

# CSC

**June 24, 2022**



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

## **Part 1**

# **Steel and Raw Material Dynamics**

# Macroeconomic overview

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- **The Russo-Ukrainian war has caused the surge in energy, food, and commodity prices. Due to high inflation, the global economic growth momentum slowed down compared to the beginning of this year. The World Bank revised its 2022 global economic growth forecast to 2.9% from January forecast of 4.1%.**
- **Chinese government implemented a “zero-COVID strategy“, and launched lockdown measures since the end of March, which affected the logistics and exacerbated disruptions in the global supply chain. As the production resumes with the ease of lockdown from June and the government releases a new package of stimulus measures, the Chinese economy is expected to return to normal in the second half.**
- **The U.S. CPI has exceeded 8% for three consecutive months. In order to fight against inflation, the Federal Reserve hiked its benchmark interest rate by 0.75% on June 16. The EU is also expected to raise interest rates from July, but may be in a more moderate way considering the economic headwinds.**

# Major steel market dynamics

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## ➤ **US&EU :**

- ✓ The US steel price saw a correction recently and buyers are sitting on the sidelines, contributing to a low transaction volume.
- ✓ The shortage of spare parts has slowed down the steel demand in the European auto industry, driving up the downstream inventory level and dragging down the steel price. Steel mills has cut production to respond, but the steel price is yet to find support because of weak buying interest. In addition, the import quotations continued to drop and the steel market is still quiet with limited trading.

## ➤ **China :**

- ✓ The pandemic has been repeated in China. The Zero-COVID strategy has impacted the economic growth, lowered the end consumer demand and weakened both the demand and supply of steel. The steel prices have been hovering at low levels recently. However, Baosteel announced to roll over June-shipment price to July, signaling the bottom-out of Chinese steel market.
- ✓ In the mid-April, the National Development and Reform Commission proposed to keep reducing crude steel production to realize a year-on-year decrease in output of 2022. Therefore, the steel supply will be suppressed. In addition, in order to ensure a GDP growth rate of 5.5%, China has released various stimulus policies such as 33 measures to stabilize the economy. It is expected that demand will gradually recover. However, the impact of sporadic COVID-19 cases remains to be seen.

# Major steel market dynamics



Construction

Vehicle



## ➤ Southeast Asia :

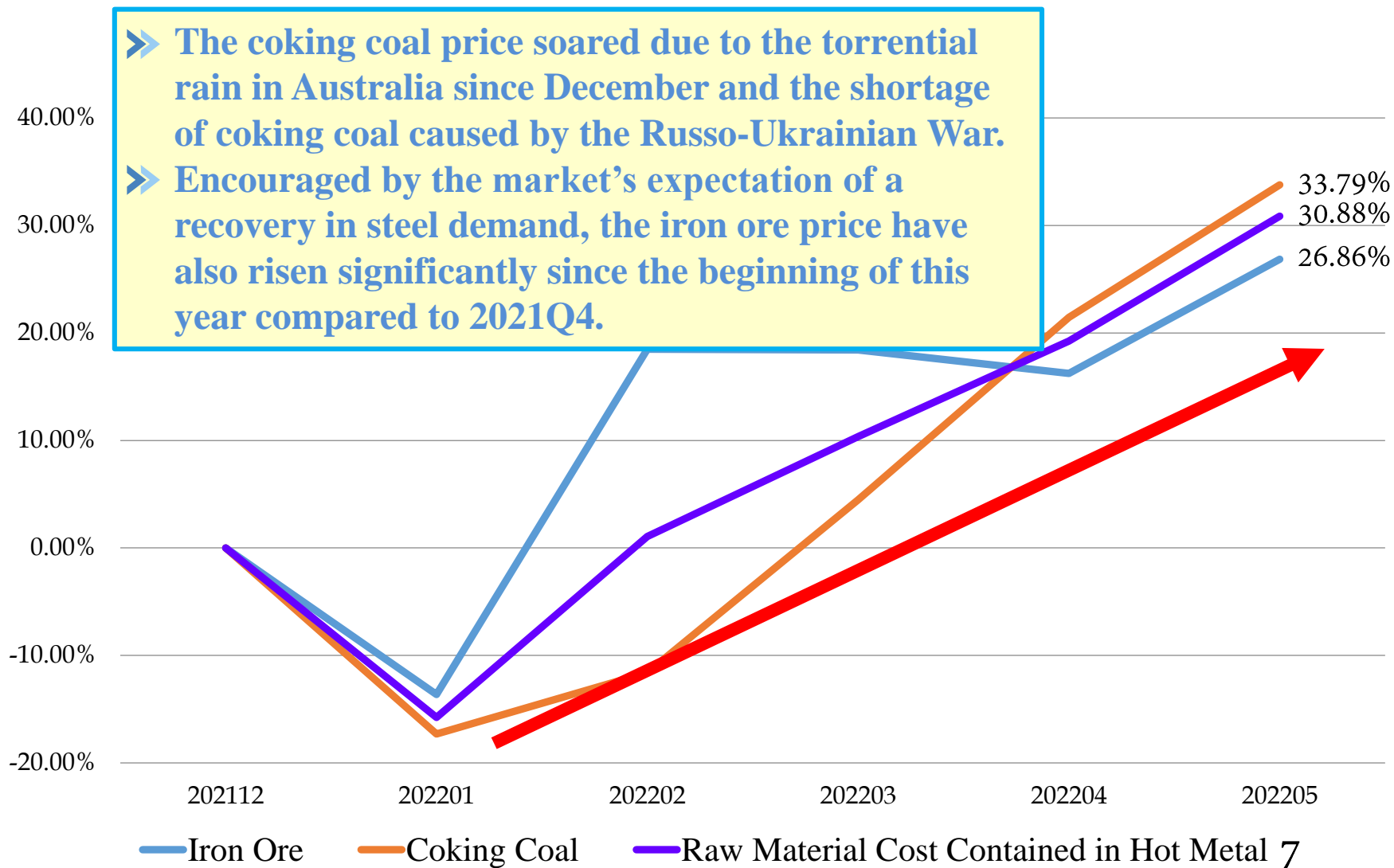
- ✓ Although the economic activities of Southeast Asian countries are gradually recovering, the continuing shortage of material and labor and the “zero-COVID strategy“ in China are still causing the supply chain disruption and affecting the steel demand.
- ✓ The global economic recovery has shown a trend of slowing down, and the steel demand has also shrunk in Europe and the United States. Steel mills in China, Japan, Korea, and India have shifted their export focus to the Southeast Asian market, causing the steel prices in Southeast Asia to fall continuously.

