

CSC

September 22, 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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Part 1

Steel and Raw Material Dynamics

Macroeconomic overview

- **Recently, the global macroeconomic downtrend reflect spillovers from the war in Ukraine, higher-than-expected inflation, tighter monetary policies in major countries, and COVID-19 outbreaks and lockdowns in China. IMF revised its 2022 global economic growth forecast to 3.2%, 0.4 percentage point lower than its forecast in April.**
- **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.**
- **Global inflation figure has been revised up due to soaring food and energy prices as well as continuing supply-demand imbalances, and is anticipated to reach 6.6% in advanced economies and 9.5% in emerging market and developing economies this year. The outlook on the US economy is likely to remain mixed in the short term, which may cause further turbulence in financial markets worldwide.**

Major steel market dynamics

➤ **US&EU :**

- ✓ Trading activity is getting more active in the US. Several major steel producers are trying to increase pricing due to longer delivery time, and the buying interest is gradually picking up recently. The restocking demand of coil centers and users is expected to emerge after the summer break. Current steel price could have reached the bottom.
- ✓ Demand remains relatively low in Europe due to sufficient stocks of distributors and low steel consumption from end-users. Especially, automotive industry demand has been constrained by components shortage, high energy cost and lower demand for cars because of economic uncertainties. However, mills has cut production and are raising offers as sharply increasing energy and electricity cost have tightened their margins.

➤ **China :**

- ✓ In June and July, steel mills generally suffered losses due to the dropping steel prices, therefore implemented production cuts and maintenance. The social inventories of steel continued to decline, reaching the lowest level in this year, and steel mills' stocks were also reduced. In the second half of July, the steel price rebounded with the bulk commodities, and profit of steel mills turned better.
- ✓ China's auto demand is picking up thanks to auto purchase tax reduction. In July, auto sales increased on a year-on-year basis. Also, China is going to hold the 20th National Congress of the Communist Party in the second half of the year with a clear target of pursuing progress in stability, which may lead to a recovery in the economy. The resumption of production in steel mills and the recovery of demand remain 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.
- ✓ Due to the slowdown in steel demand, the list price of steel mills in Southeast Asia continued to fall, and the downstream customers’ high-level and high-priced inventory lowered their willingness to restock. In addition, construction activity slowed down due to the rainy season in Q3, which may keep the demand weak in the short term. However, the production cut from Chinese and Indian steel mills has stabilized the spot price in China and Vietnam recently.

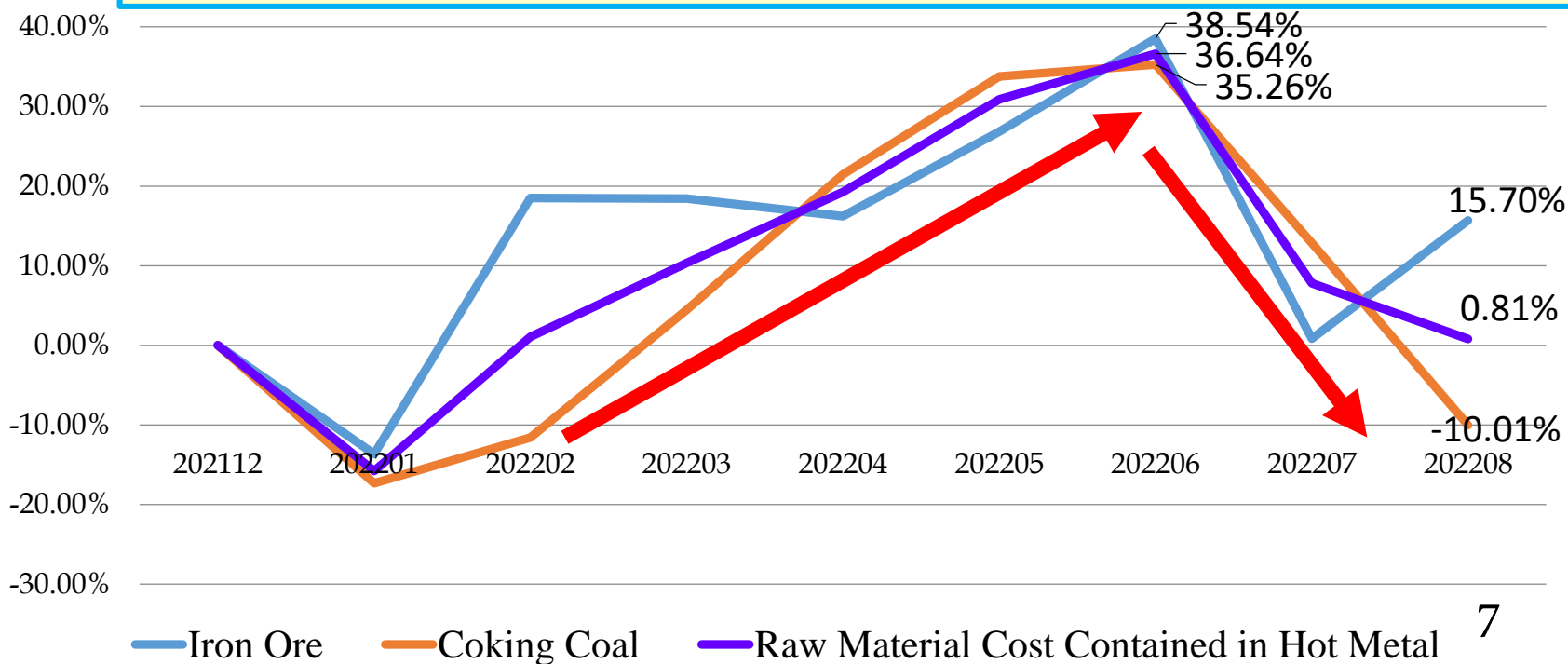
➤ Taiwan :

