

Second-Party Opinion

POSCO Sustainable Financing Framework

Evaluation Summary

Sustainalytics is of the opinion that the POSCO Sustainable Financing Framework is credible and impactful, and aligns with the Sustainability Bond Guidelines 2018 and the Green Loan Principles. This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds – (i) Electric vehicle battery, (ii) Renewable energy, (iii) Support to Underprivileged, (iv) Support to SMEs Growth and (v) Venture Investment & Incubation – are aligned with those recognized by the Green Bond Principles 2018, Green Loan Principles 2018 and the Social Bond Principles 2018. Sustainalytics considers that the eligible projects will contribute to the growth of low-carbon transportation and development of renewable energy capacity. Similarly, Sustainalytics views that POSCO's social projects will contribute to the integration of socially vulnerable groups into the South Korean labour market and contribute to employment generation through supporting SMEs with fewer than 20 employees and young ventures and start-ups. Additionally, Sustainalytics views that the eligible projects will advance the UN SDGs 11, 7, 8 and 10.



PROJECT EVALUATION / SELECTION POSCO's Project Team will identify potential Eligible Projects based on the Sustainable Financing Framework. The project list will then be evaluated by POSCO's Sustainable Financing Working Group ("SFWG") with cross departmental representation from the Finance, Corporate Sustainability, Operation and Audit departments. The SFWG will also review the allocation to eligible projects annually. This process is aligned with market practice.



MANAGEMENT OF PROCEEDS Proceeds from the Sustainable Financing Transactions ("SFT") will be deposited in the company's general funding accounts and will be tracked through a Sustainable Financing Register. Pending full allocation, the unallocated proceeds will be held in accordance with POSCO's general liquidity management policy. This process is aligned with market practice.



REPORTING POSCO commits to publish an annual Sustainable Financing Report comprising an allocation and impact reporting. The allocation reporting will comprise information of the aggregate amount allocated to Eligible Projects, the remaining balance of unallocated proceeds and examples of Eligible Projects. With regards to the impact reporting, POSCO commits to disclose KPIs such as sales volumes of eligible projects to electric vehicles battery producers, renewable energy generation (in MWh), GHG emissions avoided/reduced (in tonnes of CO₂e), number of jobs created, and number and type of disadvantaged community helped. Sustainalytics views the scope and granularity of POSCO's reporting to be aligned with market practice.

Evaluation date	18 April 2018
Issuer Location	Pohang, South Korea

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Introduction

POSCO ("POSCO" or "the company") is a South Korean steel-manufacturing company operating through four segments: Steel, Construction, Trading and Others. POSCO produces rolled steel, steel plates, electrical and stainless steel, automotive materials, and designs and constructs industrial and civil engineering projects, among others. POSCO was founded in 1968 and is headquartered in Pohang, South Korea.

POSCO has developed the POSCO Sustainable Financing Framework (the "Framework") under which it intends to issue Sustainable Financing Transactions ("SFT"), including bonds and loans, and use the proceeds to finance and/or refinance, in whole or in part, existing and/or future projects that will deliver environmental and social benefits to support POSCO's business strategy and vision. The Framework defines eligibility criteria in eight areas:

1. Electric vehicle battery
2. Renewable Energy
3. Support to Underprivileged
4. Support to SME's growth
5. Venture Investment & Incubation

POSCO engaged Sustainalytics to review the POSCO Sustainable Financing Framework, dated April 2019, and to provide a second-party opinion on the Framework's environmental and social credentials and its alignment with the Sustainability Bond Guidelines 2018 (SBG)¹ and the Green Loan Principles 2018 (GLP).² This Framework has been published in a separate document.³

As part of this engagement, Sustainalytics received information from members of POSCO's management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as management of proceeds and reporting aspects of POSCO's SFTs. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics' opinion of the POSCO Sustainable Financing Framework and should be read in conjunction with that Framework.

