

# China Steel Corporation

November 18<sup>th</sup>, 2020



Sustainability, our STEEL commitment.  
<http://www.csc.com.tw/csc/hr/csr/index.htm>



# AGENDA

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- **Steel and Raw Material Dynamics**
- **CSC Operation and Development Strategies**
- **ESG Performance**
- **Closing Remarks from Chairman**
- **Appendixes: Sales Analysis, Financial Performance and Dividend Policy**

## 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.

We caution readers not to place undue reliance on forward-looking statements as these statements speak only as of the date they are made, and we disclaim any obligation to, update or alter any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law or regulation.

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

# Steel and Raw Material Dynamics

# Major Steel Market Dynamics

## ➤ US&EU :

- ✓ Though the coronavirus confirmed cases are rising in Europe again, the demand of downstream industries (ex: automobile, home appliance, etc.) keeps rebounding, pushing up local steel prices.
- ✓ The US economy and demand of downstream industries are recovering while local steel mills maintain moderate capacity, leading to a tight supply.

## ➤ China :

- ✓ Early this year, steel inventory increased and steel price plummeted due to the pandemic. As the virus being contained, the stimulus package and the recovery of auto industry lend support to the price of steel products and seaborne iron ore.

Unit : 10,000 tons **Jan. ~ Sep. 2020**



## ➤ South Asia :

- ✓ The regional demand and steel prices have picked up after the monsoon season.



CSC GROUP

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# Major Steel Market Dynamics

## ➤ Southeast Asia :

- ✓ With the virus under control, the demand of main industries such as auto and motorcycle industry has recovered in Vietnam, Malaysia and Thailand.
- ✓ Indonesia and the Philippines, which are still in the shadow of the pandemic, face a slow economic recovery.

## ➤ Taiwan :

- ✓ As Taiwan is less affected by the pandemic, the construction activities and passenger vehicles sales have drove up the steel consumption from sectors, such as steel structure, automotive components, etc.
- ✓ Taiwan is an export-oriented country and vulnerable to fluctuations in the global economy. The development of COVID-19 worldwide remains one of the key factors for future market growth.



Construction



Vehicle



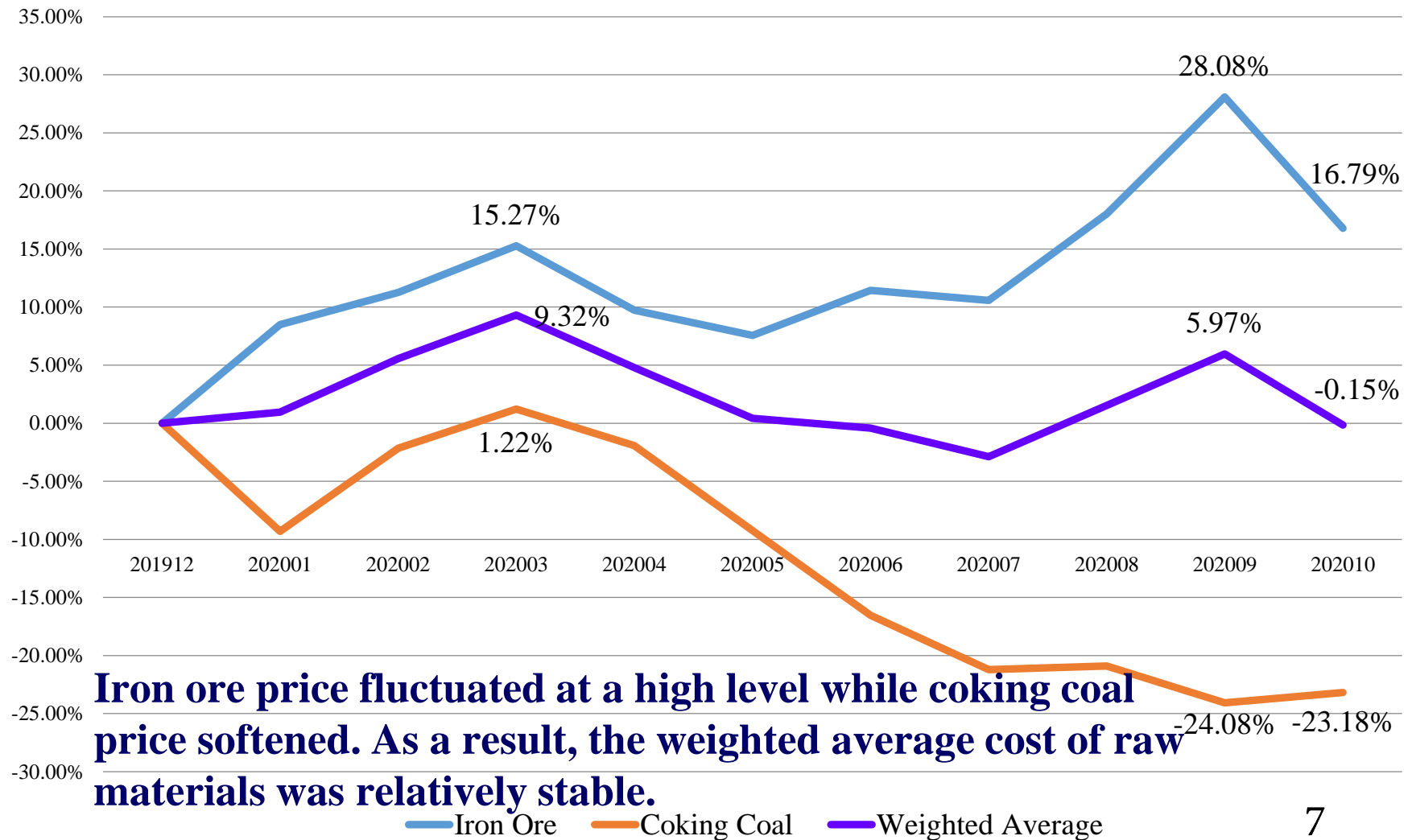
# Steel Market Outlook

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- In the first half of this year, various countries imposed restrictions on commercial activities due to the pandemic and suffered severe economic downturns. As a result, the uptrend of steel price early this year came to a sudden stop which dealt a heavy blow to the global steel industry.
- Thanks to strong stimulus packages from different countries and the production cut by steel mills, steel price hit the bottom in Q2 and rebounded in Q3 with the increase of global demand.
- The pandemic remains the most important factor to steel demand in the short term. The economic performance is relatively better in countries where the coronavirus is under control, such as Taiwan, China, and Vietnam. In 2021, the global steel market is expected to see positive growth if the pandemic abates in major steel-consuming regions such as Europe and the U.S.
- The steel market in China, which strongly affects Taiwan's steel industry, is expected to perform steadily in 2021 as the infrastructure projects and housing construction will keep supporting the steel demand in China. In addition, the auto industry has been performing better than the same period of last year since Q2. If this trend continues, the full-year auto sales of 2020 may outperform the initial estimates made early this year and realize a positive growth in 2021.

# Raw Material Price Trend

Percentage change compared to Dec. 2019  
CSC incoming raw material price trend



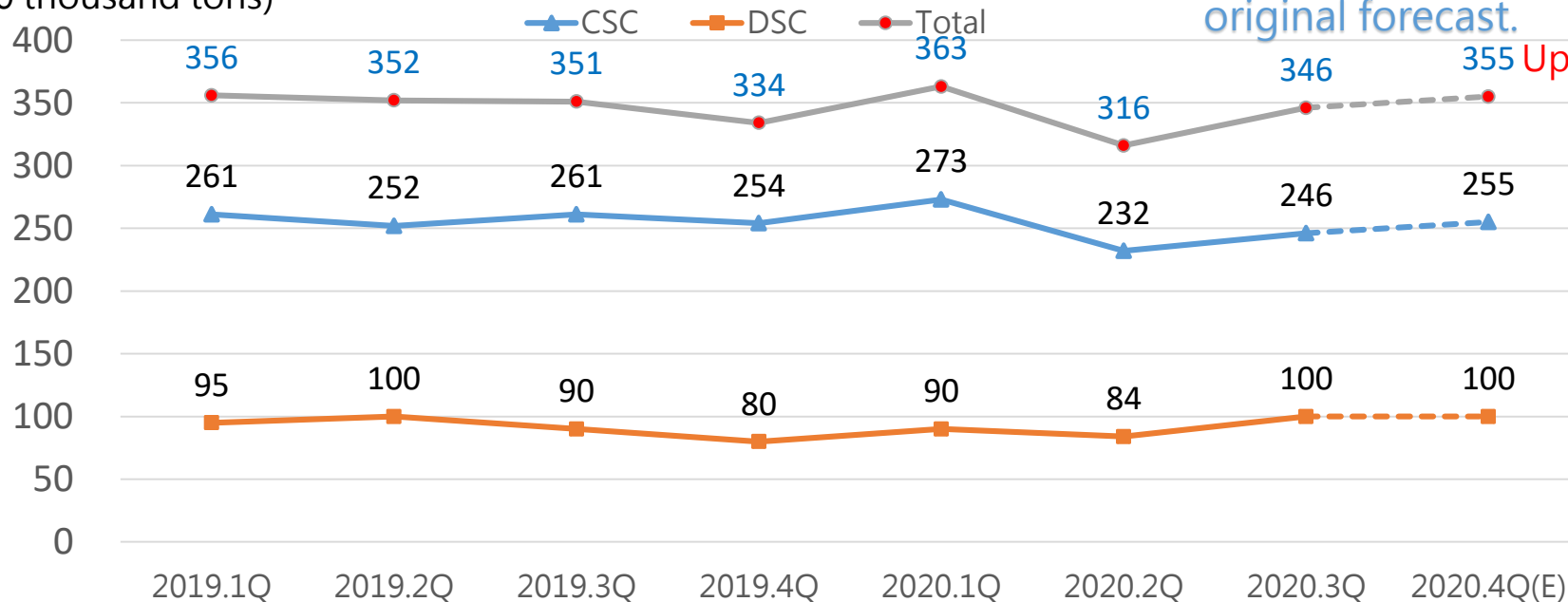


# Sales Analysis (CSC & BF Products of DSC)

Sales volume  
(10 thousand tons)

CSC & BF Products Sales Analysis

Sales volume in Q4 is expected to exceed the original forecast.