- ✓ The steady lifting of lockdowns in Europe and the US has boosted the growth of demand in Taiwan. With relatively modest inflation and interest rate hike, the investment, export, and manufacturing remain stable in Taiwan. As the international trade could be revitalized following the unlock of border with the slowdown of the local COVID cases, private consumption and infrastructure are expected to further increase.
- ✓ Recently, due to plant investment and residential housing demand, the construction market has stabilized in Taiwan, and the sales of electronic devices remains solid. 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)

- The coking coal price soared due to the torrential rain in Australia since December and the shortage caused by the Russo-Ukrainian War. Encouraged by the improved steel market sentiment, the iron ore price have also risen significantly at the beginning of this year.
- With the recovery of Australian supply and the down turn of steel market, coking coal and iron ore prices began to decline in May and June respectively.



Part 2

Operating Performance

Consolidated Financial Performance

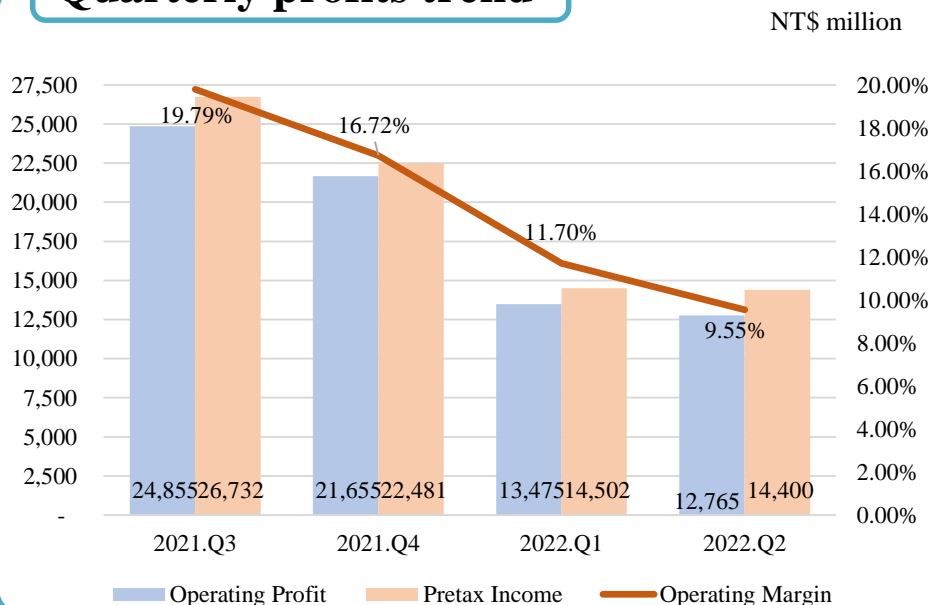
Latest operating results

Amount: NT\$ million

Item	*2022.8	*2021.7	MoM	*2022.1~8	2021.1~8	YoY
Operating Revenue	36,270	39,158	-7%	324,278	296,866	9%
Operating Income	419	2,256	-81%	28,914	49,902	-42%
Operating Income Margin	1.15%	5.76%		8.92%	16.81%	
Income Before Income Tax	345	2,612	-87%	31,859	52,997	-40%

*preliminary result

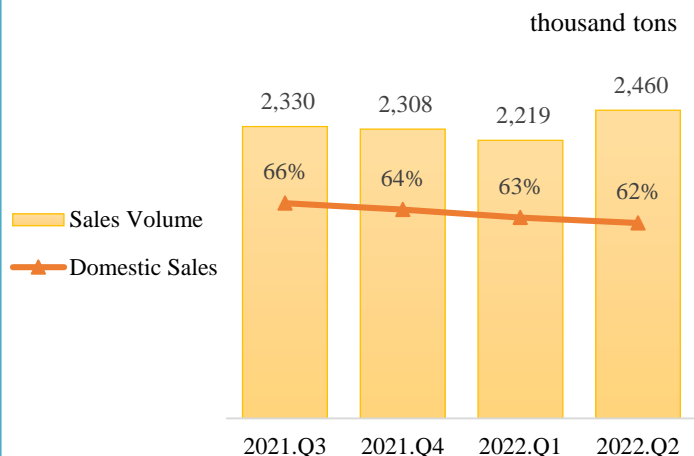
Quarterly profits trend



- ✓ The supply chain bottlenecks in 2021H2 as well as the lockdown in China in 2022 affected downstream production, and the international steel price corrected.
- ✓ Although the demand returned in Q2 with the improved market sentiment, the increasing cost continued to squeeze the profit margin quarter by quarter.

