

# Baoshan Iron & Steel Co., Ltd. 2018 Annual Report Performance

**April 2019**

# Disclaimer

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This article contains some prospective statements. Due to many risks and uncertainties, the actual results may substantially differ from the results provided in these prospective statements. The predictive descriptions in this article represent the position of the Company by the release date. Although the position of the Company may alter due to the Company's forecast of future events and development, the Company explicitly waives any responsibility to update these predictive statements (except those applicable to laws and regulations). Since any date after this release date, these predictive statements shall not be deemed as representing the position of the Company.

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# 1. Performance Retrospect

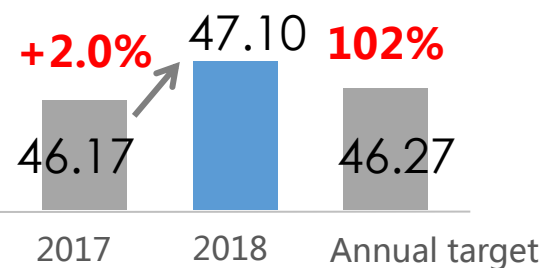


# Performance

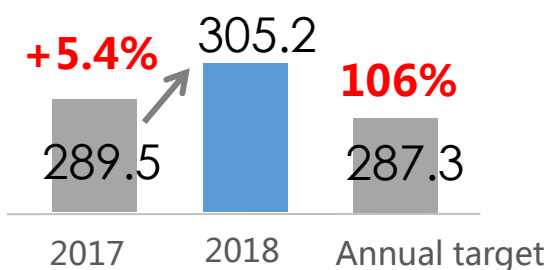
## Leapfrogging in Operating Scale



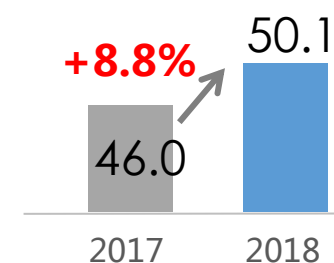
Sales Volume (million ton)



Gross Revenue (RMB billion)



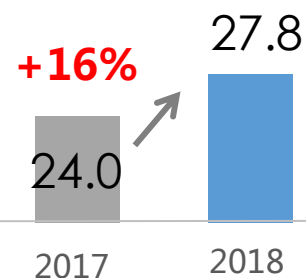
EBITDA ( RMB billion )



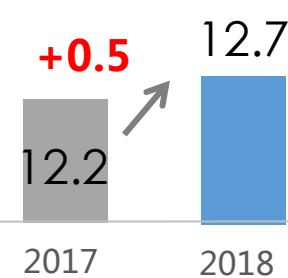
## Historic high in Profitability



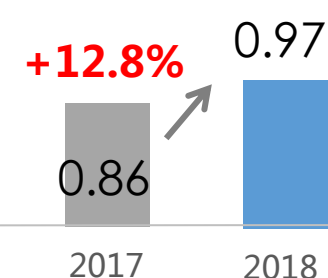
Total Profits (RMB billion)



ROE (%)



EPS (RMB per share)