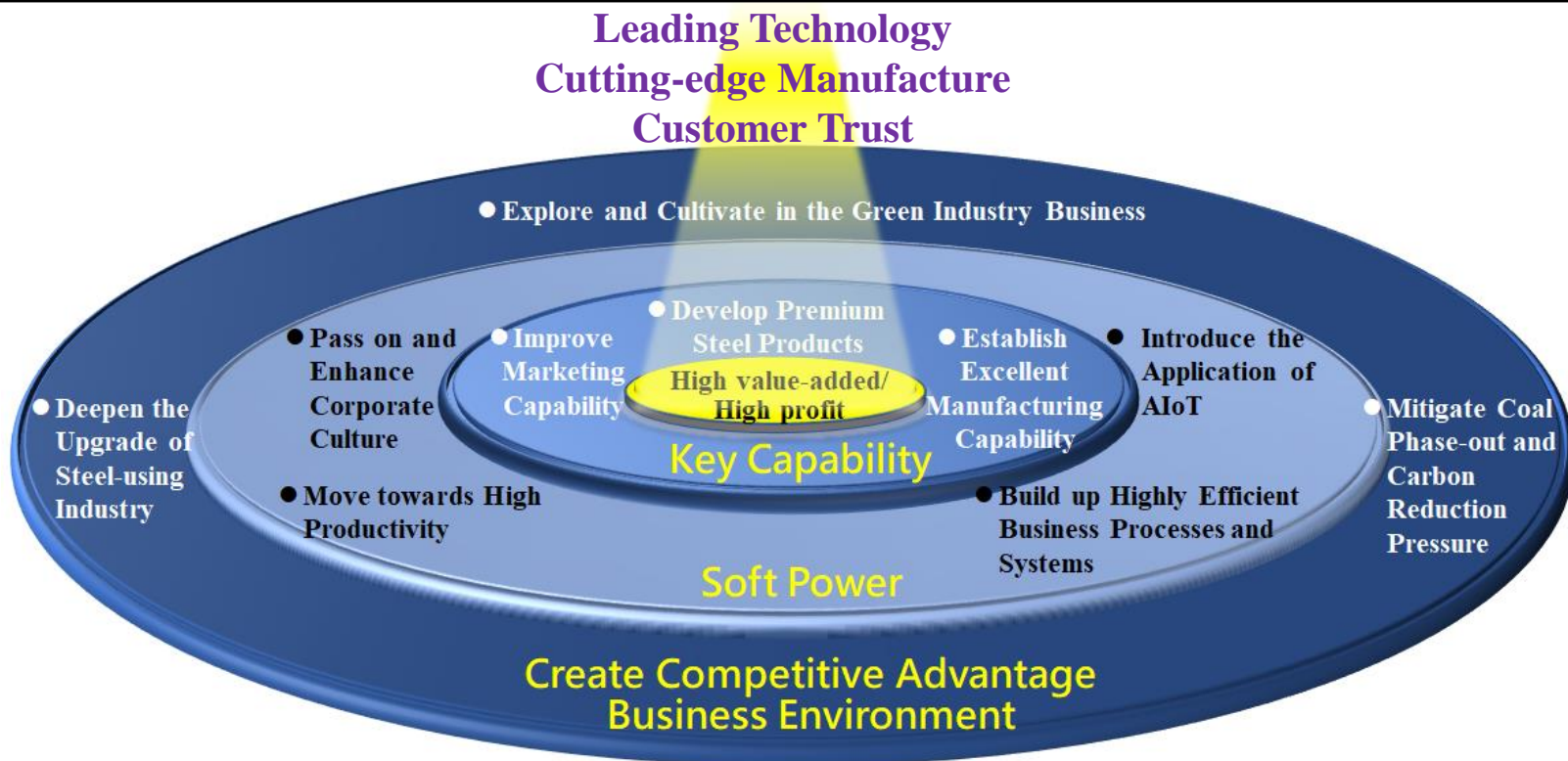


- As steel demand hit by COVID-19, sales volume for 2020.2Q slipped to the lowest level in two years.
- The production and sales of domestic downstream customers has been recovered as a result of the rebounded global demand in the second half. The uptrend is expected to be continued.

# CSC Operation and Development Strategies

# 1 Strategy Concept, 2 Operation Strategies, 3 Core Capabilities

Establish specialized core competitiveness for the next 50-year development.	
Promote to High Value-added Steel Mill	Develop Green Energy Business
<p>Transform into a high value-added steel mill through intelligent innovation.          Expand new business opportunity in promising industry through engagement in the green energy field.</p>	





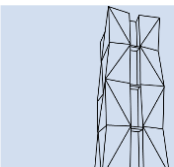



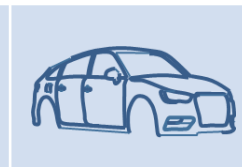

➤ **74 action projects** were proposed in accordance with the above-mentioned **10 measures** to consolidate the **sustainable development of CSC**.

# Develop Premium Steel Products

## Definition of Premium Steel Products

Products with "High Technical Content, High Profitability, High Industrial Benefit," creating over 20% gross profit margin.

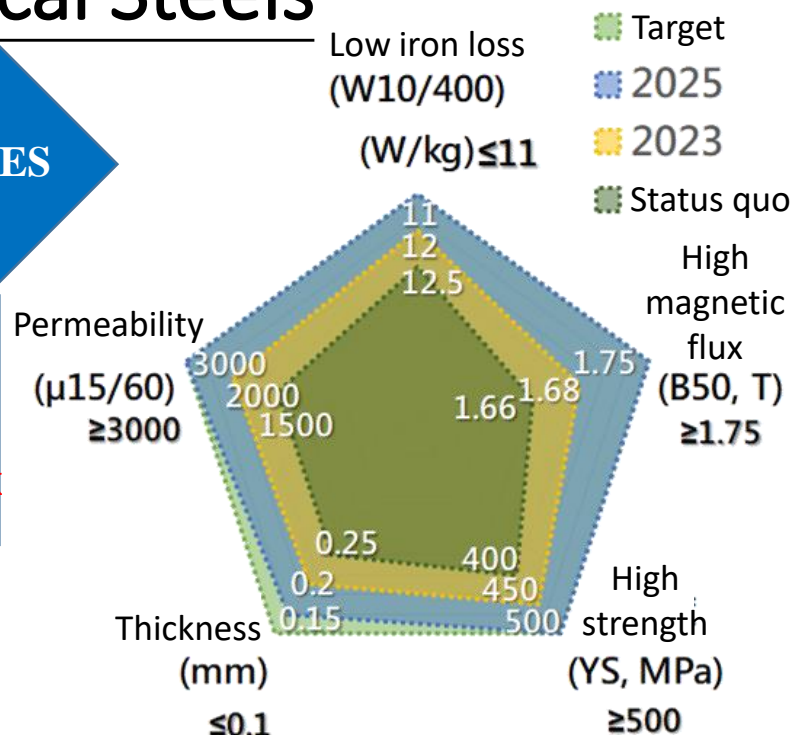
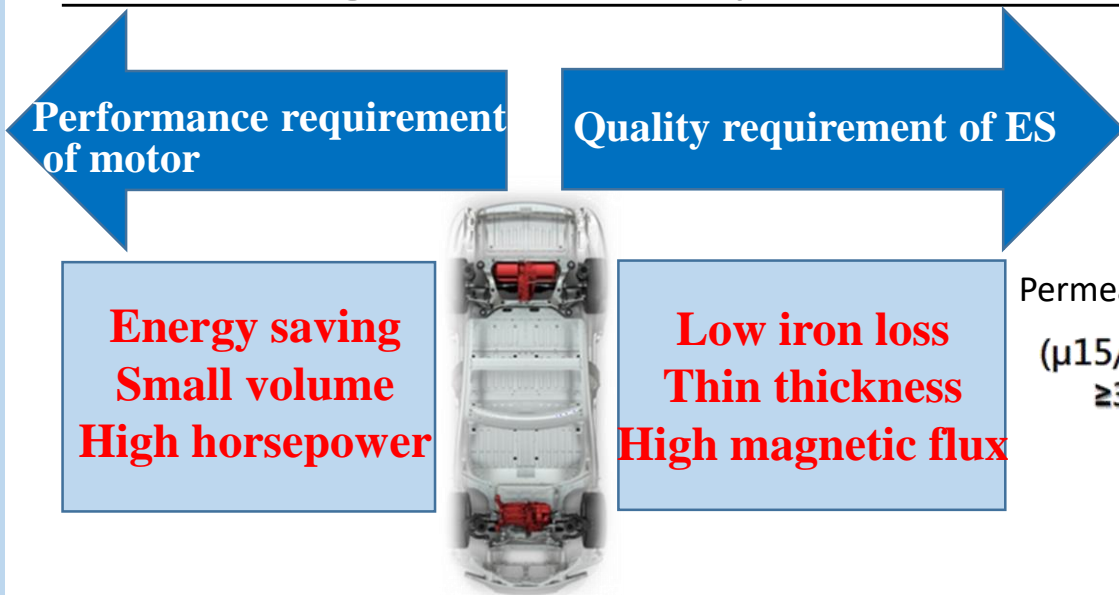
Focus on 8 items (Meet customers' needs & Follow industry trend)

High-Quality Forging Steels	Superior Hand Tool Steels	High Performance Structural Steels	Steel for Green Energy	Ultra-High Strength and Toughness Steels	Advanced Alloy Steels	Cross-Generational Automotive Steels	Ultra-High Efficiency Electrical Steels
							
Year			2021	2022	2023	2024	2025
Premium steel products volume target			35.0	46.2	58.5	71.3	85.2
Total sales volume target (Not including leeways, secondary and salvage products, and semi-products)			833	840	848	849	852
Premium steel products proportion target (%)			4.2%	5.5%	6.9%	8.4%	10.0%

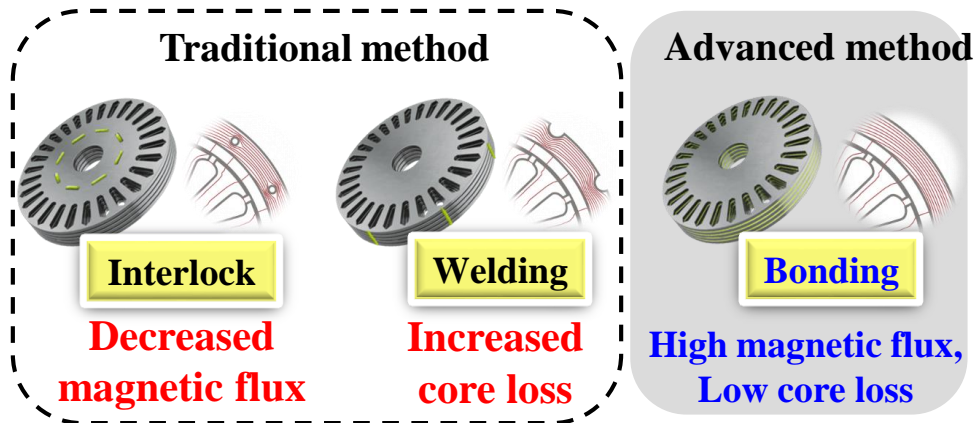
(Unit: 10 thousand tons)

