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# IR Material

Sep 21, 2020



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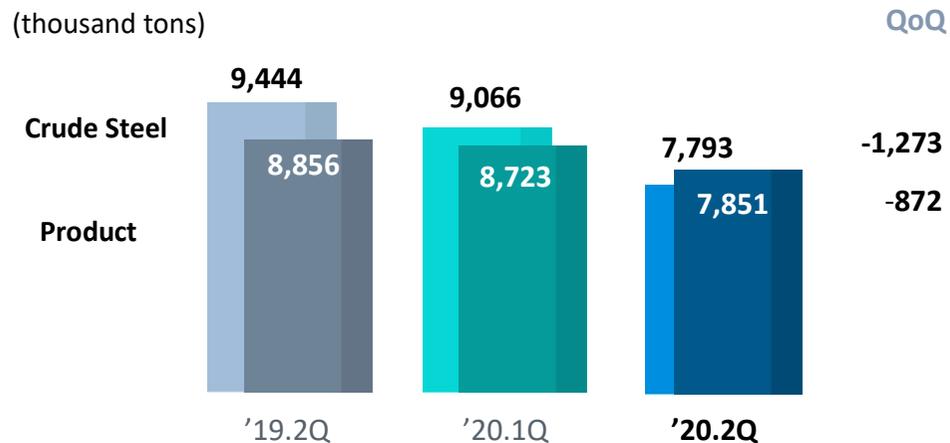
# Contents

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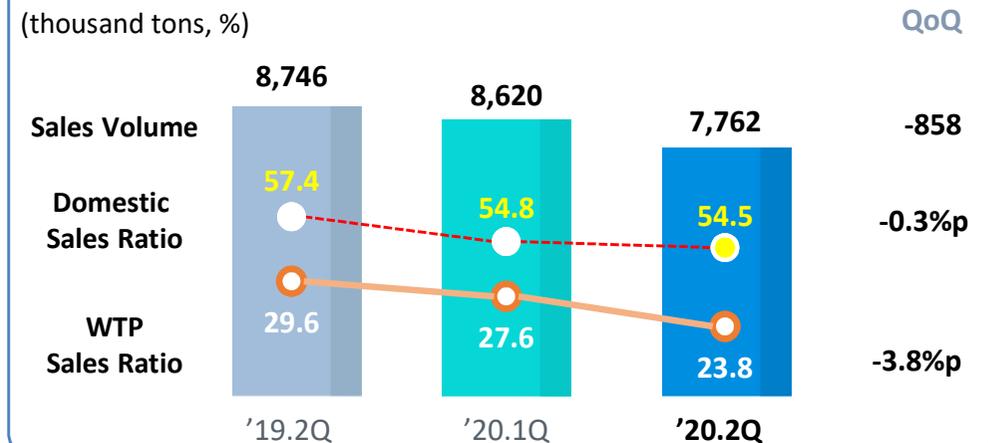
- **2Q 2020 Business Performance**
  - Parent Performance
  - Consolidated Performance
  - Subsidiary Performance
  
- **Key Business Activities**

# Parent Performance\_Production / Sales

## Production



## Sales



○ In response to weakened demand due to COVID-19, minimized impact from production decrease by adopting flexible production and sales system

- **(Iron & Steel-making Processes)** Restart of Gwangyang #3 Blast Furnace postponed from June to July and adjust HMR(Hot Metal Ratio) flexibly
- **(Rolling Mill)** Production/halt managed considering processing cost

### [Product Production]

(thousand tons)	'19.2Q	'20.1Q	'20.2Q	QoQ
<b>Carbon</b>	8,390	8,242	<b>7,460</b>	-782*
<b>STS</b>	466	481	<b>391</b>	-90

\* HR +123, CR -870, Plate -184, etc.

○ Sales volume declined from sluggish market while product inventory maintained last quarter level

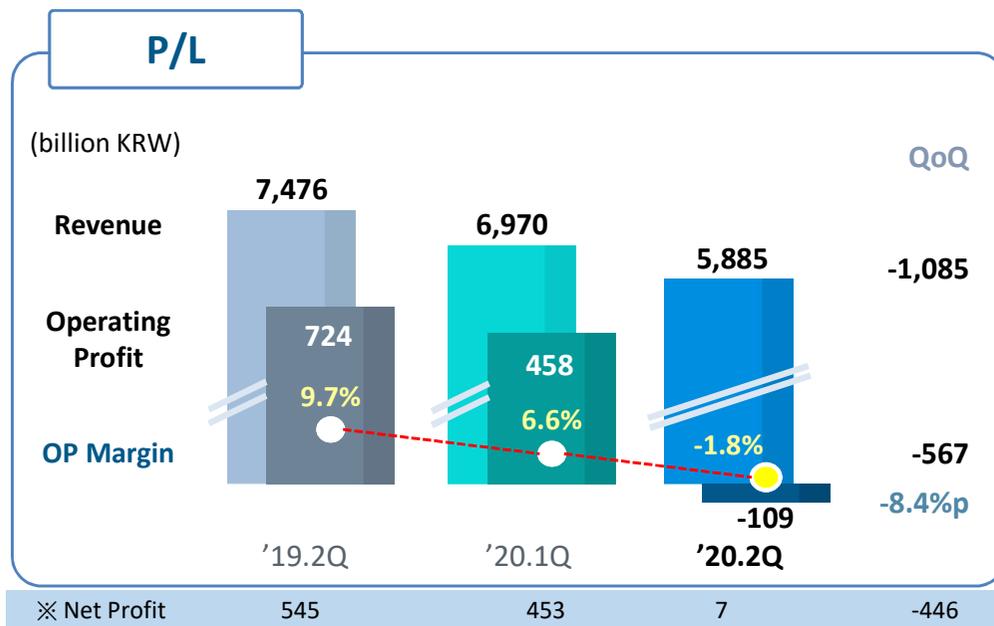
- Product sales decrease (thousand tons) : CR -718, Plate -128, etc.
- WTP sales (thousand tons) : '20.1Q) 2,267 → '20.2Q) 1,711(-556)  
\* WTP sales reduced especially to automobile sector

