

# China Steel Corporation

November 1<sup>st</sup>, 2018



Sustainability, our STEEL commitment.

<http://www.csc.com.tw/csc/hr/csr/index.htm>



- **Global Steel Market Analysis**
- **Sales Analysis**
- **Operation and Development Strategies**
- **Dividend Policy**
- **Appendixes: Financial Status & Performance**

## Safe Harbor Statement

This presentation may contains forward-looking statements. All statements other than historical and current fact, without limitation, including business outlook, predictions, estimates, are forward-looking statements.

Such statements are based upon management's current beliefs and expectations and are subject to various risks, uncertainties and other factors that could cause actual outcomes and results to differ materially.

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This cautionary statement is applicable to all forward-looking statements contained in this presentation.



# **Global Steel Market Analysis- the US & EU**

- **The US market sees downward correction after prices soaring for months.**

**Prices in the US peaked in July and August after imposing steel tariffs under Section 232 on steels and started to decrease since September. Although US mills claim the price has reached the bottom and will increase in the near future, local downstream users are still in a wait and see mode and expect the price will go down further.**

- **Steel demand in the EU remains flat, while limited effect of provisional safeguard measures is expected.**

**European price is supported by the safeguard measures. However, predatory priced imports and the lower-than-expected demand growth remain the main concerns going forward.**



# **Global Steel Market Analysis - Japan**

- **High Inventory :**

**Due to consecutive typhoons, pre-stocking of steel mills for equipment revamping, and conservative forecast for global markets.**

- **Tight Supply-demand Balance Due to Robust Demand and Tight Upstream Supply :**

**Domestic flat steel consuming industry performs well and supply side is affected by production line failures and natural disasters.**

- **Market Outlook :**

- ✓ **The post-disaster reconstruction would raise potential demand, but the lack of manpower supply may affect the releasing schedule.**
- ✓ **Demand should remain stable with some softening expected.**



# **Global Steel Market Analysis - ASEAN**

- **Upstream Supply Increases in Southeast Asia :**  
Southeast Asia shows strong demand growth potential, and new expansion projects are expected to replace imports with local supplies.
- **Continuous Growth in Auto Industry :**  
Both sales and production volume of automobile and motorcycle in Thailand and Indonesia has been growing this year compared to last.
- **Market Outlook :**  
Although the HR price was weak in Q3, the market still remains cautiously optimistic towards Q4 with the support of winter output cuts in China.



# Global Steel Market Analysis - China

- **Steel Price Remains High :**

The market price of HR coils has been at historically high levels, comparing to the same period, throughout the year.

- **Steady Inventory Consumption :**

Steel inventory remains relatively low, seeing no signs of destocking by cutting price.

- **Limited Supply :**

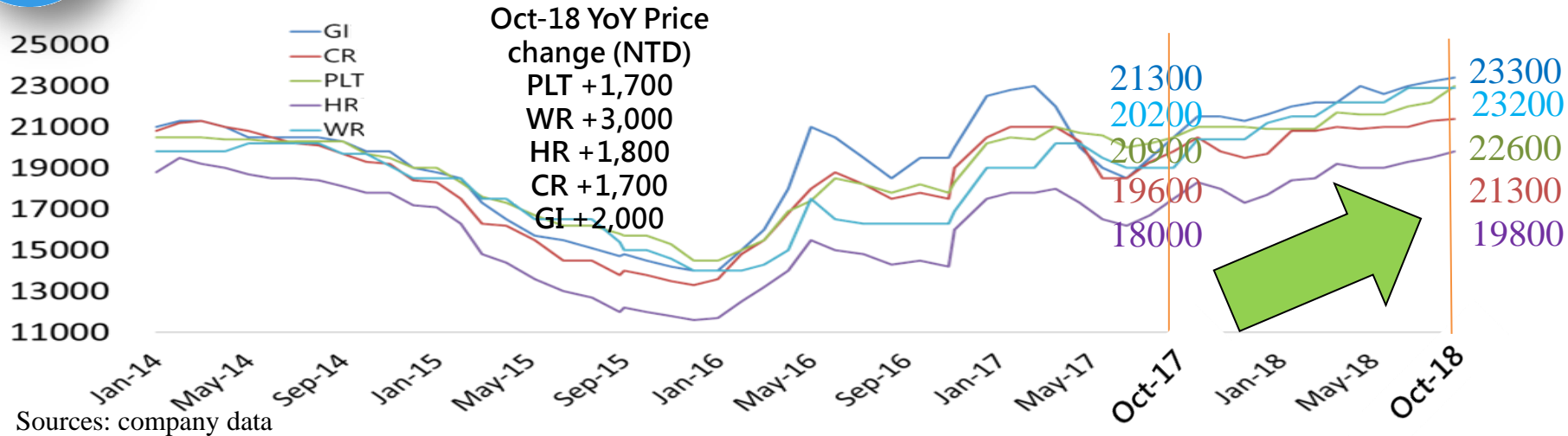
The steel market is still supported by the limited production even though the detailed cutting rates will be set by local authorities.

- **Market Outlook :**

The steel price is expected to fluctuate narrowly at a high level in Q4 owing to positive and negative factors such as low inventory, limited production and the US-China trade war.



# Global Steel Market Analysis-Taiwan



## • Plate/ Bar and Rod :

- **Plate** : Shipbuilding demand has recovered and plate consumption is expected to be boosted gradually by the demand from infrastructures, building constructions and substructures.
- **Bar/Rod** : Downstream customers' export orders show stable outlook, owing to strong economic growth in the US and EU, NTD depreciation and transfer of orders from China.

## • Flat Products :

- Steel export of re-rollers hit a bottleneck as a result of the US & EU trade barriers. CSC proactively assists customers to transfer sales into other markets.
- Domestic spot price is expected to stay supported through the recovery of construction industry, stable demand of automobiles and home appliances, and reduction in imports.





