

# China Steel Corporation

September 16, 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.

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## **Part 1**

# **Steel and Raw Material Dynamics**

# Macroeconomic overview

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- **With growing vaccination rates in various countries, the roll-out of infrastructure plan and recovery of private consumption contributes to the continuous growth of the global economy. However, the strength of recovery in various countries may diverge due to inequity in vaccine access. Developed countries are more expected to get back toward normal.**
- **Owing to concerns over economic stability and inflation, the Chinese government launched several control policies recently. The US is also expected to taper bond buying by the end of this year with the concern of accelerating inflation rate.**
- **The economies of Southeast Asia are showing a hit again as the delta variant fueled a new wave of infections, which may pose more challenges to the tightened shipping capacity and supply chain activities.**

# Major steel market dynamics

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## ➤ **US&EU :**

- ✓ Due to summer holiday and flood damage, transaction has reduced in the European steel market. However, production control and cancellation of tax rebates in China and potential US' Section 232 tariff relief for EU may support the steel price.
- ✓ The \$1 trillion U.S. infrastructure plan is expected to keep the demand strong in steel-using industries such as vehicles and construction. However, the current historical high price levels would attract steel imports into the US market.

## ➤ **China :**

- ✓ To curb carbon emission, China's ministry of industry and information technology (MIIT) proposed that the crude steel output should decline year-on-year in 2021. Production control is expected to strengthen in the second half of this year. The average daily output of crude steel shrank to 2.8 million tons in July, falling 10.5% from June and hitting the lowest level since April 2020.
- ✓ In order to secure sufficient domestic steel supply under the policy of reducing carbon emission and steel production, China removed export tax rebate for key steel products (HRC, bars and wire rods) from May 1<sup>st</sup>. Starting from August 1<sup>st</sup>, the government further raised the export tariffs on pig iron and ferrochrome and removed the export tax rebate for 23 steel products. The policy is expected to lend support to the international steel prices.

# Major steel market dynamics



Construction

Vehicle



## ➤ Southeast Asia :

- ✓ Due to the surge in COVID-19 cases, local government raised restrictions on economic activities again. Automobile and motorcycle manufacturers and auto part factory could only operate limitedly. Steel market sentiment has weakened resulting from aforementioned restriction and lower demand in rainy season.
- ✓ As the manufacturing industry improves, steel demand in India is expected to recover gradually when the rainy season ended in late August, leading to a stabilization of steel prices.

## ➤ Taiwan :

- ✓ As coronavirus restrictions gradually lifted in the US and EU, the strong momentum in consumption has benefited Taiwan's export and manufacturing sector. With coronavirus being contained domestically and the raining season coming to an end, private consumption and investment levels have been on the rise.
- ✓ Recently, the construction sector is witnessing a boom in both local and international markets and the sales of electronic devices remains strong. Other sectors such as electric vehicles (EV) components are expanding as major governments are implementing EV policies, and leisure related industries such as fitness equipment and bicycles are seeing rising sales as well. The surge of demand in these industries has raised steel consumption and is expected to continue to grow in the near future.

# Raw material price trend

The incoming raw material price in 2021  
 Percentage change compared to Dec. 2020

CSC incoming raw material price trend



**The iron ore price kept climbing in 2021 and the coking coal price has also surged since June. The average raw material cost has increased gradually until the iron ore price started to decline in August, slightly mitigating the upward trend of costs.**