### [Product Sales]

(thousand tons)	'19.2Q	'20.1Q	'20.2Q	QoQ
<b>Domestic</b>	5,024	4,728	<b>4,234</b>	-494
<b>Export</b>	3,722	3,892	<b>3,528</b>	-364
<b>Inventory</b>	1,227	1,107	<b>1,121</b>	+14

\*WTP(World Top Premium) includes World First/World Best products

# Parent Performance



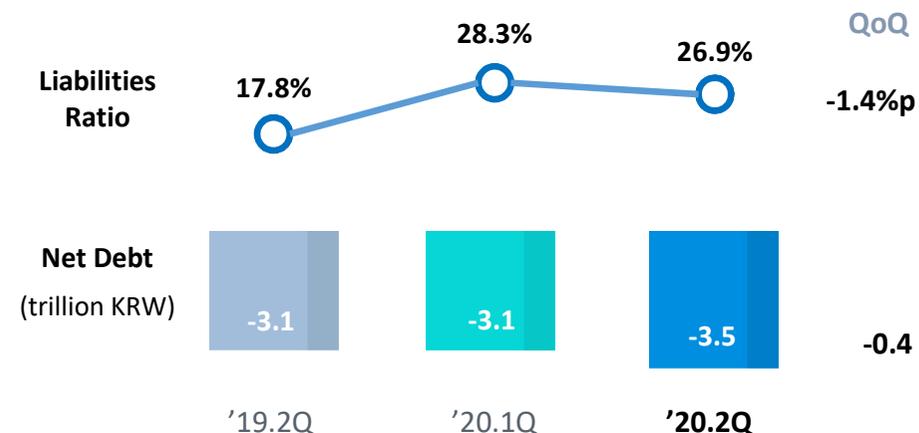
## ○ Recorded operating loss on weak demand and fallen sales price from COVID-19

- Sales dropped due to lockdowns in major export countries
- Price declined with slump of global demand industries

### 【Operating Profit】



### Financial Structure



## ○ Cash balance increased by putting the highest priority on cash-flow management, and raised financial soundness by lowering liabilities