## ➤ Taiwan :

- ✓ The steady lifting of lockdowns in Europe and the US has boosted the growth of domestic demand in Taiwan, while investment, export, and manufacturing are performing well. With the slowdown of the local COVID cases, private consumption and infrastructure are expected to further increase.
- ✓ Recently, the construction demand has stabilized in both domestic and global markets, and the sales of electronic devices remains strong. Electric vehicles (EV) components are in high demand as various countries’ governments are implementing EV policies. The overall domestic steel consumption is stable and is expected to grow steadily in the future.

# Raw material price trend

Percentage change of incoming raw material price  
(compared to Dec. 2021)





## Part 2

# Operating Performance

# Consolidated Financial Performance

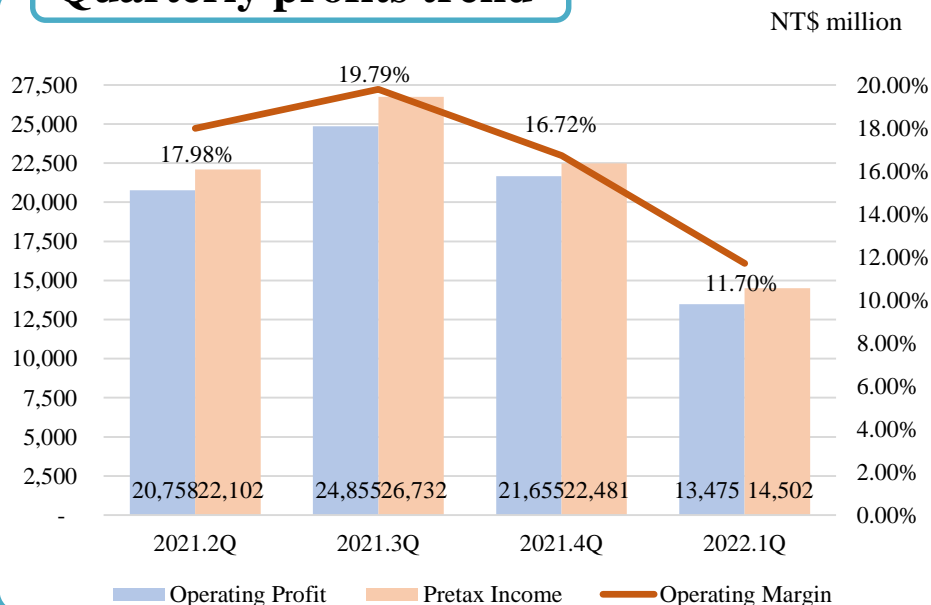
## Latest operating results

Amount: NT\$ million

Item	*2022.5	*2022.4	MoM	*2022.1~5	2021.1~5	YoY
Operating Revenue	43,483	45,410	-4%	204,105	174,446	17%
Operating Income	4,414	4,584	-4%	22,474	25,364	-11%
Operating Income Margin	10.15%	10.10%		11.01%	14.54%	
Income Before Income Tax	4,441	5,661	-22%	24,605	26,895	-9%

\*preliminary result

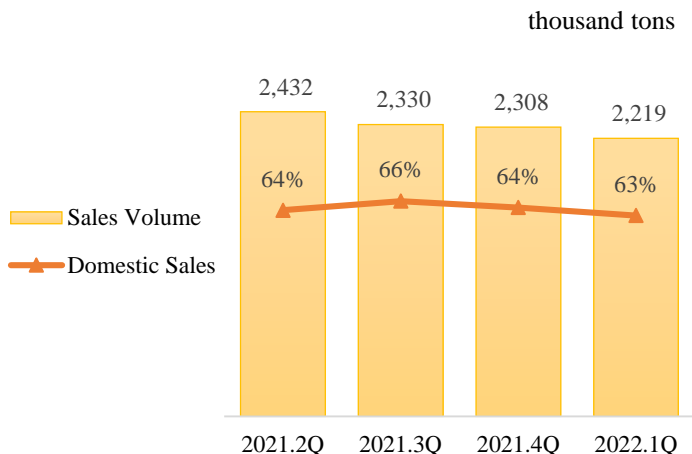
## Quarterly profits trend



- ✓ In 2021H2, supply chain bottlenecks gradually affected downstream shipments and production. Steel demand trended down and the international steel price corrected.
- ✓ As the pricing kept decreasing and the cost kept increasing, the profit was squeezed in Q1.

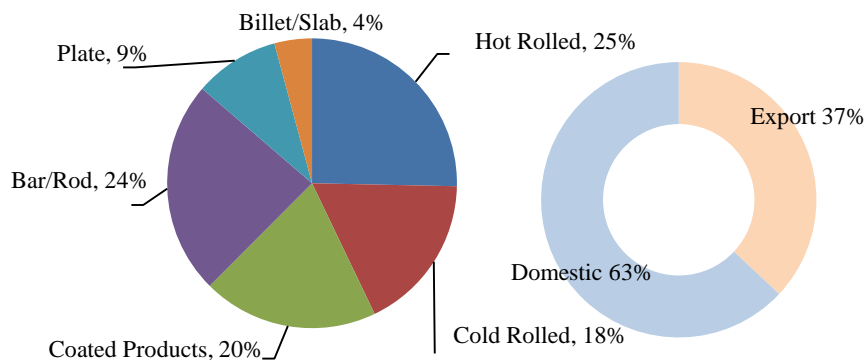
# Standalone Production / Sales Performance

## Sales analysis

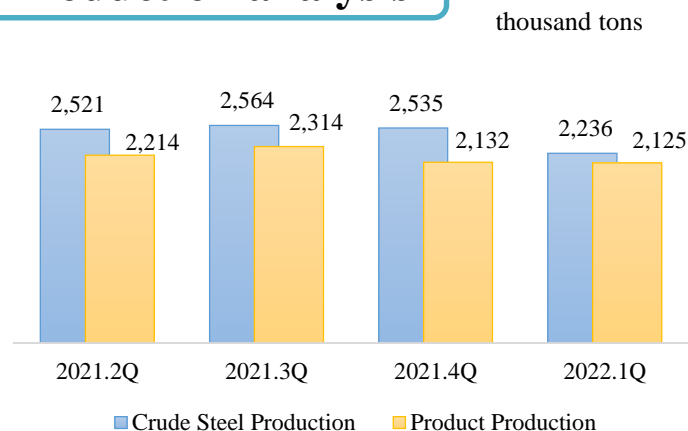


- ✓ Downstream customers' product shipments were delayed because of the rainy season and port congestion in 2021H2. As a result, customers reduced their orders to adjust inventory levels, contributing to the slightly lower sales volume in Q3 and Q4.
- ✓ The sales volume further decreased in 2022Q1 due to the Lunar New Year holiday and the continuous supply chain bottleneck at the beginning of this year.

