

# China Steel Corporation

June 9, 2021



# Agenda

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## 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.

## **Part 1**

# **Steel and Raw Material Dynamics**

# worldsteel revises up steel demand outlook

- **The World Steel Association (worldsteel) estimates that the global steel demand will grow by 5.8% in 2021 and will continue to grow by 2.7% in 2022.**
- **In 2020, the steel demand of most countries fell sharply due to COVID-19, but the aggregate global demand fell slightly thanks to China's 9.1% demand growth rate.**

**Table 1. Steel Demand Forecasts**  
SRO April 2021, finished steel products

Regions	million tonnes			y-o-y growth rates, %		
	2020	2021 (f)	2022 (f)	2020	2021 (f)	2022 (f)
European Union (27) + UK	140.6	154.9	162.4	-11.4	10.2	4.8
Other Europe	36.0	42.3	44.7	9.4	17.4	5.5
CIS	58.2	60.2	62.1	-0.1	3.4	3.2
USMCA	114.0	122.6	128.3	-15.7	7.6	4.6
Central and South America	38.6	42.7	44.5	-7.9	10.6	4.2
Africa	35.6	38.6	40.9	-9.4	8.3	5.9
Middle East	46.0	48.5	50.1	-8.6	5.4	3.3
Asia and Oceania	1,302.8	1,364.2	1,391.6	3.5	4.7	2.0
<b>World</b>	<b>1,771.8</b>	<b>1,874.0</b>	<b>1,924.6</b>	<b>-0.2</b>	<b>5.8</b>	<b>2.7</b>
World excl. China	776.8	849.1	889.5	-10.0	9.3	4.7
Developed Economies	343.0	371.0	386.4	-12.7	8.2	4.2
China	995.0	1,024.9	1,035.1	9.1	3.0	1.0
Developing Economies excl. China	433.8	478.2	503.0	-7.8	10.2	5.2
ASEAN (5)	68.7	73.0	77.7	-11.9	6.2	6.5
MENA	62.2	66.0	68.7	-9.5	6.1	4.1

f - forecast

ASEAN (5): Indonesia, Malaysia, Philippines, Thailand, Vietnam

Source : worldsteel SRO, 2021.04.15

- **The stimulus packages rolled out by various countries are expected to boost steel demand.**
- **Under the vaccination plan, the situation of COVID-19 is coming under control.**

# Macroeconomic overview

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- **With growing vaccination rates, the developed economies, such as the US and Europe, saw continuous economic growth. The roll-out of infrastructure plan and recovery of private consumption drives up demand for commodities.**
- **China's economy shows strong momentum. Due to inflation concern, the government launched several control policies recently. However, with relatively better containment of COVID-19, the export, investment, and consumption activities are expected to maintain expansion.**
- **In Asia, some region experience a surge in coronavirus cases recently, but the surge has not yet impacted on industrial production. The spread of the pandemic should be closely watched, which may pose more challenges for the tightened shipping capacity and supply chain activities.**

# Major steel market dynamics

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## ➤ **US&EU :**

- ✓ The economic performance of countries in the EU and US remains decent thanks to the containment of coronavirus through vaccination and the stimulus package launched by the governments.
- ✓ The strong demand in steel-using industries, such as automobiles and construction, and the shortage of labor and tightened shipping capacity on the supply side makes the steel market worldwide in short supply, which contributes to the record-high steel prices in the US and EU. Most of steel mills have had their production in Q3 fully booked.

## ➤ **China :**

- ✓ In the two sessions, the Chinese government has proposed a plan to peak emissions by 2030 and achieve carbon neutrality by 2060. As the carbon emission from steel industries takes 15% of the total emissions in China, it's imperative to limit the crude steel production.
- ✓ The Chinese government removed the export tax rebate for certain steel products, such as hot-rolled coils and wire rods starting from 1<sup>st</sup> May 2021, which could better stabilize the international price. After the May 1 holiday, the sudden surge in commodities prices triggered the government to adopt measures to crack down on speculation, which weakens the spot price recently. However, the steel price is expected to turn stable as the raw material cost is still at a high level.

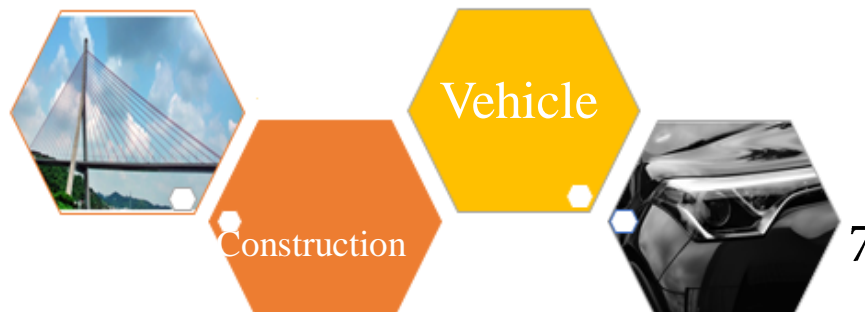
# Major steel market dynamics

## ➤ Southeast Asia :

- ✓ The countries of Southeast Asia have expanded their infrastructure investment and the automobile and motorcycle manufacturers also resumed their production gradually. The steel demand is expected to be better than that of last year.
- ✓ Thanks to the strong local demand in Vietnam, the export quotes from steel mills in China, Japan and Korea kept raising and the local price further increased. Recently the export quotes from China decreases slightly, but the local spot price remains stable. The impact of pandemic in Southeast Asian countries on the steel market will be continuously watched.

## ➤ Taiwan :

- ✓ Benefiting from the return of supply chain members, the ongoing construction activities and rising demand for passenger vehicles have driven up the steel consumption from sectors such as steel structure, automotive components, etc. The economy keeps growing steadily.
- ✓ Though Taiwan reported a surge in COVID-19 cases recently, the manufacturing industry has yet to be affected. As most of the industries in Taiwan are export-oriented and vulnerable to fluctuations of the global economy. The development of COVID-19 worldwide remains one of the key factors for future market growth.