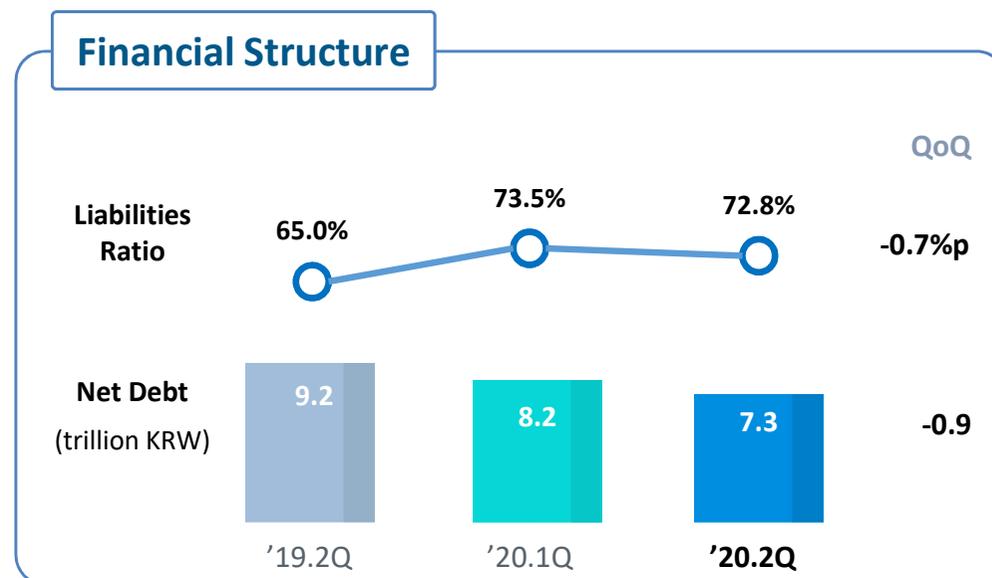
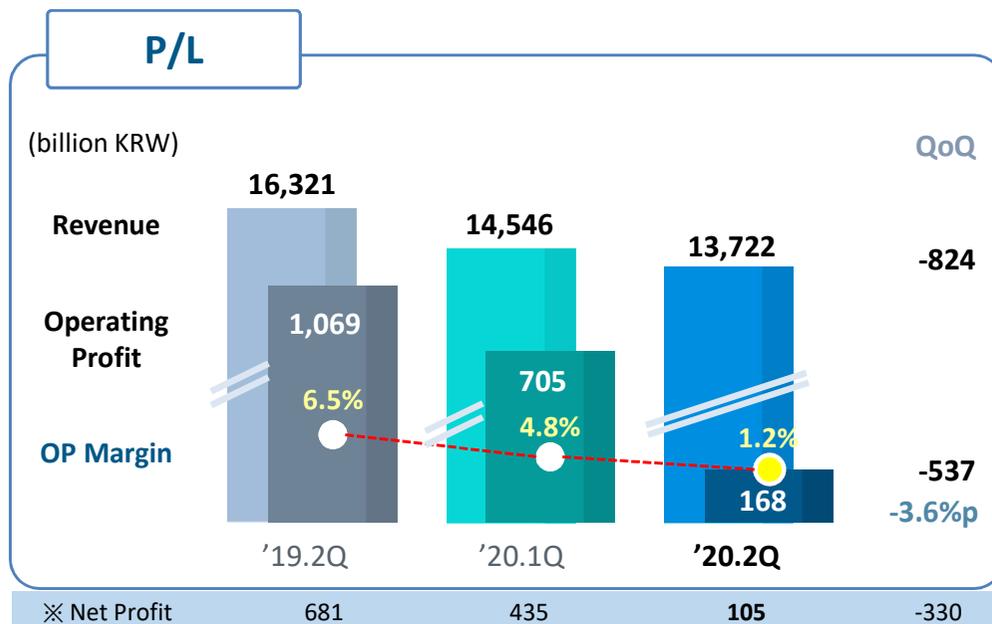
- Made company-wide efforts to lower inventory and save costs by reducing raw material purchase volume

\* Inventory assets (1Q) 4.8 → (2Q) 4.2 trillion KRW

### 【Cash Balance & Debt】

(bn KRW)	'19.2Q	'20.1Q	'20.2Q	QoQ
Cash Balance	7,110	11,723	12,064	+341
Debt	3,991	8,662	8,562	-100

# Consolidated Performance



- Consolidated earnings decreased as steel business performance aggravated while robust earnings of companies in Global & Infra business sustained

### 【Aggregated Operating Profit】

(billion KRW)	'19.2Q	'20.1Q	'20.2Q	QoQ
<b>Steel</b>	805	383	-197	-580
Overseas steel	38	-81	-93	-12
<b>Global&amp;Infra</b>	299	375	304	-71
<b>New Growth</b>	15	14	1	-13

- Overseas steel subsidiaries operating profit in '20.2Q (million USD)  
PT.KP -28, PZSS 8, POSCO Maharashtra -13, PY VINA -9

- Despite total debt growth from subsidiaries' preemptive financing, net debt was lowered with cash increased by reducing working capital

- Debt(bn KRW): P-Chemical +507 (Incl. Bonds for facility investment 210, U\$ 100 million), P-Energy +333 (Incl. Long-term bond for refinancing 200)

### 【Cash Balance & Debt】

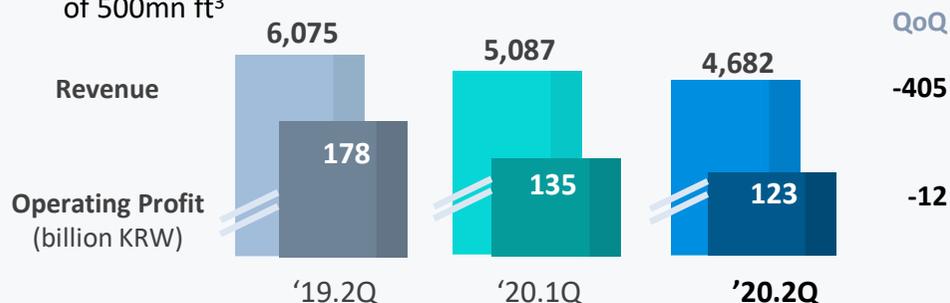
(billion KRW)	'19.2Q	'20.1Q	'20.2Q	QoQ
<b>Cash Balance</b>	10,021	15,351	<b>16,913</b>	+1,562
<b>Debt</b>	19,199	23,503	<b>24,238</b>	+735

# Subsidiary Performance

## POSCO International

- Solid operating profit recorded on continuously strong Myanmar gas sales despite weaker trading performance from COVID-19