## 2022.Q1 Sales value breakdown

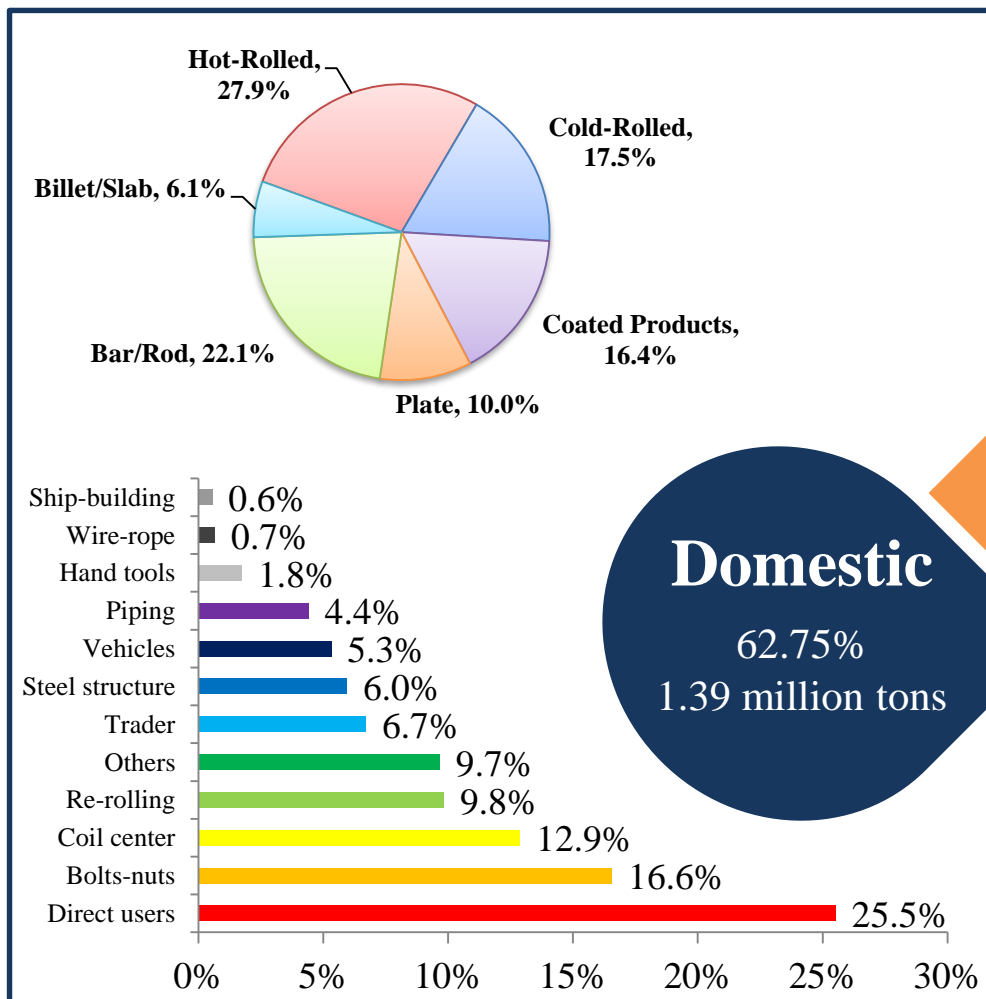


## Production analysis



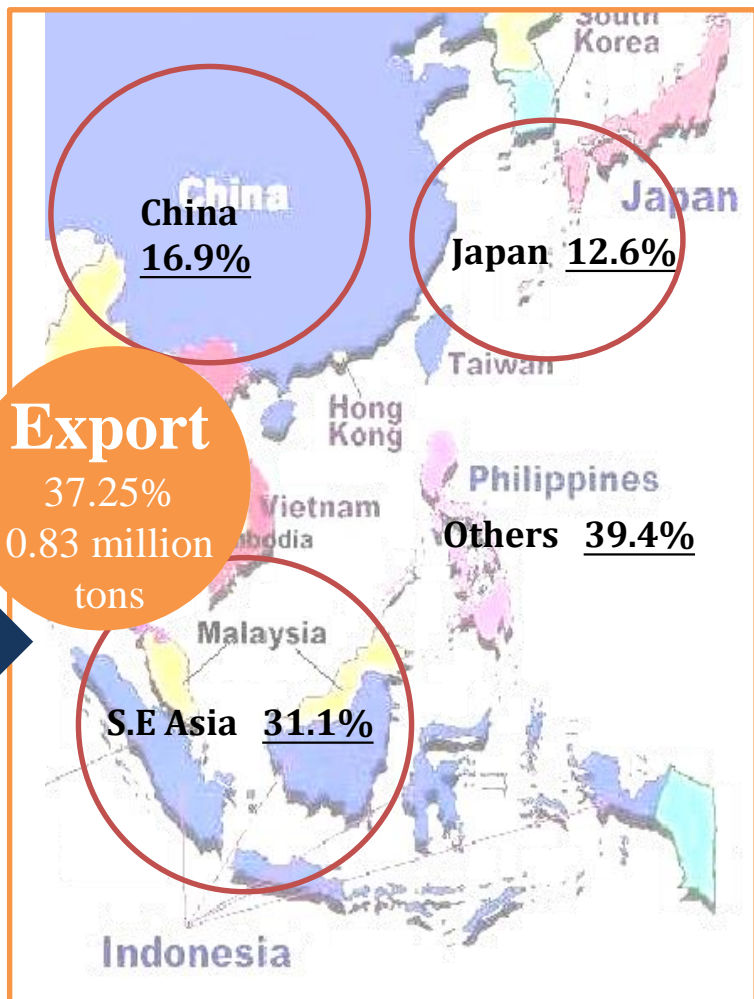
# Sales Analysis – CSC standalone

2022.Q1 