➤ Sales volume of premium steel products to achieve **10% in 2025** and **20% in 2030**. 11

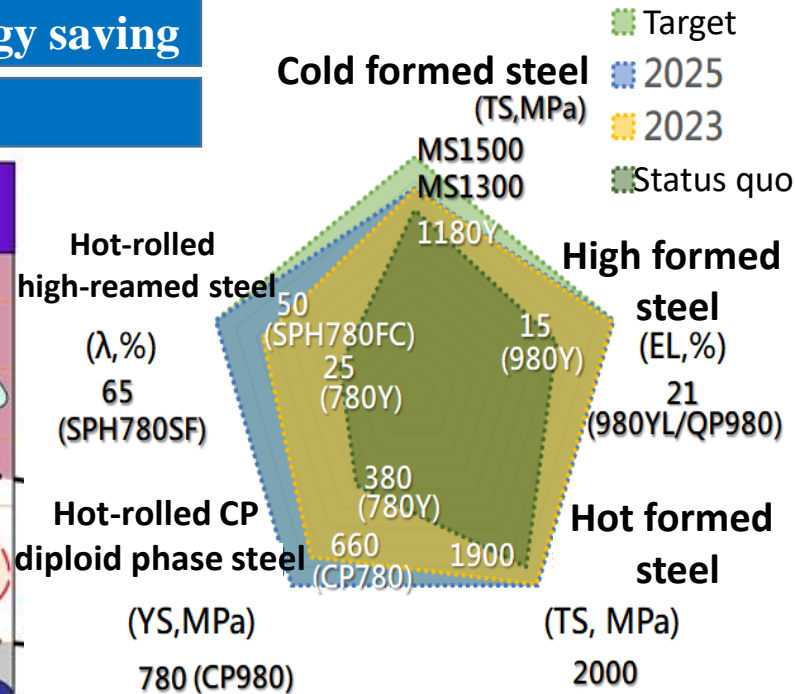
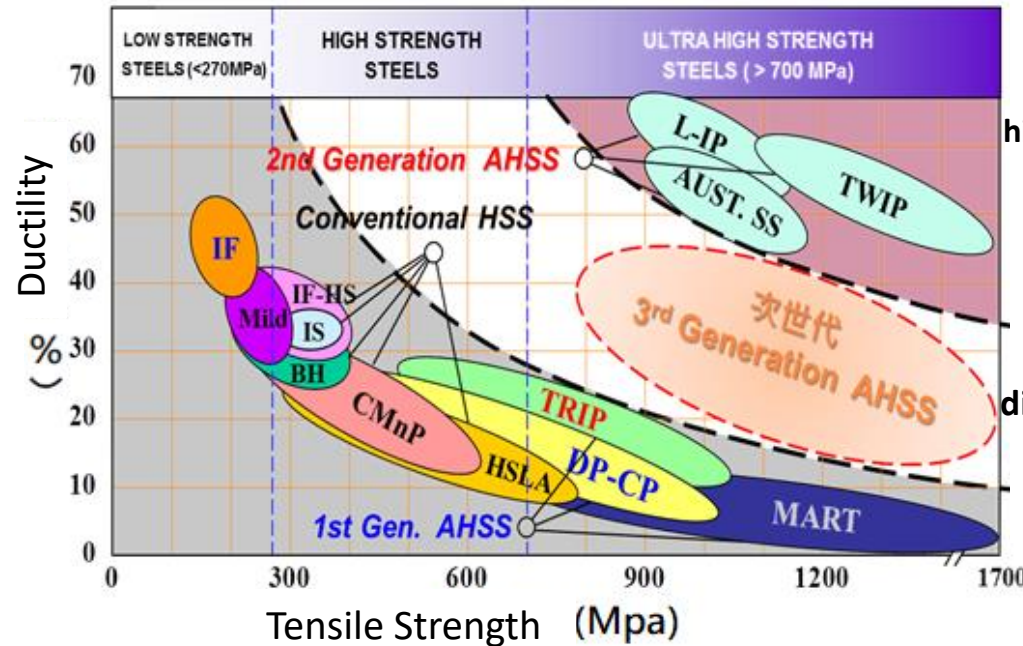
# Ultra-High Efficiency Electrical Steels



- CSC's ES products have been broadly supplied to automakers such as **TESLA**, **VW**, and **Audi**, and also obtained the certificates from **GM** and **Porsche**. Expected shipments to the global EV market is close to 60,000 MT in 2020.
- **CSC-Inside : Key material supplier to the heart of the EV (motor)**
- Continuously develop **series of Ultra-High Efficiency Electrical Steels** to meet the requirement of next generation EV and strengthen the leading technology advantage.