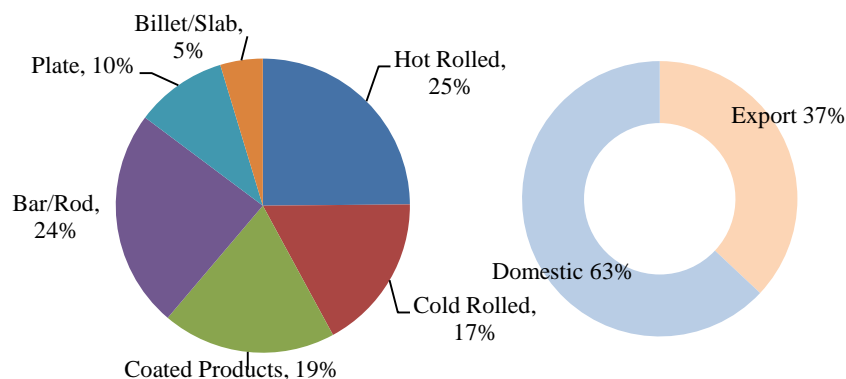
Standalone Production / Sales Performance

Sales analysis

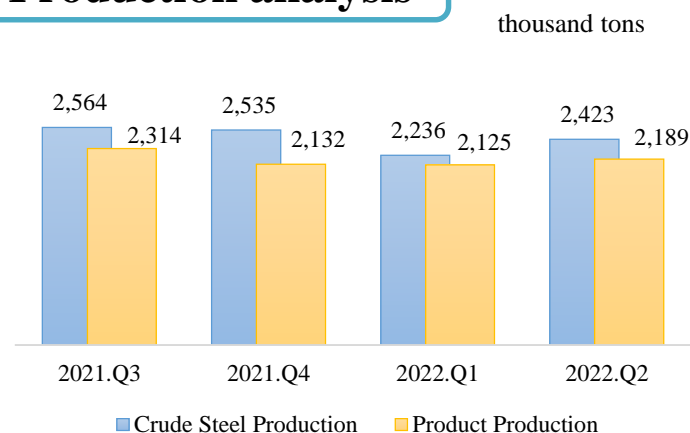


- ✓ The sales volume decreased during 2021H2~2022Q1 due to the rainy season, port congestion and the continuous supply chain bottleneck.
- ✓ In 2022Q2, the sales volume increased significantly with the improved market sentiment.

2022.1H Sales value breakdown

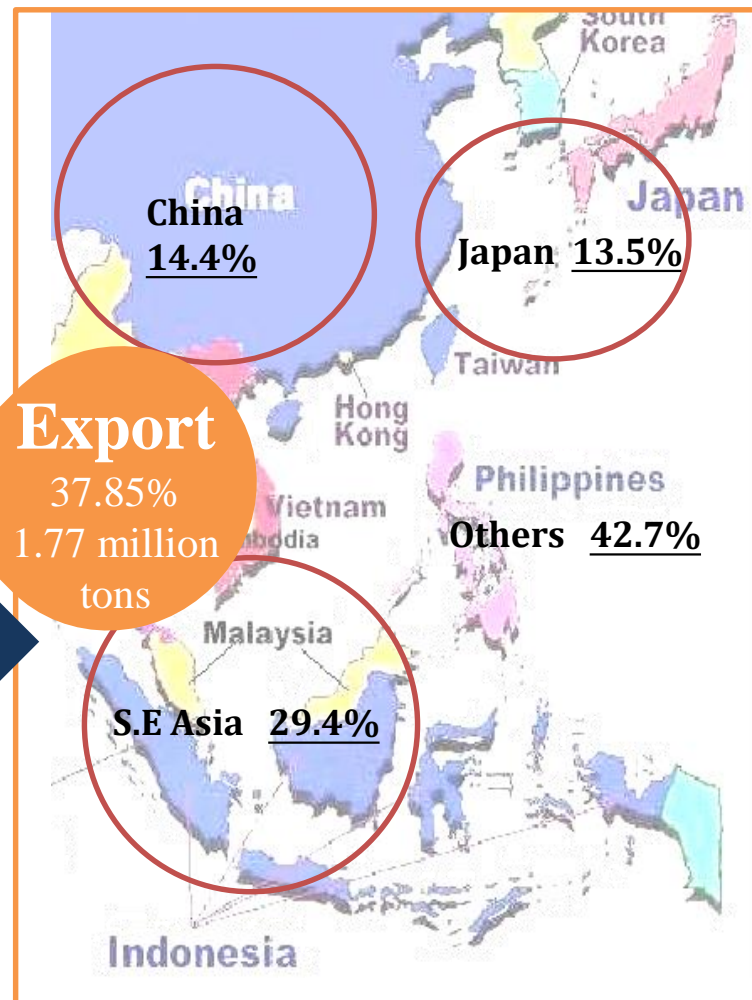
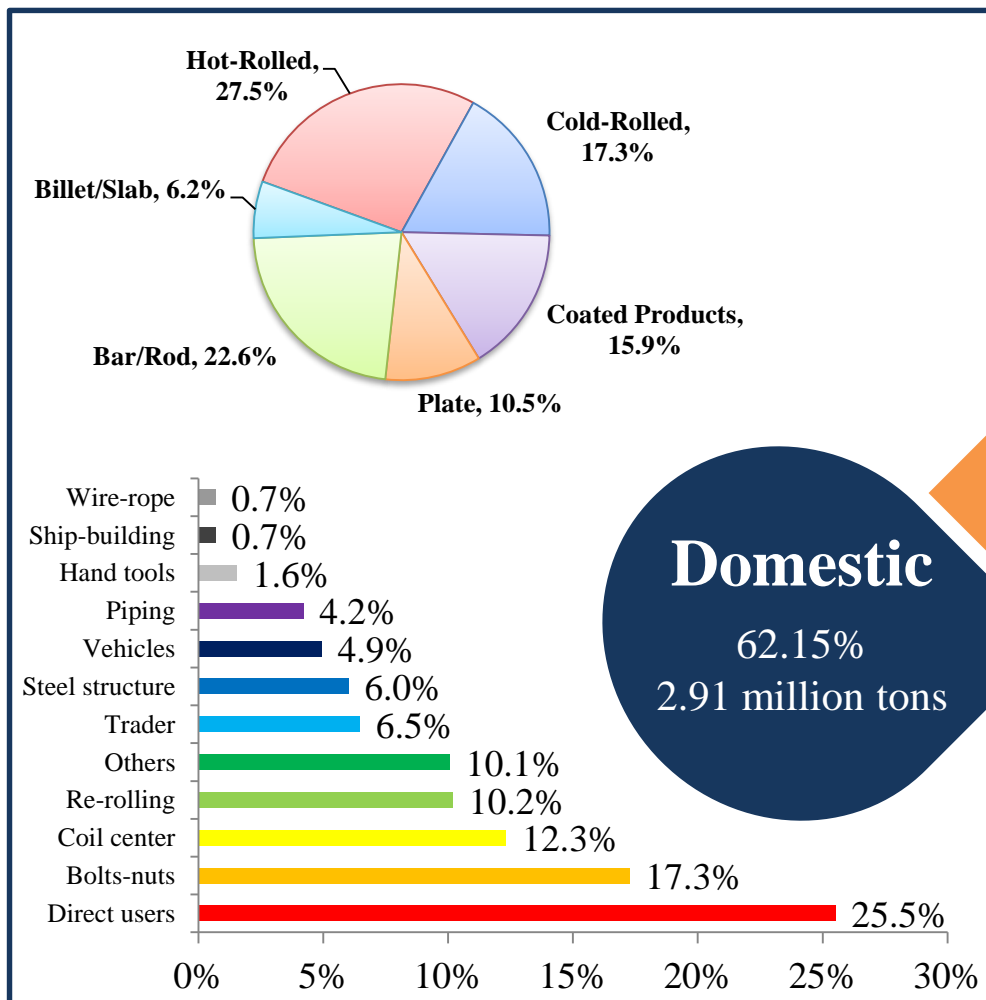