sales volume totaled 2.22 million tons – Sales Breakdown



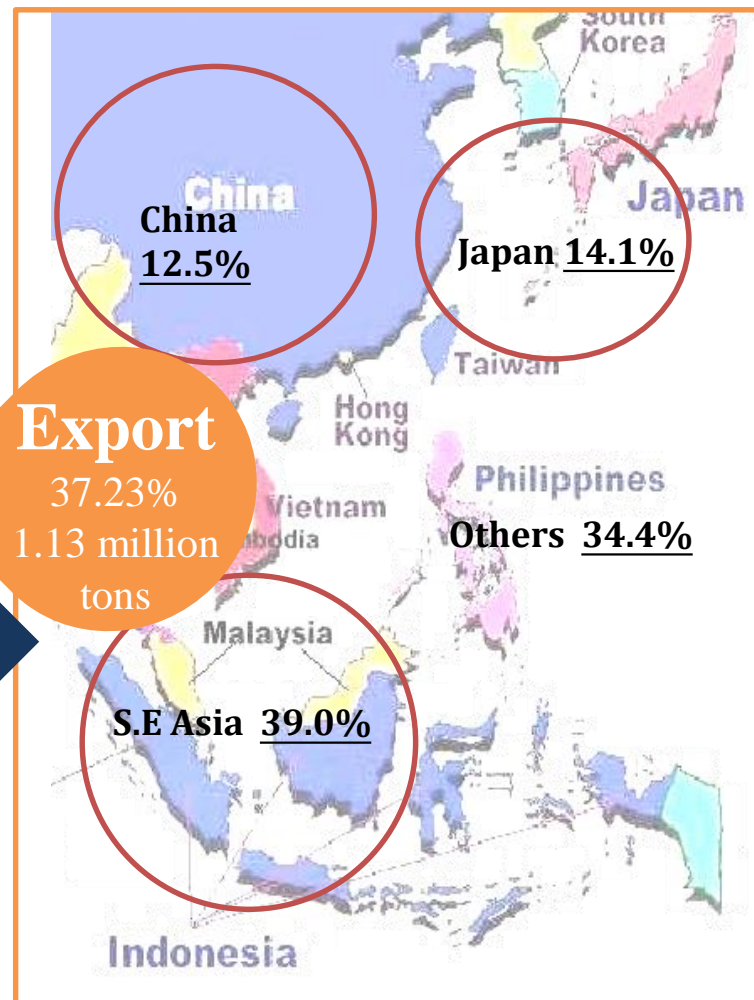
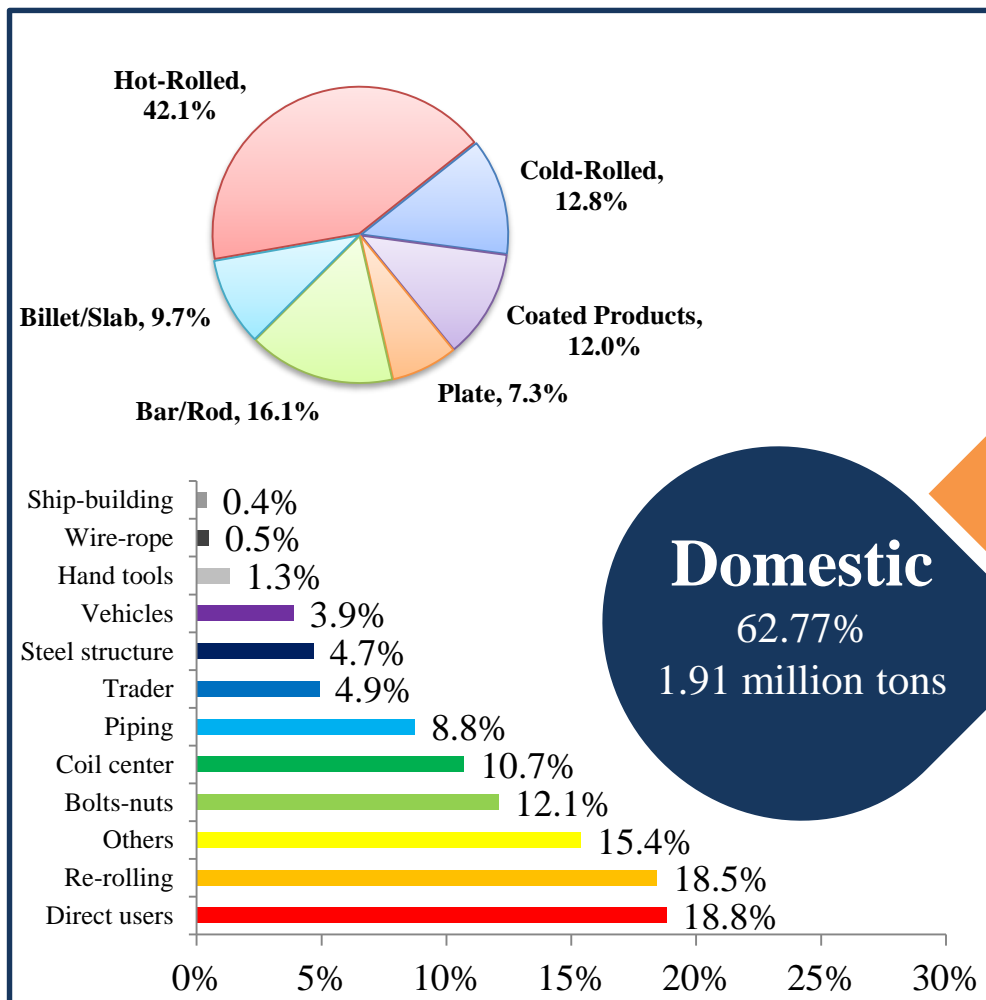
**Domestic**  
62.75%  
1.39 million tons