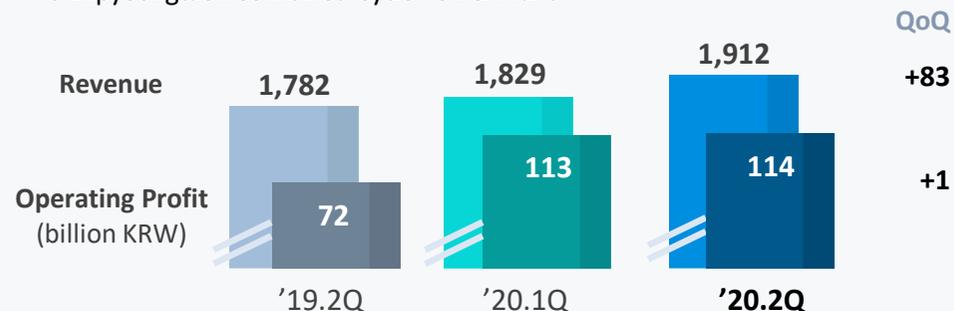
- 2Q gas sales was 550mn ft<sup>3</sup>/day, exceeding daily contract volume of 500mn ft<sup>3</sup>



## POSCO E&C

- Supported by building works and plant businesses, revenue and operating profit increased

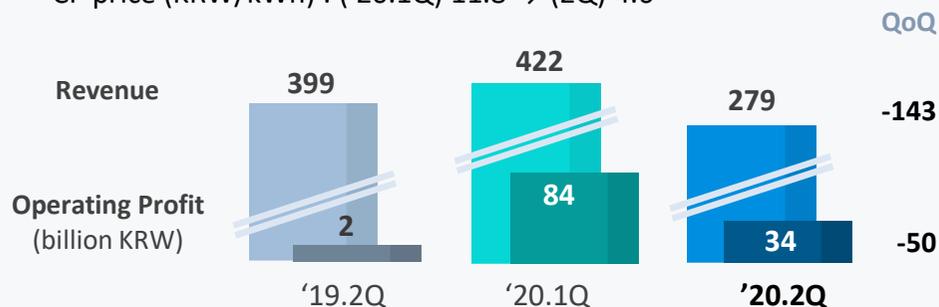
- Operating profit (bn KRW) : Pyeongtaek Jije Segyo +6, Shinpyeongtaek Combined Cycle Power Plant +4



## POSCO Energy

- Profits in power generation was lowered due to seasonality and weak market, but expanded terminal business and renewal of fuel cell LTSA minimized size of profit decrease

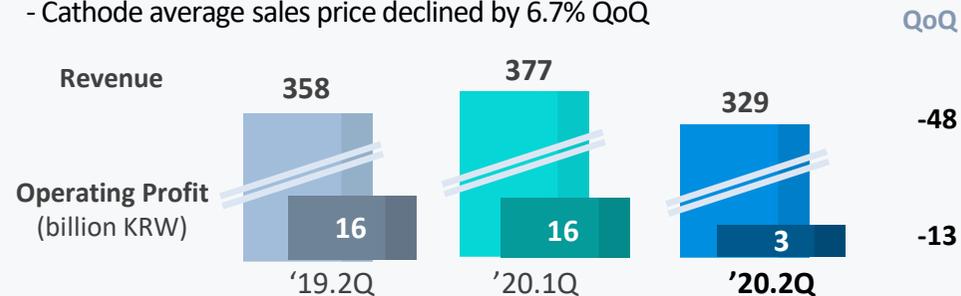
- CP price (KRW/kWh) : ('20.1Q) 11.8 → (2Q) 4.6



## POSCO Chemical

- Revenue in chemical business decreased from oil price drop, operating profit weakened due to inventory valuation loss on cathode business

- Cathode average sales price declined by 6.7% QoQ



# Key Business Activities\_Steel

## Enhance Sales Profitability

### Strengthen domestic sales responding to trade protectionism in major countries

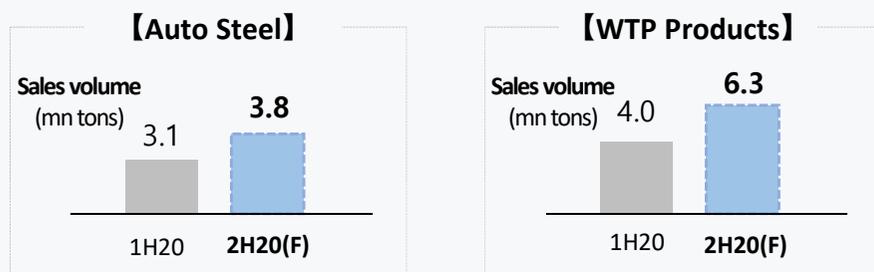
- Replace imported products from China and Japan for domestic customers by providing tailored solutions