Production analysis



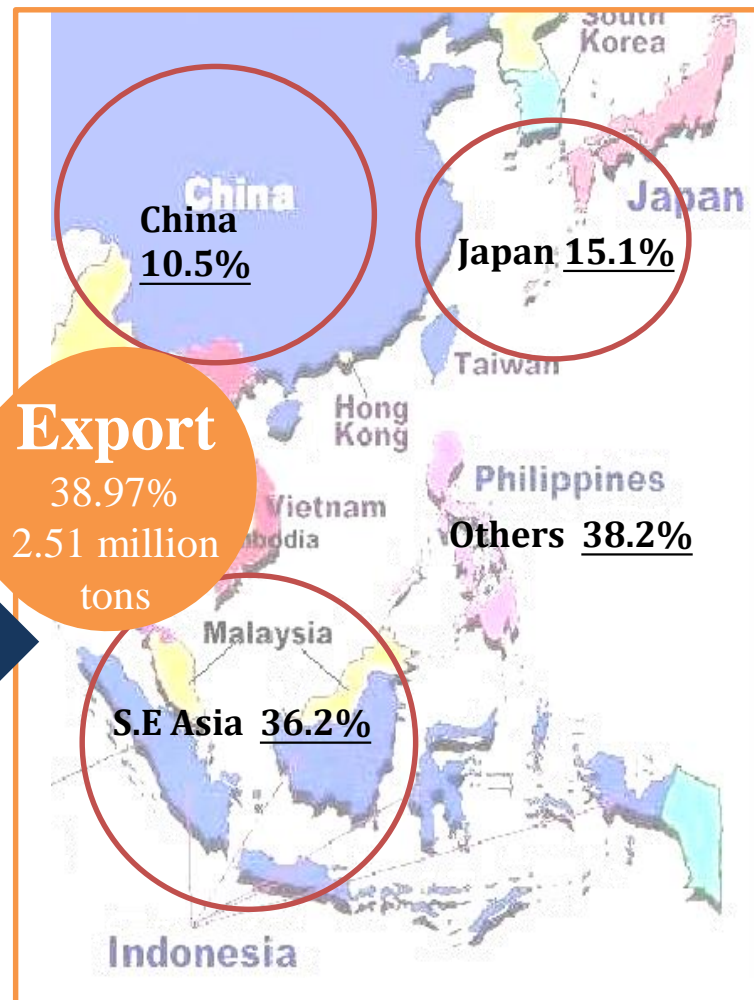
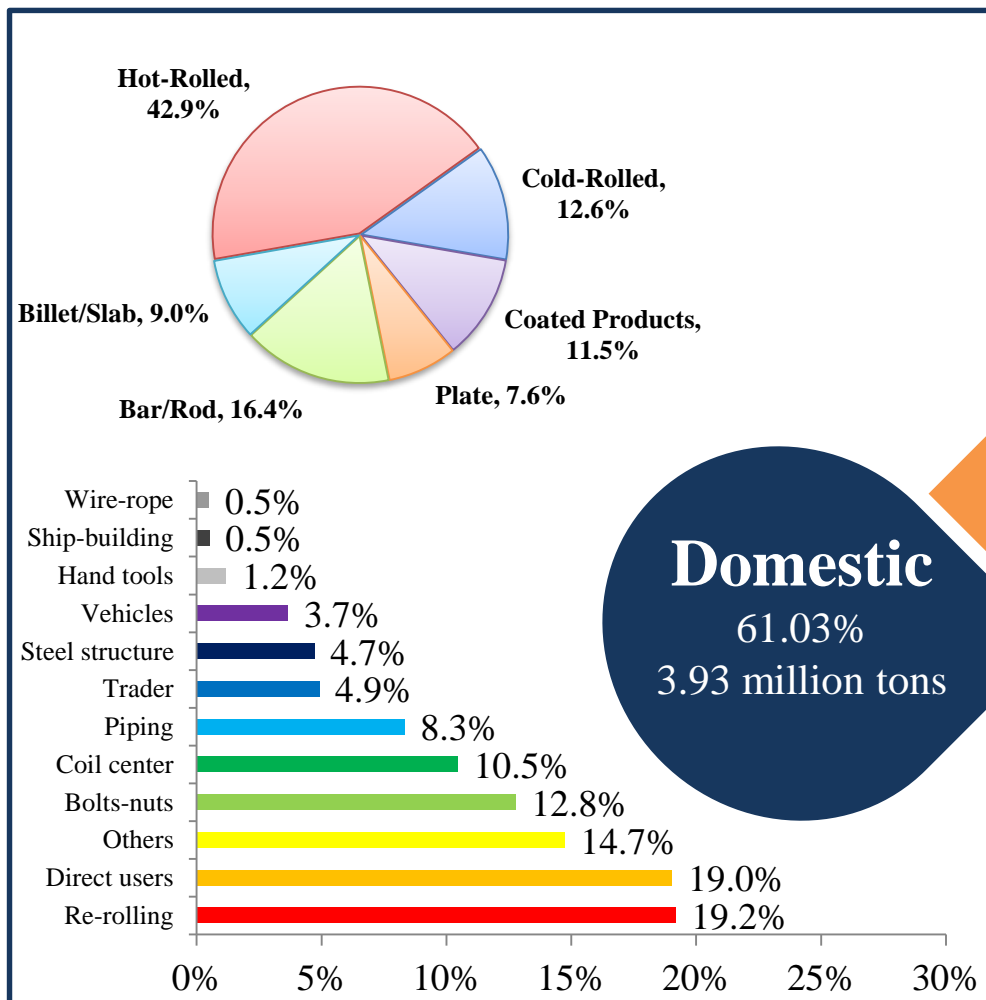
Sales Analysis – CSC standalone