# **Global Steel Market Analysis - Conclusion**

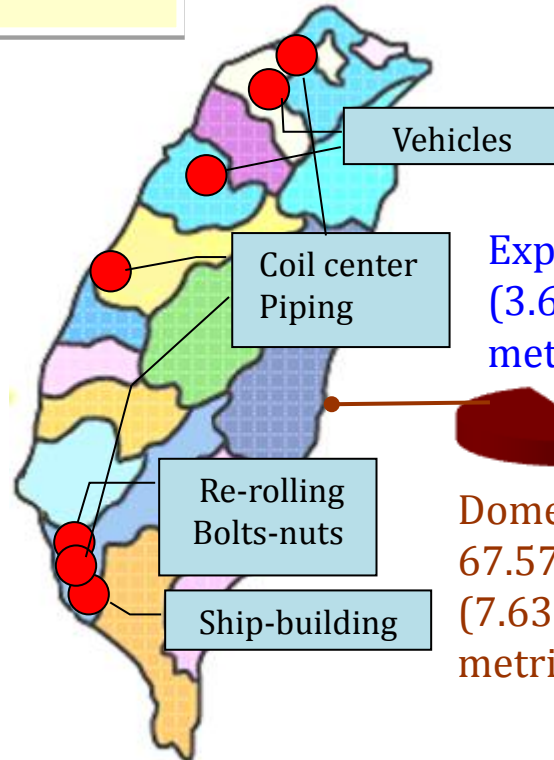
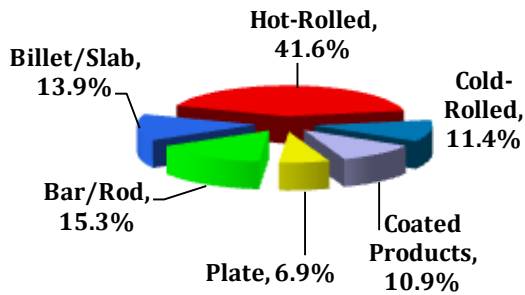
- **The World Steel Association (worldsteel) projects global steel demand will reach 1,658 Mt in 2018, an increase of \*2.1% over 2017. In 2019, the global steel demand will further grow by 1.4% to 1,681 Mt.**  
\* : The real global growth rate considering the adjustment of production supplied by illegal induction furnaces in China in 2017.
- **Steel prices in the US & EU rangebound at a high level benefiting from trade protectionism; however, local downstream users being in a wait and see mode and lower-priced imports remain the curbing factors for steel price.**
- **Spot price in Asia experienced slight downward correction recently because of predatory pricing of imports from Russia and India. However, with productions reduced by natural disasters in Japan and output restrictions in China, the price is expected to stabilize.**
- **Benefiting from NTD depreciation and the increase in domestic steel demand, the price outlook for 2019 Q1 in Taiwan is cautiously optimistic.**



# Sales - (CSC & BF products of DSC)

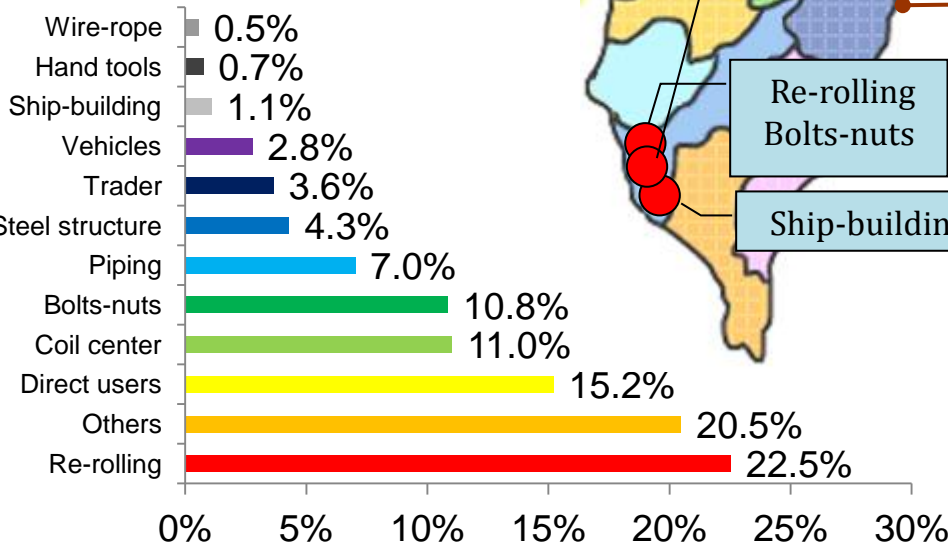
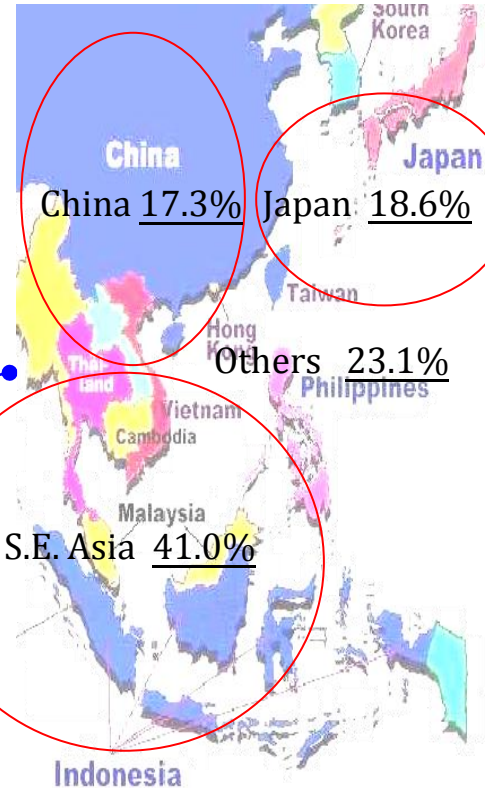
2018.1~3Q sales volume (CSC & BF products of DSC) totaled 11.29 million metric tons

Domestic/Export sales volume breakdown of 2018.1~3Q



Export 32.43%  
(3.66million metric tons)

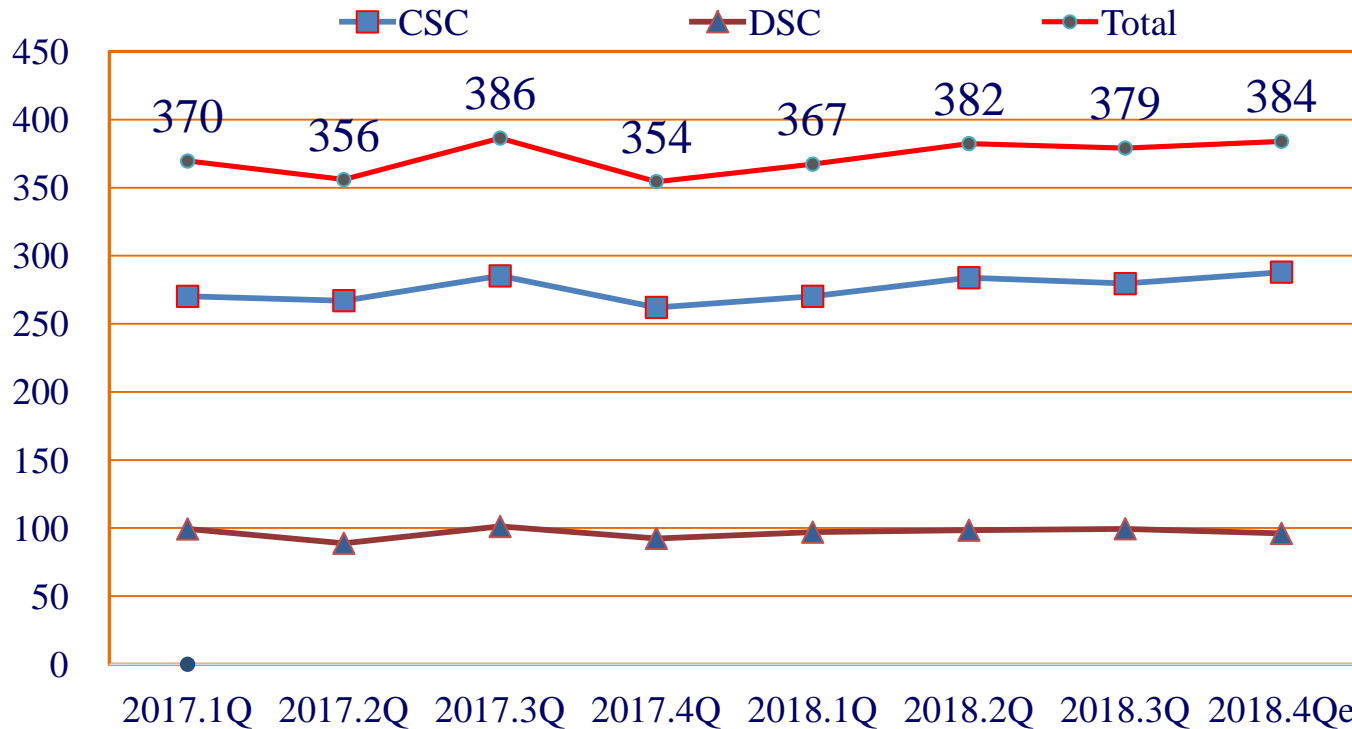
Domestic 67.57%  
(7.63million metric tons)