\* Based on products manufactured by POSCO

### Optimize sales-mix focused on high-margin sectors

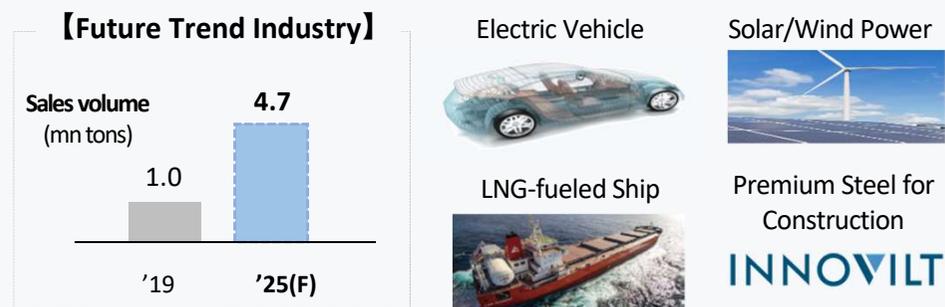
- Improve profitability by boosting sales of World Top Premium (WTP) products incl. Giga Steel for automobile and solar power structural steel PosMAC



## Boost Sales to Industries Leading Future Trend

### Expand sales to environment-friendly vehicles & energy, mega-city industries

- Lock customers earlier in three future new demand industries
- Foster and support industries related with eco-friendly products



### Create a strong and robust steel industry ecosystem through co-existence with customers

#### Support overseas business

- Assist with POSCO's overseas infrastructure and networks

#### Foster small but strong companies

- Provide solutions incl. application technology, product quality, trade and finance

#### Safe industrial environment

- Block imports dissatisfying safety standards, cooperate in responding to low quality products



# Key Business Activities\_Global & Infra/New Growth

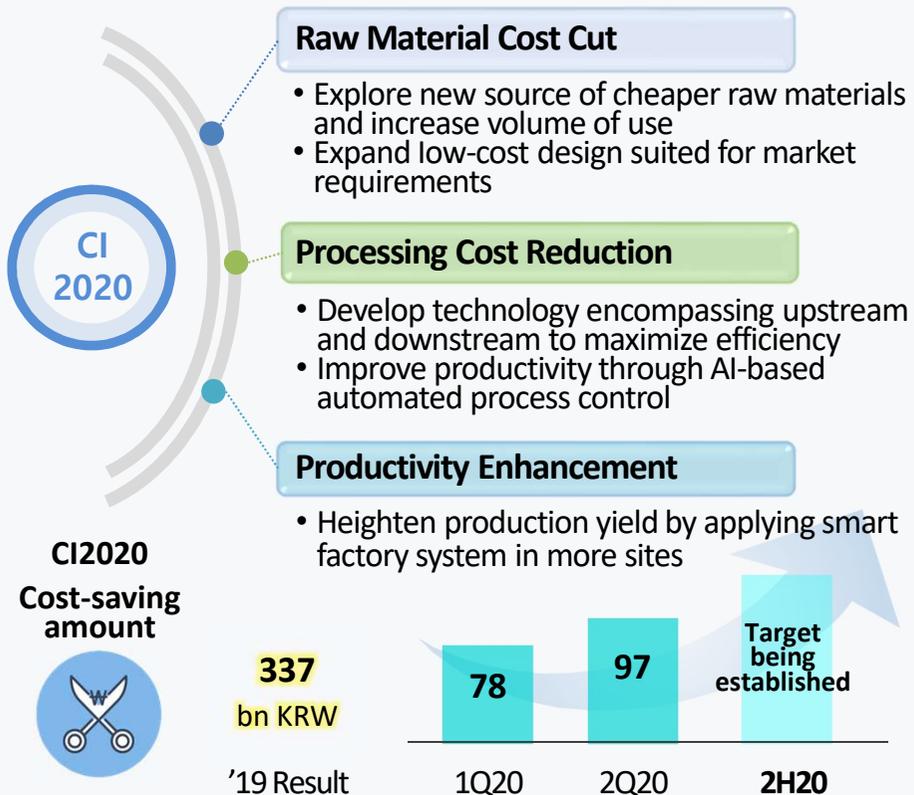
POSCO International	POSCO E&C	POSCO Energy	POSCO Chemical
<p> <b>Stable operation of Myanmar gasfield</b></p> <ul style="list-style-type: none"> <li>▪ Maintain daily production of 500 million ft<sup>3</sup></li> <li>▪ Continue to explore additional mine including Block A-3</li> </ul> <p> <b>Increase food trading and fully operate grain terminal</b></p> <ul style="list-style-type: none"> <li>▪ Expand trading volume mainly in Asia</li> <li>· ('19) 5.5 → ('20) 6million tons target</li> <li>▪ Commercial operation of Ukraine grain terminal</li> <li>· First year target volume 1.5 million tons</li> </ul> <p> <b>Qualitative growth of trading business</b></p> <ul style="list-style-type: none"> <li>▪ Raise trading profitability in three strategic businesses of steel, LNG and food</li> </ul>	<p> <b>Enhance profits in Building Works Business</b></p> <ul style="list-style-type: none"> <li>▪ Strong performance in apartment sales</li> <li>· ('19) 21k → ('20) 22k apartments target</li> <li>▪ Respond flexibly to housing market fluctuation by increasingly taking city rebuilding projects</li> <li>· Selected for rebuilding Sinbanpo 21 lot (May, 102bn KRW)</li> </ul> <p> <b>Risk management in plant business</b></p> <ul style="list-style-type: none"> <li>▪ Orders of low profit-making projects are not taken</li> <li>▪ Participate in overseas projects selectively</li> <li>· Focus on four strategic countries and key products</li> </ul> <p> <b>Continue to improve financial soundness</b></p> <ul style="list-style-type: none"> <li>▪ Normalize Songdo International Business District Project</li> <li>· Collect account receivables and reduce contingent liabilities</li> <li>▪ Credit rating raised in Jun '20</li> <li>· A0 Positive → A+ Stable (Korea Investors Service)</li> </ul>	<p> <b>Raise profitability of LNG power generation</b></p> <ul style="list-style-type: none"> <li>▪ Expand direct LNG purchase contract to secure cost competitiveness</li> <li>· New direct buying contract for #4 (Jul '20 ~)</li> </ul> <p> <b>Grow businesses utilizing LNG terminal</b></p> <ul style="list-style-type: none"> <li>▪ Strengthen base for terminal business by building #2 Terminal</li> <li>▪ Expand terminal-affiliated business including LNG carrier test run</li> <li>· Completed building Gwangyang #5 Tank (Apr '20, 200k kℓ) with total capacity reaching from 530 to 730k kℓ</li> </ul>	<p> <b>Invest in LiB battery material business and develop next-generation product</b></p> <ul style="list-style-type: none"> <li>▪ Continue to invest in cathode production to secure capacity in line with growth of EV market</li> <li>▪ Diversify customers and increase revenue by advancing product portfolio</li> <li>· Natural graphite/artificial graphite anode</li> </ul> <p> <b>Enter downstream business using byproduct</b></p> <ul style="list-style-type: none"> <li>▪ Start joint venture producing hydrogen peroxide using steelmaking byproduct (COG)</li> <li>· Form a joint venture with OCI for a business to produce super-pure hydrogen peroxide for semiconductor with annual capacity of 50k tons (from '22~)</li> </ul> <p> <b>Improve profitability</b></p> <ul style="list-style-type: none"> <li>▪ Strengthen cost competitiveness by innovating processes and reducing fixed cost</li> </ul>