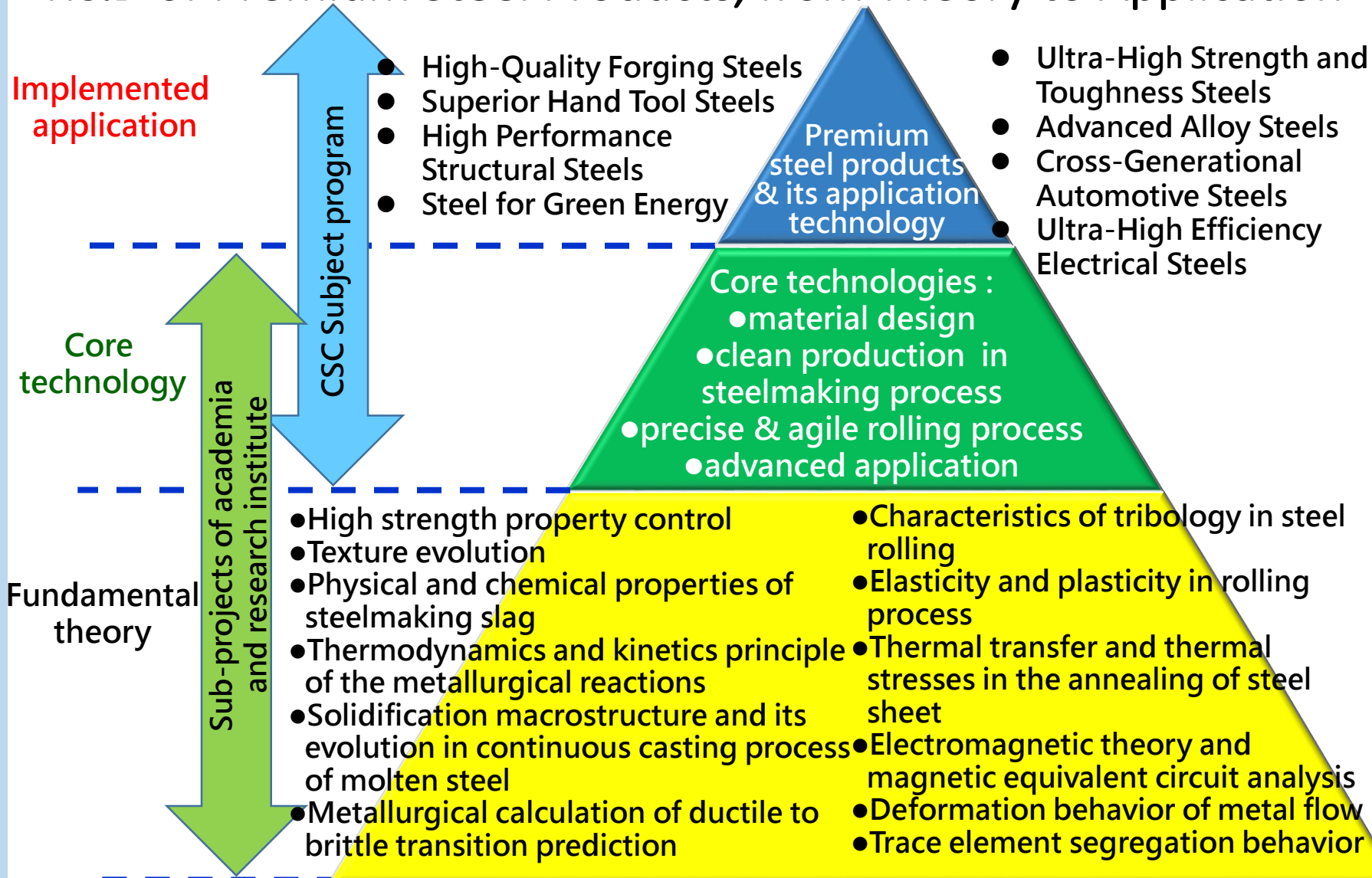


# Cross-Generational Automotive Steels



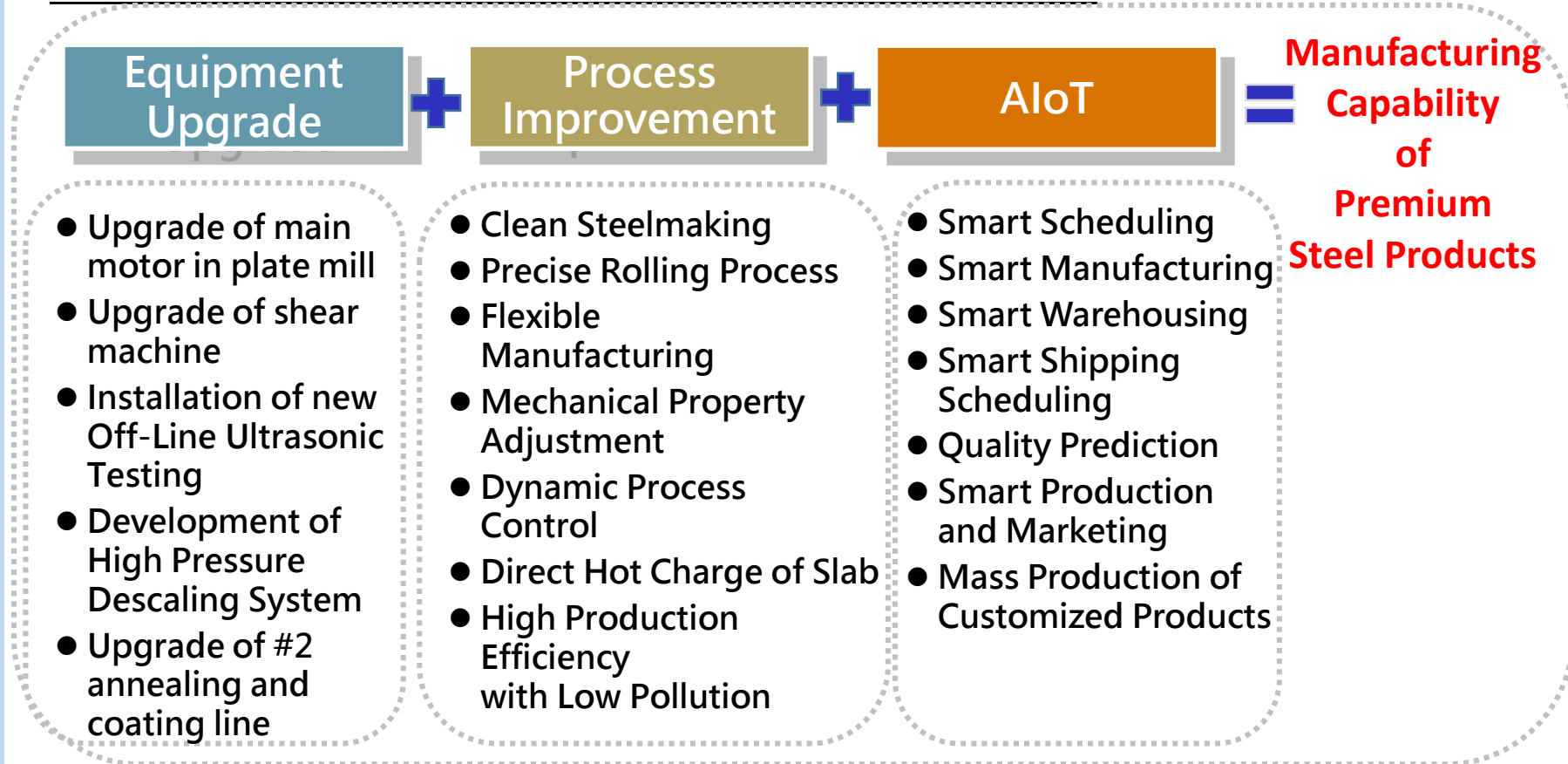
- According to the forecast of Center for Automotive Research(CAR), the proportion of AHSS(>590MPa) used in automobiles will keep growing from 15% to 42%.
- CSC has acquired 254 verifications from 27 automobile manufacturers. Auto steel sales volume in 2019 reached 550 thousand tons. In the future, we will keep developing the technology of cross-generational AHSS and its application to increase the orders from current customers and find new customers.

# R&D of Premium Steel Products, from Theory to Application



- Establish the required core technologies and fundamental theories for the development of premium steel products by relying on **the resources of academia and research institute**.
- **Build a solid foundation from “ R ”(Research) on fundamental theory to strengthen our capability of “ D ”(Development).**

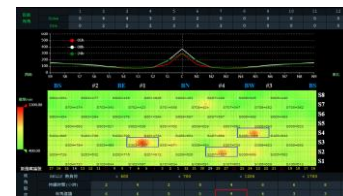
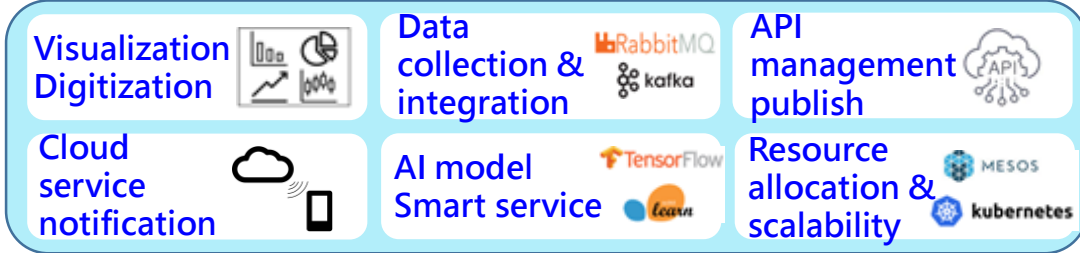
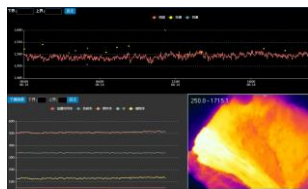
# Excellent Manufacturing Capability



- Identified and planned the **establishment of the equipment, process capabilities, AI systems** required for mass production of premium steel products **to transfer technical capabilities into mass production capabilities.**
- Create **differentiated competitive advantages in meeting customer needs.**



# BF Iron-making Smart Center

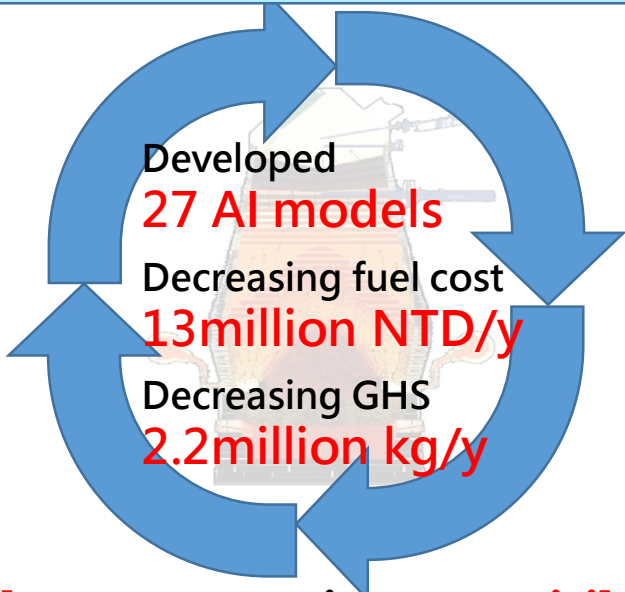


**8 smart instructions** for Channeling treatment, Equipment condition, Smart burden charging, BF operation, etc.

**5 Smart condition monitoring system** for Main conveyor, Burden profile, BF equipment, etc.

**5 smart indices** including Energy balances, BF condition index, Channeling index, Thermal index, etc.

**9 AI prediction model** for Tuyere image, Hot metal temperature, Smart hot stove, Stave thickness, etc.



➤ Turn the **black box** system into a **visible, foreseeable, and controllable** manufacturing process by AI system to **increase the stability of blast furnace condition and the process efficiency.**

# Deepen the Upgrade of Steel-using Industry

## Facilitating industry 4.0

- **Constructing industry cloud** to enhance cross-factory efficiency.
- Introducing **AI**-based production and marketing.

## EVI-based Concurrent Engineering

Establishing **JRL** to **proceed overall researches** from materials to end products and **enhancing the effect of industry chain**.



## Cultivating core technologies

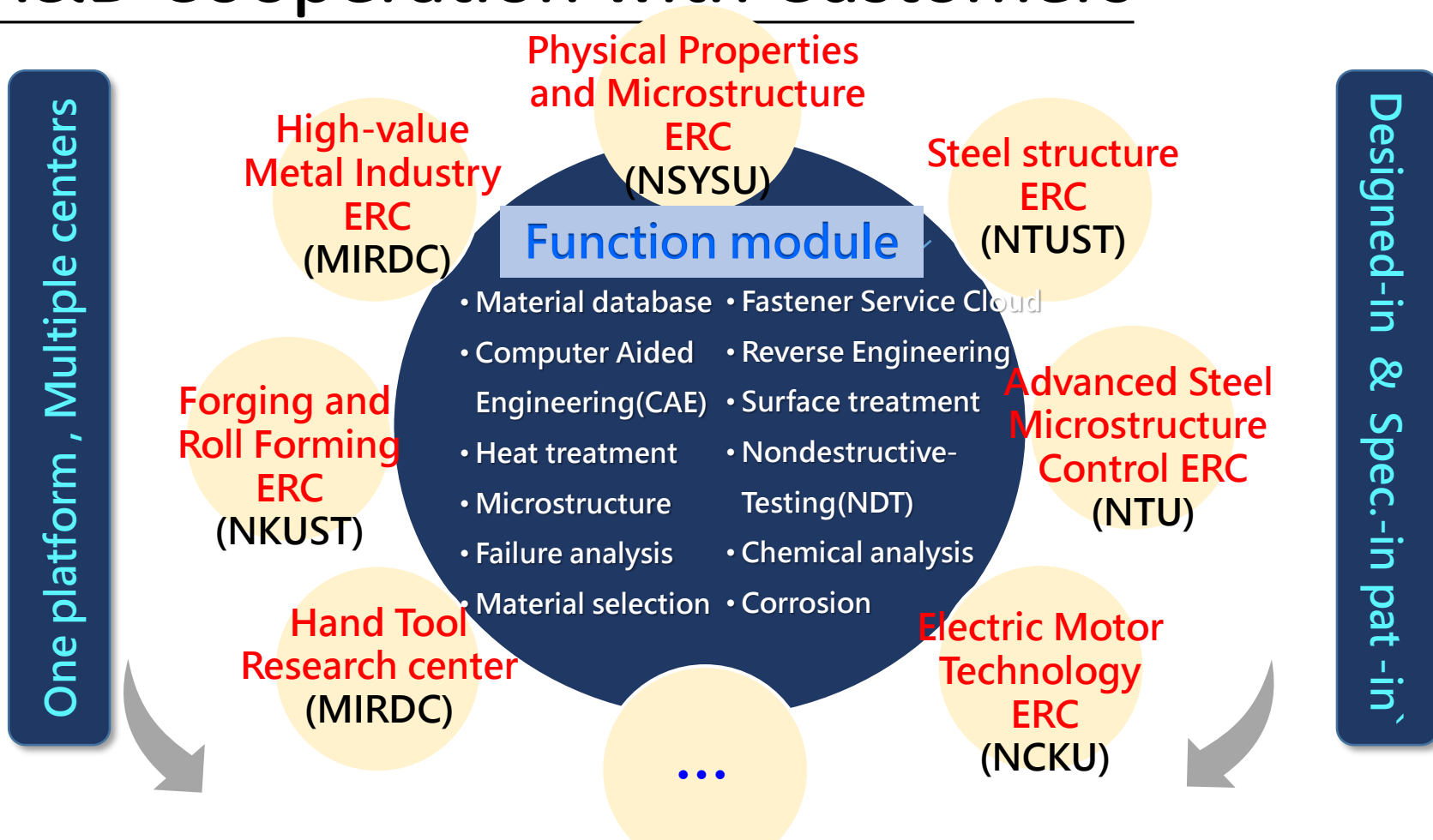
Integrating the resources from government, academia and research institutes to **execute the collaborative programs** such as power system of EV.