**Export**  
37.25%  
0.83 million tons



# Sales Analysis - CSC & BF products of DSC

2022.Q1 sales volume totaled 3.04 million tons - Sales Breakdown



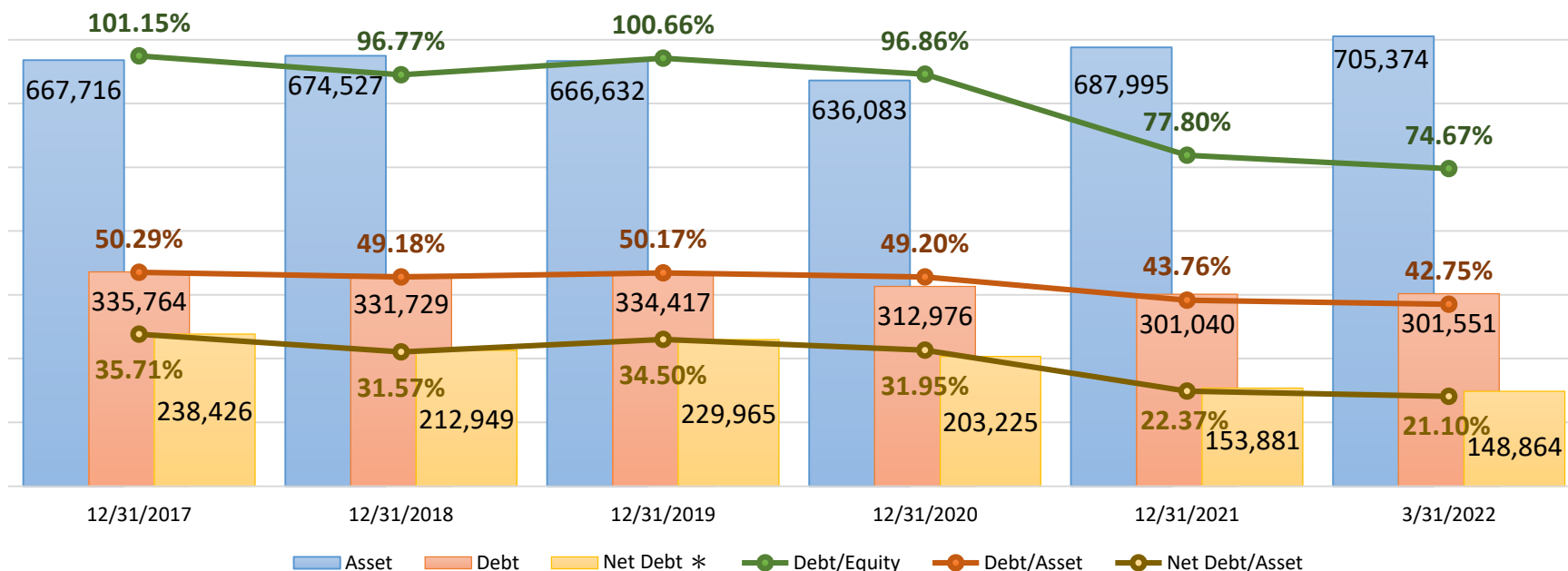
# Consolidated Income Statement

Units: NT\$ millions

IFRSs	2022.Q1	2021.Q1	YoY
Revenues	115,212	97,822	+18%
Gross profit	16,778	15,973	+5%
Gross margins	14.56%	16.33%	
Profit (loss) before tax	14,502	13,099	+11%
<u>Net profit (loss)</u>	<u>11,708</u>	<u>10,808</u>	+8%
Attributable to			
Owners of the corporation	10,771	9,027	+19%
Non-controlling interests	937	1,781	-47%
Earnings Per Share (NTD)	\$ 0.70	\$ 0.58	+21%

# 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 Positive (2022.04.28)  
Fitch Ratings AA (tw); Outlook Stable (2021.10.18)

\* 2014~2017 :

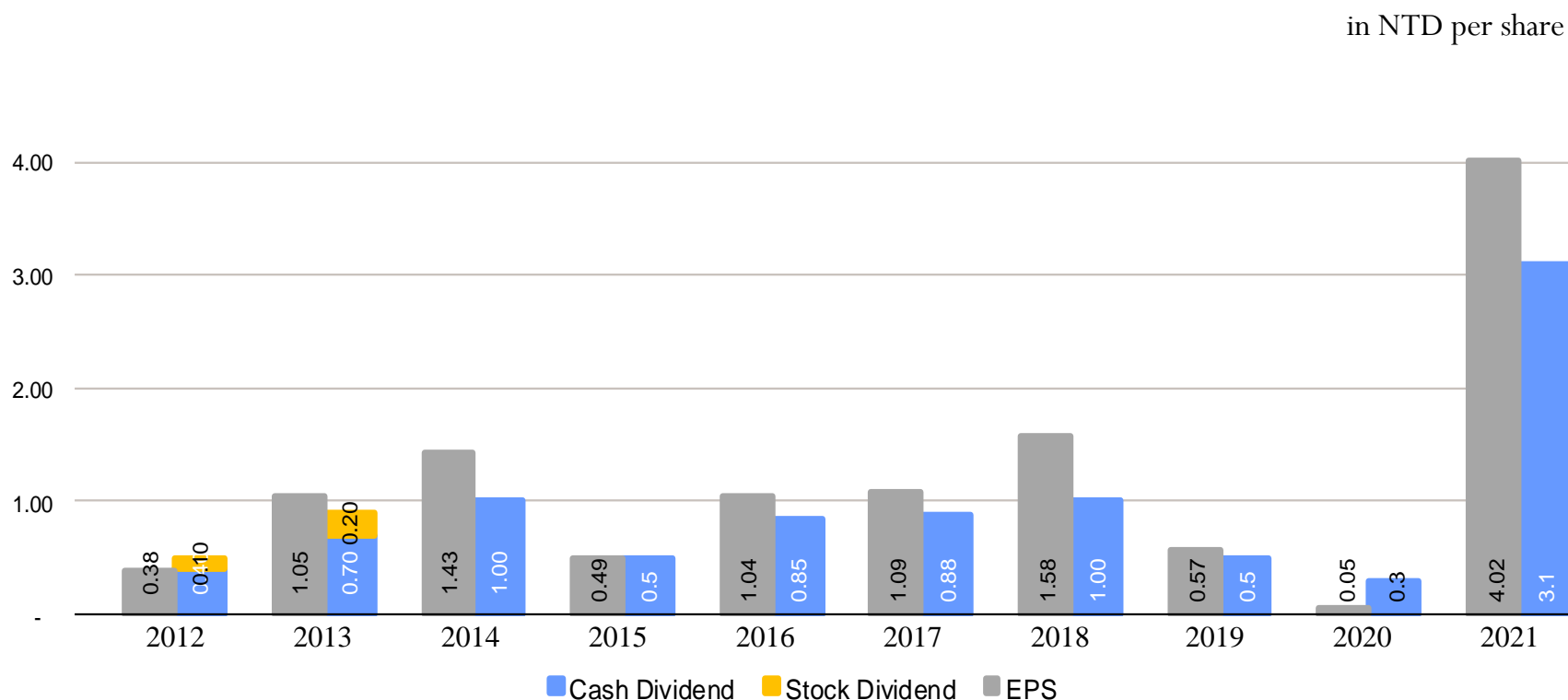
Net debt = Interest Bearing Debt – cash & cash equivalents – (*financial assets at fair value through profit or loss-current+ available-for-sale financial assets-current +held-to-maturity financial assets-current+ derivative financial assets for hedging-current*)