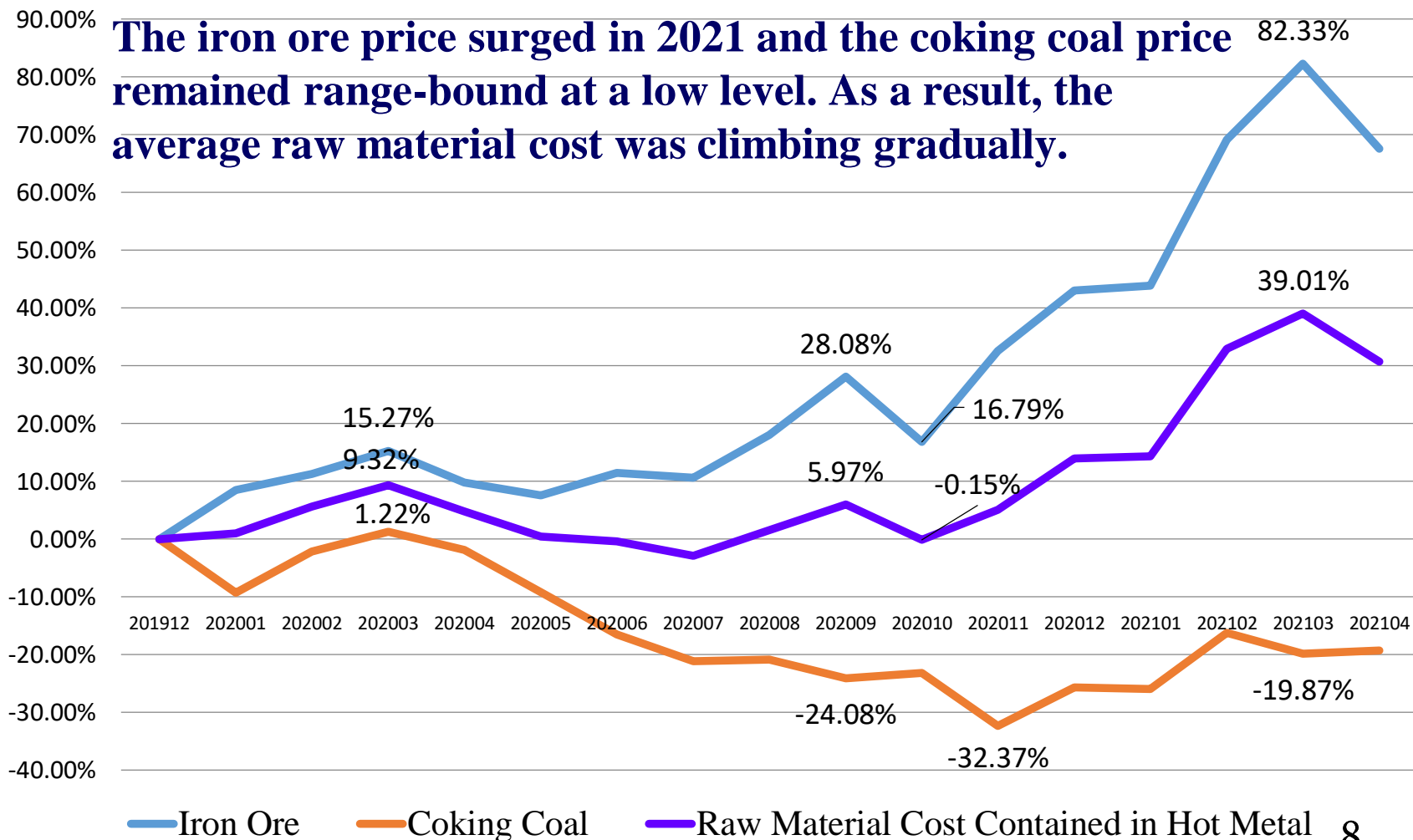
# Raw material price trend

The incoming raw material price in 2020~2021

Percentage change compared to Dec. 2019

## CSC incoming raw material price trend

**The iron ore price surged in 2021 and the coking coal price remained range-bound at a low level. As a result, the average raw material cost was climbing gradually.**



## Part 2

# Operating Performance

# Consolidated Financial Performance

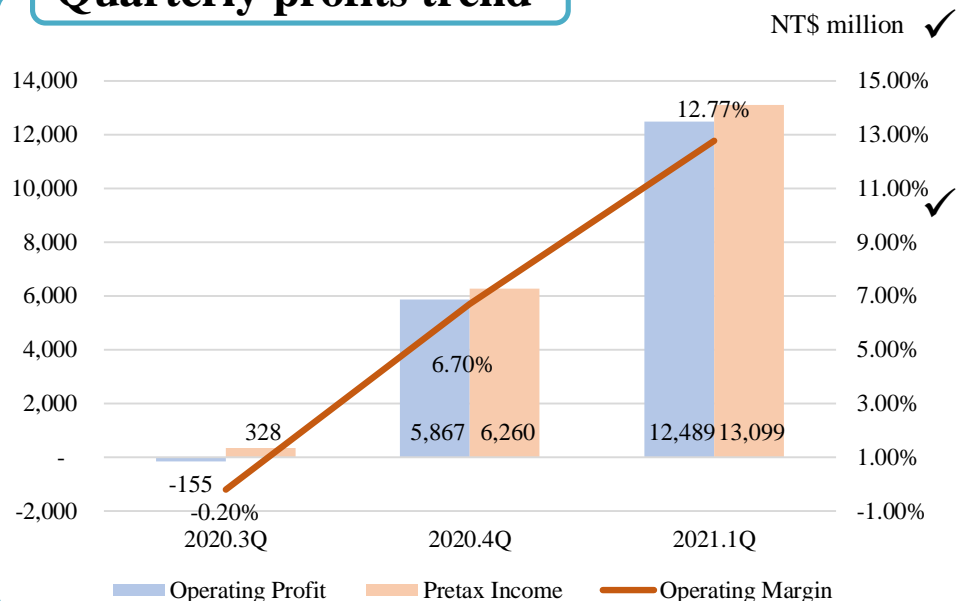
## Latest operating results

Amount: NT\$ million

Item	*2021.4	2021.3	MoM	*2021.1~4	2020.1~4	YoY
Operating Revenue	36,906	36,895	0%	134,728	103,353	30%
Operating Income	5,512	5,388	2%	18,002	(2,585)	796%
Operating Income Margin	14.94%	14.60%		13.36%	-2.50%	
Income Before Income Tax	6,169	5,637	9%	19,268	(3,060)	730%