# Sales Analysis (CSC & BF Products of DSC)

Sales Volume (10 thousand tons)



- Although the sales volume of CSC Group in 2018.H2 enter a plateau period as a result of the effects of trade barrier from the US and EU, the profit margin is getting higher quarter-by-quarter attributed to increasing steel price out of growing global economy.
- For those downstream customers impaired by the trade war, CSC will keep assisting them in transferring sales into other markets and fulfilling their requirements on quality and delivery period.



# Operation and Development Strategies

CSC maps out its 2018~2022 operation and development strategies in steel business based on its vision “We aspire to be a trustworthy steel company of global distinction that pursues growth, environmental protection, energy saving and value-innovation.” as follows:

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**To pass down corporate culture, implement career planning, create LOHAS environment and promote image of CSC Group;**

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**To improve customer lean service, strengthen strategic partnerships, solidify domestic market and expand sales channels of export;**

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**To integrate resources of CSC Group, integrate related industries and promote synergy of CSC Group;**

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**To research and develop advanced products, materials for defensive, applied technologies, innovate intelligent production and increase chain value of steel industry;**

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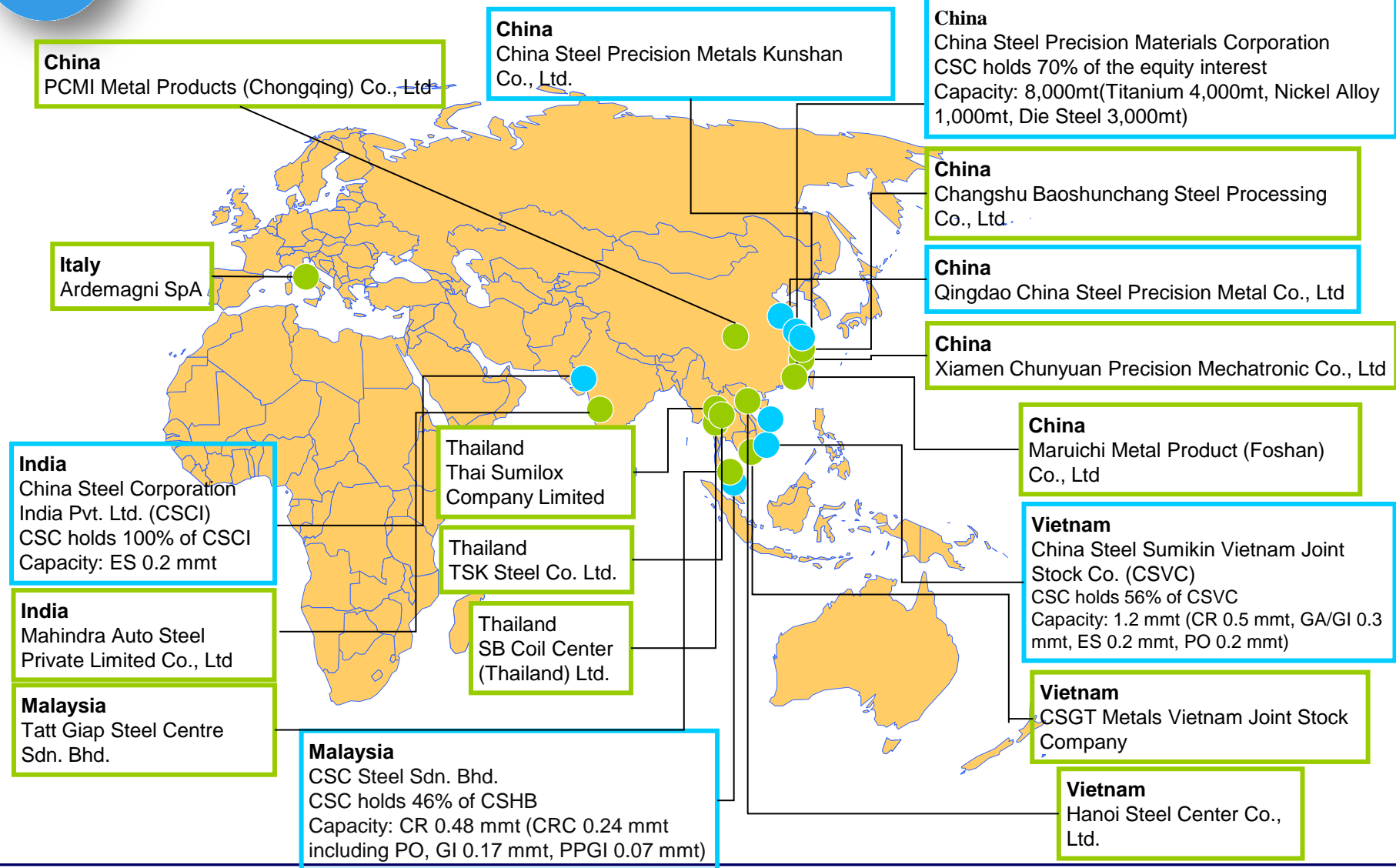
**To enhance engineering capabilities of CSC Group, and develop green and rail businesses carefully;**

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**To reduce cost continuously, elaborate on energy saving and environmental protection, strengthen occupational safety and health, and raise value and volumes of CSC Group steel products.**