¹ The Sustainability Bond Guidelines are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>

² The Green Loan Principles are administered by the International Capital Market Association and are available at: https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/LMA_Green_Loan_Principles_Booklet-220318.pdf

³ The POSCO Sustainable Financing Framework is available on POSCO's website at: <http://www.posco.co.kr/homepage/docs/eng6/jsp/invest/archive/s91b6010070l.jsp>

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the POSCO Sustainable Financing Framework

Sustainalytics is of the opinion that the POSCO Sustainable Financing Framework is credible and impactful, and aligns with the four core components of the Green Bond Principles 2018, the Social Bond Principles 2018 and the Green Loan Principles 2018. Sustainalytics highlights the following elements of POSCO's Sustainability Bond Framework:

Use of Proceeds:

- The use of proceeds categories of the POSCO Sustainable Financing Framework – (i) Electric vehicle battery, (ii) Renewable energy, (iii) Support to Underprivileged, (iv) Support to SME's growth and (v) Venture Investment & Incubation – align with those recognized as impactful by the Sustainability Bond Guidelines 2018 and the Green Loan Principles 2018.
- POSCO intends to use part of the proceeds to finance renewable energy production and the production of materials and components to be used for Electric Vehicle battery and energy storage. While Sustainalytics recognizes risk associated with the minerals used in battery production, the eligible projects will nonetheless contribute to the growth of low-carbon transportation.
- POSCO also intends to use part of the proceeds to finance POSCO Humans,⁴ a subsidiary intending to provide job security for disabled, the elderly and low-income individuals. POSCO Humans has five business divisions: office support services, IT services, cleaning services, steel house division and vehicle business. 40.7% of POSCO Humans' workforce is from disadvantaged groups is 40.7% (2017 data).⁵ In Sustainalytics' view, the creation of workplaces of disadvantaged groups will contribute to the integration of socially vulnerable groups into the South Korean labour market. However, Sustainalytics encourages POSCO to limit financing to projects and activities within POSCO Humans that directly address the employment of disadvantaged groups.
- POSCO intends to use part of the proceeds to support local SMEs⁶ with fewer than 20 employees through sharing patents, providing loans with below-market interest rates, and operating recruitment centers that intend to help the SMEs find suitable recruits. POSCO also intends to finance ventures and start-ups⁷ younger than five years. Given the importance of SMEs for employment in South Korea, as well as the targeted approach applied by POSCO, Sustainalytics considers the intended financing to strengthen those enterprises that contribute significantly to employment generation in South Korea. Nevertheless, Sustainalytics encourages the company to provide detailed reporting on the employment impact of SME financing. For additional information on impact, consult Section 3.
- The Framework states that the look-back period for its refinancing facilities will be 18 months, a threshold above current market practice.
- Sustainalytics highlights that POSCO excludes financing of controversial assets, projects and operations such as fossil-fuel related activities and large-scale hydropower projects (generating capacity above 20MW).
- Sustainalytics acknowledges that POSCO was involved in a serious and long-standing controversy surrounding its proposed steel plant in Odisha, India. However, in the opinion of Sustainalytics, given that POSCO has exited the Odisha project, and given that the project is not related to the planned use of proceeds, the controversy surrounding the Odisha project will have no bearing on the company's SFTs or on Sustainalytics' confidence that the company will manage the SFTs in accordance with its Sustainable Financing Framework.

Project Selection and Evaluation Process:

- POSCO's project evaluation and selection process will be executed through a Sustainable Financing Working Group ("SFWG") with cross-departmental representation from the Finance, Corporate Sustainability, Operation and Audit Departments. An annual review of the selected Eligible Projects will be performed to ensure compliance with eligibility criteria. Sustainalytics considers this process to be aligned with market practice.

⁴ POSCO Humans subsidiary website available at: <http://www.poscohumans.com/kr/main.do>

⁵ POSCO Human Report 2017, http://www.posco.com/homepage/docs/eng5/dn/sustain/customer/2017_POSCO_Report_EN.pdf,

⁶ As defined by the South Korean Enforcement Decree of the framework Act on Small and Medium Enterprises

⁷ Recognized as venture companies as per the South Korean Act on Special Measures for the Promotion of Venture Businesses, available at: https://elaw.klri.re.kr/kor_service/lawView.do?hseq=45518&lang=ENG

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Management of Proceeds:

- POSCO confirmed that it will establish a Sustainable Financing Register through which it will track and record the proceeds of each Sustainable Financing Transaction. Pending full allocation, the unallocated proceeds will be held in accordance with POSCO's general liquidity management policy. Sustainalytics assesses this process as aligned with market practice.