\*preliminary result

## Quarterly profits trend

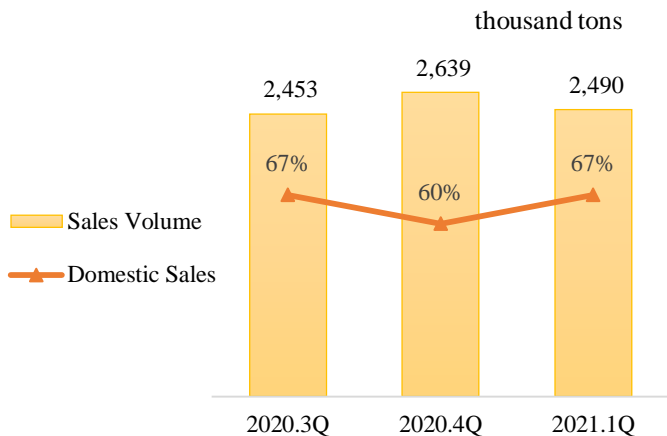


✓ The monthly pricing for domestic sales has increased since July as countries lifted restrictions in 2020H2.

✓ Thanks to the increase of both monthly and quarterly pricing, the ASP increase was larger than that of ASC, even though the cost of raw material also increased in the same period. As a result, the profit keeps growing in Q4 and Q1.

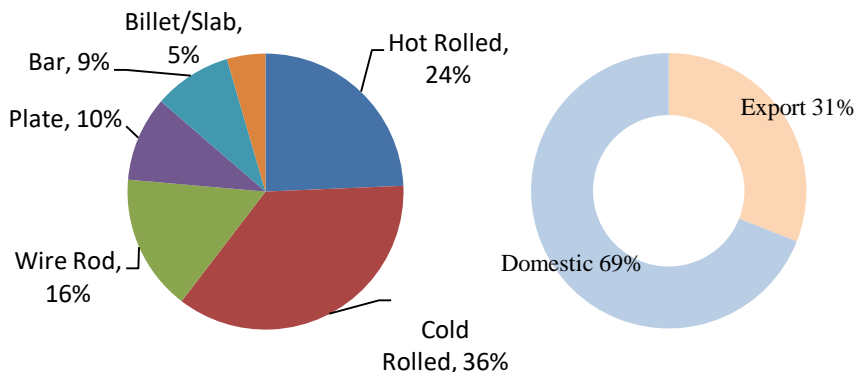
# Standalone Production / Sales Performance

## Sales analysis

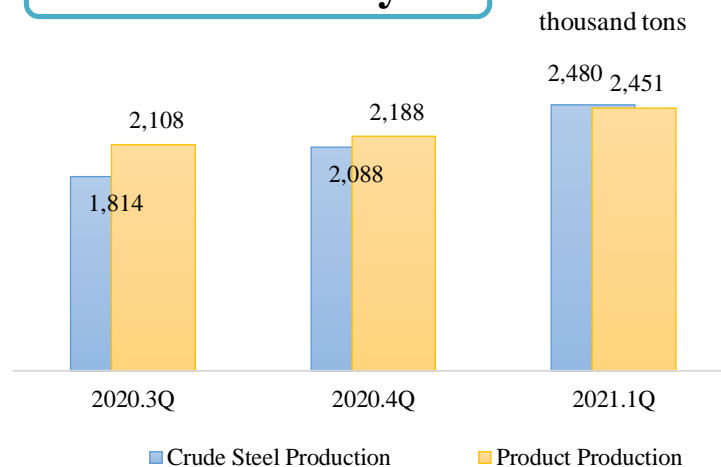


- ✓ The sales volume has rebounded significantly from Q4 as global downstream industries resumed production and steel demand recovered. Demand outlook for 2021H1 remains positive.
- ✓ As the supply of slabs from Nippon Steel's Wakayama Steel Works reduces since 2021, CSC no longer arranges these slabs and the procurement shifted to Chung Hung Steel. As a result, CSC's standalone sales of slabs decreased.

