

## 2017 POSCO CEO Forum

### Q&A Transcript

**Q. Projection of operating profit for overseas steel segment is 500 billion KRW by 2019. Assuming that company's evaluation on the economy's upturn and downturn is implied in this, could you share your thoughts?**

A. Overseas steel segment turned profit last year recording 218 billion KRW of operating profit, significantly improved compared with 2015. Among the subsidiaries, PT.KP is making losses, but coil centers and re-rolling mills are showing sound profit level with their own competitiveness. Normally, it is difficult to make profits during the first 3 years of operation in foreign countries, but we made efforts to improve such condition and pursued localization strategy.

This year, to further enhance competitiveness of overseas mills, we will stabilize their financial structure and increase WP product ratio, which went up to 50% last year. As trading barriers are increasingly spread around the globe, parent POSCO's material cannot be delivered to these mills 100%. To raise independency, we will expand local sourcing and strengthen cooperation with local mills.

Also, overseas mills are burdened with dollar-based borrowings, so we need to come up with measures to minimize FX-related losses.

**Q. In regards to lithium (Li) business, company expects that the revenue will increase to 420 billion KRW. What level of operating margin do you aim?**

A. POSCO has developed Li technology since 2011. After going through 3 stages of pilot plant, currently we are successfully operating 2,500 ton capacity Li plant in Gwangyang. The technology is called PosLX, through which we can extract Li carbonate for only 1 month, compared with 1 year through natural vaporization from salt lake. Additionally, it does not require a separate refining process. This year, we are planning to talk with partners. By 2020, the capacity will be increased to at least 20,000 tons. In 2022, we expect that a 40,000 ton size plant will likely be in operation. With such plan, POSCO will become a world leading Li producer. Currently, Li price is ranged from U\$10,000 to 15,000 per ton. With this pricing, 20% operating margin is achievable.

**Q. Congratulations on achieving 1.2 trillion KRW operating profit and thank you for successfully proceeding with “Innovation Process.” Among the 4 new agenda items of the mid-term strategy, what do you think is the most important one and if it is gone through, which of the segments will see better results between parent and subsidiaries?**

A. It was a successful journey in pursuing our goals according to IP 1.0 and IP 2.0. Not only with outside support, but more importantly with our own efforts, we are able to secure our confidence and competitiveness again. Our focus is 4 main agenda items in the mid term. In terms of steel sector, we are very confident that POSCO can maintain its competitive edge in the core business. For non-steel sector, our biggest goal is to secure profitability. There are two different ways. First, we advance non-steel businesses that we already have. Second, we enter into new business areas that we have not started or experienced yet. While each non-steel business was carried out individually in the past, business items will be integrated on the POSCO group level in the future to gain synergy. For instance, IPP is a large scale business. POSCO Daewoo can utilize a wide domestic and overseas network. POSCO E&C can participate in EPC. POSCO ICT can cooperate with its smart technology. POSCO Energy has highly experienced in operation and management(O&M) of power plant.

To bring our idea into fruition, the management of POSCO and subsidiaries are meeting regularly on a monthly basis to collect new information and share roles in different businesses.

To give you some examples of new businesses that are newly growing, for Li, it is only 2,500 ton size at the moment but as long as we find our partner, we will have more opportunities.

In regards to Ni, a new manufacturing technology is in development stage. Its added value is very high and STS manufacturing strength will also be raised through the technology. Production of Mg wide-width sheet for automobiles is possible only by POSCO globally. We are taking orders from global luxury car brands. In addition, there is an increasing need for light-weight vehicles. Unlike outside concerns, POSCO will not be affected by such trend. Rather, we are advancing our technology to meet the expectations of customers with Giga steel and Mg steel, which are lighter than aluminum sheets.

When entering into a new business, there is a higher likelihood to fail if we borrow other companies' technology. Hence we will utilize our existing technology when further upgrading our business model.

**Q. Until today, although steel sector has achieved profitability increase, tangible results from non-steel sector were hard to be seen. From now, you expect a substantial improvement of profit in this sector, then which of the businesses do you expect the highest leap? Also, as presidents of POSCO's major subsidiaries are with us today, it would be great to hear your views on how the companies will achieve mid-term target.**

**[POSCO Daewoo]**

We will focus on "2 Core 3 Expansion" businesses in the mid term. Firstly, with POSCO P&S merged, we have stronger competitiveness in steel trading both domestically and globally. We will exceed in what we are already good at, namely trading. Secondly, materials development is our cash cow. POSCO Daewoo will become the top in these two core businesses in the global stage.

We also have a plan to extensively foster food, auto parts, and IPP as 3 expansion businesses. Along with our newly developing business model, we forecast that 600 billion KRW operating profit can be earned by 2019.

**[POSCO E&C]**

POSCO E&C aggressively pursued projects that we do not have experience, and these projects caused issues. This year, we plan to take new orders that are proven in terms of quality. We have designated strategic areas including South East Asia. Also, we will concentrate our business on major segments to secure profitability.

**[POSCO Energy]**

LNG power plant business takes up 74% of our capacity. As electricity power reserve has gone up from 4% to 30%, LNG power plant's operating rate came down to a low level making our business difficult. However, as the energy industry is moving forward to new and renewable energy, in the longer term, our energy business will face a better condition.

Internally in POSCO Energy, we are making efforts to reduce cost and recover competitiveness through smartization of O&M. As domestic power producing market is saturated, we are searching for more opportunities in overseas market. Also, to raise financial soundness, we will reduce down our liabilities ratio to 140% by 2019.

### **[POSCO Chemtech]**

We have a stable business portfolio based on refractory, lime and chemical businesses, generating 1.1 trillion KRW revenue and 80 billion KRW operating profit annually. Due to the steelworks-oriented business structure, it is true that we have been highly dependent on POSCO, but we will diversify and expand business to other Korean and Chinese companies. Anode material business is expected to grow very fast, so we plan to increase the capacity up to 30,000 tons, generating 200 billion KRW in revenue until 2020. In addition, cokes furnace-related business will be undertaken as a new model from next year, and it will create more stable profit.

### **[POSCO ICT]**

Under the strict restructuring for the past 2 years, our financial structure has been improved by removing non-profitable and unrelated businesses. We focus on “Smart-X” business related to the Forth Industrial Revolution, such as Smart Factory, Smart Energy, Smart Building & City, etc. In this respect, currently we are developing a new system from outdated ERP in order to enhance effectiveness and we will find and expand more profitable businesses.