## Promoting industry service teams

Providing multi-program of process technology, quality control, logistics management, etc. to cultivate medium-sized enterprises.

**Promoting Integrated Innovation  
Facilitating Upgrade and Transformation  
Generating Demand and Benefits from Premium Products**

# Establish the Technology Service Platform for R&D Cooperation with Customers

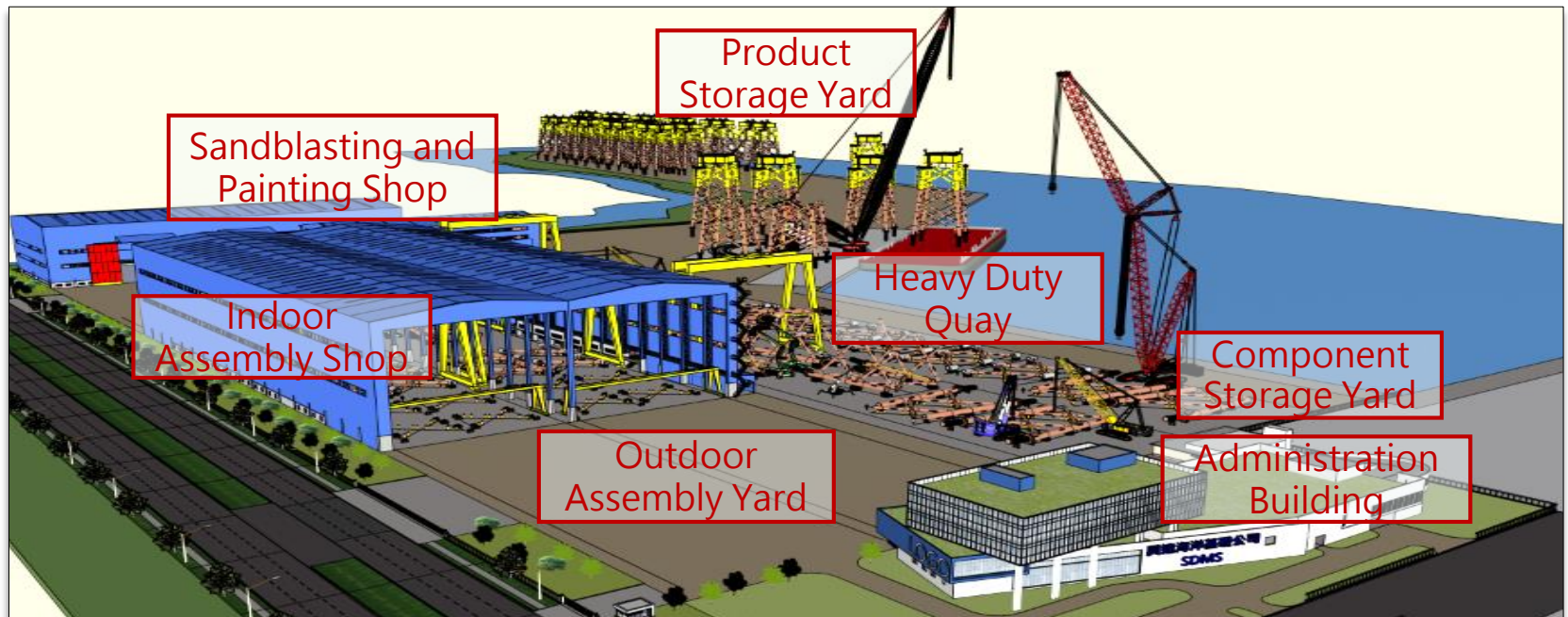


TSP – Create a CAE tool and database for product development with customers

- fasteners
- hand tools
- auto parts
- EV motors

# Jacket Foundations for Offshore Wind Farm

- Sing Da Marine Structure Corporation (SDMS) officially commenced operation in January, 2020.
- With the support of technology expertise from the experienced European companies, SDMS collaborates with domestic suppliers to develop the offshore wind power industry.



# Challenges, Current Status, and Countermeasures of SDMS

**Challenges:** Being presently the only domestic supplier who devoted into the production of jacket foundations, which have more complicated structures and way higher technical difficulties than other tubular components such as pin piles or towers.

- **Design change requests from the developer:** The big difference between the weather and geology of the Taiwan Strait and that of overseas wind farms is making it harder to produce and requiring thicker plates, higher strength, and more painting.
- **Extremely stringent quality requirement:** The design lifetime of offshore foundations is at least 20 years. It takes time for domestic producers, who are lacking in experience, to catch up on the gap of producing and quality management capability, quality culture, and personnel discipline.
- **Impact of the pandemic:** Instruction and support from the foreign technical teams were delayed.
- **Labor shortage:** Numerous domestic construction projects in progress is causing a shortage of experienced welders and NDT inspectors.

## Current Status:

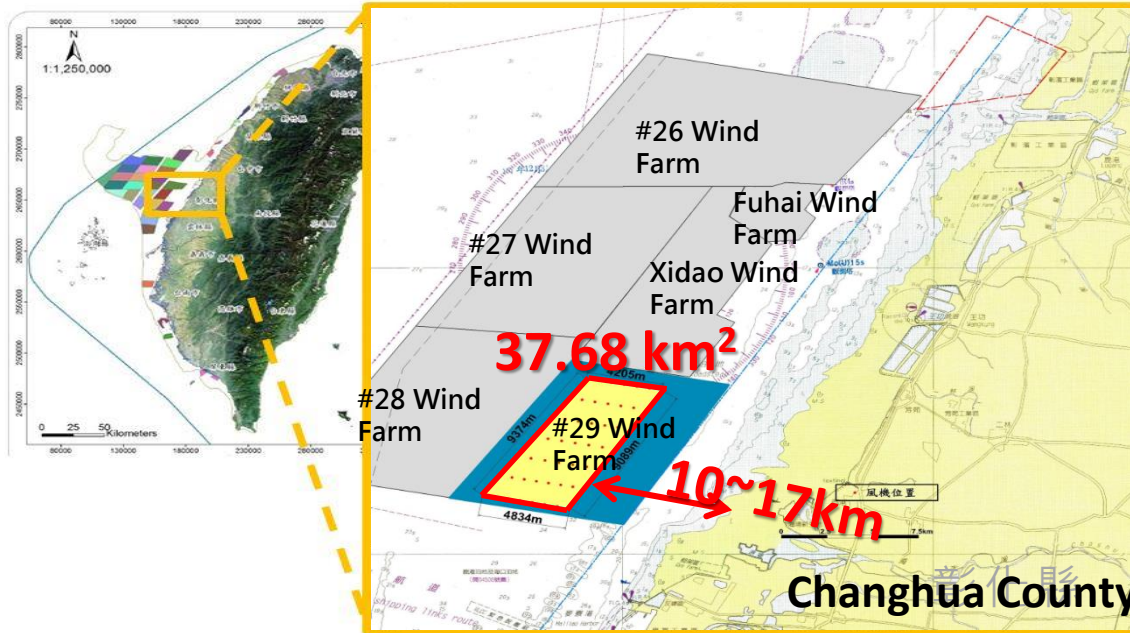
- 5 foreign technical teams have arrived to provide complete technical assistance. All the problems have been controlled and effectively improved. The cause of the weld bead defect has been clarified, and the countermeasures to it were implemented and proved to be effective.

## Countermeasures:

- It is quality, not quantity that counts. We devote to build a strong and steady foundation of manufacturing technology and quality management.
- Negotiate with the developer to transfer part of the volume to its other auctioned wind farms.

➤ Having the resilience and capability of problem solving, SDMS is about to get through the hardest path **from scratch to mass production.**

# Offshore Wind Farm Development



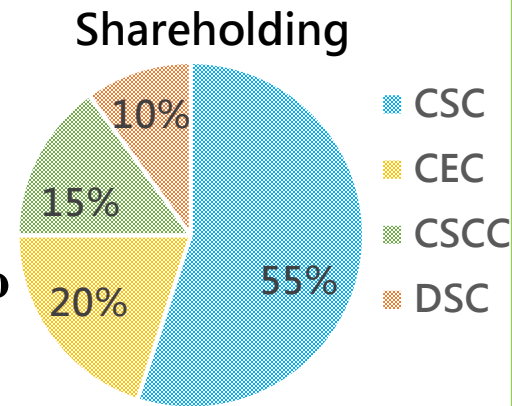
Location	Off the coast of Changhua
Offshore Distance	10 ~17 km
Area	37.68 km <sup>2</sup>
Depth	27 ~ 40 m
Annual Average Wind Speed	9.66 m/s

- CSC and Copenhagen Infrastructure Partners (CIP) jointly established China Steel Power Corporation to develop #29 offshore wind farm. CSC holds 51% of shares.
- #29 Wind Farm is close to the coast, at shallow water, with decent wind resources, and away from the fault and ecologically sensitive area.
  - ➔ Easier construction and better operation outlook
- Obtained preparatory permit and signed power purchase agreement, the wind farm is expected to connect to the grid in 2024 and generate an estimated **115 million kwh** annual output, bringing in **NTD 6.34 billion** revenues annually.

# Solar Power

## CSC Solar Corporation

- Invested NTD 4.36 billion in setting up **84.3MW PV** panels on the roof of factories in CSC group.
- Continue to deploy the rooftop photovoltaic power station in CSC group related industries, and enter into the ground-mounted PV projects when opportunities arise.



Year	2017	2018	2019	2020	Total
Estimated Capacity Installed (MW)	30	30	20	--	80
Actual Capacity Installed (MW)	<b>31.16</b>	<b>30.01</b>	<b>22.04</b>	<b>1.10</b>	<b>84.3</b>
Electricity Output (100m kwh)	0.04	0.47	0.74	0.93(until Oct.)	<b>2.18</b>

- As of Oct. 2020, the **accumulated electricity output of solar power** in CSC group reached **218 million kwh**. Revenues from electricity sales reached 1.001 billion. Carbon reduction reached **110 thousand tons**, equivalent to the CO2 absorption of **282 Taipei Daan Park**.