## 2021.Q1 Sales value breakdown

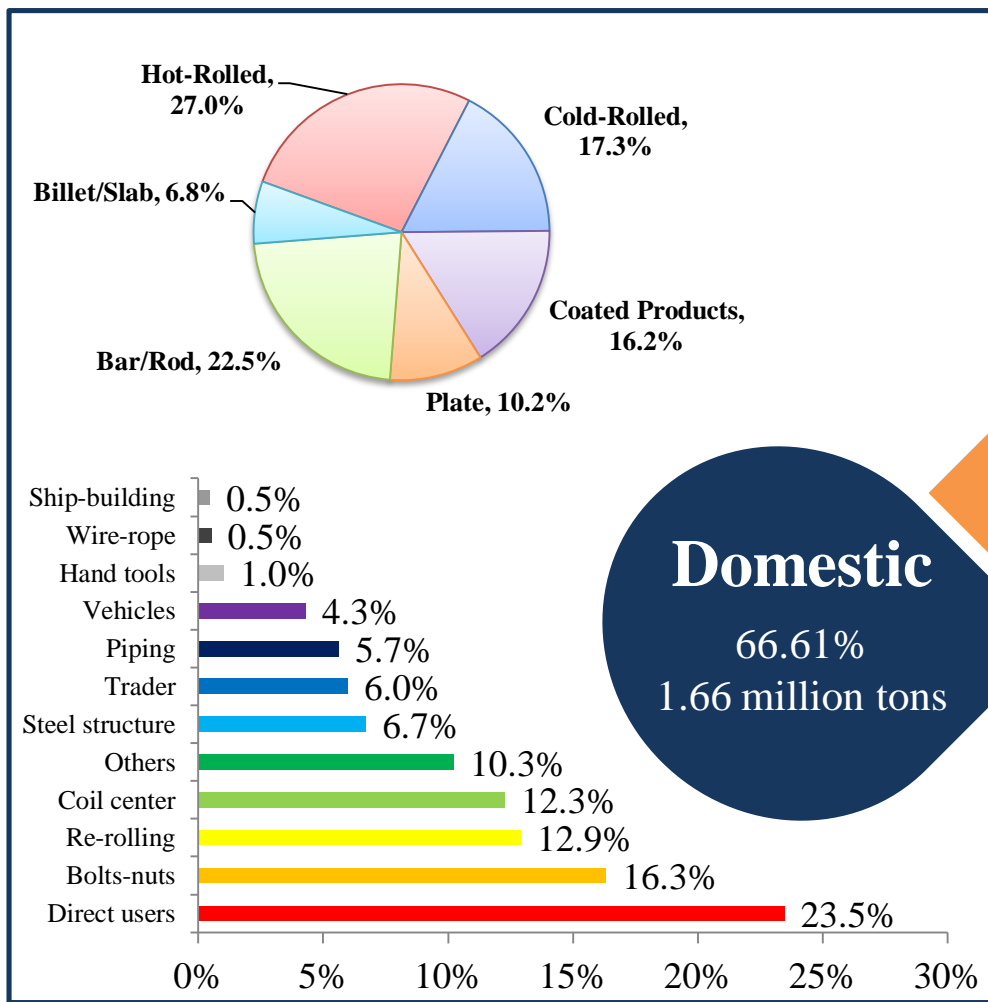


## Production analysis



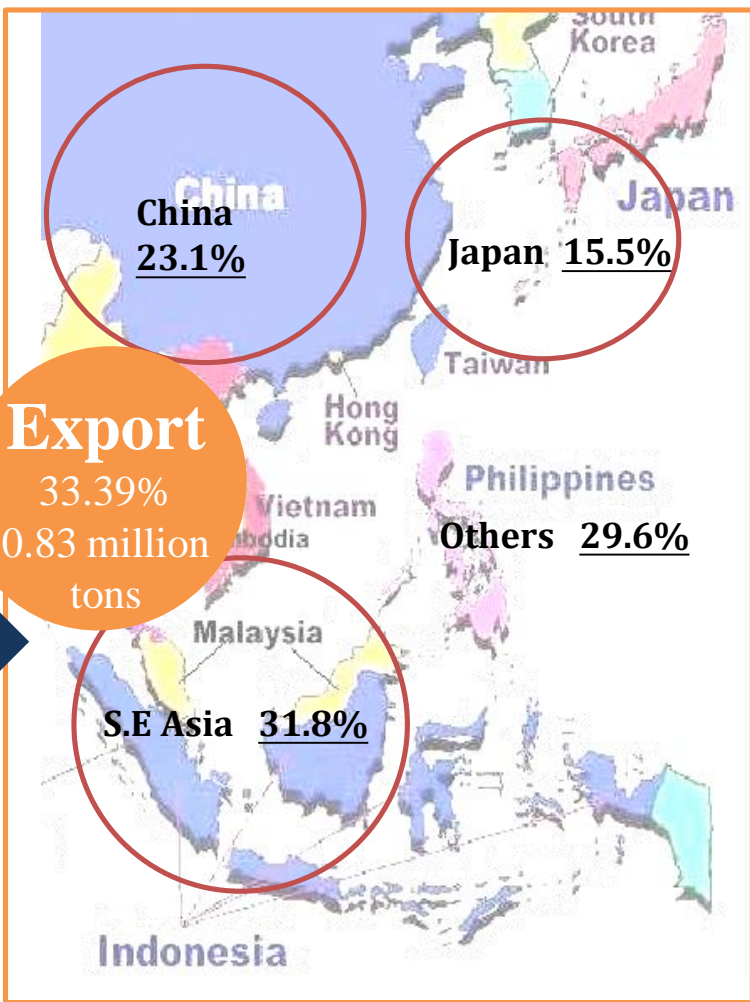
# 2021.Q1 Sales Analysis – CSC standalone

2021.Q1 sales volume totaled 2.49 million tons – Sales Breakdown



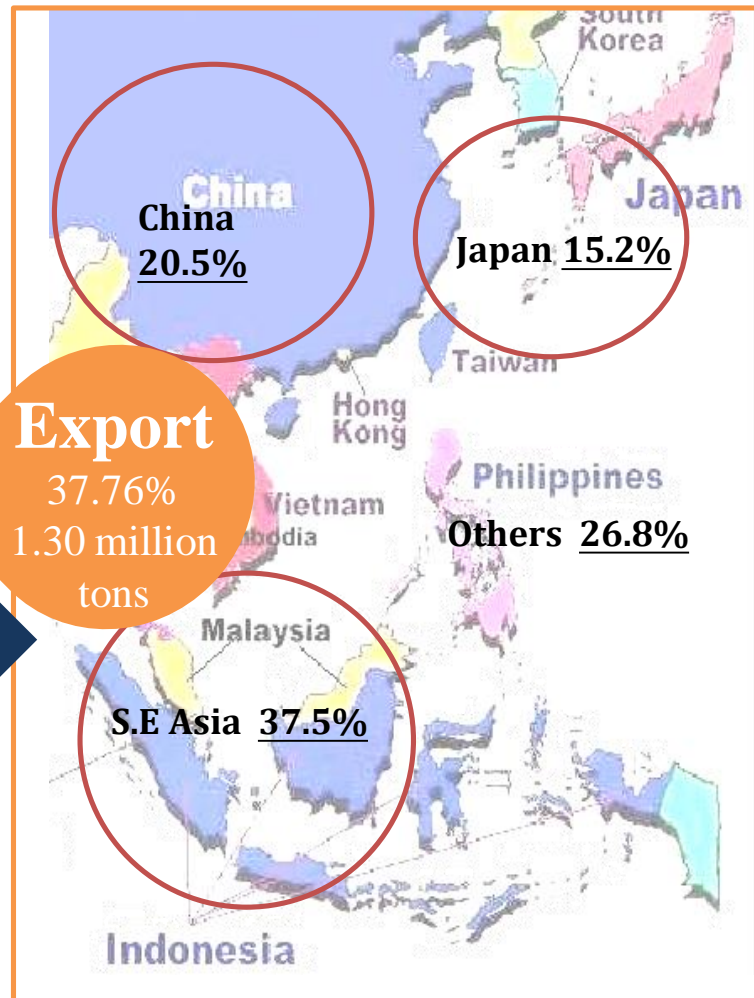
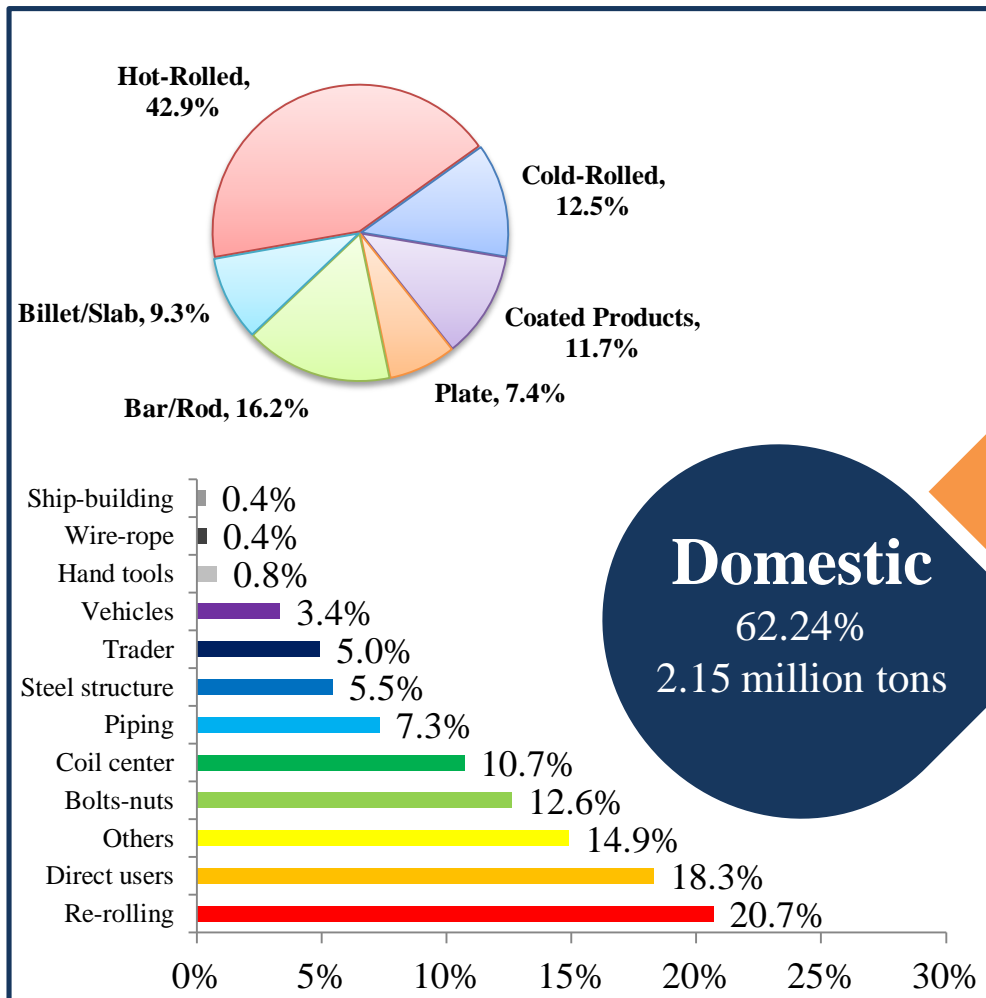
**Domestic**  
66.61%  
1.66 million tons