## Part 2

# Operating Performance

# Consolidated Financial Performance

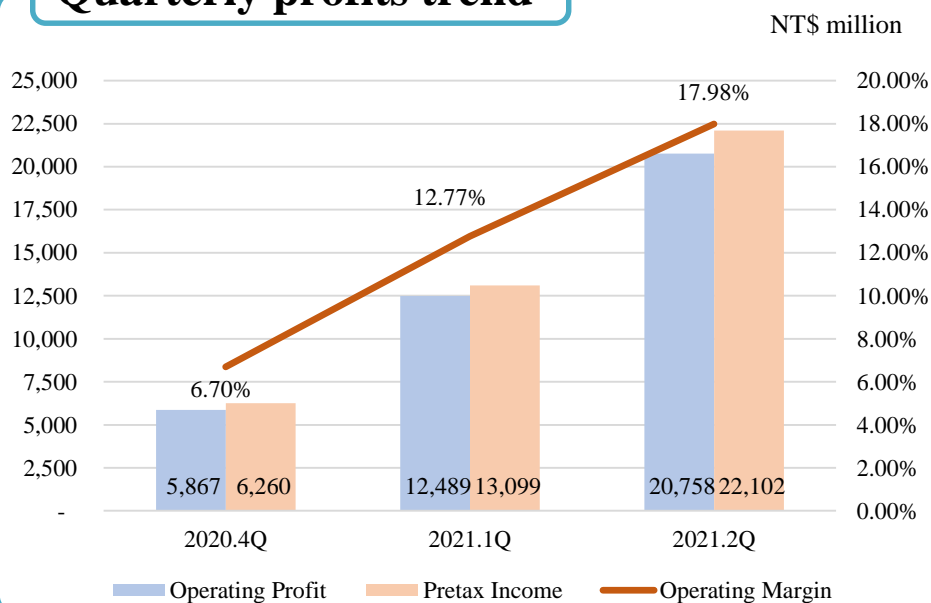
## Latest operating results

Amount: NT\$ million

Item	*2021.7	2021.6	MoM	*2021.1~7	2020.1~7	YoY
Operating Revenue	41,883	38,824	8%	255,153	175,217	46%
Operating Income	8,160	7,883	4%	41,407	(3,726)	1211%
Operating Income Margin	19.48%	20.31%		16.23%	-2.13%	
Income Before Income Tax	9,085	8,306	9%	44,286	(4,111)	1177%

\*preliminary result

## Quarterly profits trend

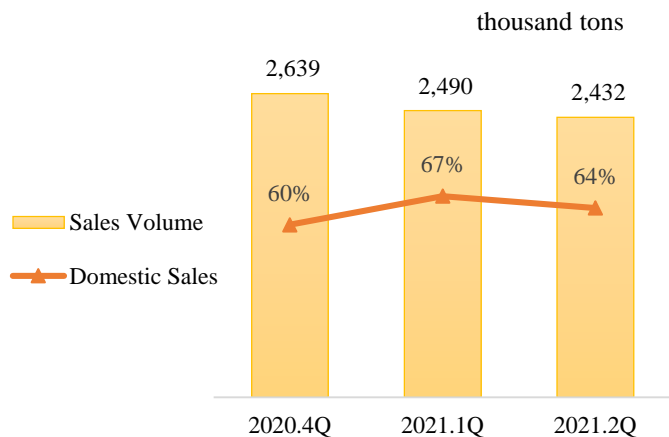


✓ As countries lifted restrictions in 2020H2, the rapid recovery in demand and tight steel supply contributed to the rising steel price.

✓ Thanks to the increase of both monthly and quarterly pricing, especially the significant price increase in Q2, the ASP increase was larger than that of ASC in the same period. As a result, the profit keeps growing in Q4 and Q2.

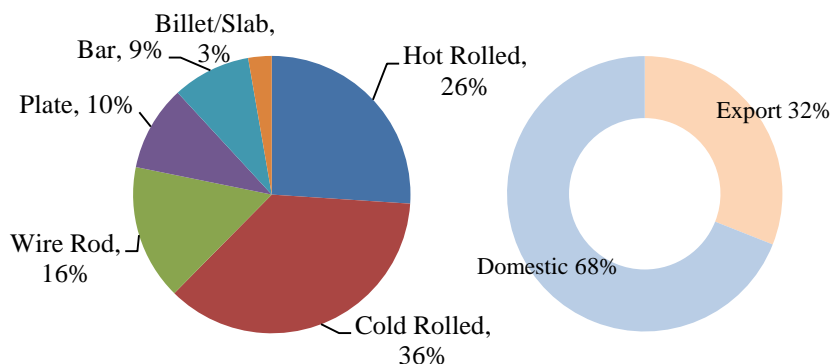
# Standalone Production / Sales Performance

## Sales analysis

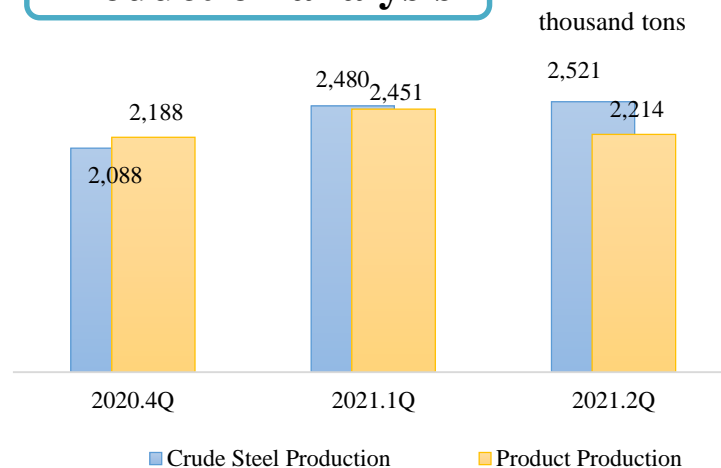


- ✓ Because of the strong global steel demand, CSC runs at full capacity after the completion of revamping of No.2 blast furnace at the end of 2020.
- ✓ As the supply of slabs from Nippon Steel's Wakayama Steel Works reduces since 2021, CSC no longer arranges these slabs and the procurement shifted to Chung Hung Steel. As a result, CSC's standalone sales of slabs decreased.