2022.1H sales volume totaled 4.68 million tons – Sales Breakdown



Sales Analysis - CSC & BF products of DSC

2022.1H sales volume totaled 6.44 million tons - Sales Breakdown



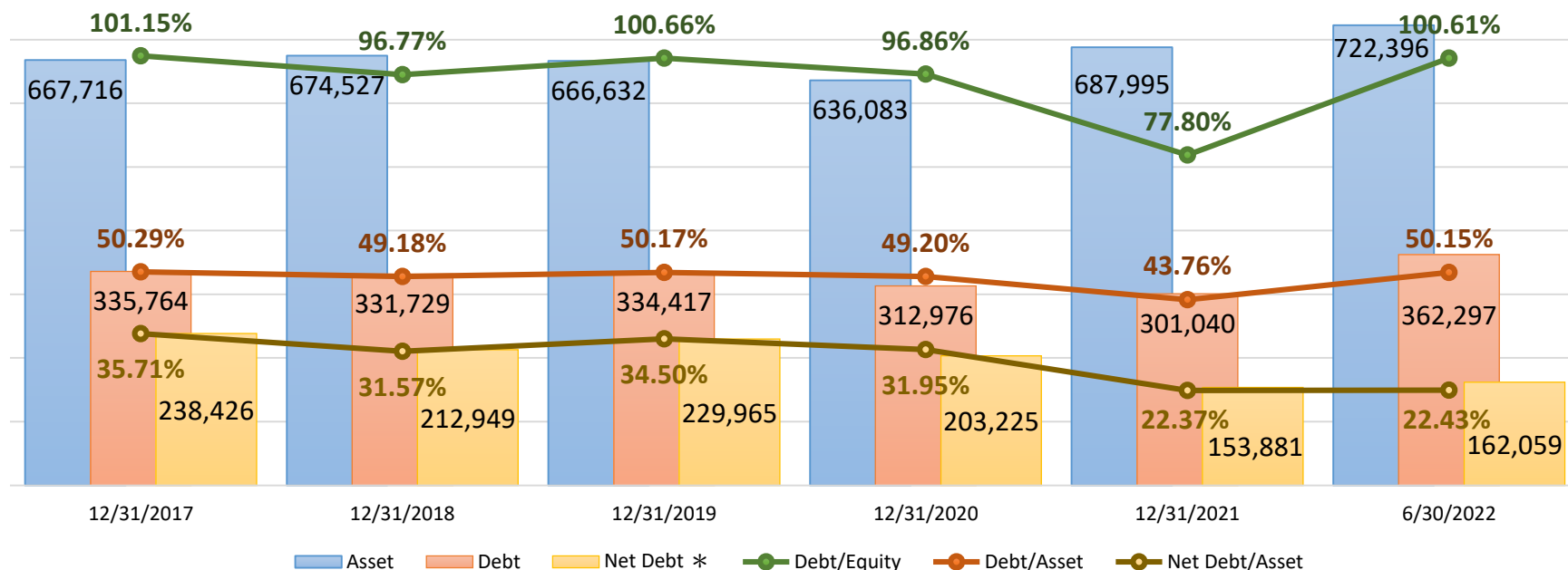
Consolidated Income Statement

Units: NT\$ millions

IFRSs	2022.1H	2021.1H	YoY
Revenues	248,850	213,270	+17%
Gross profit	33,084	40,611	-19%
Gross margins	13.29%	19.04%	
Profit (loss) before tax	28,902	35,201	-18%
<u>Net profit (loss)</u>	<u>22,737</u>	<u>28,905</u>	-21%
Attributable to			
Owners of the corporation	20,855	24,741	-16%
Non-controlling interests	1,882	4,164	-55%
Earnings Per Share (NTD)	\$ 1.35	\$ 1.60	-16%