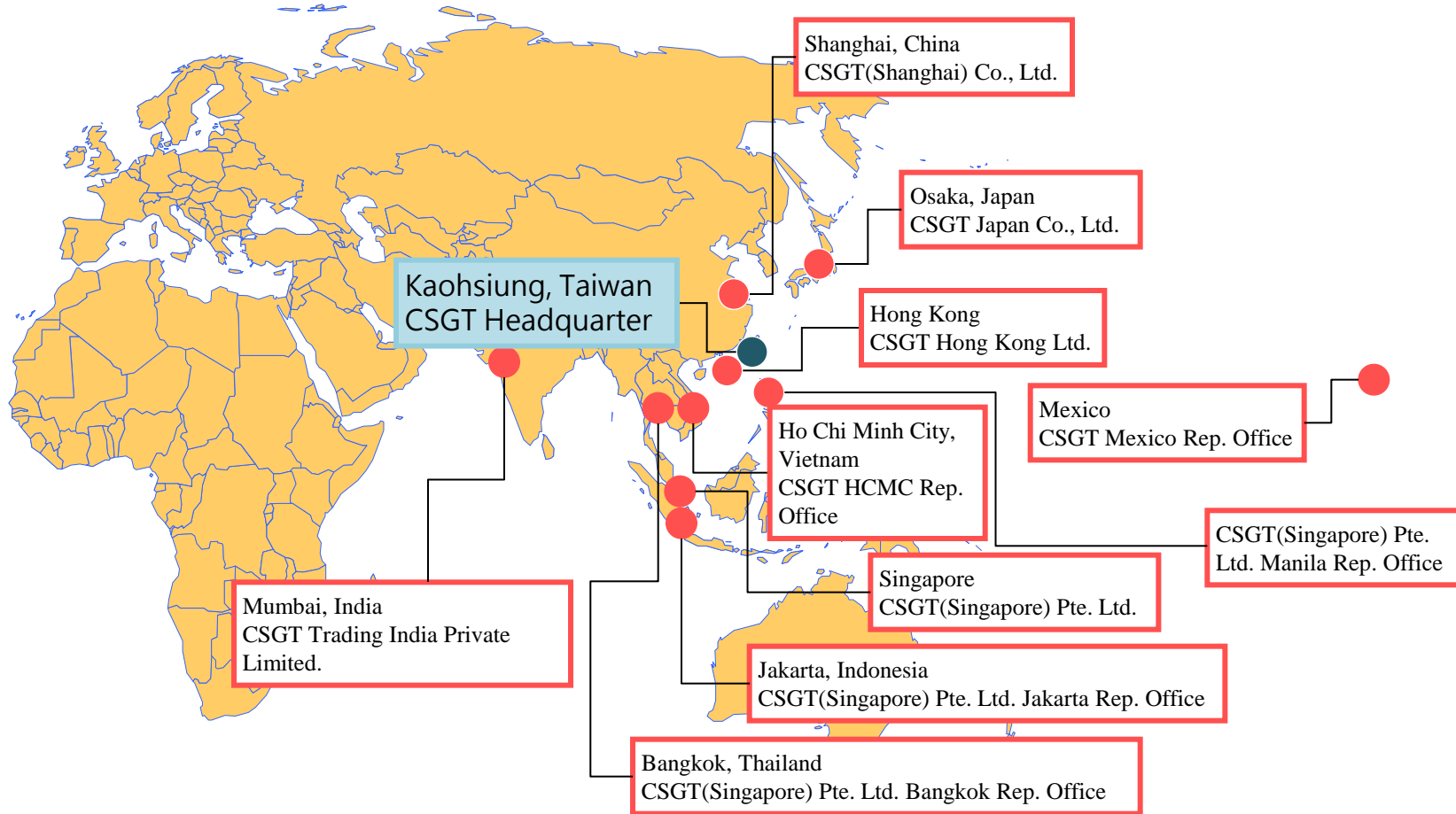


# Overseas Production Sites and Sales Channels





# Sales Channels-CSGT



● Overseas Subsidiaries:5 ; Representative offices:5



# Production Site - CSVC & CSCI

- CSVC and CSCI officially started operation in Nov 2013 and May 2015 respectively.
- Operating performance in recent years:

Unit : USD Thousands ; tons

CSVC	2016	2017
Operating Revenues	432,741	563,428
Profit Before Income Tax (loss)	1,052	1,917
Sales Volume	877,233	883,495

- CSVC may experience worse performance in 2018 due to rising protectionism in the US and Europe, higher utilities cost in Vietnam, depreciation of VND against USD and higher interest rate.
- CSVC's estimated sales volume reaches 969,000MT in 2018, a 9.7% increase over 2017.

Unit : Indian Rupee Thousands ; tons

CSCI	2016	2017
Operating Revenues	4,021,765	7,932,498
Profit Before Income Tax (loss)	(1,085,247)	136,412
Sales Volume	105,632	176,724

- CSCI may experience loss in 2018 resulting from the deep depreciation of INR against USD.
- CSCI's estimated sales volume reaches 182,000MT in 2018, a 3% increase over 2017.



# Overseas Investment - FHS

## Off-take Statistics

Unit : ten thousand tons

	Item	2017	Jan.~Sep. 2018		2019
		Realized volume	Supply*	Realized volume	Plan
	HR	13.8	16.2	15.0	24.0
	WR	5.3	8.8	6.9	24.0
	SLAB	1.1	21.5	21.5	60.0
<b>Foreign market</b>		<b>20.2</b>	<b>46.5</b>	<b>43.4</b>	<b>108.0</b>
	HR	2.5	4.5	3.2	planning
<b>Vietnam</b>		<b>2.5</b>	<b>4.5</b>	<b>3.2</b>	

\*1.FHS decided to offer the available volume by month instead of yearly plan because the launch schedule of No.2 BF had not confirmed yet at the time of drafting the yearly plan.

2.The realized volume here means “booked orders”, and there is some time lag for the final delivery.