**Export**  
33.39%  
0.83 million tons



# 2021.Q1 Sales Analysis - CSC & BF products of DSC

2021.Q1 sales volume totaled 3.45 million tons - Sales Breakdown



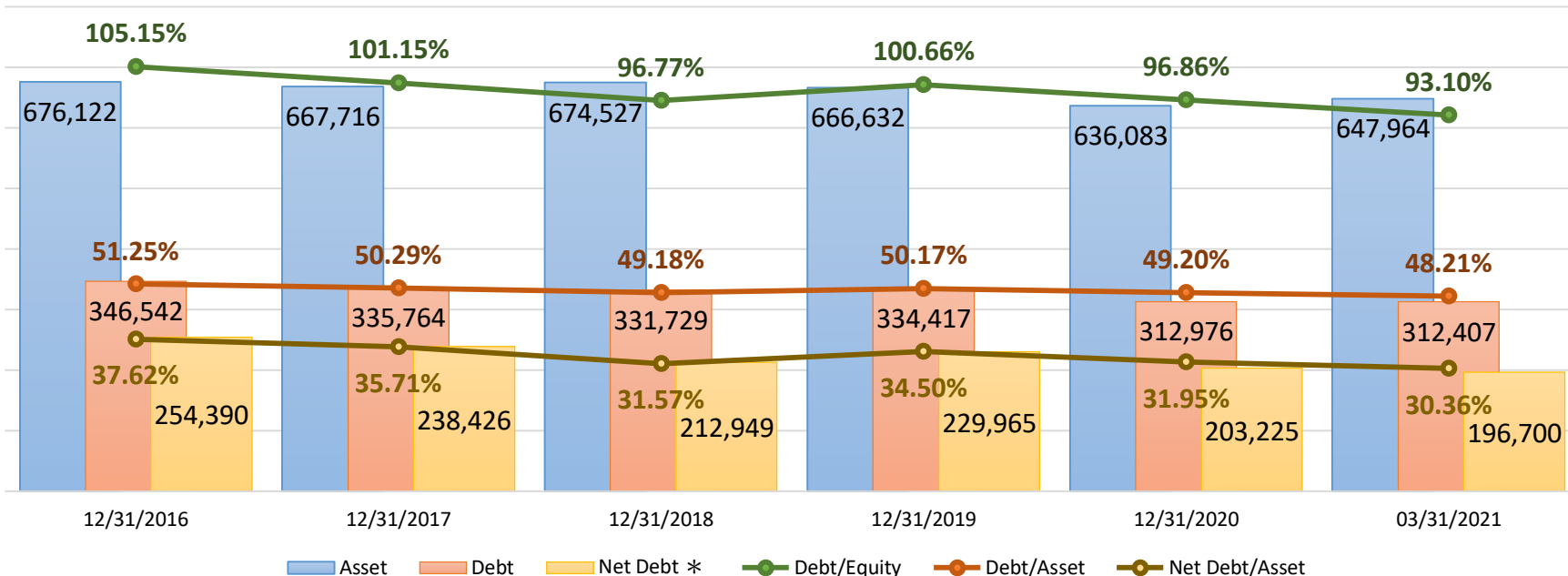
# Consolidated Income Statement

Units: NT\$ millions

IFRSs	2021.Q1	2020.Q1	YoY
Revenues	97,822	77,919	+26%
Gross profit	15,973	913	+1650%
Gross margins	16.33%	1.17%	
Profit (loss) before tax	13,099	(2,566)	+610%
<u>Net profit (loss)</u>	<u>10,808</u>	<u>(2,119)</u>	+610%
Attributable to			
Owners of the corporation	9,027	(2,256)	+500%
Non-controlling interests	1,781	137	+1200%
Earnings Per Share (NTD)	\$ 0.58	(\$ 0.15)	+487%

