POSCO Energy has seen low profitability in power generation business, but will improve when capacity payment increase realizes in 2H16.

Profitability of E&C division is tough for this year, due to heavy cost from CSP project. However, as we are going through realignment of E&C division and when it concludes within this year, we expect better 2017 for E&C division. Also as 38% of POSCO E&C stakes are held by the PIF, the new orders from Saudi Arabia will turn up from 2017 operating performance.

Q. Please give us guidance for overseas steel mill performance for 3Q, such as Zhangjiagang STS mill.

A. Although 3Q price uptrend will be weaker than that of 2Q, overall overseas steel mills will be improved from 2015. Zhangjiagang STS mill recorded 49 billion KRW of operating profit and 2H is expected to be slightly lower than 1H.

As for POSCO-SSVINA, rebar normalized its operation and expected to reach breakeven point by 2H, considering price increase from AD issue. H-beam

product also started to normalize in operation from June.
Other downstream lines, including Mexico, Vietnam, and India will record better performance than 2015.

Q. It is expected that One-Shot Act to take effect from August. What impact will it have to POSCO?

A. Currently we are working with consulting firms on how to conduct voluntary industry restructuring. Although we do not have any outcome yet, POSCO will likely to be the beneficiary of such industry reform, considering its competitiveness in the market.

Q. The US and the EU are imposing Anti-Dumping lawsuits on Chinese products, and the market worries that the volume to circumvent to domestic market and major export market, such as Southeast Asia. What does the company's projections?

A. We recognize the risks for China's volume detour to domestic market and Southeast Asian market. Domestic re-rollers used to be the major importers of Chinese commercial products. However, when China's domestic price shoot up from March this year, the Chinese mills cancelled their shipment if domestic re-rolllers did not take on the price increase, causing the instability of supply. Since then re-rollers are reluctant to use Chinese products, relying on domestic supply.
This is not likely to be the long-term situation. However, we are going to leverage the situation with our products to protect domestic market share.
As for Southeast Asian market, the competition is intense with commercial products, while automobile market is different based on its specialty. 40% of POSCO's export goes to POSCO's processing centers and overseas steel mills. As we have local partners as JV in the region, we are more flexible in terms of supply.

Q. Please provide us with iron ore price outlook for 2016.

A. As for 3Q, iron ore price will remain around U$54/ton, as product price is expected to stay low as demand from China decrease, China's port inventory level reached over 100 million tons, and major suppliers continue to export. 4Q price will also hover around U$54/ton.

Q. What is the company's outlook for restructuring efforts from China and price trend?

A. Chinese government announced its plan to reduce 150 million tons of capacity within 5 years, this year target being 45 million tons. Also after the merger of Baoshan-Wuhan Steel, it has said to cut additional 9.2 million tons of capacity.
In the previous years, such announcements were considered unreliable. However, since the Chinese government at this point is under immense pressure globally of its oversupply, we expect the result will happen within 4-5 years.
The restructuring efforts are good for pricing in long-term, however, we expect Chinese HR price to move around U$350/ton and will hardly go lower than that. On top of the restructuring push from the government, steelmakers are under pressure that they cannot generate loss for 3-consecutive years, as it becomes candidate to shut-down.
So in the short-term, price is expected to move within the range of U$350~380/ton.