# Key Business Activities

## Cost Competitiveness

### Company-wide efforts to save costs through Cost Innovation 2020 (CI2020)

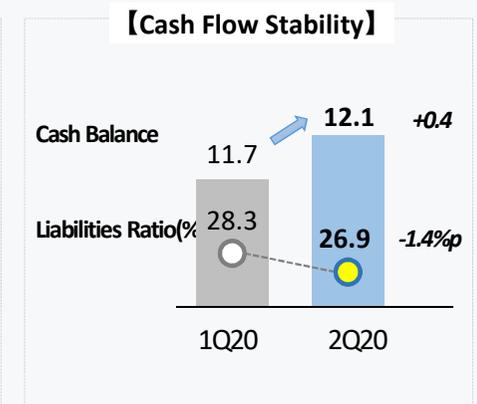
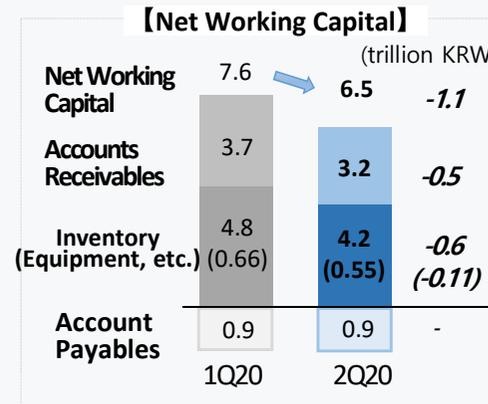
- CI2020 is an initiative to strengthen manufacturing cost competitiveness
- Innovation tasks are performed in cooperation among procurement, steelworks and marketing departments
- Cost competitiveness is secured by expanding using low-priced raw materials and advancing process technology



## Financial Soundness

### Enhance financial soundness by focusing on cash flow

- Reduced working capital by decreasing accounts receivables and tightening inventory assets management
- Improved financial soundness by increasing cash balance and lowering liabilities ratio
- Maintaining the highest credit rating among global peers
  - S&P : BBB+ Stable, Moody's : Baa1 Stable (July '20)



\*Parent-based

### Strengthen liquidity management on each subsidiary level by reducing net working capital and adjusting priorities of investment

- Decrease net working capital on group-level through cash flow-focused management
- Adjust timeline of investment projects focusing on essential investments to boost competitiveness

# ※ Appendix

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- **Market & Outlook**
  - Global Steel Demand
  - Domestic Steel Demand
  - Raw Materials Outlook