## 2021.1H Sales value breakdown

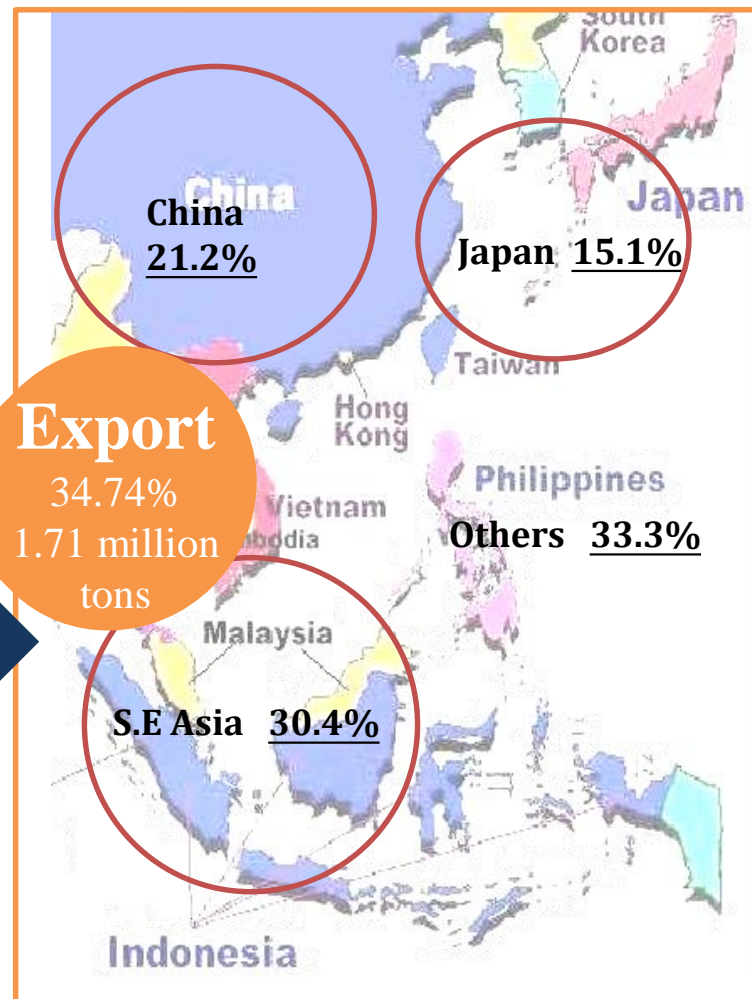
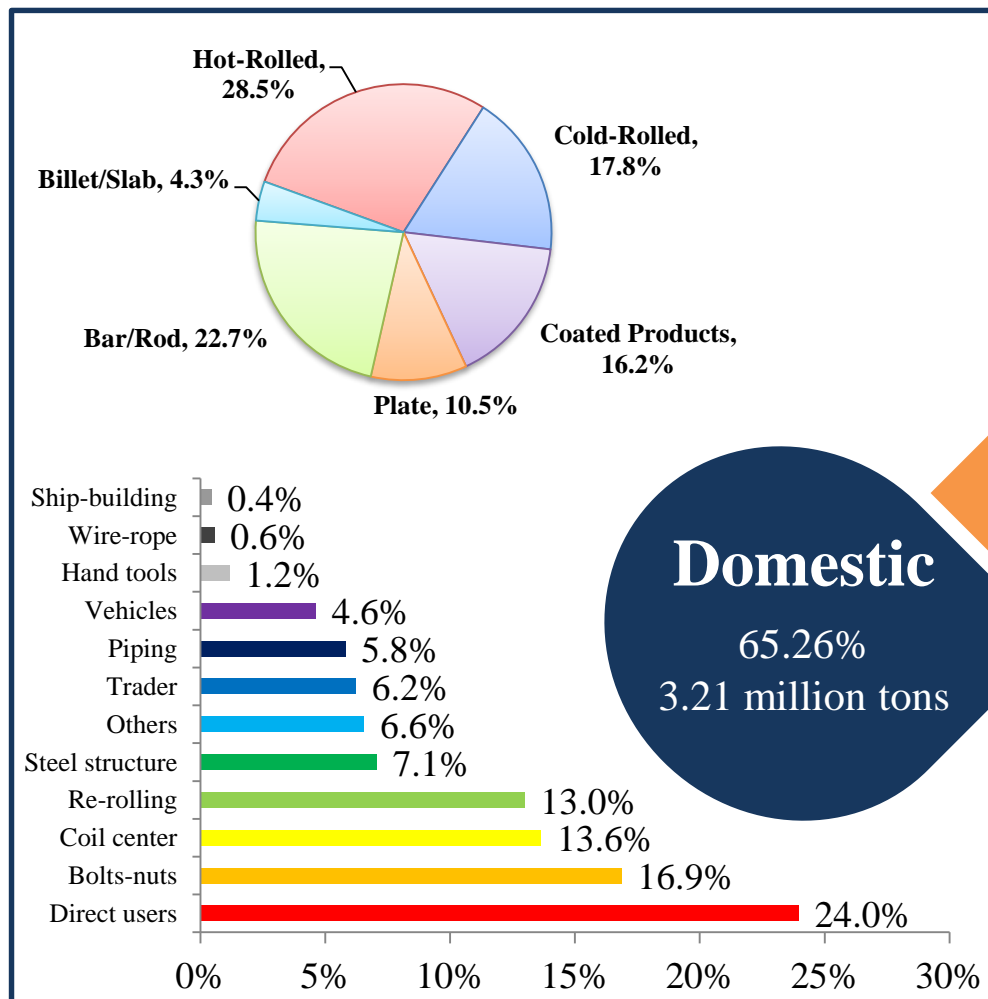