# Consolidated Financial Position

Units: NT\$ millions



- ✓ Cash flows from operating activities remains steady; keep paying back debts and reducing debt ratio.
- ✓ Keep reducing financial costs by issuing corporate bonds and paying back US dollar-denominated debt in recent years.
- ✓ Credit rating: Taiwan Ratings twAA- ; Outlook Stable (2021.04.23)  
Fitch Ratings AA-(tw); Outlook Stable (2020.12.23)

\* 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*)

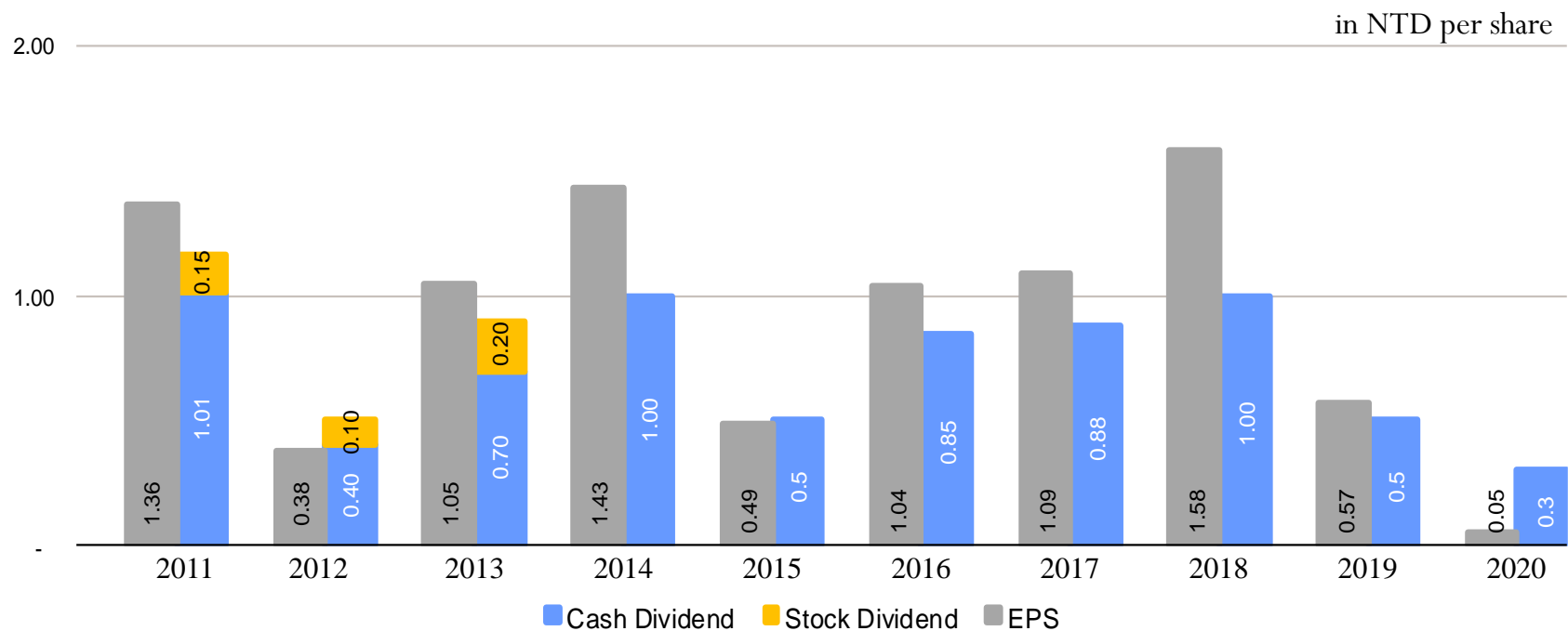
\* 2018~ :

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	2020
Dividend payout(%)	85	132	86	70	102	82	81	63	88	600
Cash Dividend payout(%)	74	105	67	70	102	82	81	63	88	600



## Part 3

# Key Strategies

# 10 Measures

1. Develop Advanced Premium Steel
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.

# Develop Advanced Premium Steel

## Definition of Advanced Premium Steel (APS)

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
Advanced Premium Steel 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
Advanced Premium Steel proportion target (%)			4.2%	5.5%	6.9%	8.4%	10.0%

(Unit: 10 thousand tons)

➤ Sales volume of APS to achieve **10% in 2025** and **20% in 2030**.

➤ **In 2021Q1**, the sales volume of APS reached 124.4 thousand tons, **accounting for 6.44%**.

# 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

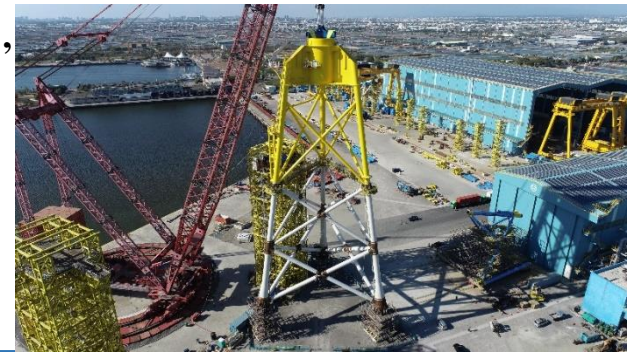
Providing multi-program of process technology, quality control, logistics management, etc. to cultivate medium-sized enterprises.

Promoting Integrated Innovation  
 Facilitating Upgrade and Transformation  
 Generating Demand and Benefits from Advanced Premium Steel

# Explore and Cultivate in the Green Industry Business

## Sing Da Marine Structure Corporation - Substructures

- Officially commenced operation in January, 2020
- Capital: NTD\$6.842 billion with equity ratio 50%, CSC holds 100% of shares.
- Progress: Producing the substructures for Orsted - Greater Changhua Offshore Wind Farm Project. The first 100% domestically made substructure will be produced in the 1H of this year.