Reporting:

- POSCO commits to publish an annual Sustainable Financing Report.⁸ Allocation reporting will include data on the aggregate amount allocated to Eligible Projects, the remaining balance of unallocated proceeds and examples of Eligible Projects. With regards to impact reporting, POSCO will report on a series of KPIs for each Eligible Project Category, such as case study or sales volume of eligible projects to electric vehicle battery producers, renewable energy generation (MWh), GHG emissions avoided/reduced (in tonnes of CO₂e), and number of jobs created. Sustainalytics views the scope and granularity of POSCO's intended reporting to be aligned with current market practice.

Alignment with Sustainability Bond Guidelines 2018

Sustainalytics has determined that the POSCO Sustainable Financing Framework aligns to the four core components of the Green Bond Principles 2018, the Social Bond Principles 2018 and the Green Loan Principles. For detailed information please refer to Appendix 1: Sustainability Bond/Sustainability Bond Programme External Review Form.

Section 2: Sustainability Strategy and Performance of the Issuer

Contribution of Framework to Issuer's sustainability strategy and performance

Sustainalytics considers the POSCO Sustainable Financing Framework to align with POSCO's sustainability strategy. Sustainalytics highlights the following elements of the company's strategy:⁹

i) POSCO implemented companywide corporate governance structures for sustainability management with the mission to minimize its operational impact on the environment due to climate-related activities. The company also committed to increase energy efficiency by using high-strength steel sheets for automobiles and high efficiency electrical steel.

(ii) POSCO implemented initiatives to increase resource recycling and reutilization of its steel-making operations. Over 98.4% of the byproducts resulting from POSCO's typical steel making operations are recycled. In addition, 41% of water used was derived from rainwater and recycled wastewater in 2017. Sustainalytics recognizes that steel-making is a water intensive process, with up to 200m³ of water per ton of steel produced being typically required for descaling, dust scrubbing and other processes, and it encourages the company to add timebound and quantifiable targets to report and improve its water recycling performance.

(iii) In addition, POSCO achieved a CO₂ capture level of 90%, thus significantly limiting its operational GHG footprint. POSCO also reduced the CO₂ intensity beyond its 2020 target of 2.00 t-CO₂/t-S, having reached a 1.9 t-CO₂/t-S in 2017. While 90% carbon capture is a significant decrease in carbon emitted, Sustainalytics encourages the company to set ambitious GHG intensity targets for the future that include the use of best available technology.

(iv) To complement its intent to transition towards a clean business model, POSCO expanded its in-house renewable energy capabilities and constructed a 14.5MW-solar power generation complex on abandoned salt ponds with a land space of 230,000 m², generating annually 20,000 MWh. Given that the capacity is currently only 0.2% of the company's annual energy consumption, Sustainalytics encourages the company to set future targets and considers the use of the bond proceeds to help the company increase their

⁸ The Sustainable Financing Report will be made available on the company website at: <http://www.posco.co.kr/homepage/docs/eng6/jsp/invest/archive/s91b6010070l.jsp>

⁹ The 2017 POSCO Integrated Report of Economic, Environmental and Social Sustainability available at: http://www.posco.com/homepage/docs/eng5/dn/sustain/customer/2017_POSCO_Report_EN.pdf

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renewable energy ratio. As part of the same initiative. POSCO expanded its operations towards Building Integrated Photovoltaic System,¹⁰ Smart Grids¹¹ and photovoltaic power generation projects.

(v) Sustainalytics highlights that POSCO directed over KRW 888 billion (USD 780 million) in social contributions in donations, investment in local communities, donations to charity, microcredit expenses, loans, volunteering expenses and operational expenses relative to POSCO HUMANS. POSCO's social contribution expenditures target four categories related with social welfare, sports and culture, talents cultivation, and volunteer service and are directed towards three focused areas, (i) Sustainable Community, (ii) Quality Education and (iii) Economic Empowerment. Sustainalytics strongly encourages POSCO to define timebound and quantifiable targets to better track its social engagement efforts.