## Production analysis



# 2021.1H Sales Analysis – CSC standalone

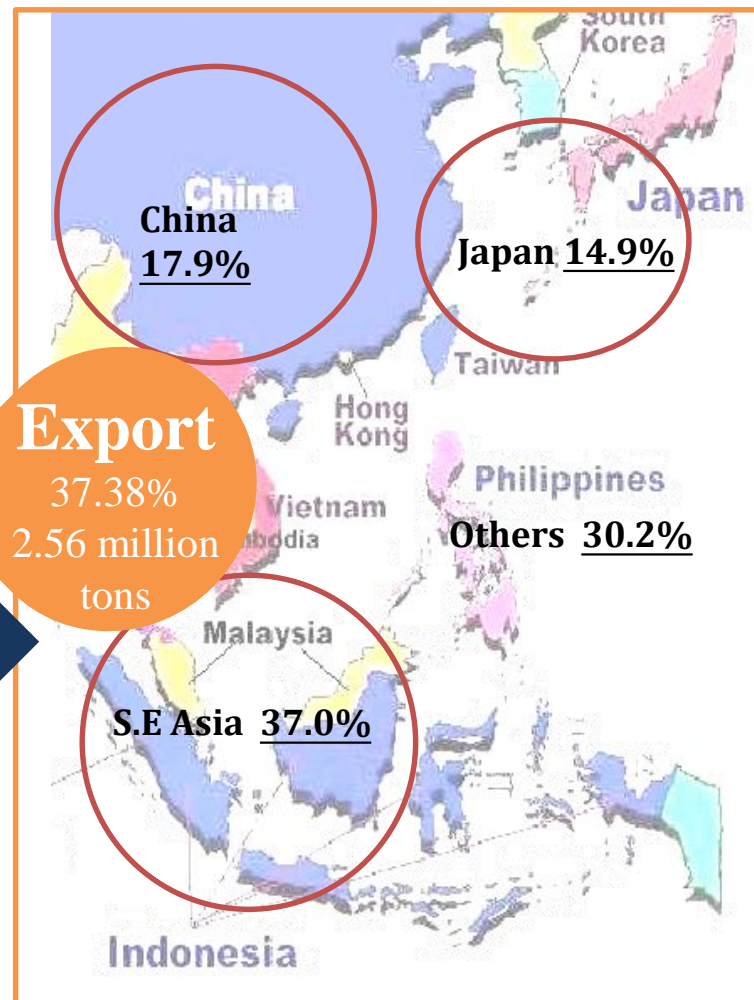
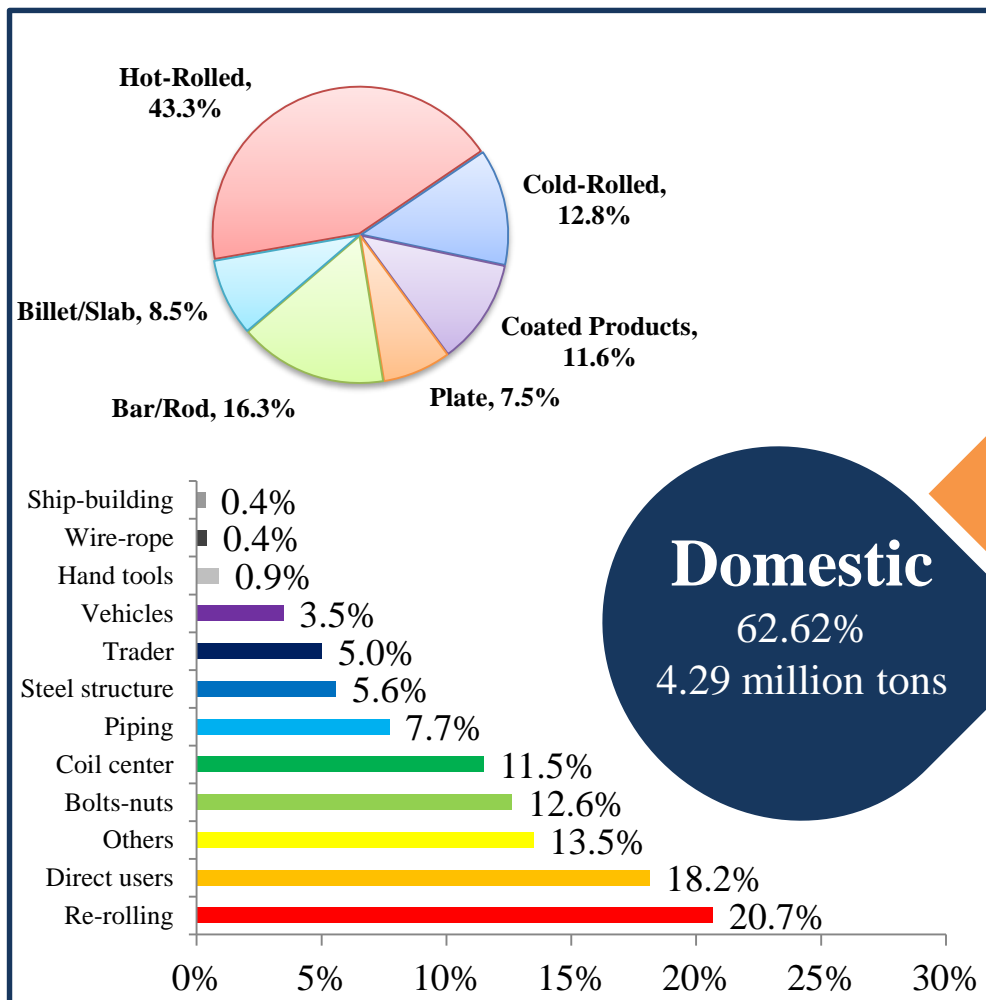
## 2021.1H sales volume totaled 4.92 million tons – Sales Breakdown