## Export Destination of FHS HR&WR Products Sold by CSGT

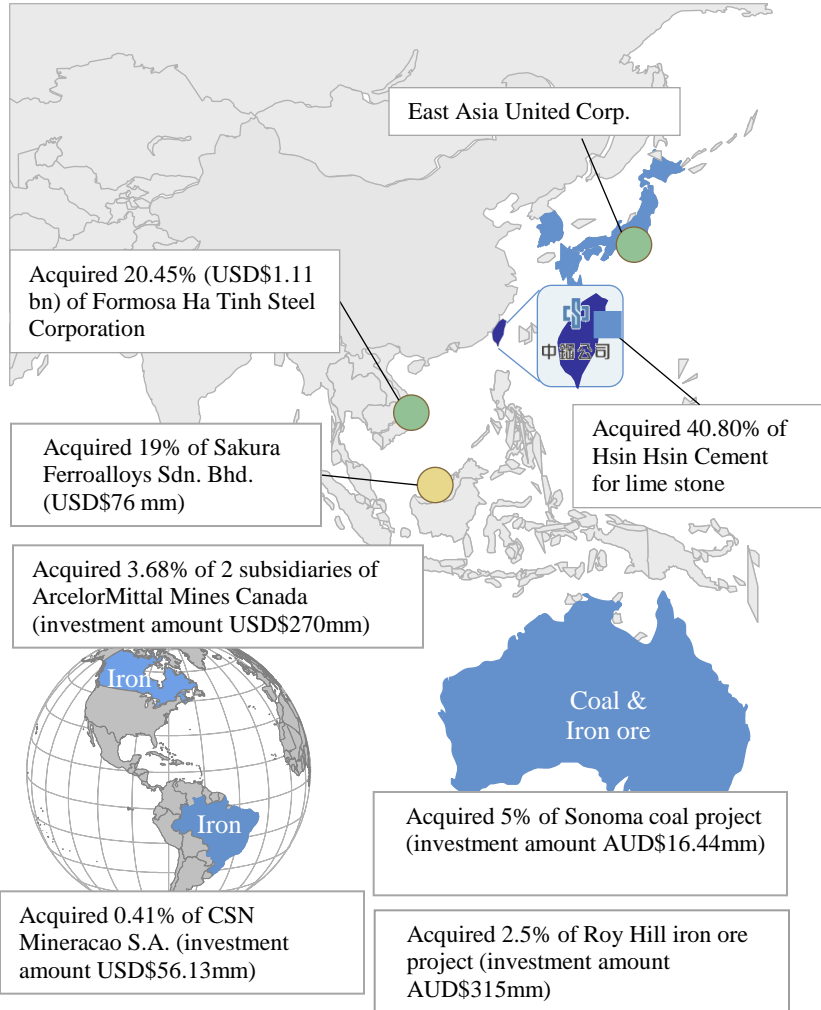
Country	Malaysia	Indonesia	Thailand	Others
Ratio	60%	24%	12%	4%





# Raw Materials Investment

■ Major raw materials    ● Semi-products    ● Ferroalloy



## Major raw materials

- Iron ore and coking coals are secured by long-term contract (volume)
- Partner with parties in Japan, South Korea, Canada, Australia and Brazil
- Secure lime stone - acquired 40.80% (group shareholding) in Hsin Hsin Cement

## Semi-products

- Secure supplies from strategic partnerships and JV's
- East Asia United Steel Corp.
  - NSSMC's Wakayama plant as a reliable supply source for slab
- Formosa Ha-Tinh Steel Corporation
  - As a mutual supply of hot-rolled and slab products.

## Ferro-alloy

- Long-term contract to reduce market risks
- Purchased 19% stake in Sakura Ferroalloys Sdn. Bhd.
  - Ensures a long-term stable supply of ferro-alloy, and lowers the acquisition cost.



# Green Energy Business -Substructures

## Sing Da Marine Structure Corporation

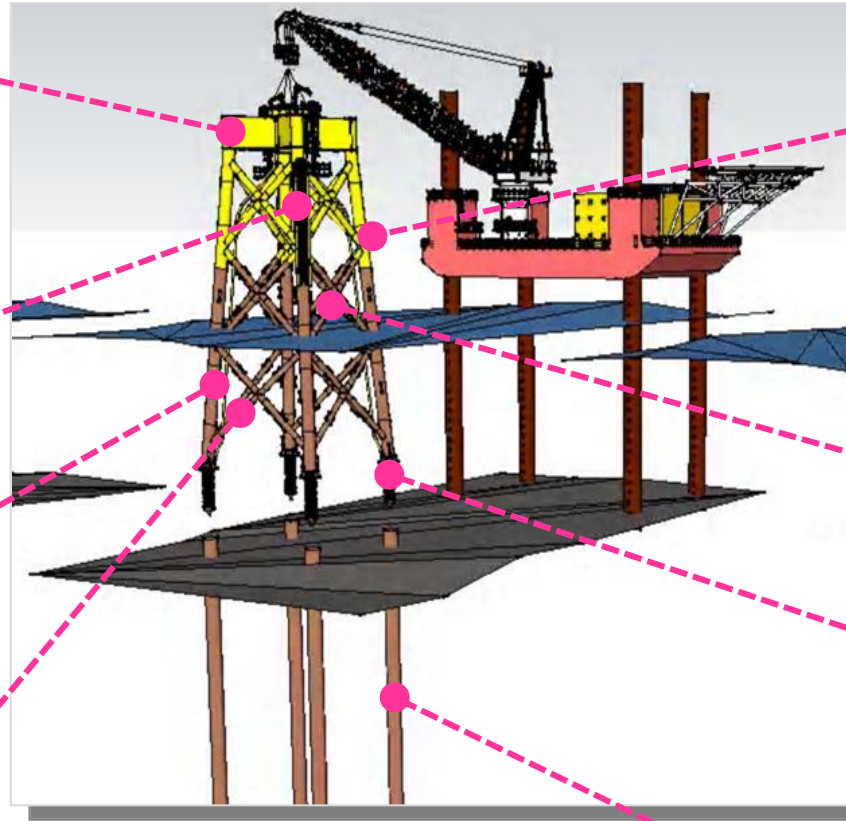
- Capacity: 50 jacket substructures/year.
- Schedule: to finish the construction at the end of 2019 and start production in 2020.
- Capital: NTD\$6.842 billion with equity ratio 50%, CSC holds 100% of shares.

## • **CSC Subsidiaries Included in the Supply Chain**


1. CSMC : TP 、 Pin Pile 、 Node
2. CSSC : Node 、 Stabbing Pin 、 Secondary Steel
3. CSAC : Anode
4. CEC : Electric works




# Offshore Wind Farm Substructure Supply Chain Plan



CSMC	
CSBC	
CTCI	
<b>TP</b>	

	CSMC	HC WanChi
	CSSC	SC Qi Ye Le An HC
<b>Node</b>		


SC JC	CSSC	
<b>Secondary Steel</b>		

<b>Bracing</b>	Wanchi
	FEM

RS	
CJMI	
WanChi	
<b>LEG</b>	

	CSSC	HM Le An LL MRY
	<b>Stabbing</b>	

CSAC	
FM	
<b>Anode</b>	

	CSBC
	FHI
	CSSC
<b>Pin pile</b>	

## Potential Domestic Supply Chain list:

CSMC、CSSC、CSAC、CSBC、Formosa Heavy Industries(FHI)、CTCI、Fer Mo(FM)、Rong Sheng(RS)、Cheng Jan(CJMI)、WanChi、Far East Machinery(FEM)、Liang Lian(LL)、Xinguang Steel(XS)、Ming Rong Yuan(MRY)、Heng Chang(HC)、Sheng Chun(SC)、Jin Qing(JQ)、Le An、Chang Mao(CM)、Qi Ye。