(Estimated based on the 2019 Taipower electricity carbon emission factor, 0.509 kg CO2e/kwh)

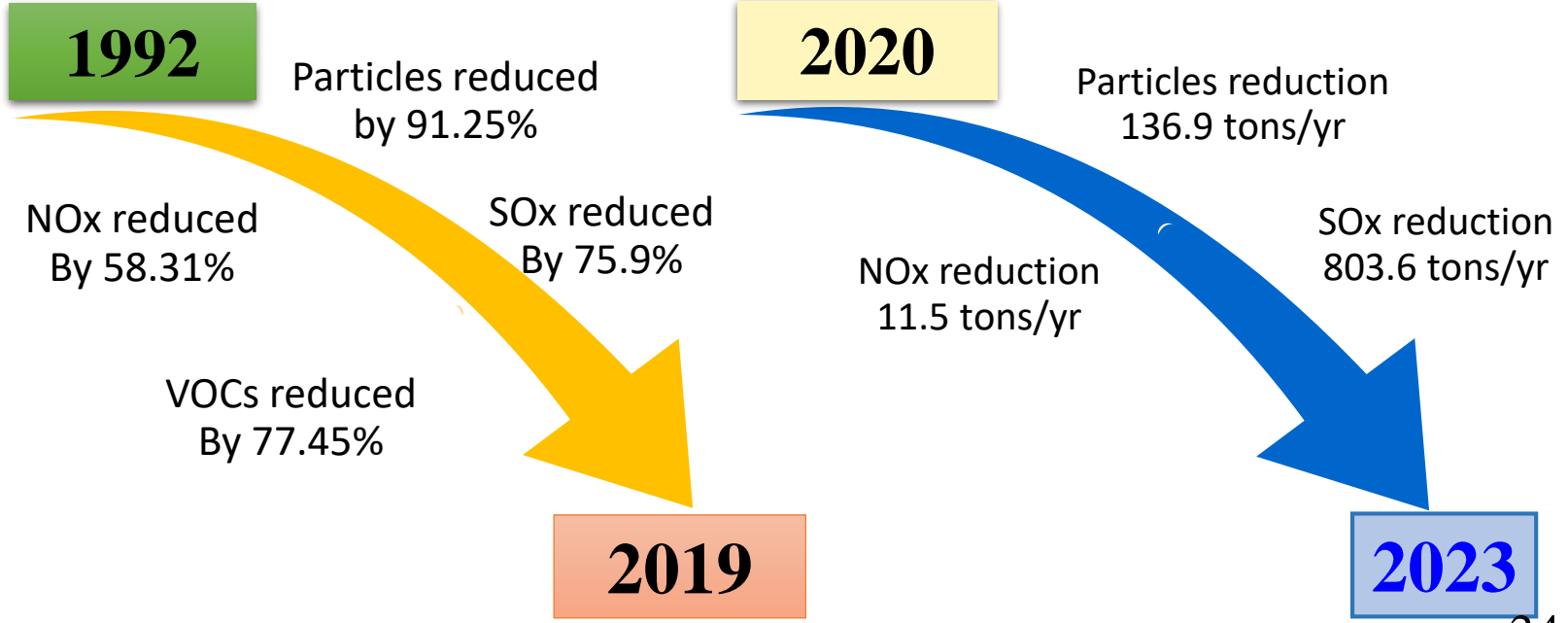
# ESG Performance



# ESG Performance

Speed up the renewal of equipment and expand the scale of environmental protection improvement projects

- CSC has invested a total of **NTD 70.96 billion in environmental protection equipment** from 1977 to 2019.
- In recent years, CSC has achieved remarkable results in emissions reduction, and will continue to invest **NTD 11.55 billion in air quality improvement projects from 2020 to 2023.**



# ESG Performance

## Circular economy and sustainable operations

- **Circular economy** → To put the concept of circular economy into practice and **create higher value of byproducts**, CSCC processes **coal tar** into **high-valued carbon materials** and CHC Resources runs the business of **utilization of BOF Slag**.
- **District energy integration** → CSC supplies excess energy such as **steam and nitrogen** to neighboring companies to achieve **energy saving & carbon reduction** through **resource sharing**. In 2019, sales of energy amounted to around 1.8 billion NTD, among which the amount of steam sold reached 1.54 million tons and reduced 350 thousand tons emission of GHG.
- **Application of reclaimed water** → CSC achieved the goal of multiple water sources as **the first domestic company who uses reclaimed water**. Leaving the **scarce water resource to the public for livelihood purpose**, we contribute to the common good of the society and the environment.

# Closing Remarks from Chairman



# Recent Milestones

Jan. 16

CSC positions itself as a **high value-added steel mill** and devotes itself to the **development of the green energy industry** as **the operational and development cores** in enhancing its competitiveness for the next 50 years.

2020

Feb. 21

CSC sets a new milestone in its pricing system by **offering monthly and quarterly prices simultaneously** for the first time.

Jul. 1

To promote the utilization of **BOF Slag**, CSC and TIPC jointly submitted the **Environmental Impact Difference Analysis Report for utilizing BOF Slag as an alternative land reclamation material in Taipei Port**, which has been approved by the Environmental Impact Assessment and Review Committee of Taiwan EPA.

# Awards and Honors

1

- CSC was included in the 2020 **Emerging Market Index of Dow Jones Sustainability Index (DJSI)** for the 9th consecutive year.

2

- CSC received Climate Action certificate by World Steel Association (worldsteel).

3

- CSC was selected as one of the Top 50 Large Enterprises (ranking No. 17) of 2020 Excellence in Corporate Social Responsibility Award by Commonwealth Magazine.

4

- CSC won the 2019 **Sustainability Champions** of World Steel Association (worldsteel).

5

- CSC was ranked **top 5%** in TWSE listed companies in the 6<sup>th</sup> (2019) Corporate Governance Evaluation.

Member of  
**Dow Jones Sustainability Indices**

Powered by the S&P Global CSA





# 10 Measures

1. Develop Premium Steel Products

2. Establish Excellent Manufacturing Capability

3. Improve Marketing Capability

4. Deepen the Upgrade of Steel-using Industry

5. Introduce the Application of AIoT

6. Build up Highly Efficient Business Systems and Processes

7. Move towards High Productivity

8. Pass on and Enhance Corporate Culture

9. Explore and Cultivate in the Green Industry Business

10. Mitigate Coal Phase-out and Carbon Reduction Pressure

- Transform into a high value-added steel mill through **intelligent innovation**.
- Expand new business opportunity in promising industry through engagement in the **green energy** field.

# 10-Year Target of Premium Steel Products-

Two 20%

- High **Technical Content**, High **Profitability**,  
High Industrial **Benefit**

- **Gross profit margin**  $\geq 20\%$

- **Proportion of product mix**  $\geq 20\%$



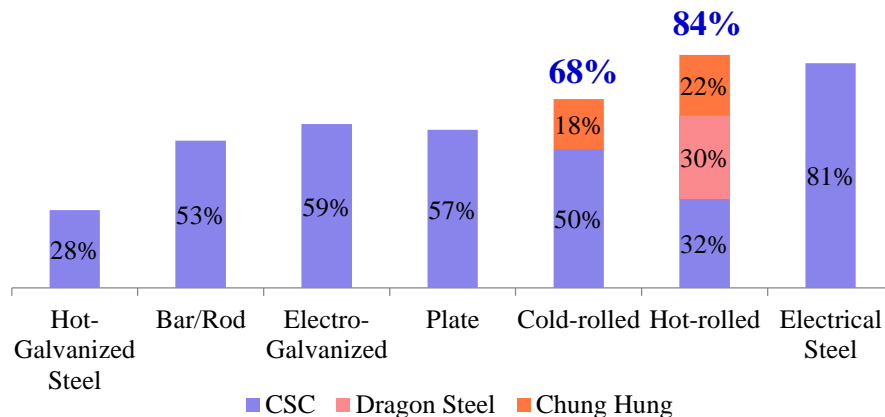
# Thank you!



# Company overview - Business snapshot

- CSC is the leading Taiwanese steel manufacturer with integrated production capabilities. Crude steel capacity of CSC Group reached about 16 mmt.
  - ✓ CSC: 9.9 mmt
  - ✓ DSC: EAF & No.1&2 BF around 6 mmt
- Dominant position in the domestic market
- **Two Focuses: High value-added steel mill & Green energy business.**  
 Improve the proportion of high-end and high-margin products.

CSC Group domestic market share (2020.1~3Q)



## Steel

- CSC
- CHS
- DSC
- CSC Steel Sdn. Bhd.
- CSVC
- CSCI

## Engineering

- CSSC
- China Ecotek
- CSMC
- Info-Champ Systems
- SDMS

## Industrial Materials

- CSCC
- CHC Resources
- CSAC
- Himag Magnetic
- CSPM
- China Steel Resources

## Trading and Logistics

- CSE
- CSGT
- CSMC
- CSMQ
- CSMK

## Service and Investments

- Gains Investment
- China Steel Security
- CPDC
- CSC Solar
- China Steel Power

# Consolidated Financial Performance

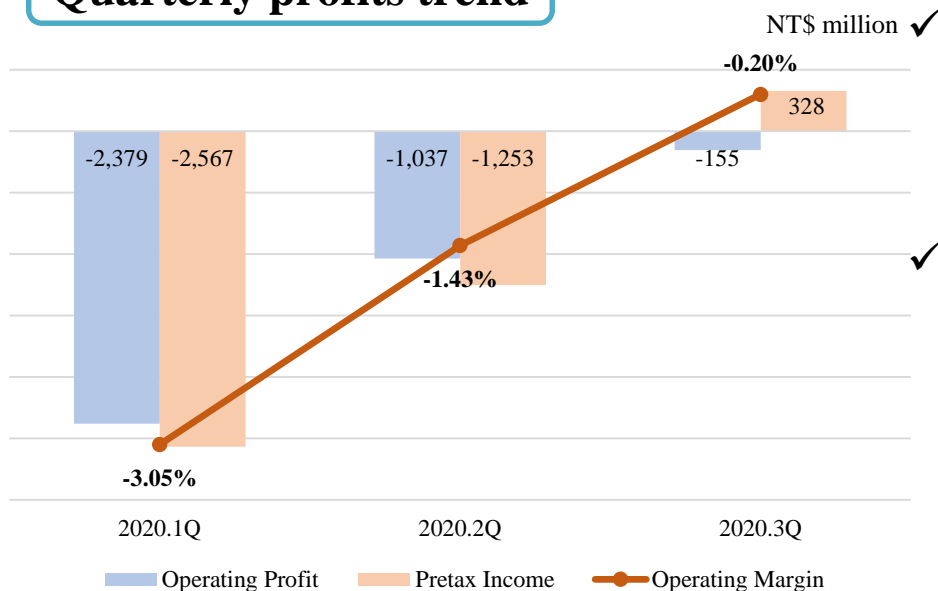
## Latest operating results

Amount: NT\$ million

Item	2020.10*	2020.1~10*	2019.1~10	YoY
Consolidated Operating Revenue	27,089	254,266	309,483	-18%
Consolidated Operating Income	1,398	(2,173)	13,878	-116%
Consolidated Operating Income Margin	5.16%	-0.85%	4.48%	
Consolidated Income Before Income Tax	1,353	(2,138)	14,118	-115%