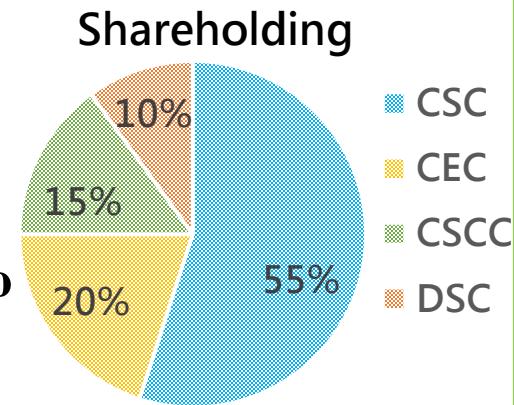
## China Steel Power Corporation - Offshore Wind Farm

- Capacity: Got distribution of 300MW grid capacity for installation.
- Developers: China Steel Corporation and Copenhagen Infrastructure Partners (CIP) jointly established China Steel Power Corporation to develop #29 offshore wind farm. CSC holds 51% of shares.
- Progress: Obtained the establishment permit, signed power purchase agreement (PPA) with Taipower, and passed the 2<sup>nd</sup> environmental impact assessment. The wind farm is expected to **connect to the grid in 2024** and generate an estimated **1.1 billion kwh** annual output.

# Explore and Cultivate in the Green Industry Business

## CSC Solar Corporation

- Invested NTD 4.36 billion in setting up **84.8MW** 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	2021	Total
Estimated Capacity Installed (MW)	30	30	20	3~5	3~5	86~90
Actual Capacity Installed (MW)	31.16	30.01	22.04	1.59	--	84.8
Electricity Output (100m kwh)	0.04	0.47	0.74	1.04	0.34 (until Apr.)	2.63

- As of Apr. 2021, the **accumulated electricity output of solar power** in CSC group reached **263 million kwh**. Revenues from electricity sales reached \$1.21 billion. Carbon reduction reached **134 thousand tons**, equivalent to the CO2 absorption of **344 Taipei Daan Park**.

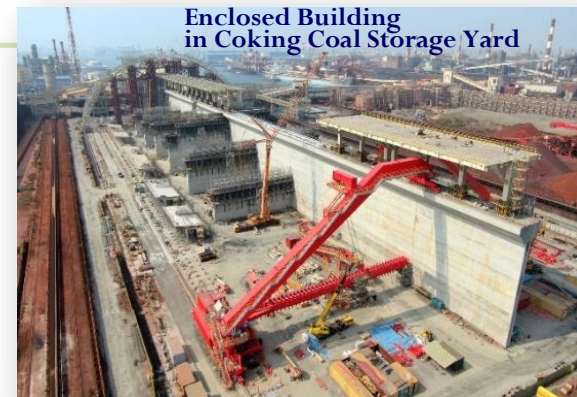
(Estimated based on the 2019 Taipower electricity carbon emission factor, 0.509 kg CO2e/kwh)

# Environmental Protection Action

Became a TCFD supporter & adopted the TCFD framework.

## Investment on environmental protection

- ✓ Accumulated investment in environmental protection equipment reached **76.3 billion**.
- ✓ Investment on air quality improvement projects in the recent 5 years reached 4.756 billion.
- ✓ To **invest 44.714 billion** in air quality improvement projects from 2020~2026.



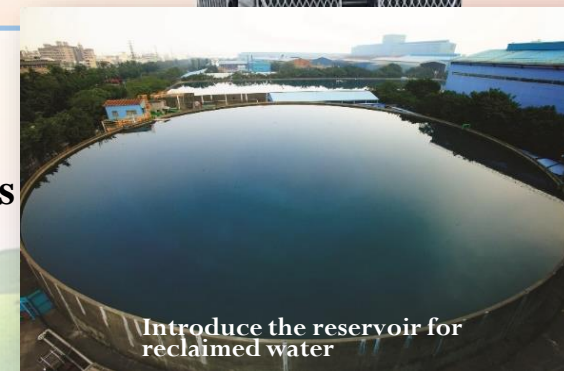
Enclosed Building in Coking Coal Storage Yard

## Reduction of green house gas

- ✓ Participate in the **GHG voluntary reduction** program held by Industrial Development Bureau since 2005.
- ✓ Until 2020, 1,280 reduction projects has been implemented. **Carbon reduction** reached 1.875 million tons CO<sub>2</sub>e per year, equivalent to the CO<sub>2</sub> absorption of **4,821 Taipei Daan Park**.

## Water resources development

- ✓ Water recycled rate is **98.4%**. (higher than the 65% required by the government)
- ✓ Won **16 Water Conservation awards** from the Water Resources Administration of Ministry of Economic Affairs .
- ✓ **The first company in Taiwan to use domestic reclaimed water.**
  - Fengshan Creek reclaimed water was introduced in 2018.
  - Linhai reclaimed water will be introduced in early 2022.
- ✓ **Built a seawater desalination pilot plant in March 2021.**
  - Target: Develop an integrated seawater desalination process, which produces water at a cost less than NTD 25/ton in 2 years.



Introduce the reservoir for reclaimed water



# ESG performance

## ESG Performance

- ✓ 2021.05 CSC was ranked **top 5%** in TWSE listed companies in the 7th (2020) Corporate Governance Evaluation.
- ✓ 2020.11 CSC received the highest honor - “Top 10 Domestic Companies Sustainability Model Awards (Manufacturing Industry)” by Taiwan Corporate Sustainability Awards (TCSA).
- ✓ 2020.11 CSC won the “Leader in Sustainability Resilience Award” by British Standards Institution (BSI).
- ✓ 2020.11 CSC was included in the Emerging Market Index of Dow Jones Sustainability Index (DJSI) for the 9th consecutive year.
- ✓ 2020.10 CSC was ranked 50th in the 100 Most Sustainably Managed Companies in the World by Wall Street Journal, and became one of the five Taiwanese companies awarded.
- ✓ 2020.08 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.
- ✓ 2020.06 CSC won the 2019 Sustainability Champions of World Steel Association (worldsteel).