\* 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

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Dividend payout(%)	132	86	70	102	82	81	63	88	600	77
Cash Dividend payout(%)	105	67	70	102	82	81	63	88	600	77





## Part 3

# Key Strategies

## 2 Operating 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. Develop and enhance carbon reduction technologies

- **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.**

**Form core competencies, build an environment with competitive advantage, and break through the economic cycle.** 17



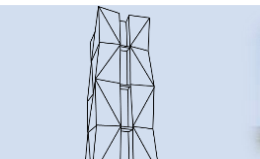





# Develop Advanced Premium Steel

## Definition of Advanced Premium Steel (APS)

Products with

”High Technical Content, High Profitability, High Industrial Benefit.”

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
<b>Advanced Premium Steel proportion target (%)</b> <small>(APS shipments target divided by total shipments target, which does not include leeways, secondary and salvage products, and semi-products)</small>			4.2%	7.5%	8.0%	9.0%	10.0%

- Sales volume of the 8 items of **APS** to achieve **10% in 2025** and **20% in 2030**.
- The APS shipments of orders in 2021 reached 635.7 thousand tons, accounting for **7.63%** of total volume (target 4.2%), **9.38%** of sales revenues, and **13.11%** of gross profits.
- The APS sales volume in 2022Q1 reached 124.4 thousand tons, accounting for **6.45%** of total volume, **8.21%** of sales revenues, and **13.95%** of gross profits.

# Deepen the Upgrade of Steel-using Industry

## Facilitating industry 4.0

- **Constructing industry cloud:** To connect via cloud services and assist steel-using industries in enhancing capabilities of **smart manufacturing and marketing.**
- **Integrating** three cloud platforms of **the fastener industry** (CSC, MIRDC and NKUST)



## EVI-based Concurrent Engineering

- Adapting to the **end demand** and developing **customized steel materials** and **manufacturing technology** with customers to offer differentiated technical services.

## Cultivating core technologies

- Integrating the resources from government, academia and research institutes to execute projects such as **A+ Industrial Innovative R&D Program** and **Academia-Industry Collaboration** to develop relevant **core technology.**

## Industry service work

- 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**

# Cultivate in the Green Industry Business – Wind Farm & Substructure

CSC shareholding: **51%** (CIP 49%)

Total investment(e): **NTD 50~55 billion**

Power generation(e): **1.1 billion kwh/yr**

Progress:

- Obtained the establishment permit, signed power purchase agreement (PPA) with Taipower, and being expected to **connect to the grid in 2024**.
- A syndicated loan has been signed at the end of 2021 and financial close was completed, ensuring the funds for wind farm development.
- Relevant supply chains/contractors have started construction in this year.



CSC Shareholding: **46.71%**

Capital: **NTD 2.627 billion**

Progress:

- **The first 100% domestically made substructure** was completed in July, 2021.
- The first contract of 6 substructures for Orsted - Greater Changhua Offshore Wind Farm Project was completed in Dec, 2021.
- The contract of 31 substructures for Zhongneng Offshore Wind Farm Project has been signed and the production has started in Oct, 2021.




# Cultivate in the Green Industry Business – Solar Power


- CSC group shareholding: **100%**
- Capital: **NTD 1.744 billion**
- Capacity Installed: **87.6MW** (until the end of May, 2022)
- Operating performance: (until the end of May, 2022)

■ CSC 55%    ■ CSCC 15%  
■ CEC 20%    ■ DSC 10%



  
**Electricity output**  
**371**  
**million kwh**

  
**Revenues from electricity sales**  
**1.705 billion**

  
**Carbon reduction**  
**around**  
**186k tons**

  
**Equivalent to the CO2 absorption of**  
**478**  
**Taipei Daan Park**

\*Estimated based on the 2020 Taipower electricity carbon emission factor, 0.502 kg CO2e/kwh

Year	2017~2019	2020	2021	2022	Total
Actual Capacity Installed (MW)	83.2	1.6	2.5	0.3(until May)	<b>87.6</b>
Electricity Output (100m kwh)	1.25	1.04	1.01	0.41(until May)	<b>3.71</b>

- **Future installation: 3~5MW / yr ; installation target: over 100MW until 2025**
- Keep developing rooftop PV Systems in CSC group supply chain based on the regulation on users with high power consumption in Renewable Energy Development Act.
- Transform from Type III to Type I renewable energy facility to obtain a license for selling green energy, increasing renewable energy usage of CSC group companies.

# Decarbonization Pathway

Base year: 2018(Scope 1+2)