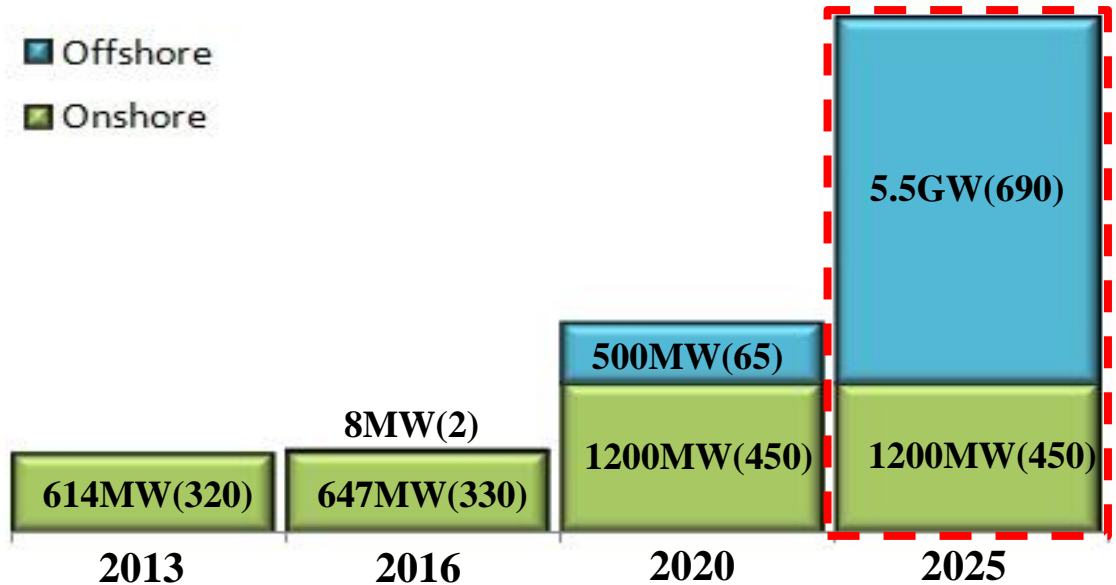


# Green Energy Business: #29 Offshore Wind Farm

## #29 Offshore Wind Farm

- Developers: China Steel Corporation, CIP and DGA.
- Plan: Got allocation of 300MW grid capacity for grid connection in 2024.

- Assuming 8MW turbines are used, with installed capacity of offshore wind power of 5.5 GW targeted by 2025, the market demand for steel from offshore wind farm could reach 1.7 million tons (turbine + substructures).



Resource: Ministry of Economic Affairs



# **Green Energy Business: #29 Offshore Wind Farm**

## **● Current Status of Offshore Wind Farm Development**

**Current target is to get all the 18 required documents for Establishment Permit. There are still 4 items and 3 parallel investigation documents ongoing. We endeavor to sign the Power Purchase Agreement in this year while the schedule is subject to the reviewing authority .**

## **● Status of the Supply Chain Development**

**In order to establish Taiwan's offshore wind industry and avoid overlapping investment, CSC acts as a facilitator in Wind-Team, assists local component manufacturers in improving their capabilities through the development of #29 wind farm, and encourages integration of nearby wind farm developers.**

**For 19 industrial localization items covered in the wind farm development and substructure manufacturing plans, there are total 60 companies joining the team with 24 Tier 1 companies and 40 Tier 2 companies (4 repetitions included).**



# Green Energy Business : Solar Power

In order to put Corporate Social Responsibility into practice and respond to government's green energy policy, China Steel, together with its' subsidiaries, including CEC, CSCC, and DSC, has established CSC Solar, a solar energy company. CSC Solar plans to invest TWD 4.36 billion in order to create 80MW electricity capacity .

Planning PV System in CSC Group (80MWp 2017-2019)	
Capacity(kWp)	80,000
Annual Energy Output(kWh)	102,000,000
Require Area(m2)	800,000



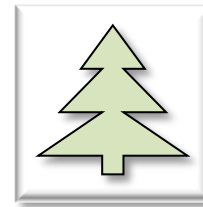
**100 million kwh electricity output and NTD 400 million revenue p.a.**



**Reduce CO2 emission by 52,900 tons p.a.**



**Electricity output is equivalent to the power demand of 1,430 households.**



**The effect of CO2 emission reduction equals to the effect of planting 4,831,050 trees.**



# R&D on High-End Products : High Grade ES Applications

## Electrical vehicles

**thickness:**  
**0.35~0.25 mm**



Tesla-model S, X, 3

Volkswagen-  
Passat  
(Hybrid)