Overall, Sustainalytics considers that the issuance of green and social bonds and loans will help POSCO to foster its sustainability efforts and strategy. However, Sustainalytics encourages the company to set quantitative timebound targets on GHG emissions to significantly reduce the environmental impact of its core business.

Management of environmental and social risks associated with projects

While the use of proceeds categories are aligned with those categories recognized as impactful by the Sustainability Bond Guidelines, Sustainalytics recognizes that eligible projects may be associated with certain environmental and social risks such as workers' health and safety, loss of biodiversity, land use change and air and water pollution resulting from the construction of facilities, renewable infrastructure and manufacturing processes. POSCO's use of proceeds are also linked to social and environmental risks associated with its sourcing of lithium (some from its own mines) and other metals and minerals. Sustainalytics highlights the following measures that POSCO has taken to mitigate related risks:

- POSCO's Safety & Health Management System is aligned with KOSHA18001 and OHSAS 18001 standards. Moreover, POSCO's Environmental Management has been subject to annual verification since some of its facilities obtained ISO14001 certification.^{12,13} Sustainalytics encourages POSCO to disclose the percentage of its operations that are certified under such standards.
- POSCO's Environmental & By-product Group implemented a system for tracking environmental pollutants on a real-time basis through an automatic alert system that provides notification when a pollutant threshold has been exceeded.¹⁴ Sustainalytics views positively POSCO's automatic trigger alert but encourages the company to disclose its pollutant thresholds and the measures commonly taken in response to exceedances.
- POSCO's Code of Ethics includes guidelines for areas such as the protection of the environment and preservation of ecosystems, and the protection of and respect for human rights. The company reports on activities to restore marine eco-systems but does not disclose strong programmes to prevent biodiversity loss.
- The company carried out an environmental impact assessment and developed an action plan for its lithium mine in Argentina, indicating that environmental risks have been identified and measures outlined to mitigate these risks. POSCO also owns lithium mines in Australia and a lithium plant in South Korea.
- POSCO has a supply chain policy and management system that addresses both environmental issues, such as ISO 14001 certification, and social issues such as human rights.¹⁵
- With regard to its sourcing of cobalt, used in batteries that it manufactures, POSCO communicated to Sustainalytics that it uses a single supplier, Zhejiang Huayou Cobalt Co., Ltd. (Huayou). Huayou has in the past faced allegations that it may be complicit in the use of child labour through its sourcing of cobalt from artisanal mining operations in the DRC.¹⁶ In a 2017 report, Amnesty International reported that

¹⁰ Building Integrated Photovoltaic System: A system that integrates solar panels and building exterior materials in order to contribute to efficient land use and zero-energy building

¹¹ Smart Grid: A next-generation intelligent power grid that optimizes energy efficiency by employing IT to the traditional power grid and exchanging real-time information between power suppliers and consumers

¹² More information on the POSCO website at: <http://www.posco.com/homepage/docs/eng6/jsp/sustain/s91s2000110c.jsp>

¹³ More information on the POSCO website at: <http://www.posco.com/homepage/docs/eng6/jsp/safety/s91s100010c.jsp>

¹⁴ The 2017 POSCO Integrated Report of Economic, Environmental and Social Sustainability, pg.66

http://www.posco.com/homepage/docs/eng5/dn/sustain/customer/2017_POSCO_Report_EN.pdf

¹⁵ POSCO Annual Report 2017: http://www.posco.com/homepage/docs/eng5/dn/sustain/customer/2017_POSCO_Report_EN.pdf

¹⁶ Amnesty International, Exposed: Child Labour Behind Smart Phone And Electric Car Batteries, January 2016: <https://www.amnesty.org.au/child-labour-smart-phone-car-batteries/>

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Huayou had “made a good effort to demonstrate its intention to implement supply chain due diligence,” having conducted a “detailed supply chain mapping and risk identification process in the DRC” and introduced a responsible artisanal mining strategy focused on child labour risk. The report nonetheless encouraged further progress on the part of Huayou, including increased transparency.¹⁷ Sustainalytics encourages POSCO to carry out ongoing due diligence with Huayou and any other cobalt suppliers in order to minimize its risk of complicity in human rights violations in its supply chain.