2025

2030

2050

7% reduction

22% reduction

Carbon Neutrality

Ultimate pathway: Green power + Substitute hydrogen for carbon + CCUS

Required external support: Green Power

Green Hydrogen

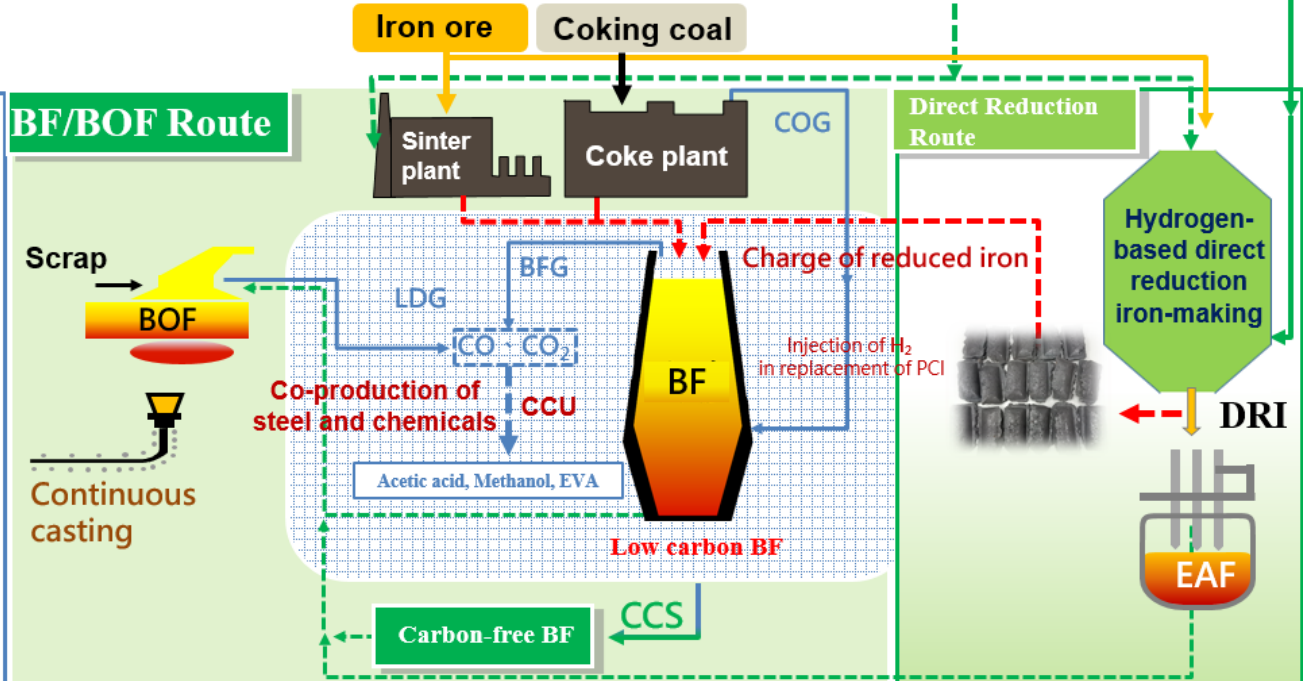
## 2030 : Low carbon BF

- ① Substitute H<sub>2</sub>-rich gas for PCI as the auxiliary fuel for BF
- ② Charge hydrogen-reduced iron with ferrous burden.
- ③ Convert CO and CO<sub>2</sub> from steel production process into chemicals.

## 2050 : Carbon Neutrality

- ① Shift BF from low carbon operation into net zero using CCS
- ② Adopt DRI/ EAF route with hydrogen metallurgy

## BF/BOF Route



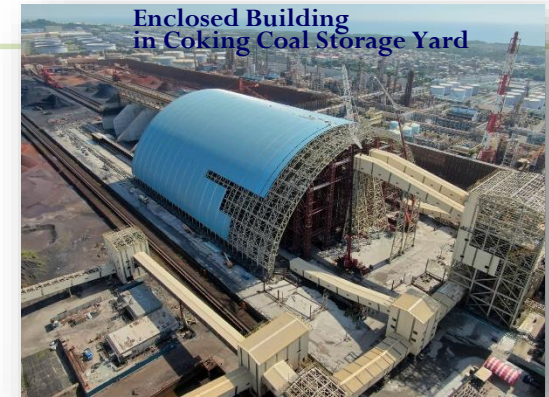
- Currently evaluating the possibility of investment in the production of **hot briquetted iron (HBI) through green hydrogen in Australia** in order to cut CO<sub>2</sub> emissions.
- The construction of a **pilot line for co-production of steel and chemicals** is expected to be finished by the end of Sep. 2022.
- A carbon neutral management platform is established to integrate information on carbon reduction plans, carbon footprints, and carbon rights. CSC cooperates with professional consultants to **build data on carbon emission intensity of products.**

# Environmental Protection Action

Became a TCFD supporter & adopted the TCFD framework.

## Investment on environmental protection

- ✓ Investment on air quality improvement projects in 2017~2021 reached **12.926 billion**.
- ✓ To **invest 35.508 billion** in air quality improvement projects from 2022~2027.



## Reduction of greenhouse gas

- ✓ Participate in the **GHG voluntary reduction** program held by Industrial Development Bureau since 2005. From 2011 to 2020, **accumulated carbon reduction** reached **1.451 million tons CO<sub>2</sub>e**, equivalent to the CO<sub>2</sub> absorption of **3,732 Taipei Daan Park**, through **1,182** implemented reduction projects.
- ✓ **Terminated** three boilers in 2021. CSC group **no longer** has **coal combustion boiler**.

## Water resources development

- ✓ Water recycled rate is **98.4%**. (higher than the 65% required by the government)
- ✓ Won **17 Water Conservation awards** from the Water Resources Administration of Ministry of Economic Affairs .
- ✓ **The first company in Taiwan to use domestic reclaimed water.**
  - Fengshan reclaimed water Creek reclaimed water was introduced in 2018.
  - Linhai was introduced at the end of 2021.





## ESG Performance

- ✓ 2022.04 CSC was ranked **top 5%** in TWSE listed companies in the Corporate Governance Evaluation **for 3 consecutive years** (latest 8th session of 2021).
- ✓ 2022.03 CSC was recognized as a member of worldsteel's New Sustainability Charter.
- ✓ 2021.11 CSC was selected as one of the Excellent Manufacturers for Voluntary Reduction of Industrial Greenhouse Gas by the Industrial Bureau of the MOEA.
- ✓ 2021.11 CSC was included in the Emerging Market Index of Dow Jones Sustainability Index (DJSI) for the 10th consecutive year.
- ✓ 2021.11 CSC won 6 awards such as the Top 50 Corporate Sustainability Awards by Taiwan Corporate Sustainability Awards (TCSA).
- ✓ 2021.10 CSC won the Gold Class of Sustainable Cities and Communities and the Bronze Class of Decent Work and Economic Growth in the 1st Taiwan Sustainable Action Award by Taiwan Institute for Sustainable Energy (TAISE).
- ✓ 2021.09 CSC won the Silver Award of 2020 Greenhouse Gas Reduction Evaluation for Enterprises in Kaohsiung City.

