[2016 3Q Q&A Transcript]

Q. Please explain in detail on the increase of operating performance and the company's cost reduction efforts.

A. POSCO's parent operating profit recorded 852 billion KRW, 139 billion increased from the previous quarter. Despite the increase in raw material price has impacted OP down by 23 billion KRW, operating profit made up as WP product sales volume increased with average product price on the rise, and fixed cost decreased as production volume declined.

Q. As coal price surged in 4Q, the market worries about its input cost impact for 4Q. Can the company pass on its cost pressure in price negotiation during 4Q and 1Q17?

A. Spike in coal price has influenced Chinese and Japanese mills to pursue price increase, and POSCO is also working on to increase the price accordingly to the market environment. However, as our major demand industries, including automakers and shipbuilders, are recording poor operating performance and cost-cutting efforts, it is not easy to pass on to 4Q price, immediately. The company will conclude the negotiation taking market trend and input cost increase into account. We have already increased to distribution market and re-rollers, relatively sensitive to market trend.

Q. Operating performance of E&C division is still poor, even though large part of CSP cost has been applied in 1H16. What has brought down the performance result of E&C division?

A. CSP-related loss has been applied largely during 1H16, but also partially in 3Q. Unless, there is an unexpected situation, we expect no other one-off loss in 4Q.

Besides CSP-related issues, E&C division is going under restructuring. We had reviewed all the affiliates and if there is any expected default, we will apply the cost within this year. At the moment, there is not much loss-making in domestic projects but we expect 7-8 overseas projects that need additional cost recognition. The total expected loss amount is around 100 billion KRW.
As we go through the restructuring as planned, order amount and operating performance will be better in 2017.

Q. Please give guidance on this year's dividend policy and future direction of the dividend (payout ratio, etc).

A. POSCO has maintained 8,000KRW dividend per share for quite some time. The Board of Directors has discussed on the future policy direction and agreed that future dividend should be based on consolidated operating results and adequate payout ratio amount would be around 25-30%.

However this year, we have introduced quarterly dividend policy for the first time and consolidated operating results seems to beat our expectations. As such, we believe this year, we should consider the factors into account and work on to maintain similar level of dividend from last year. It is too early to mention exact numbers at this point, but the dividend will be decided on the level that meets market expectations.

Q. There has been a research report released from the Export and Import Bank, suggesting merger of POSCO and Hyundai Steel. What is the company's view on such proposal?

A. There has been increasing outside interest in restructuring steel market, including the leak of BCG report. We do not think intentional market consolidation is preferable, considering domestic mills apart from some EAFs and pipe mills, are running full operations. Especially as for plate capacity, effective utilization rate (for both Hyundai Steel and POSCO) is already low due to high-end steel production.

We agree on the point that global trend of steel market is consolidation, such as merger between Hebei Group-Shougang group and Baoshan-Wuhan Steel. We believe the report intended to review if steel mills are more competitive as it is or merged. We do not believe there is high chance of that and as such, did not discuss the possibility internally.

Q. How should we project 4Q performance and the outlook for 2017 demand?

A. As we have mentioned before, we will do our best to adopt the input cost increase in price negotiations. However, current level of coal BM of U$250/ton is higher and extended more than expected. Compared to 3Q BM, which was U$92.5/ton, it increased 115% from the previous quarter. Since there is a lead-time from purchasing point to be applied to our usage cost, the current BM price will have 50% impact in 4Q. As such, 4Q performance will not exceed over 3Q level.

2017 market situation will be similar to 2016, as China and domestic demand will decline slightly. Even so, POSCO has reached 50% of World Premium product portion, which enabled the company to secure certain level of profit, so 2017 performance could stay similar to 2016.

Q. Regarding Anti-Dumping tariffs being raised, what is the company's strategy on shifting export volume?

A. Anti-Dumping issue was raised to protect domestic steelmakers in US, rather than it being subsidy issue. Some of the accusations, which we find unfair, have been raised to WTO. We will increase WP product portion to increase profitability and secure more domestic market share.

Q. Regarding Indonesian integrated mill, can operating profit maintain the current level? Do you have any plan to downsize the stake?