- Regarding its social activities, POSCO Human explicitly addresses employment of underserved groups.

Sustainalytics notes that POSCO was involved in a serious and long-standing controversy surrounding its proposed steel plant in Odisha, India. Following the signing of an MOU for this project in 2005, POSCO faced opposition and protests from local and indigenous residents and NGOs who alleged that the project resulted in forced evictions and that resettlement compensation was inadequate. POSCO suspended the project in 2015 and has since exited completely. The company has developed policies on human rights, community development and supply chain standards, although there remains room for improvement in the area of community consultation regarding project development. As well, the company’s transparency surrounding the controversy has been lacking and it has not provided remedy to communities affected by resettlement and the destruction of forest caused by the Odisha project. However, in the opinion of Sustainalytics, given that POSCO has exited the Odisha project, and given that the project is not related to the planned use of proceeds, the controversy surrounding the Odisha project has no bearing on the company’s Sustainable Financing Transactions issuance or on Sustainalytics’ confidence that the company will manage the SFTs in accordance with its Sustainable Financing Framework.

Overall Sustainalytics acknowledges that POSCO has taken measures to mitigate risk related to the use of proceeds, including an adequate supply chain management system. However, Sustainalytics encourages the company to disclose further details on the percentage of operations covered by ISO certification, programmes to mitigate biodiversity risks and risks related to mineral sourcing.

Section 3: Impact of Use of Proceeds

All five use of proceeds categories are recognized as impactful by the SBP and the GLP. Sustainalytics has focused on four categories below where the impact is specifically relevant in the local context.

Importance of investing in automotive batteries for low-carbon electric vehicles

According to the International Energy Agency, the transport sector contributes 23% of global energy-related CO₂ emissions.¹⁸ Moreover, CO₂ emissions from transport is expected to increase by 60% in 2050.¹⁹ Given the necessity of decarbonizing transportation to meet global climate targets, EVs play an important role due to –(i) higher energy efficiency, (ii) GHG emission reduction, (iii) air quality improvements, and (iv) reduction of noise- compared to conventional combustion engines.²⁰ Despite these benefits, electric vehicles are dependent on the electricity sources in the energy mix of the dedicated country where they will be recharged. In countries with a carbon intensive energy mix, this dependency can reduce the benefits of EVs. Nevertheless, according to the European Environmental Agency, as the carbon intensity of the energy mix is projected to decrease, the life-cycle emissions of electric vehicles could be cut by at least 73% by 2050.²¹

Due to the clear environmental benefits, changing demand of customers, increasing environmental responsibility and government subsidies, the popularity of EVs has been growing rapidly.²² In 2017, France announced that they committed to ban the sale of petrol and diesel cars by 2040, followed by the United Kingdom (2040), India (2030) and Norway (2025). Pure electric vehicles currently make up 66% of the global

¹⁷ Amnesty International, Time to Recharge: Corporate Action and Inaction to Tackle Abuses in the Cobalt Supply Chain, 2017: <https://www.amnesty.org/download/Documents/AFR6273952017ENGLISH.PDF>

¹⁸ The International Energy Agency tracking progress on transportation trends and emissions: <https://www.iea.org/etp/tracking2017/transport/>

¹⁹ More information on the International Transport Forum, available at: <https://www.itf-oecd.org/sites/default/files/docs/transport-co2-paris-climate-agreement-ndcs.pdf>

²⁰ More information on the Energy Efficiency and Conservation Authority of New Zealand website at: <https://www.eecabusiness.govt.nz/technologies/electric-vehicles/benefits-and-considerations/>

²¹ More information on the European Environment Agency website at: <https://www.eea.europa.eu/publications/electric-vehicles-from-life-cycle>

²² JP Morgan research, Driving into 2025: The Future of Electric Vehicles, available at: <https://www.jpmorgan.com/global/research/electric-vehicles>

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EV market with growth numbers higher than for plug-in hybrid vehicles.²³ According to the International Energy Agency, electric vehicles will grow from 3 million to 125 million by 2030,²⁴ indicating the need for more supply of EVs and thus also EV batteries.