*Thank you!*

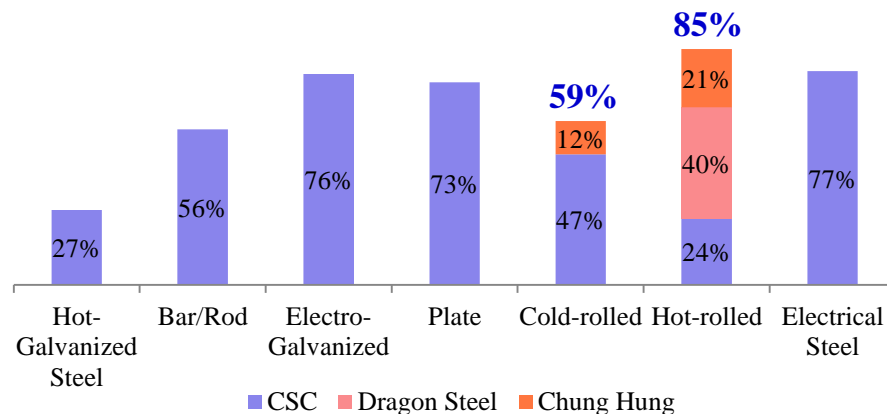
## Part 4

# 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 (2022.Q1)



## Steel

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

## Engineering

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

## Industrial Materials

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

## Logistics & Investment

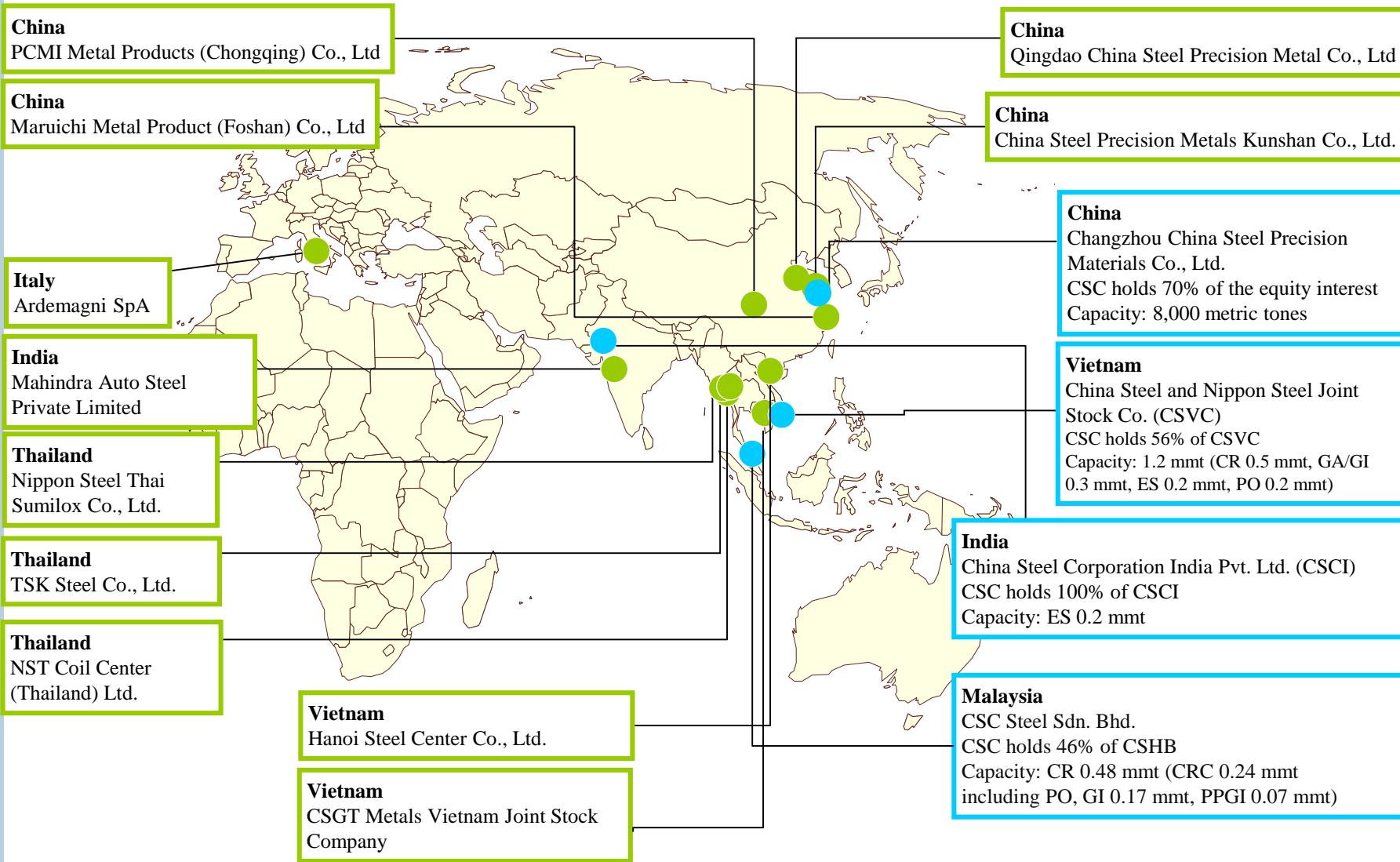
- CSE
- CSGT
- Gains Investment
- China Steel Security
- CPDC

## Green Energy

- SDMS
- 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

2022.Q1	Steel	Others	Adjustment & Elimination	Total
Revenues from external customers	\$ 91,223,277	\$ 23,988,716	\$ -	\$ 115,211,993
Inter-segment revenue	<u>24,946,490</u>	<u>15,238,335</u>	<u>( 40,184,825)</u>	<u>-</u>
Segment revenue	<u>\$ 116,169,767</u>	<u>\$ 39,227,051</u>	<u>(\$ 40,184,825)</u>	<u>\$ 115,211,993</u>
Segment profit (loss)	\$ 11,365,689	\$ 2,570,675	(\$ 461,331)	\$ 13,475,033
Interest income	27,127	35,478	( 9,008)	53,597
Financial costs	( 306,419)	( 144,801)	33,837	( 417,383)
Share of the profit (loss) of associates	4,597,620	722,085	( 5,081,302)	238,403
Other non-operating income and expenses	<u>971,024</u>	<u>349,634</u>	<u>( 168,176)</u>	<u>1,152,482</u>
Profit (loss) before income tax	16,655,041	3,533,071	( 5,685,980)	14,502,132
Income tax	<u>2,388,163</u>	<u>513,413</u>	<u>( 107,880)</u>	<u>2,793,696</u>
Net profit (loss) for the period	<u>\$ 14,266,878</u>	<u>\$ 3,019,658</u>	<u>(\$ 5,578,100)</u>	<u>\$ 11,708,436</u>