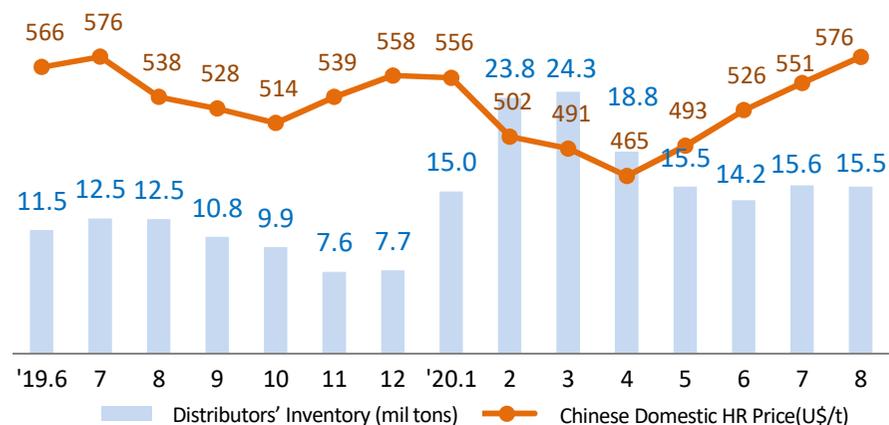
# Global Steel Demand

## Chinese Steel Demand

**“China's steel industry is recovering '20.2Q due to the resumption of manufacturing and construction activities”**

- ✓ China's manufacturing industry such as automobiles has rapidly been returning toward normalization with Covid-19 eased and lockdown lift. Construction sector is also showing strong sentiment.
  - Car Production : Feb -79.8% → Mar -44.4% → May 18.3% → Jul 22.3%
  - Construction PMI : Feb 26.6 → Mar 55.1 → Jun 59.8 → Aug 60.2
- ✓ China's steel distribution inventory is continued to decline in 2Q, reaching 15 million tons in July-August.
- ✓ HR domestic price has risen for four consecutive months until August due to a rapid recovery in demand.

### 【Chinese Steel Price & Distributors' Inventory】



\* Bloomberg(2020.9), CISA(2020.9)

## Demand by Region

**“Global steel demand in 2020 to plunge mainly in advanced countries due to the influence of Covid-19”**

- ✓ Global steel demand is expected to fall 6.4% in 2020 due to manufacturing shutdowns, supply chain collapse and delayed or cancelled construction investment.
- ✓ Advanced countries will show -17.1% demand growth with limited economic and industrial activities in the U.S., Japan and other countries and concerns over second wave of Covid-19.
- ✓ Demand from emerging markets is feared to fall 11.6% in 2020 due to lockdown measures in Indian ASEAN and other countries.

### 【Steel Demand Outlook】

(million tons)

Region	2017	2018	2019	YoY	2020(f)	YoY
U.S	97.7	99.8	97.7	-2.1%	75.3	-22.9%
EU	163.7	167.6	158.1	-5.6%	133.1	-15.8%
China	773.8	836.1	907.5	8.5%	916.5	1.0%
India	88.7	96.7	101.5	4.9%	83.3	-18.0%
ASEAN	73.5	77.1	77.8	0.8%	75.9	-2.4%
MENA	71.2	68.1	66.6	-2.2%	56.5	-15.2%
<b>World</b>	<b>1,633</b>	<b>1,708</b>	<b>1,767</b>	<b>3.4%</b>	<b>1,654</b>	<b>-6.4%</b>

\* World Steel Association(2020.6)

# Domestic Steel Demand

## Demand Industry

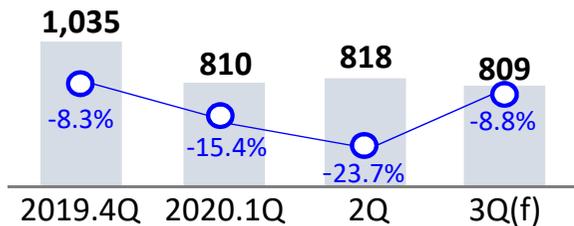


### Automobile

- ✓ Expect a slowdown in production decline in '20.3Q due to normalization of factory operations and government policies to promote consumption.

#### 【Production】

(thousand cars)



\* Korea Automobile Manufacturers Association(2020.7), POSRI(2020.7)

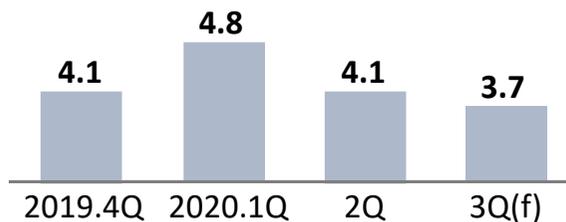


### Shipbuilding

- ✓ Although operations are improving as the Covid-19 calms down, the construction volume is expected to decrease in 3Q due to sluggish orders last year.

#### 【New Orders】

(million GT)



\* Clarkson(2020.9), POSRI(2020.9)

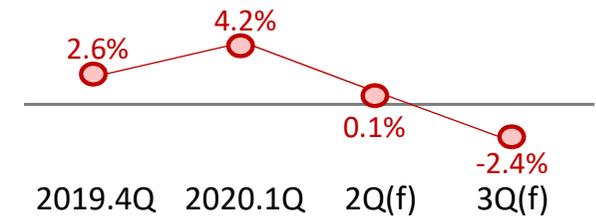


### Construction

- ✓ Construction investment is expected to rise 1.9% in 1H and fall only 2% in 3Q due to government stimulus such as SOC budget expansion.

