1Q 2020 POSCO Earnings Release
Q&A Summary

April 24, 2020

Share Buyback

POSCO announced a KRW 1 trillion worth share buyback program on April 10th. We are aware that the market is eyeing on when we will start taking the action. The management is being cautious of the strategy on how best we can utilize this opportunity to raise shareholders' value and meet the initial purposes. Considering this, I expect it will be started early next month.

Quarterly Dividend

POSCO established a mid-term dividend policy in January this year and elaborated that annual dividend will be determined by pay-out ratio of 30% on consolidated net profit attributable to owners of the controlling company. We highlighted, however, that the pay-out ratio target is not the only determinant, but mid-term business plan, dividend yield, FCF, and other important factors are all considered comprehensively.

When deciding on the 1Q dividend amount, many would question if we price in only 1Q consolidated net profit or consider other factors such as previous dividend history and this year's earnings outlook. In the upcoming Board meeting, the directors will have to decide on the 1Q DPS after fully discussing on various factors combined.

We note that there are concerns over a possible dividend cut, but as you recall, POSCO paid out dividend even under net loss on a consolidated basis in 2015. We will do our best to find the most appropriate balance for quarterly and annual dividends.

Capex Outlook

2020 capex according to our annual business plan was KRW 6 trillion for consolidated and KRW 4.1 trillion for parent-based. Due to the volatility of global and domestic economies by the virus pandemic, we have adjusted capex plan to be lowered by KRW 0.9 trillion than the initial target. KRW 3.2 trillion and KRW 5.2 trillion is expected for parent and consolidated respectively. Old facilities in steelworks will be examined thoroughly to utilize at a maximum duration and allow longer time to reach replacing period. Some of the investments have been postponed as product demand is expected to decrease.

For overseas steel investments, we will be back on schedule again in line with the market recovery. However, capex in secondary battery business will continue to be executed in accordance with the schedule set earlier to secure our mid-to long-term growth engine.

Although capex size is partially adjusted to respond to COVID-19, essential capex for safety-related will be executed as planned. Environment capex will also be maintained, which amounts to KRW 420 billion.

2Q Steel Price Outlook
Our exposure to the auto market is larger than other industries, but the volume will decrease by the impact of COVID-19, which would heighten the ratio of HR sales. For long term contract, autosteel pricing has already been finished. Home appliances will see almost no change. With shipbuilders, we have not finished the talks over different views. Distribution and pipe-making markets are highly affected by the global pricing, so we will respond to a possible drop of prices with flexibility.

Sales by Product
Autosteel is more affected than other products due to the pandemic and automakers' operation halt. Thus, we expected sales ratio of autosteel to be decreased especially in 2Q. To better cope with the demand condition, we have to adjust our sales mix flexibly. Weakening export sales will be directed to the domestic market. During revamping of Gwangyang #3 blast furnace and rationalization of #4 HR mill, we reduced sales to domestic HR re-rollers and pipemakers, in which we can raise the portion of HR sales.

As for quarterly outlook for sales volume, we think that until 3Q it would be difficult to see a turnaround. But auto companies are expected to re-start their operation in mid 3Q, and we think this is going to be the time for a watershed.

Production Cut
When we consider production reduction or change in the rate of facility operation, we have to forecast how weak the demand is going to be and how long demand weakness would continue. A flexible method to respond to softer market for crude steel production is HMR (Hot Metal Ratio) adjustment by managing the volume of scrap.

Fortunately, #3 blast furnace revamp had already been scheduled this year in 1Q and 2Q. This has played as natural output reduction. Also, we are buying less scrap than usual. All in all, the key would be how and when the demand will pick up. Rather than targeting an annual output, we are closely monitoring the market and discussing our response in weekly and monthly meetings. In short, we will flexibly operate and manage production volume in close relation with the market and order situations.

STS Volume Outlook

STS sales volume is 2 million tons and the product is less affected by the market. We expect around 100~200 thousand tons for a decrease. As STS is produced by Electric Arc Furnace (EAF), it can be flexibly operated following the market. We can immediately operate in full when the market turns around.