Consolidated Financial Position

Units: NT\$ millions



- ✓ 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 :

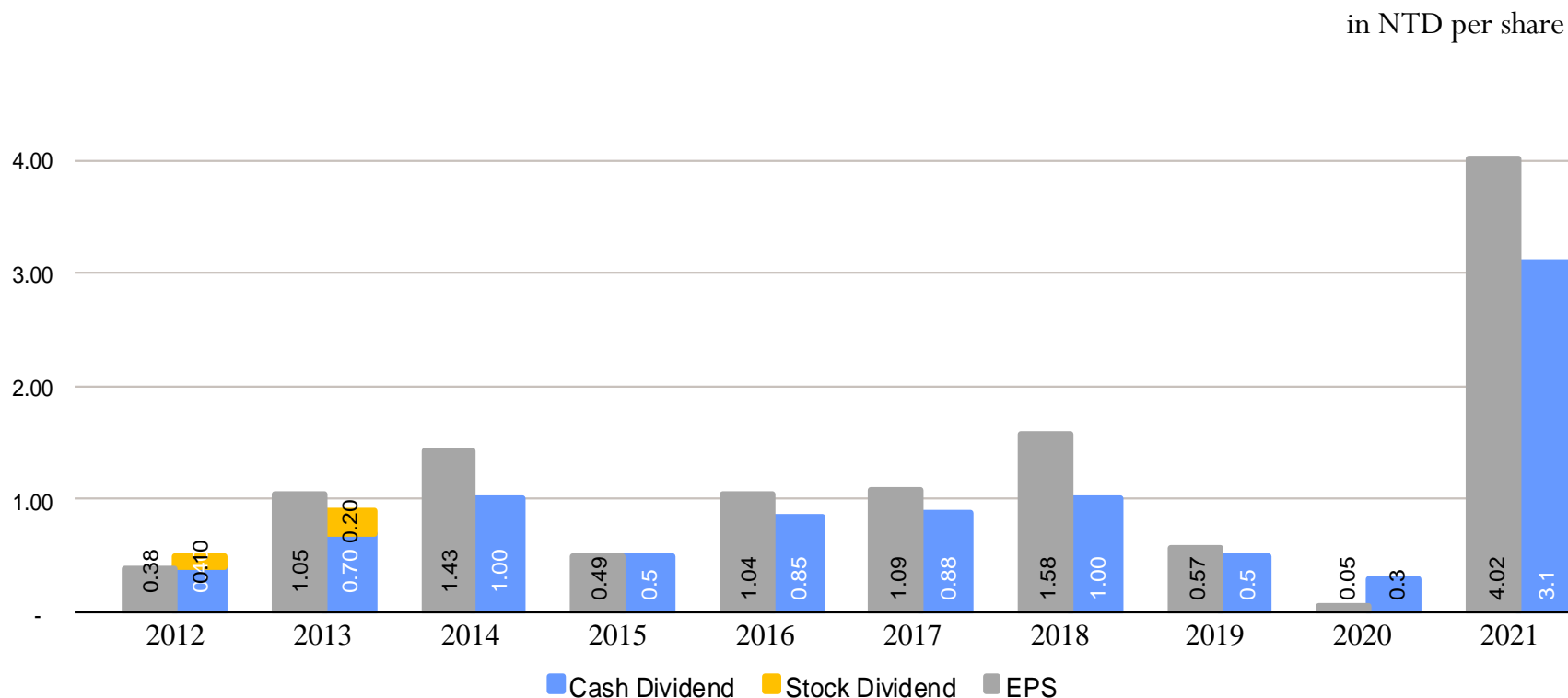
Net debt = Interest Bearing Debt – cash & cash equivalents – (*financial assets at fair value through profit or loss-current+ available-for-sale financial assets-current +held-to-maturity financial assets-current+ derivative financial assets for hedging-current*)

* 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 Core Strategies, **10** Operating Strategies

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



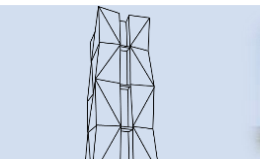





Develop Advanced Premium Steel

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
Advanced Premium Steel proportion target (%) (APS shipments target divided by total shipments target, which does not include leeways, secondary and salvage products, and semi-products)			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 2022.1H reached 283.4 thousand tons, accounting for **6.91%** of total volume, **9.13%** of sales revenues, and **16.24%** 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, and delivered in Aug, 2022.
- 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: 88.6MW** (until the end of Aug, 2022)
- **Operating performance:** (until the end of Aug, 2022)


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




Electricity output
402 million kwh


Revenues from electricity sales
1.847 billion


Carbon reduction
around 205k tons


Equivalent to the CO2 absorption of
526 Taipei Daan Park

*Estimated based on the 2021 Taipower electricity carbon emission factor, 0.509 kg CO2e/kwh

Year	2017~2019	2020	2021	2022	Total
Actual Capacity Installed (MW)	83.2	1.6	2.5	1.3(until Aug)	88.6
Electricity Output (100m kwh)	1.25	1.04	1.01	0.72(until Aug)	4.02