Given the importance of the transport sector in regard to GHG emissions, Sustainalytics is of the opinion that POSCO's financing of components and materials for EV batteries can contribute to enable low carbon transport and thus contribute to the reduction of GHG emissions from the sector and thus contribute to a low carbon economy.

Impact of employment generation and SME development in South Korea

POSCO confirmed to Sustainalytics that a portion of the proceeds will be allocated to social projects such as (i) employment for underprivileged groups (disabled, the elderly and those from multicultural families), (ii) SME financing limited to companies with less than 20 employees along, or (iv) loans and expenditures for ventures and start-up companies younger than five years.

Small and Medium Enterprises (SMEs) are an important source of employment, accounting for about 70% of jobs, and are major contributors to value creation, generating between 50% and 60% of value added on average among OECD countries.²⁵ In 2013, SMEs made up 99.9% of the South Korean enterprises and accounted for 86.8% of total employment in South Korea.²⁶ In addition, studies indicate that young SMEs in particular contribute to job creation in developed markets,^{27,28} as well as South Korean enterprises with small numbers of employees.²⁹

However, due to historically grown economic dominance or larger business groups in South Korea, small companies are challenged with a lack of technological skills (and technological skills use), lack of automation and technological advances, low R&D investments, lack of access to finding workers and linkages with integration with global markets.³⁰

Given the local importance of SMEs for employment generation in South Korea and POSCO's limitation on age and number of employees, Sustainalytics considers POSCO's financing of small enterprises and young ventures and start-ups to have the potential to contribute to employment generation in South Korea.

Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. This sustainability bond advances the following SDG goals and targets:

Use of Proceeds Category	SDG	SDG target
Electric vehicle battery	11. Sustainable Cities and Communities	11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons.
Renewable energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix.

²³ McKinsey research on electric vehicles available at: <https://www.mckinsey.com/industries/automotive-and-assembly/our-insights/the-global-electric-vehicle-market-is-amped-up-and-on-the-rise>

²⁴ International Energy Agency research on electric vehicles available at: <https://www.iea.org/newsroom/news/2018/may/strong-policy-and-falling-battery-costs-drive-another-record-year-for-electric-ca.html>

²⁵ OECD, Enhancing the Contributions of SMEs in a Global and Digitalized Economy, <https://www.oecd.org/mcm/documents/C-MIN-2017-8-EN.pdf>

²⁶ Korea Policy Brief; https://www.oecd.org/industry/korea-promoting-innovative-entrepreneurship_EN.pdf

²⁷ Job Creation and the Role of Dependencies, <https://www.mv.helsinki.fi/home/ajripatt/HMRAD/dependent%20vs%20independent.pdf>

²⁸ More information on the International Labor Organization http://www.ilo.org/global/about-the-ilo/newsroom/comment-analysis/WCMS_218252/lang--en/index.htm

²⁹ Enhancing Dynamism in SMEs and Entrepreneurship in Korea, research by OECD available at: [http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=ECO/WKP\(2018\)58&docLanguage=En](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=ECO/WKP(2018)58&docLanguage=En)

³⁰ Enhancing Dynamism in SMEs and Entrepreneurship in Korea, research by OECD available at: [http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=ECO/WKP\(2018\)58&docLanguage=En](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=ECO/WKP(2018)58&docLanguage=En)

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SME financing and microfinance	8. Decent Work and Economic Growth	8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium sized enterprises, including through access to financial services. 8.5 By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value.
Venture Investment & Incubation		
Support for Underprivileged	10. Reduced inequalities	10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status.

Conclusion

POSCO has developed the POSCO Sustainable Financing Framework under which it intends to issue Sustainable Financing Transactions ("SFT"), including bonds and loans, and use the proceeds to finance and/or refinance projects that will deliver environmental and social benefits to support POSCO's sustainability strategy.

The use of proceeds categories of the POSCO Sustainable Financing Framework – (i) Electric vehicle battery, (ii) Renewable energy, (iii) Support to Underprivileged, (iv) Support to SME's growth and (v) Venture Investment & Incubation – align with those recognized as impactful by the Sustainability Bond Guidelines 2018 and the Green Loan Principles 2018. The eligible projects include the financing of renewable energy production and the production of materials and components to be used for electric vehicle batteries and energy storage, as well as financing POSCO Humans,³¹ a subsidiary intending to provide job security for disabled, the elderly and those from multicultural families and support to local SMEs.³² Sustainalytics believes that the use of proceeds will help to facilitate low-carbon technologies and considers the social projects to be sufficiently targeted to achieve positive social impact.