Steelmakers' Capacity Adjustment

Some of our peers started banking of blast furnaces or shut down their capacity partially. Japan shows mostly banking and European companies both carry out shutdowns and banking. However, China is slightly different in that the country's 1Q utilization rate is not so low as expected even amidst COVID-19. It seems that there are strong expectations over possible stimulus package by the Chinese government. In Japan and Europe, we think that steelmakers view the current pandemic situation will continue more than 3 months and respond by production cut or banking of blast furnace.

Export Outlook

POSCO's export ratio is 45%. Of this, overseas subsidiaries is around less than 50%. COVID-19 is affecting our overseas businesses especially in the U.S. and Europe along with India due to the countries' lockdown. We are responding to overall demand decrease by strengthening sales to the domestic market. Also, preparing for the stimulus policy expected in China, we will manage inventory in our overseas steel companies to preemptively to demand recovery.

Domestic Subsidiary Outlook

In terms of POSCO International's trading business, sales is affected due to the shutdown in many countries including the U.S. and China. 1Q revenue is reduced and it seems inevitable to see a decrease in trading revenue in the coming months, but we are strengthening cash management to prepare for any possible difficulties going forward.

In case that the current trading condition continues for a longer time, we have set up a plan to recover sales volume and secure profitability. As for gas business, although oil price plunged, its impact on Myanmar gas sales price is limited as 1 year average oil price is factored in determining the gas price. 1Q impact is also limited due to the strong gas demand from China.

POSCO E&C has not been affected by COVID-19 in overseas project and future impact seems also limited. However, we have formed a contingency planning team and are discussing with our clients continuously so there is no delay in construction.

POSCO Energy will see a demand decrease as industrial activities slow down, so it is inevitable that earnings from power generation shrink. However, as our direct import LNG price is falling along with the weak oil price, we can secure profitability. Also, as we carry a long-term contract for LNG terminal, impact from nosediving oil price and COVID-19 is limited.

Overseas Steel Business
As POSCO's major customers in the overseas market are automakers, we are directly hit by their operation stoppage. As countries stared to be on lockdowns, 10 of our global operation sites are under closure either until end of this month or May 4.

Current halt is by each government's order not because of reduced order. If there is additional direction from the governments, we have to follow and it will affect our 2Q earnings in overseas operations. In the past, if the market is weak like today, we would build semi-product inventory in the overseas steel subsidiaries to prepare for the recovery.

However, our company strategy has changed to focus on cash flow, which is applied the same to overseas subsidiaries to minimize inventory, save costs and ultimately, improve companies' fundamentals. In 2H this year, we will make every effort to recover earnings as much as possible.

Raw Material Prices
Iron ore price is sustained at a solid level. 1Q price marked U$ 89/ton from U$93/ton a year before, which would trend slightly lower in 2Q. Overall demand is weak in Korea, Japan and Europe while Chinese demand is relatively stronger. Supply reduction is seen together with demand decrease from COVID-19, so we expect 2Q iron price at around U$80~85/ton.

Today coking coal price is U$122/ton. Coking coal supply is more solid compared to iron ore. 2Q coking coal price is expected at U$130~140/ton. In line with the current demand condition, coking coal price will continue to be soft throughout this year.

Asset Impairment Concerns over Commodity Price Drop
In terms of currently falling commodity prices, we do not expect any impairment losses on our mine assets. For POSCO, most of the mines are iron ore and coking coal, but those prices have not fallen much. Also, for our subsidiaries as well, we have already restructured most of the mining assets in the past, we do not expect any impairment losses from commodity price weakness.

Others

As of now, we do not have any M&A interest or plan in secondary battery material company domestically or overseas. Doosan Solus is far from what we are engaged in cathode and anode businesses. We are not considering about the deal.

We do not expect additional funding this year since POSCO already borrowed more than KRW 3 trillion from last October to January this year to prepare for the possible economic downturn.