- **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

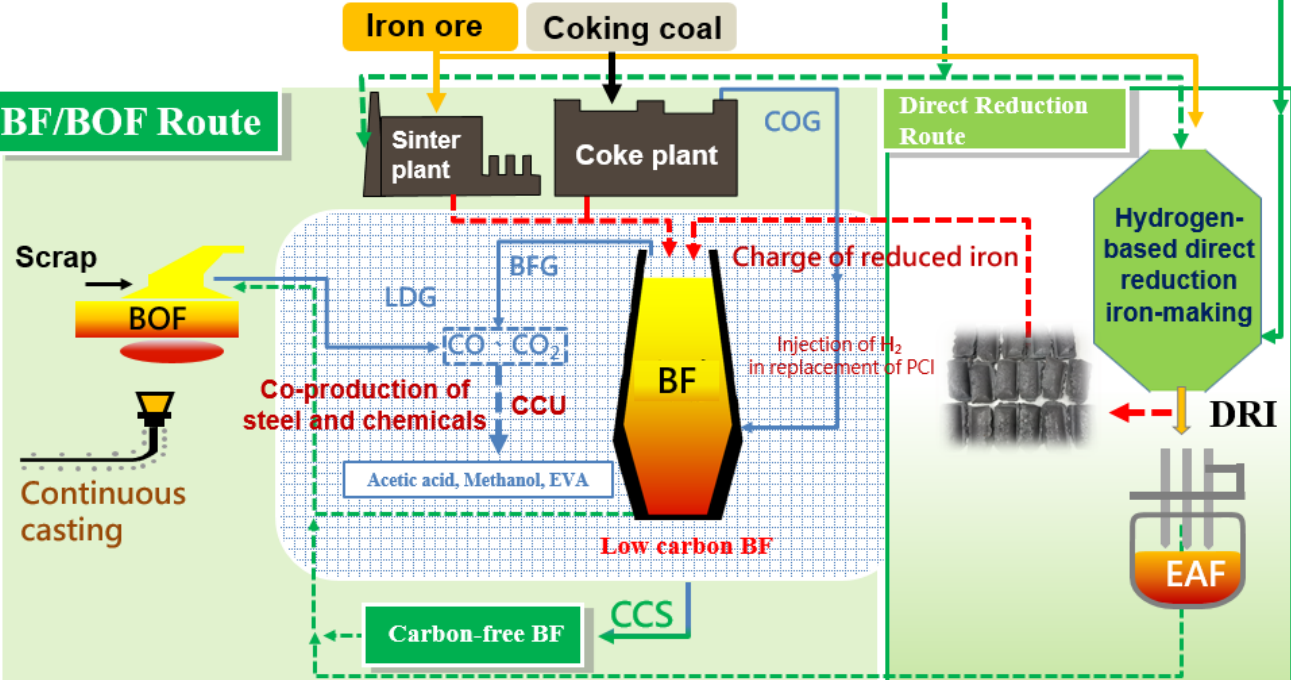
2030 : Low carbon BF

- ① Substitute H₂-rich gas for PCI as the auxiliary fuel for BF
- ② Charge hydrogen-reduced iron with ferrous burden.
- ③ Convert CO and CO₂ 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



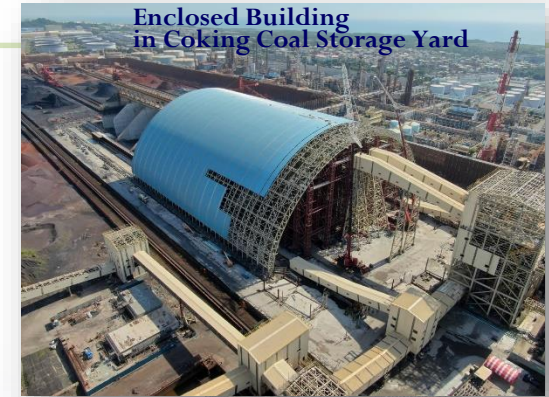
- Currently evaluating the possibility of investment in the production of **hot briquetted iron (HBI) through green hydrogen in Australia** in order to cut CO₂ emissions.
- The construction of a **pilot line for co-production of steel and chemicals** is expected to be finished by the end of Sep. 2022.
- 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 CO2e**, equivalent to the CO2 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

- ✓ 2022.08 CSC won 2 Gold Awards, 1 Silver Award and 1 Bronze Award in the Taiwan Sustainability Action Award by Taiwan Institute for Sustainable Energy (TAISE) with sustainable projects such as co-production of steel and chemicals.
- ✓ 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).

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.

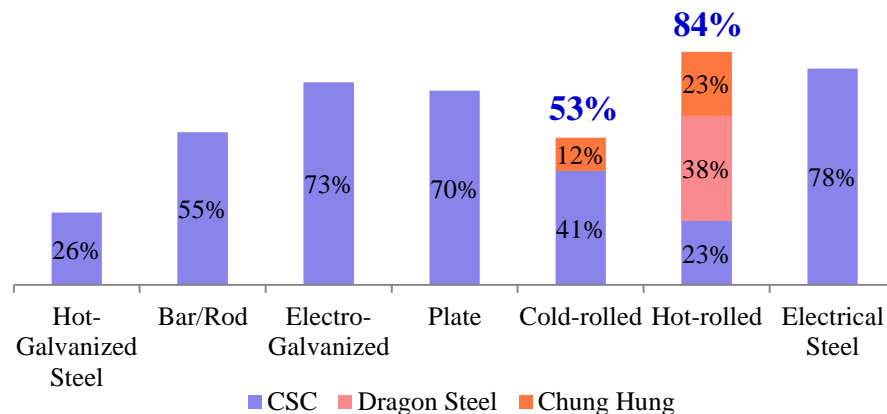
- ✓ CSC: 9.9 mmt
- ✓ DSC: EAF & No.1&2 BF around 6 mmt