While Sustainalytics acknowledges POSCO's efforts to mitigate risk related to the projects financed, Sustainalytics encourages the company to disclose more detail on mitigation activities related to biodiversity.

Based on the above Sustainalytics considers POSCO's Sustainable Financing Framework to be robust and credible.

³¹ POSCO Humans subsidiary website available at: <http://www.poscohumans.com/kr/main.do>

³² As defined by the South Korean Enforcement Decree of the framework Act on Small and Medium Enterprises

Appendices

Appendix 1: Sustainability Bond / Sustainability Bond Programme - External Review Form

Section 1. Basic Information

Issuer name:	POSCO
Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable: <i>[specify as appropriate]</i>	POSCO Sustainable Financing Framework
Review provider's name:	Sustainalytics
Completion date of this form:	April 2019
Publication date of review publication: <i>[where appropriate, specify if it is an update and add reference to earlier relevant review]</i>	April 2019

Section 2. Review overview

SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBPs and SBPs:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting |

ROLE(S) OF REVIEW PROVIDER

- | | |
|--|--|
| <input type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (if applicable)

Please refer to Evaluation Summary above.

Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

1. USE OF PROCEEDS

Overall comment on section (if applicable):

The use of proceeds categories of the POSCO Sustainable Financing Framework are – (i) Electric vehicle battery, (ii) Renewable energy, (iii) Support to Underprivileged, (iv) Support to SME's growth and (v) Venture Investment & Incubation align with those recognized as impactful by the Sustainability Bond Guidelines 2018 and the Green Loan Principles 2018.

Use of proceeds categories as per GBP:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Renewable energy | <input type="checkbox"/> Energy efficiency |
| <input type="checkbox"/> Pollution prevention and control | <input type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input checked="" type="checkbox"/> Clean transportation |
| <input type="checkbox"/> Sustainable water and wastewater management | <input type="checkbox"/> Climate change adaptation |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes | <input type="checkbox"/> Green buildings |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | <input type="checkbox"/> Other (please specify): |

If applicable please specify the environmental taxonomy, if other than GBPs:

Use of proceeds categories as per SBP:

- | | |
|--|--|
| <input type="checkbox"/> Affordable basic infrastructure | <input type="checkbox"/> Access to essential services |
| <input type="checkbox"/> Affordable housing | <input checked="" type="checkbox"/> Employment generation (through SME financing and microfinance) |
| <input type="checkbox"/> Food security | <input checked="" type="checkbox"/> Socioeconomic advancement and empowerment |

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- Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBPs
 Other (please specify):

If applicable please specify the social taxonomy, if other than SBPs:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

POSCO's project evaluation and selection process will be executed through a Sustainable Financing Working Group ("SFWG") with cross-departmental representation from the Finance, Corporate Sustainability, Operation and Audit Departments. An annual review of the selected Eligible Projects will be performed to ensure compliance with eligibility criteria. Sustainalytics views this process aligned with market practices.

Evaluation and selection

- | | |
|---|--|
| <input checked="" type="checkbox"/> Credentials on the issuer's social and green objectives | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Sustainability Bond proceeds | <input type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input checked="" type="checkbox"/> Summary criteria for project evaluation and selection publicly available | <input type="checkbox"/> Other (please specify): |

Information on Responsibilities and Accountability

- | | |
|---|---|
| <input type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input checked="" type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other (please specify): | |

3. MANAGEMENT OF PROCEEDS

Overall comment on section (if applicable):

POSCO confirmed that it will establish a Sustainable Financing Register through which it will track and record the proceeds of each Sustainable Financing Transaction. Pending full allocation, the unallocated proceeds will be held in accordance with POSCO's general liquidity management policy. Sustainalytics assesses this process as aligned with market practices.