\*preliminary result

## Quarterly profits trend

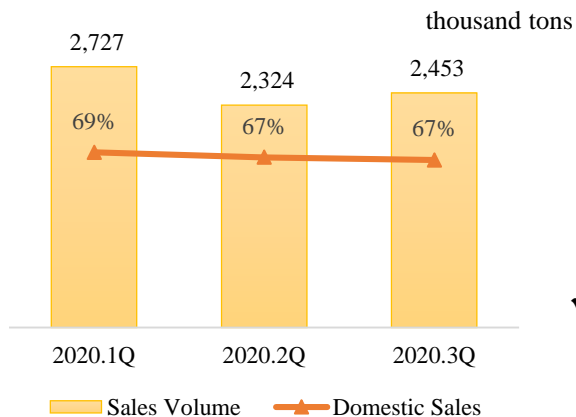


✓ In 2020, the price and sales volume decreased as compared with last year because of the Covid-19 pandemic, which caused a decline in profit.

✓ In Q2~Q3, the downstream industries resumed production contributing to a steel market rebound as countries gradually lifted lockdowns. The consolidated loss shrunk quarter by quarter and the pre-tax result has turned positive since August.

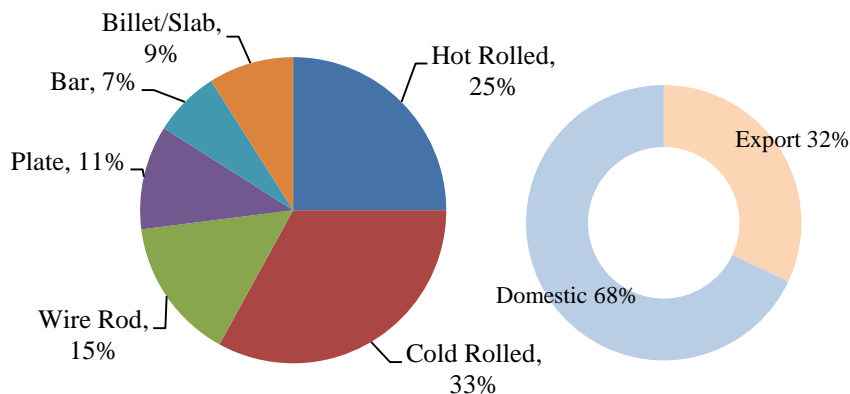
# Standalone Production / Sales Performance

## Sales analysis

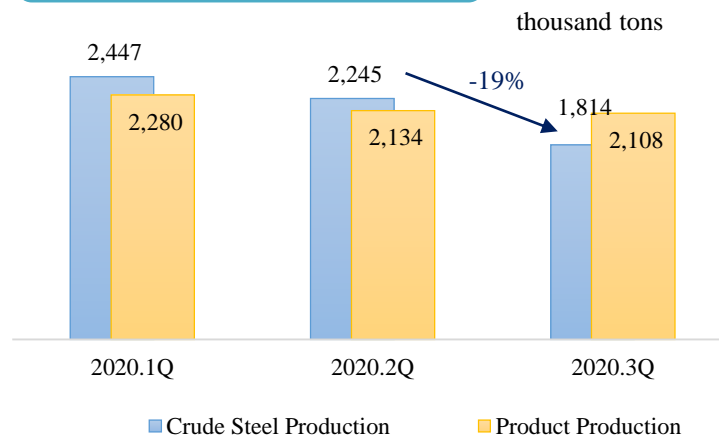


- ✓ The steel market were originally expected to recover in Q1 from the trough at the end of last year. However, steel demand dropped significantly in Q2 because of the pandemic. Downstream customers cut down on orders and kept destocking. As a result, CSC adjusted the production level in accordance with the market condition.
- ✓ In Q3, CSC's production decreased because of the revamping of No.2 blast furnace, but sales volume increased as global downstream industries resumed production and steel demand recovered.