# 2021.1H Sales Analysis - CSC & BF products of DSC

2021.1H sales volume totaled 6.85 million tons - Sales Breakdown



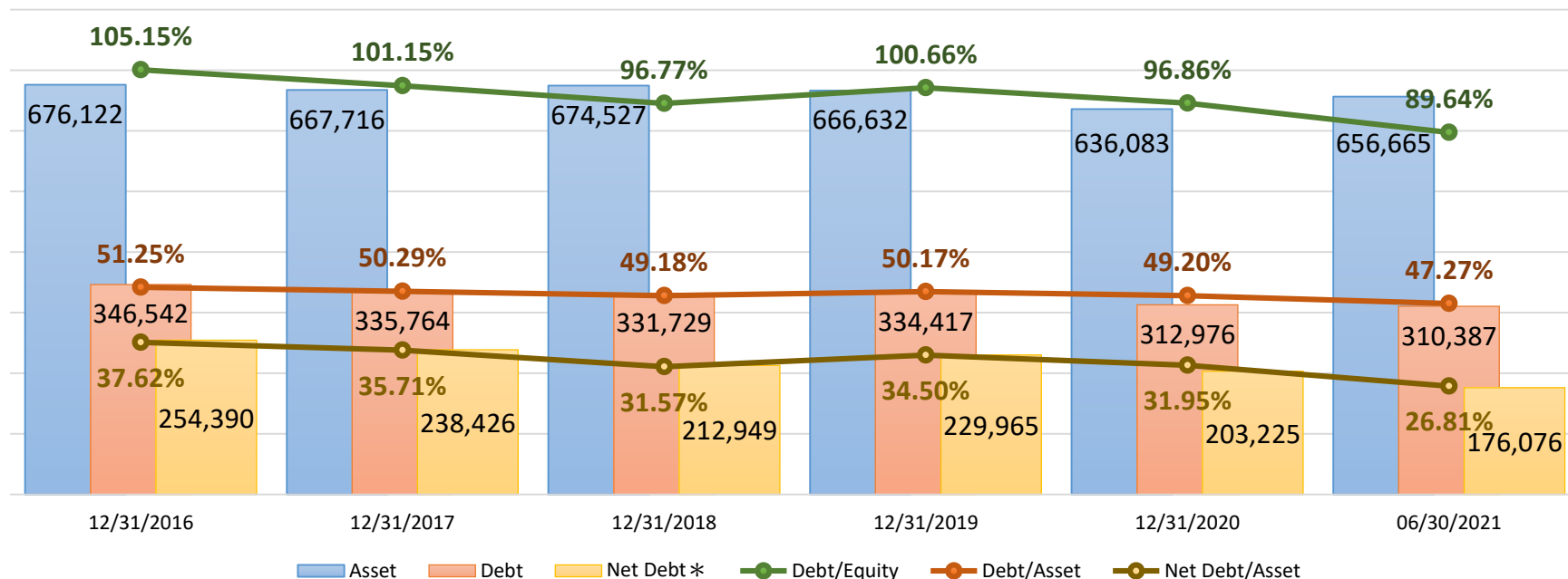
# Consolidated Income Statement

Units: NT\$ millions

IFRSs	2021.1H	2020.1H	YoY
Revenues	213,270	150,528	+42%
Gross profit	40,611	2,830	+1335%
Gross margins	19.04%	1.88%	
Profit (loss) before tax	35,201	(3,819)	+1022%
<u>Net profit (loss)</u>	<u>28,905</u>	<u>(3,414)</u>	+947%
Attributable to			
Owners of the corporation	24,741	(3,664)	+775%
Non-controlling interests	4,164	250	+1566%
Earnings Per Share (NTD)	\$ 1.60	(\$ 0.24)	+767%

# 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*)

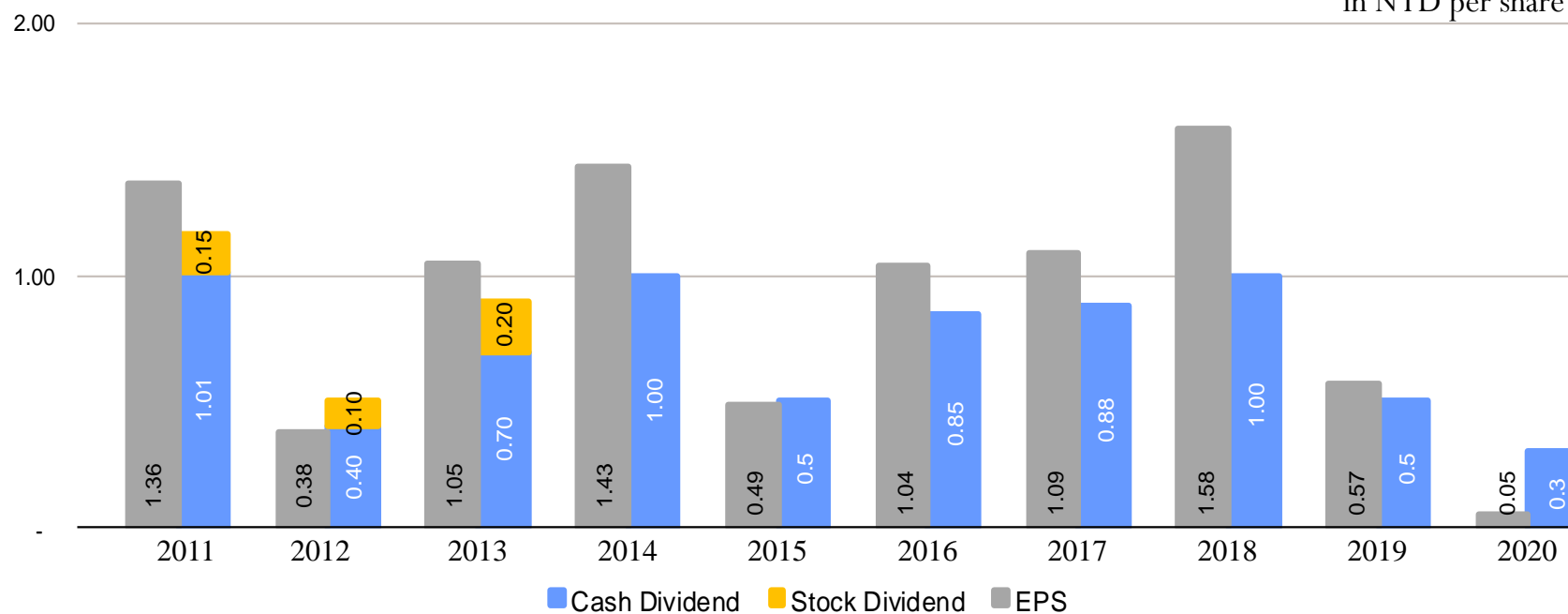
\* 2018~ :