*Thank you!*

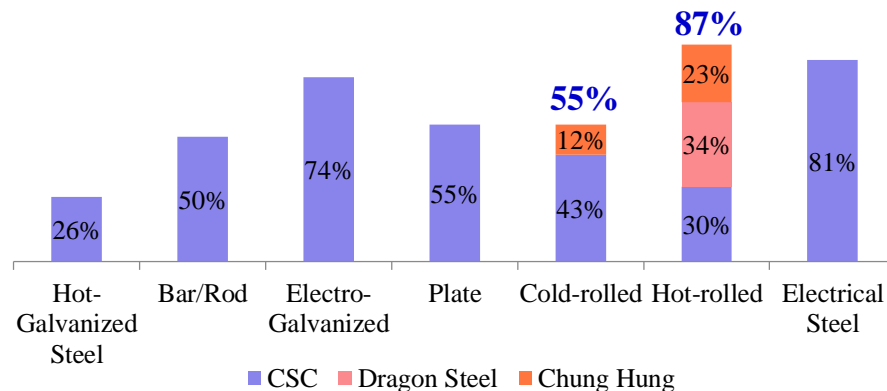
## Part 4

# Appendixes

# 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
- Focus on Leading-edge Steel Mill & green energy business. Improve the percentage of high-end and high-margin products.

CSC Group domestic market share (2021.Q1)



## 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

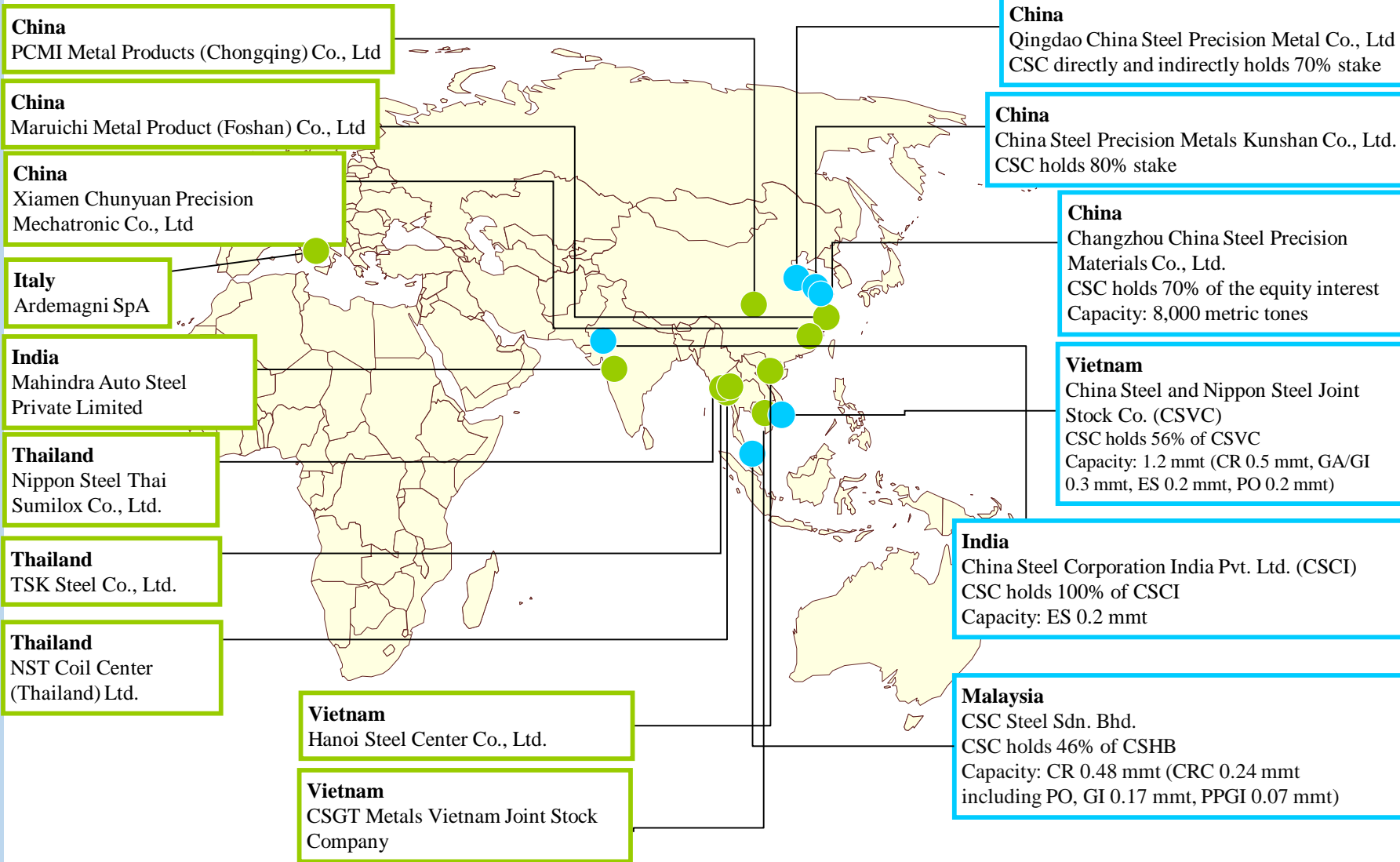
- CSE
- CSGT
- CSMQ
- CSMK

## Service and Investments

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

# Company overview – Overseas production sites and sales channels

Established southbound overseas production sites and sales channels to breakthrough tariff barriers.



# Segment revenues and operating results

Unit : NTD Thousands

2021.1Q	Steel	Others	Adjustment & Elimination	Total
Revenues from external customers	\$ 77,841,149	\$ 19,980,449	\$ -	\$ 97,821,598
Inter-segment revenue	<u>21,409,928</u>	<u>12,680,533</u>	<u>( 34,090,461)</u>	<u>-</u>
Segment revenue	<u>\$ 99,251,077</u>	<u>\$ 32,660,982</u>	<u>(\$ 34,090,461)</u>	<u>\$ 97,821,598</u>
Segment profit (loss)	\$ 10,687,747	\$ 2,314,329	(\$ 512,888)	\$ 12,489,188
Interest income	32,351	40,471	( 9,874)	62,948
Financial costs	( 369,997)	( 144,470)	35,870	( 478,597)
Share of the profit (loss) of associates	5,331,798	914,961	( 5,950,766)	295,993
Other non-operating income and expenses	<u>400,468</u>	<u>527,102</u>	<u>( 197,922)</u>	<u>729,648</u>
Profit (loss) before income tax	16,082,367	3,652,393	( 6,635,580)	13,099,180
Income tax	<u>1,989,891</u>	<u>423,574</u>	<u>( 122,027)</u>	<u>2,291,438</u>
Net profit (loss) for the period	<u>\$ 14,092,476</u>	<u>\$ 3,228,819</u>	<u>(\$ 6,513,553)</u>	<u>\$ 10,807,742</u>