Tracking of proceeds:

POSCO Sustainable Financing Framework

- Sustainability Bond proceeds segregated or tracked by the issuer in an appropriate manner
- Disclosure of intended types of temporary investment instruments for unallocated proceeds
- Other (*please specify*):

Additional disclosure:

- | | |
|--|---|
| <input type="checkbox"/> Allocations to future investments only | <input checked="" type="checkbox"/> Allocations to both existing and future investments |
| <input type="checkbox"/> Allocation to individual disbursements | <input type="checkbox"/> Allocation to a portfolio of disbursements |
| <input type="checkbox"/> Disclosure of portfolio balance of unallocated proceeds | <input type="checkbox"/> Other (<i>please specify</i>): |

4. REPORTING

Overall comment on section (if applicable):

POSCO commits to publish an annual Sustainable Financing Report. The (i) allocation report will comprise data on the aggregate amount allocated to Eligible Projects, the remaining balance of unallocated proceeds and examples of Eligible Projects. With regards to the (ii) impact reporting, POSCO will report on a series of a series of KPIs for each Eligible Project Category such as: case study or sales volume of eligible projects to electric vehicles battery producers, renewable energy generation (MWh), CO2 (or other GHG) emissions avoided/ reduced (in tonnes of CO2e), number of jobs created or others. Sustainalytics views the scope and granularity of POSCO's reporting to be aligned with current market practices.

Use of proceeds reporting:

- | | |
|--|--|
| <input type="checkbox"/> Project-by-project | <input checked="" type="checkbox"/> On a project portfolio basis |
| <input type="checkbox"/> Linkage to individual bond(s) | <input type="checkbox"/> Other (<i>please specify</i>): |

Information reported:

- | | |
|---|--|
| <input type="checkbox"/> Allocated amounts | <input checked="" type="checkbox"/> Sustainability Bond financed share of total investment |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

Frequency:

- | | |
|---|--------------------------------------|
| <input checked="" type="checkbox"/> Annual | <input type="checkbox"/> Semi-annual |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

Impact reporting:

POSCO Sustainable Financing Framework

- Project-by-project
 On a project portfolio basis
 Linkage to individual bond(s)
 Other (please specify):

Frequency:

- Annual
 Semi-annual
 Other (please specify):

Information reported (expected or ex-post):

- GHG Emissions / Savings
 Energy Savings
 Decrease in water use
 Number of beneficiaries
 Target populations
 Other ESG indicators (please specify): case studies or sales volumes of eligible projects to electric vehicles battery producers, renewable energy generation (in MWh), number or corporation financed by Eligible Use of Proceeds, number of jobs created, number and type of disadvantaged communities helped.

Means of Disclosure

- Information published in financial report
 Information published in sustainability report
 Information published in ad hoc documents
 Other (please specify): Sustainable Financing Report published on POSCO website.
 Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

<http://www.posco.co.kr/homepage/docs/eng6/jsp/invest/archive/s91b60100701.jsp>

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

- Consultancy (incl. 2nd opinion)
 Certification
 Verification / Audit
 Rating
 Other (please specify):

Review provider(s):**Date of publication:****ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP AND THE SBP**

- i. Consultant Review: An issuer can seek advice from consultants and/or institutions with recognized expertise in environmental and social sustainability or other aspects of the issuance of a Sustainability Bond, such as the establishment/review of an issuer's Sustainability Bond framework. "Second Party Opinions" may fall into this category.
- ii. Verification: An issuer can have its Sustainability Bond, associated Sustainability Bond framework, or underlying assets independently verified by qualified parties, such as auditors. In contrast to certification, verification may focus on alignment with internal standards or claims made by the issuer. Evaluation of the environmentally and socially sustainable features of underlying assets may be termed verification and may reference external criteria.
- iii. Certification: An issuer can have its Sustainability Bond or associated Sustainability Bond framework or Use of Proceeds certified against an external green and social assessment standard. An assessment standard defines criteria, and alignment with such criteria is tested by qualified third parties / certifiers.
- iv. Rating: An issuer can have its Sustainability Bond or associated Sustainability Bond framework rated by qualified third parties, such as specialized research providers or rating agencies. Sustainability Bond ratings are separate from an issuer's ESG rating as they typically apply to individual securities or Sustainability Bond frameworks / programmes.

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Sustainalytics

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