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

in NTD per share





## 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



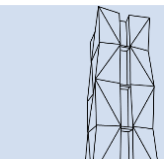





- **Transform into a high value-added steel mill through intelligent innovation.**
- **Expand new business opportunity in promising industry through engagement in the green energy field.**

# 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 2021H1**, the sales volume of APS reached 296.7 thousand tons, **accounting for 7.24%**.

# 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 was completed in July, 2021.

Jacket substructures: the one on the left was completed, and the upper jacket and lower jacket of the one on the right are currently being welded. →



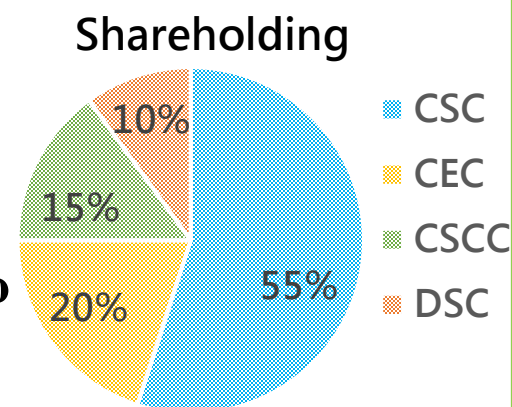
## China Steel Power Corporation - Offshore Wind Farm

- 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	2.5	4.9	87.4
Actual Capacity Installed (MW)	<b>31.16</b>	<b>30.01</b>	<b>22.04</b>	<b>1.59</b>	--	<b>84.8</b>
Electricity Output (100m kwh)	0.04	0.47	0.74	1.04	0.71 (until Aug.)	<b>3.00</b>

- As of Aug. 2021, the **accumulated electricity output of solar power** in CSC group reached **300 million kwh**. Revenues from electricity sales reached \$1.38 billion. Carbon reduction reached **153 thousand tons**, equivalent to the CO2 absorption of **392 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.