A. PT.Krakatau Steel recorded profit in 3Q, due to good market price (slab and plate) and cost-reduction effort (U$25 million, accumulated as of August) of the mill. However, as 4Q coal BM price surged and fundamental problem of the product mix, being commercial product, performance level of 4Q could downturn.

To secure sustainability, we are going through process of cooperating with Krakatau Steel to build 1.5 million tons of HR mill near PT.KP and continuing further discussion with the local government on downstream business. However, at this point, reducing our stakes in PT.KP is not under discussion.

Q. Please explain the gap between POSCO E&C's parent operating loss of 27 billion KRW and simple aggregated OP loss of E&C division, of 100 billion KRW.

A. In 3Q, POSCO E&C's operating loss was 16 billion KRW and CSP's operating loss was 12 billion KRW. Besides that, POSCO Engineering's restructuring cost has resulted operating loss of 50 billion KRW.

Q. Please elaborate on parent non-OP loss, resulting less-than-expected pre-tax profit.

A. As for non-OP loss for POSCO, asset impairment of CDPPC, processing center in China (33 billion KRW) and shutdown of Gwangyang facility (20 billion KRW), and higher tax expense of 186 billion KRW. On the other hand, POSCO recorded

13 billion KRW of forex-related gain.

Q. Please explain us the possibility of maintaining overseas steel mill operating performance, including POSCO SS-VINA.

A. Due to delayed demand recovery in Vietnam and the 3Q being the slow season, SS-VINA recorded operating loss of 14 billion KRW. We plan to recover the profit by increasing domestic sales and expanding WP products.

Q. Do you have any plan to sell securities available-for-sale (including bank share) in the near future?

A. We believe that strategic alliance purpose has been terminated recently on securities available-for-sale. Also with NSSMC, we had agreed to sell so there is no more reason to hold the securities on such purpose. However, we will monitor for the right timing and consider the ones that we still cross-hold.

Q. Could you explain about the Giga Steel's development situation, profitability, and the level among competitors?

A. Giga Steel is a hyper high-strength steel with tensile strength over 980MPa among AHSS products. Its operating margin is 5%~20% compared to average products. Since we expect that demand for Giga steel gradually goes up, we will continue to develop customized solution for automakers and make an effort to solve bottleneck issue by innovating process and product efficiency. Compared to major competitors, such as NSSMC, we are at lower level than leading competitors yet, but we will expand the solutionmarketing and push for development of higher level products for next generation AHSS.

Q. Update us on joint business with Chongqing iron & steel and impact of internal/external restructuring environment.

A. Restructuring for financial structure improvement from Chongqing iron & steel ("Chongqing steel") is on the way under Chongqing city, and it targets to finish up until 1H 2017. Chongqing steel mentions that there is no impact on joint business with us, but we keep monitoring the situation through close communication. For the joint business, it is in the stage to review facilities and choose a supplier.

Q. Why does the sales volume decline compared to 2Q, in spite of an increase in production? And what is the outlook for domestic demand in 2017?

A. Since we completed blast furnaces revamping in 2015 and 2Q 2016, production increased to 9,304 thousand tons in 3Q from 8,861 thousand tons in 2Q. Although it was not easy to expand the sales due to vacation season in August, Chuseok holidays, and customers' strikes, sales volume is revived in October, and we expect to achieve the target of 2016.

In terms of domestic demand outlook in 2017, we expect to be similar level in 2016. Although construction continuously will drop as orders come down due to sluggish economy in shipbuilding sector, we will make an effort to maintain the high profitability with POSCO solutionmarketing throughout demand industry.

Q. Is it possible to increase capital for PT.KP?

A. Even though operating loss is expected in 4Q 2016 for PT.KP due to coking coal price hike, it does not mean that it comes to the similar level to 2015. We communicate with PT.KS about issues such as liquidity crisis to prepare for case, but we do not see a large capital increase for PT.KP in the near future, considering the current working capital.

Q. Regarding Pos-power, provide us the power plant construction progress and future plan.

A. Regarding stake sales, we almost finish selecting a preferred bidders including EPC and complete the scheme for conditions, but some approvals related to environment assessment are still pending due to civil complaint. We consider asking extension of the terms for approval if we do not gain it until December 2016.