**36,000 MT shipments  
expected in 2018  
(40,000 MT expected in  
2019)**

## High efficiency motors



IE3/IE4

**thickness:**  
**0.50~0.35 mm**

Ultra high power  
industrial motors

## High-value home appliance



Blender  
High speed vacuum  
Inverter  
compressors

**thickness:**  
**0.35~0.20 mm**

## High-end applications



High speed spindle  
motors  
Servo motors

**thickness:**  
**0.35~0.15 mm**



Unmanned  
Aerial Vehicle

## Transformer



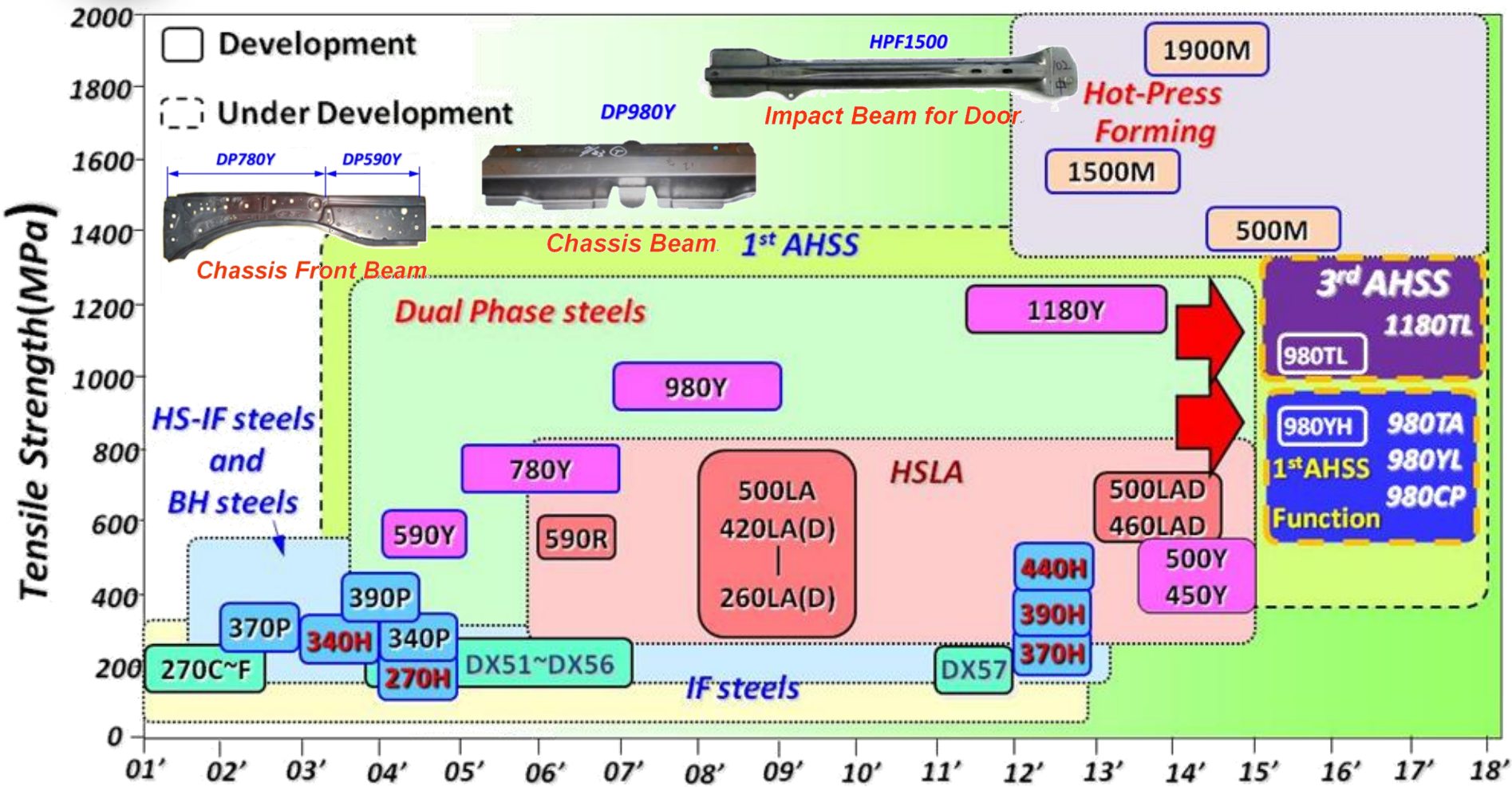
Commercial  
transformers

Reactor

**thickness:**  
**0.35~0.15 mm**



# R&D on High-End Products : Cold-Rolled Steel for Vehicle







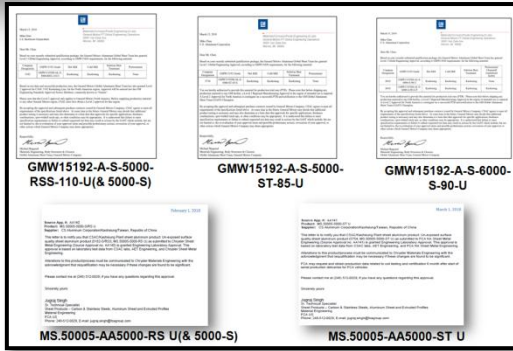
## R&D on High-End Products : Hot Stamping Steel

- In order to fulfill the growing demand for lightweight and safety from automotive industry, CSC and Engley cooperatively established Honley Auto. Parts Co.,Ltd., which focus on hot stamping die design and parts production in Taiwan. To stay close to the auto parts market, Honley has established production lines in Changchun, Chongqing, and Kunshan successively.
- Honley's parts demand and CSC's hot stamping steel consumption forecasts are as follows:

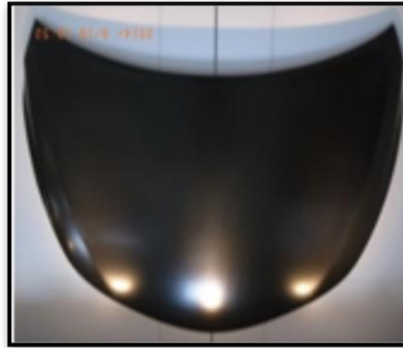
Year	Parts Demand	CSC's hot stamping steel consumption
2018e	70K PCS	3,000ton
2019e	4,000K PCS	14,500ton
2020e	6,000K PCS	23,000ton



# R&D on High-End Products : Aluminum for Vehicle



Approval Certificates



Outer Hood



Inner Hood



Electric Scooter



Bumper

- Sales volume in 2018 : 852 tons in domestic market and 873 tons in overseas market.
- Products are tested and received 6 certificates from General Motor and 3 from FCA Group.



# Increasing High-End Product Ratio

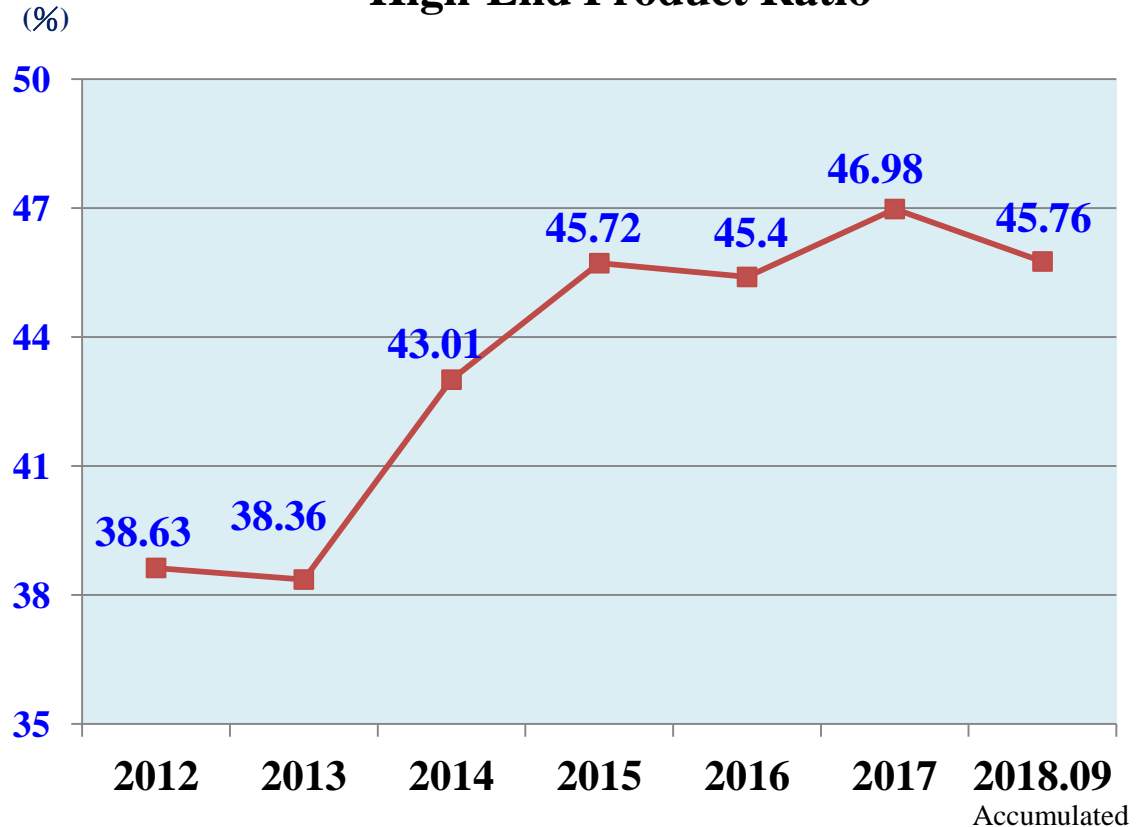
## CATEGORY

HIGH PERFORMANCE

HIGH TECHNICAL CONTENT

HIGH VALUE-ADDED

### High-End Product Ratio



\* In early 2017, CSC reviewed and revised the definition of high-end product. The high-end product ratio for the past few years is adjusted accordingly.