## 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.





## 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

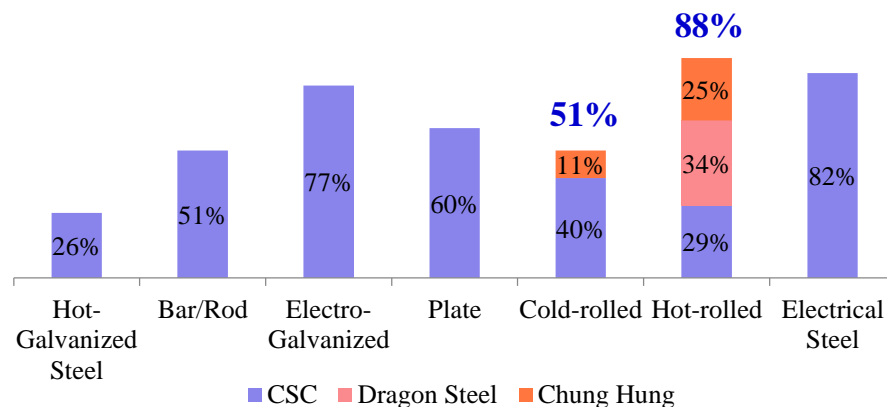
# Appendixes

# 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 (2021.1H)**



## 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

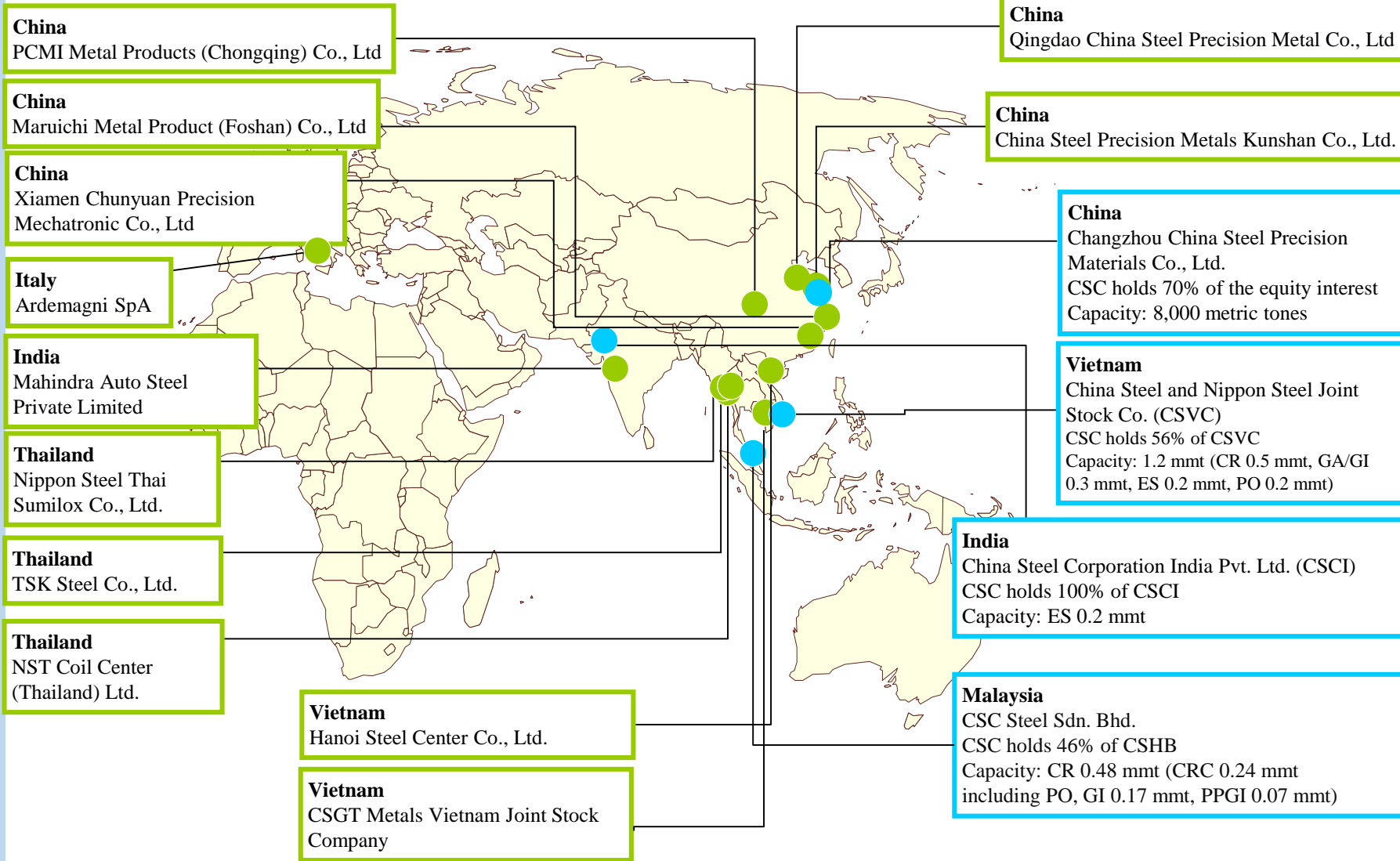
- CSE
- CSGT
- CSMQ
- CSMK

## 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.



● Co-invest in coil centers with peers and customers through China Steel Global Trading Co.

● Overseas Investments of CSC group

# Segment revenues and operating results

Unit : NTD Thousands

2021.1H	Steel	Others	Adjustment & Elimination	Total
Revenues from external customers	\$ 171,901,703	\$ 41,367,921	\$ -	\$ 213,269,624
Inter-segment revenue	<u>46,300,606</u>	<u>26,554,607</u>	<u>( 72,855,213)</u>	<u>-</u>
Segment revenue	<u>\$ 218,202,309</u>	<u>\$ 67,922,528</u>	<u>(\$ 72,855,213)</u>	<u>\$ 213,269,624</u>
Segment profit (loss)	\$ 30,414,857	\$ 4,766,333	(\$ 1,934,037)	\$ 33,247,153
Interest income	61,045	77,874	( 19,107)	119,812
Financial costs	( 719,415)	( 282,056)	70,810	( 930,661)
Share of the profit (loss) of associates	13,540,528	1,744,648	( 14,906,797)	378,379
Other non-operating income and expenses	<u>221,044</u>	<u>1,558,853</u>	<u>606,791</u>	<u>2,386,688</u>
Profit (loss) before income tax	43,518,059	7,865,652	( 16,182,340)	35,201,371
Income tax	<u>5,724,813</u>	<u>789,106</u>	<u>( 217,358)</u>	<u>6,296,561</u>
Net profit (loss) for the period	<u>\$ 37,793,246</u>	<u>\$ 7,076,546</u>	<u>(\$ 15,964,982)</u>	<u>\$ 28,904,810</u>