#### 【Construction Investment】

(YoY)



\* Bank of Korea(2020.9), POSRI(2020.9)

## Steel Supply and Demand

(million tons)

	2017	2018	2019	2020(f)	1Q	2Q	3Q	YoY
Nominal Consumption	56.3	53.7	53.2	48.9	12.6	12.3	12.0	-7.8%
Export	31.7	30.4	30.4	27.9	7.5	6.5	6.7	-11.1%
Production	77.1	75.2	73.6	68.3	18.0	16.6	16.5	-8.9%
Import	10.9	8.9	10.0	8.5	2.1	2.2	2.1	-9.5%
Including Semi-Product	19.7	15.4	16.8	13.4	3.6	3.5	3.1	-18.7%

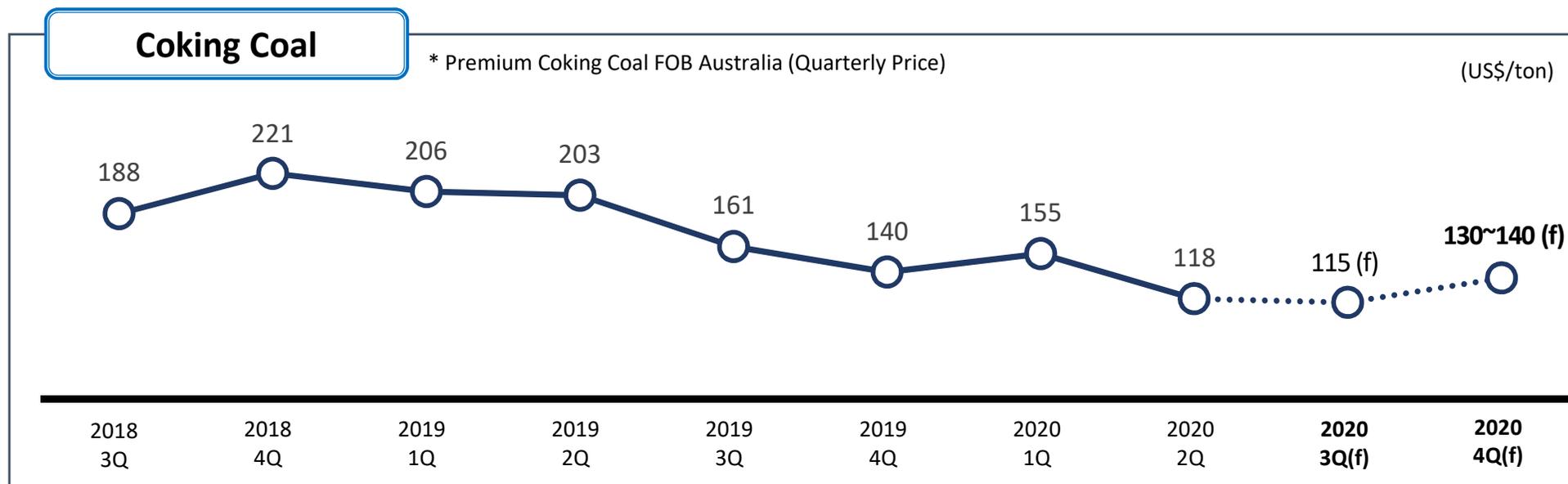
\* POSRI(2020.7)

# Raw Materials Outlook



'20.3Q (F)	'20.4Q/Year '20 (F)
<p align="center"><b>“3Q Iron Ore forecast at U\$120/ton”</b></p> <p>Iron ore price is continuously on a rise as economic boost by the Chinese government strongly supports steel production and demand for iron ore. Also, future market is buoyant backed by the surge of liquidity in the financial market to push up the iron ore price higher than average price of previous quarter.</p>	<p>Chinese economic stimulus will continue to be seen to meet the annual GDP target that will maintain steel demand strong until October. However, after November, demand is likely to decrease due to several reasons. Winter production control for environmental measures will be taken by the government. Utilization limit has been reached for blast furnaces at 95% making less room for additional supply increase. 4Q prices is expected between U\$105~115/ton to be stabilized despite the strong price trend. Annual price for 2020 is expected to be higher than last year’s U\$93/ton at U\$105/ton.</p>

# Raw Materials Outlook



'20.3Q (F)	'20.4Q/Year '20 (F)
<p><b>“3Q Hard Coking Coal forecast at U\$115/ton”</b></p> <p>Seaborne coal purchase decreased as major Chinese customers consumed larger volume earlier on 2020 import quotas, along with port regulation. Second wave of pandemic also affected coal demand as part of India went into lockdown again and Japan and EU show slowed recovery of utilization rate in steel sector, which slightly lowered 3Q coking coal price outlook than previous quarter.</p>	<p>Demand is expected to increase as steel utilization recovers in India, EU, South America and Japan. With La Nina alert, probability of cyclone in 1Q in Australia rises. Between November and December, steelmakers’ restocking demand will kick in to push the price upward. In 4Q, coking coal price is forecast at U\$130~140/ton and full year price is expected at U\$130/ton, lower from last year’s U\$177/ton.</p>