# Upgrading Steel-using Industries

## Strengthening partnerships

Promoting  
Joint Research  
Laboratories

Cultivating  
Alliance for  
Steel Industries

## Increasing value of industrial chain

Enhancing  
added value of  
products

Expanding  
demand of high  
grade steel at  
terminal market

## Broadening differentiation of products

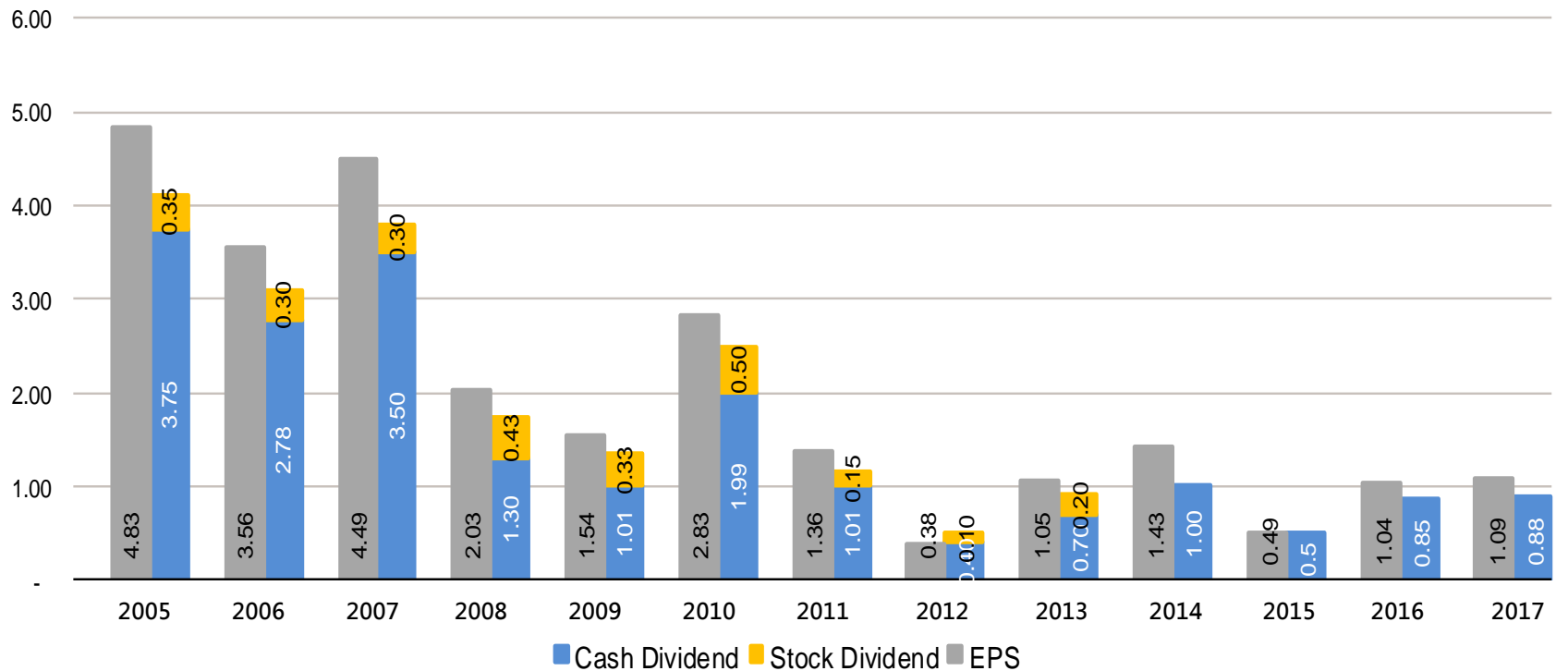
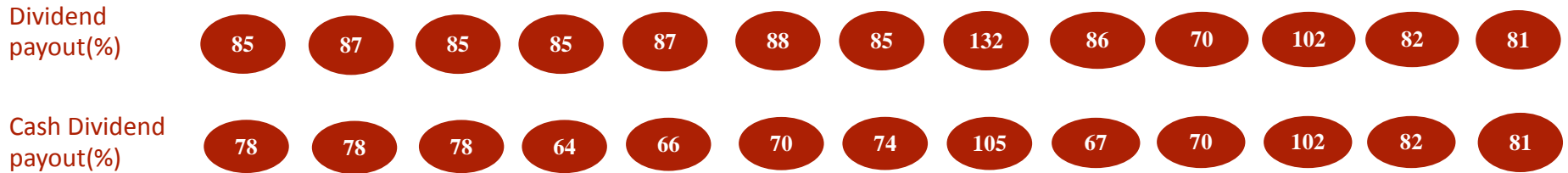
Developing  
collaboratively  
customized  
products

Strengthening  
Early Vendor  
Involvement  
and technical  
marketing



# Dividend Policy

(in NTD per share)



# Closing Remarks

**Thank you!**



# Appendix 1:

# Consolidated Operating Results

Unit: NTD millions

Item	2017.1~9	*2018.1~9	YoY
Consolidated Operating Revenue	256,767	296,446	+15%
Consolidated Operating Income	16,478	25,032	+52%
Consolidated Operating Income Margin	6.42%	8.44%	
Consolidated Income Before Income Tax	14,850	23,594	+59%

\*preliminary result





## Appendix 2:

# Consolidated Income Statement

Unit: NTD millions

IFRSs	2017.1H	2018.1H
Revenues	167,849	193,714
Gross profit	18,732	22,133
Gross margins	11.16%	11.43%
Profit before tax	9,814	13,880
<u>Net profit</u>	<u>8,686</u>	<u>13,053</u>
Attributable to		
Owners of the corporation	7,087	11,169
Non-controlling interests	1,599	1,885
Earnings Per Share(NTD)	\$ 0.46	\$0.72



# Appendix 3: Consolidated Financial Status

Unit: NTD millions

	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	6/30/2018
Debt	362,630	348,049	357,414	346,542	335,764	355,004
Debt/Equity	113.55%	103.99%	111.44%	105.15%	101.15%	107.06%
Asset	681,999	682,737	678,139	676,122	667,716	686,598
Debt/Asset	53.17%	50.98%	52.71%	51.25%	50.29%	51.70%
Net Debt *	264,285	250,540	269,034	254,390	238,426	228,869
Net Debt/Asset	49.51%	46.88%	39.67%	37.62%	35.71%	33.33%

Since 2009, CSC group have issued corporate bonds and signed syndicated bank loans for DSC's expansion project and overseas investments.

\* 2013~2017 :

Net debt = Interest Bearing Debt – cash & cash equivalents – (*financial assets at fair value through profit or loss-current* + *available-for-sale financial assets-current* + *held-to-maturity financial assets-current* + *derivative financial assets for hedging-current*)

\* 2018~ :

Net debt = Interest Bearing Debt – cash & cash equivalents – (*financial assets at fair value through profit or loss-current* + *financial assets at fair value through other comprehensive income-current*)