- 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 (2022.1H)



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

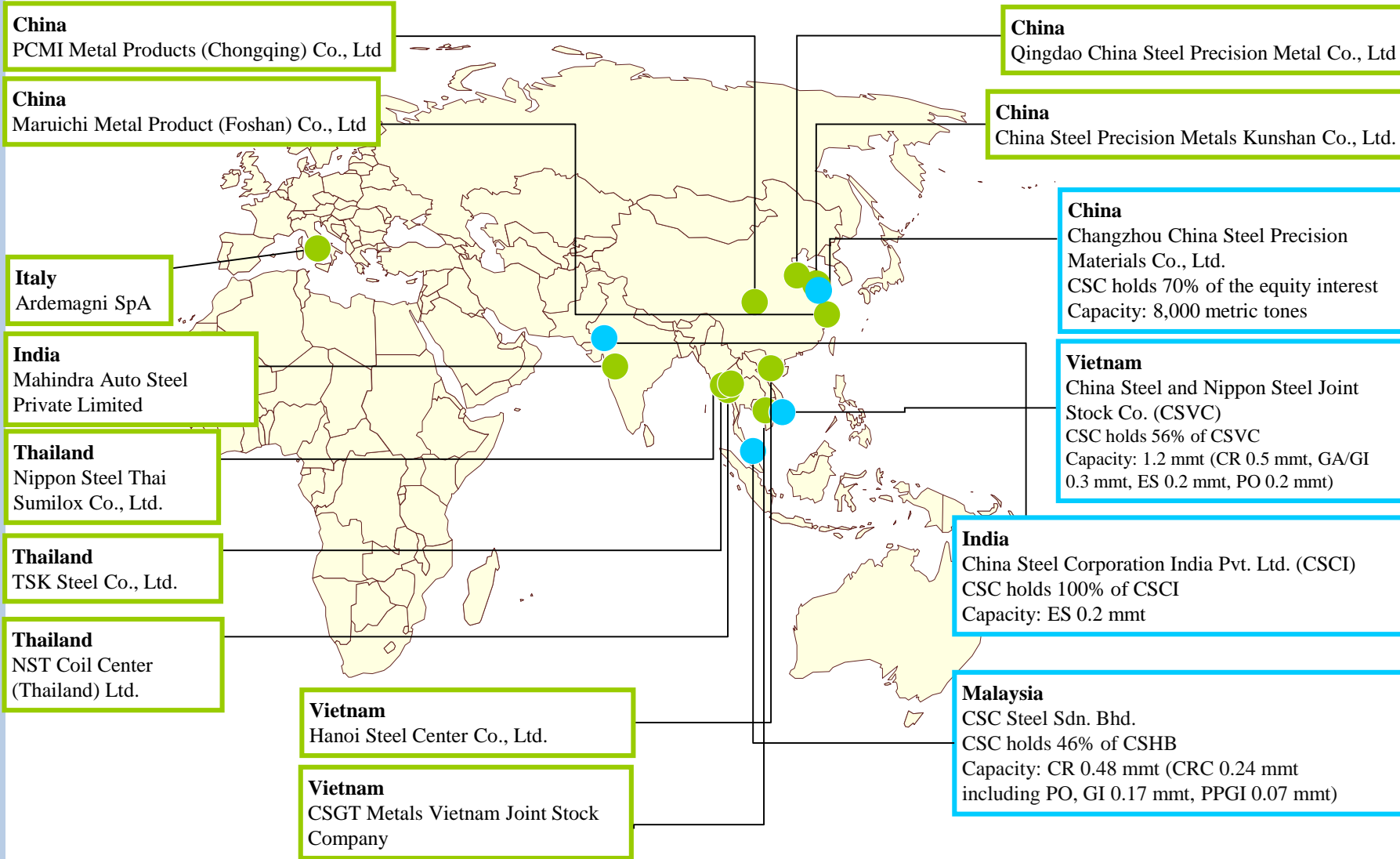
- CSE
- CSGT
- Gains Investment
- China Steel Security
- CPDC

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

2022.1H	Steel	Others	Adjustment & Elimination	Total
Revenues from external customers	\$ 199,798,473	\$ 49,051,360	\$ -	\$ 248,849,833
Inter-segment revenue	<u>52,456,077</u>	<u>32,421,751</u>	<u>(84,877,828)</u>	<u>-</u>
Segment revenue	<u>\$ 252,254,550</u>	<u>\$ 81,473,111</u>	<u>(\$ 84,877,828)</u>	<u>\$ 248,849,833</u>
Segment profit (loss)	\$ 21,642,657	\$ 5,583,375	(\$ 986,367)	\$ 26,239,665
Interest income	70,457	78,762	(21,850)	127,369
Financial costs	(669,350)	(317,497)	71,906	(914,941)
Share of the profit (loss) of associates	9,705,372	1,963,856	(10,800,113)	869,115
Other non-operating income and expenses	<u>1,194,982</u>	<u>1,371,295</u>	<u>14,544</u>	<u>2,580,821</u>
Profit (loss) before income tax	31,944,118	8,679,791	(11,721,880)	28,902,029
Income tax	<u>5,219,521</u>	<u>1,060,511</u>	<u>(114,819)</u>	<u>6,165,213</u>
Net profit (loss) for the period	<u>\$ 26,724,597</u>	<u>\$ 7,619,280</u>	<u>(\$ 11,607,061)</u>	<u>\$ 22,736,816</u>