## 2020.1~3Q Sales value breakdown

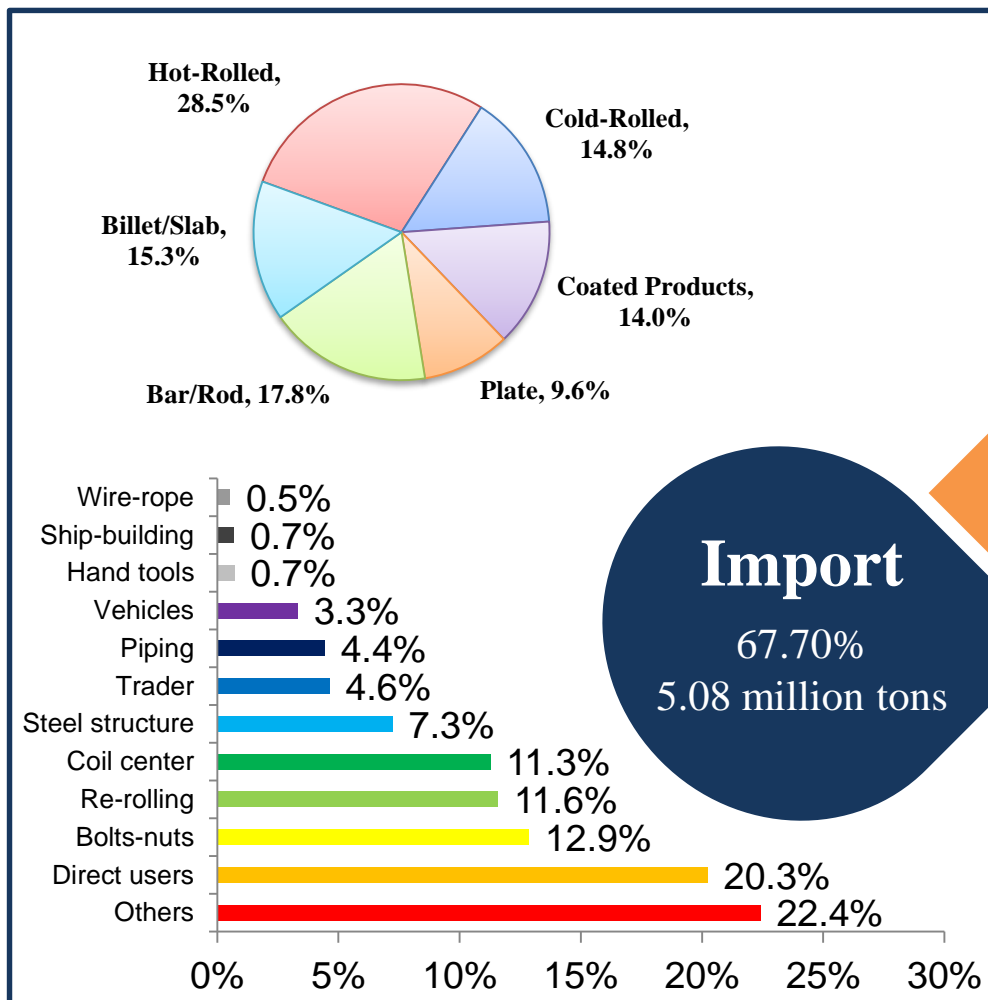


## Production analysis



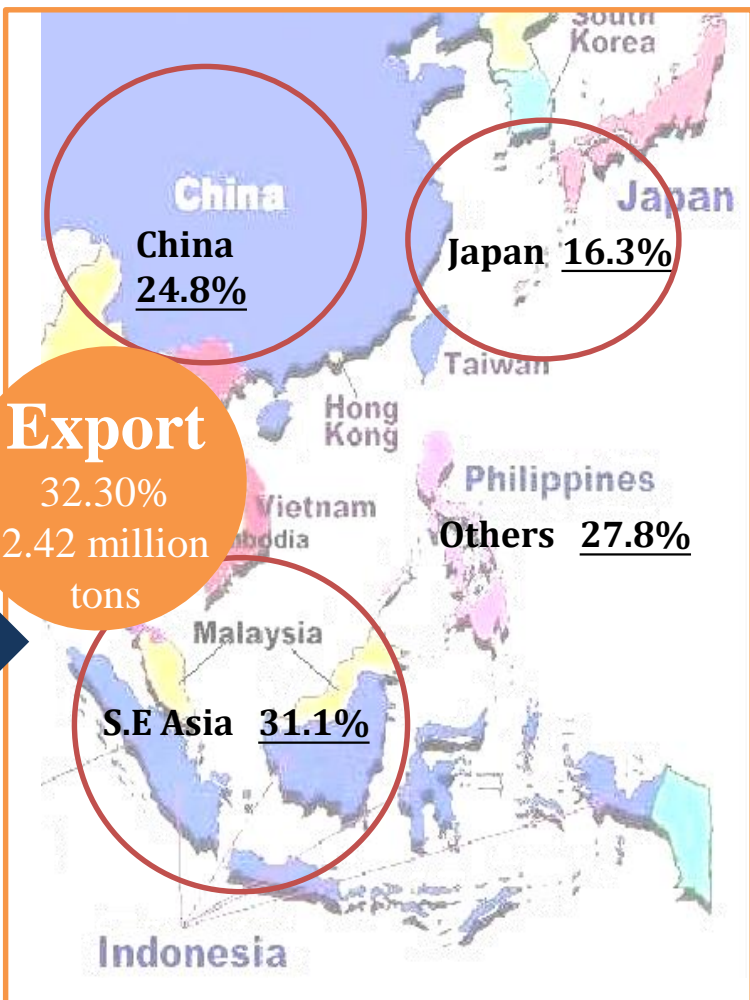
# 2020 Sales Analysis – CSC standalone

2020.1~3Q sales volume totaled 7.50 million tons – Sales Breakdown



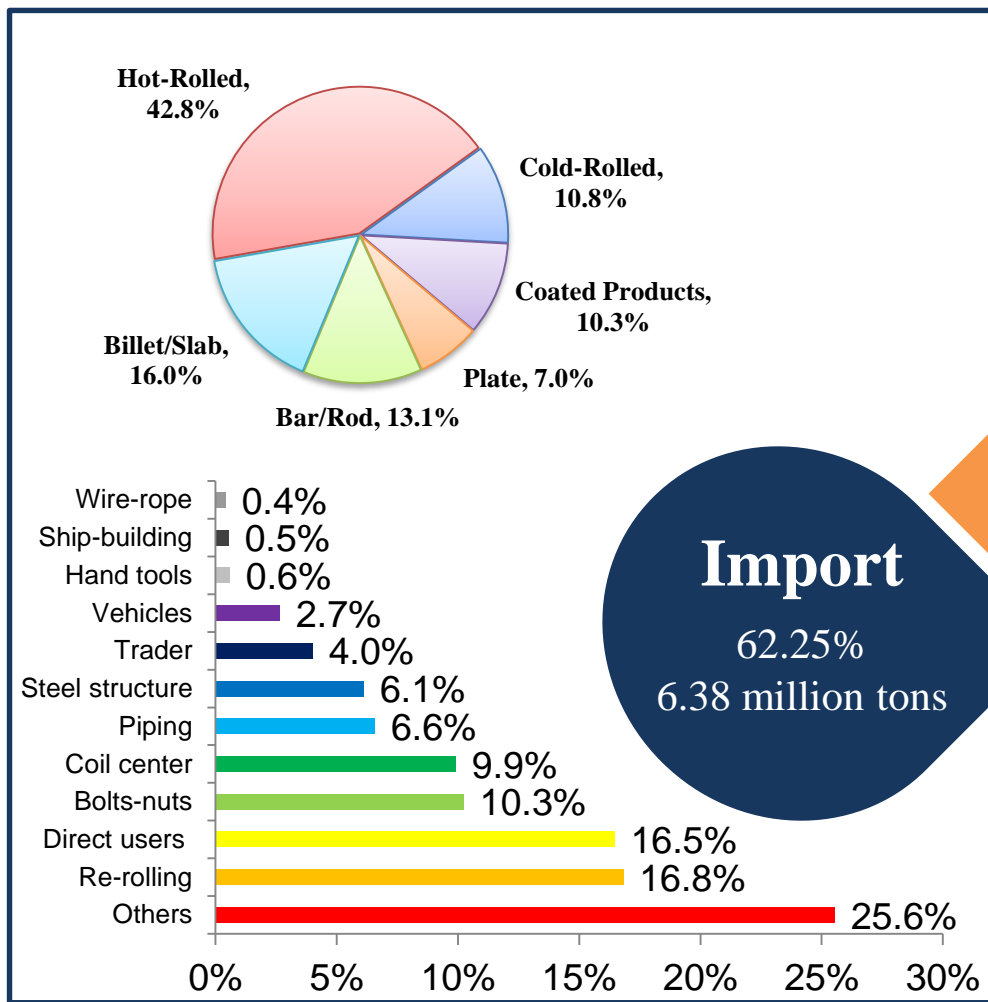
**Import**  
67.70%  
5.08 million tons

**Export**  
32.30%  
2.42 million tons



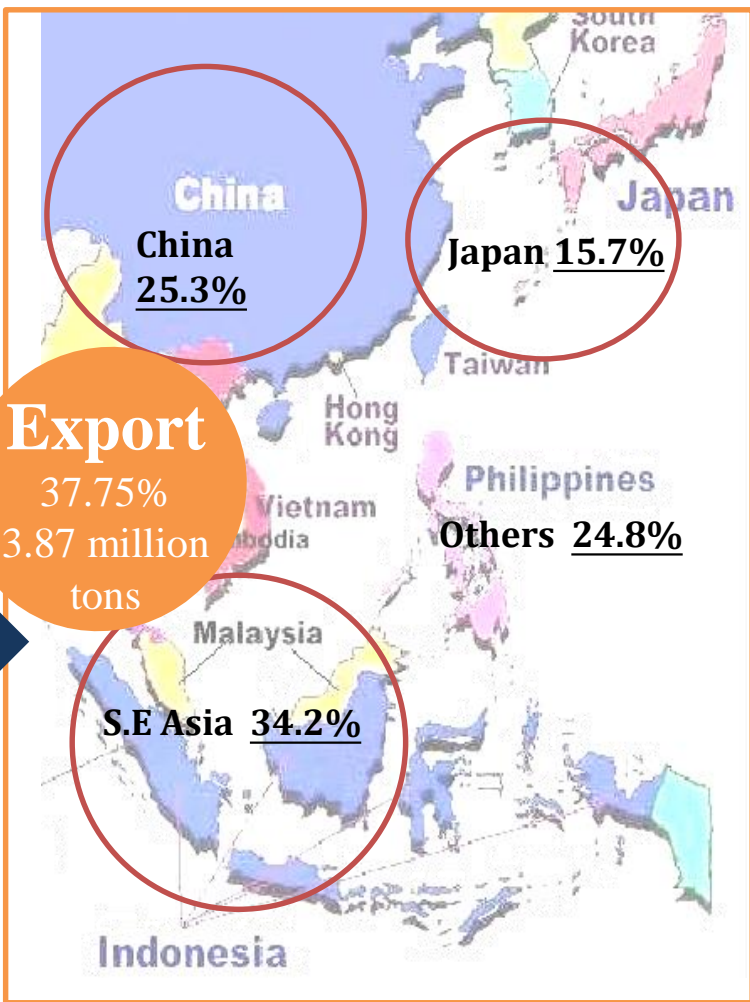
# 2020 Sales Analysis - CSC & BF products of DSC

2020.1~3Q sales volume totaled 10.25 million tons - Sales Breakdown



**Import**  
62.25%  
6.38 million tons

**Export**  
37.75%  
3.87 million tons



# Consolidated Income Statement

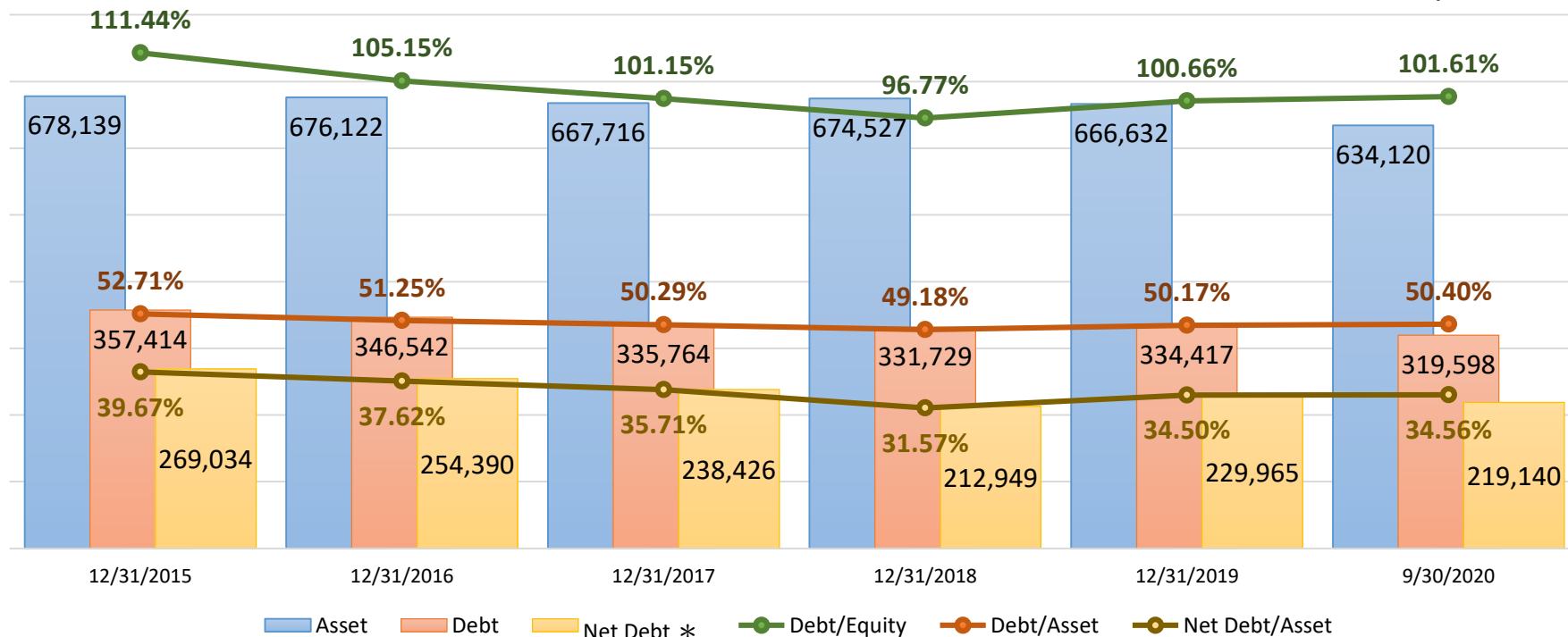
IFRSs

Units: NT\$ millions

	2020.1~3Q	2019.1~3Q	YoY
Revenues	227,177	281,806	-19%
Gross profit	5,860	24,882	-76%
Gross margins	2.58%	8.83%	
Profit (loss) before tax	(3,492)	13,617	-126%
<u>Net profit (loss)</u>	<u>(3,823)</u>	<u>11,036</u>	-135%
Attributable to			
Owners of the corporation	(4,360)	9,337	-147%
Non-controlling interests	537	1,699	-68%
Earnings Per Share (NTD)	(\$ 0.28)	\$ 0.60	-147%

# Consolidated Financial Position

Units: NT\$ millions



- ✓ Debt ratio in the latest 2 years increased a little bit for equipment replacement and establishment of environmental equipment.
- ✓ Keep reducing financial costs by issuing corporate bonds and paying back US dollar-denominated debt in recent years.
- ✓ Credit rating: Taiwan Ratings twAA- ; Outlook Negative (2020.04.16)  
Fitch Ratings AA-(tw); Outlook Stable (2019.12.05)

\* 2014~2017 :

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*)

# Historical EPS and Dividends Paid

	2011	2012	2013	2014	2015	2016	2017	2018	2019
Dividend payout(%)	85	132	86	70	102	82	81	63	88
Cash Dividend payout(%)	74	105	67	70	102	82	81	63	88