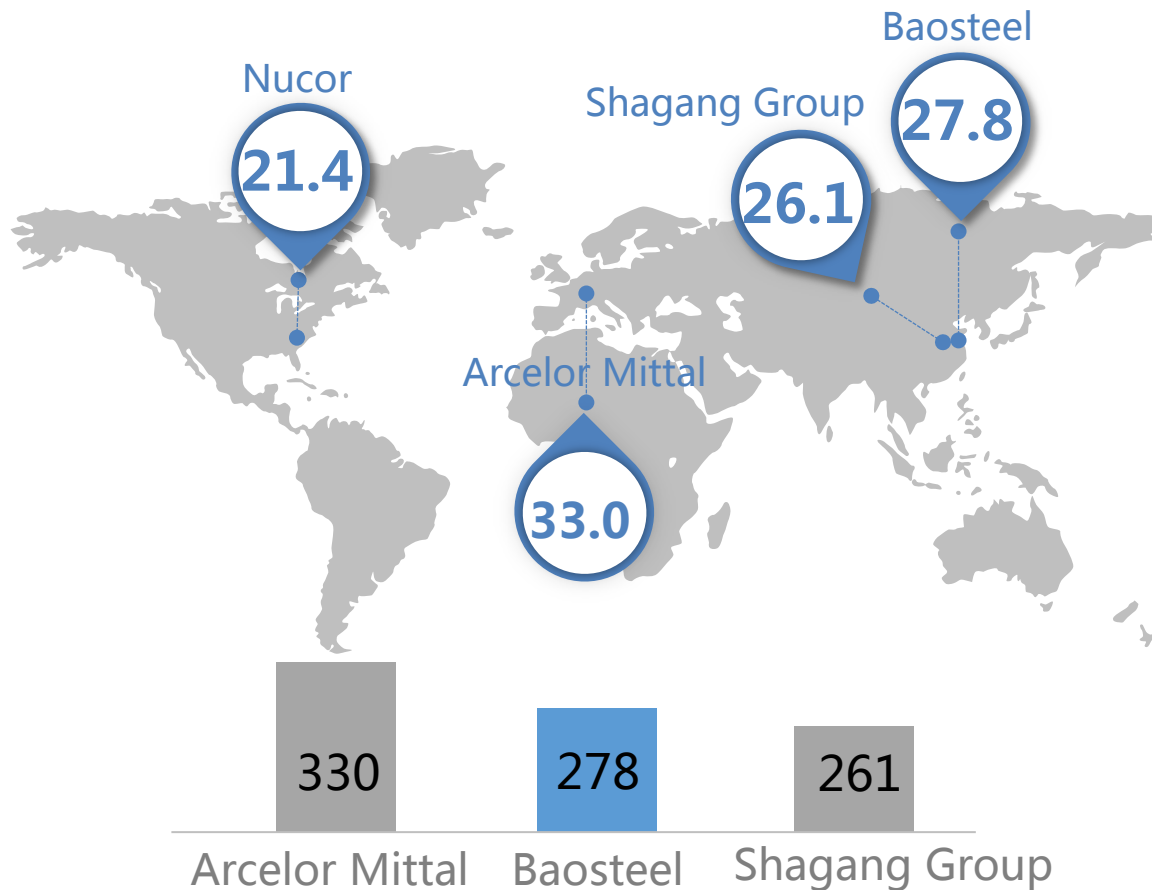


# Ranking

Among the typical steel enterprises over 20 million tons globally

No. 2 in total profit, moving up by 1 position y-o-y

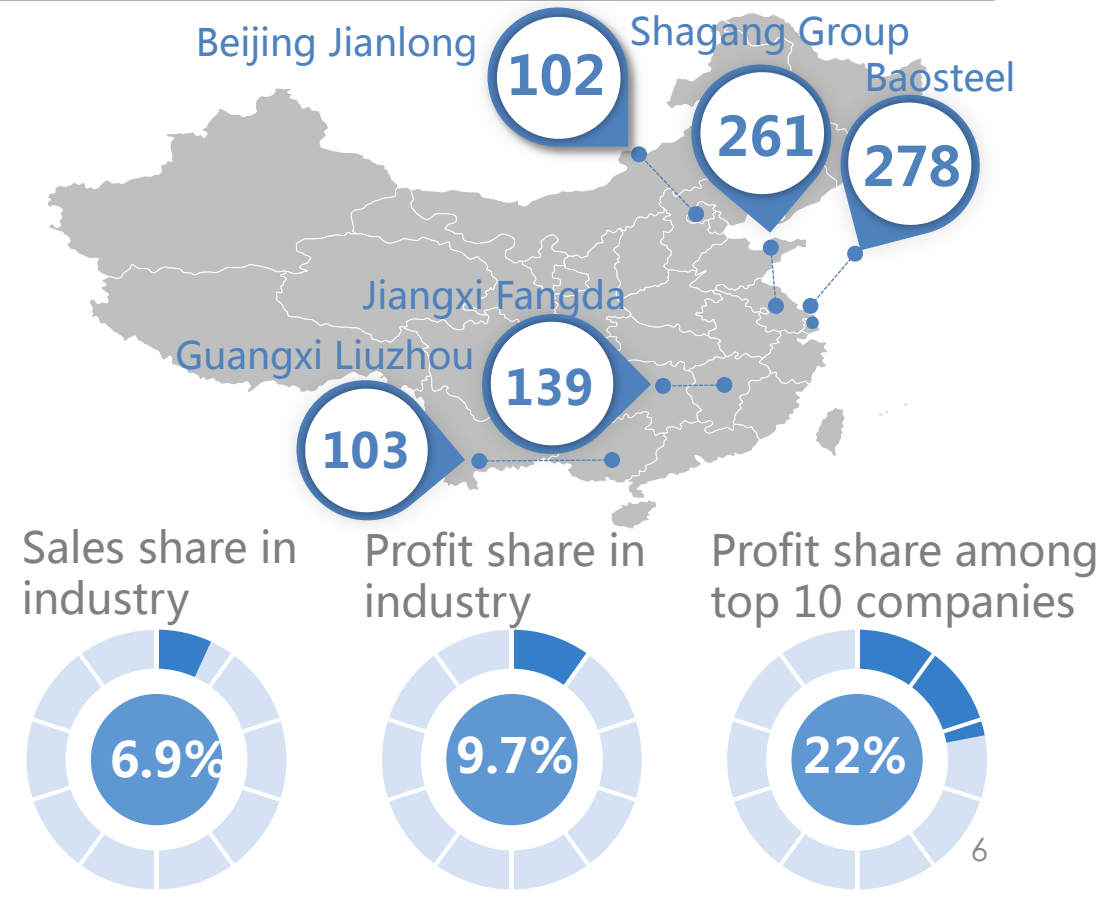
No. 3 in profit per ton, surpassing POSCO Unit: RMB billion



Among the typical domestic steel enterprises over 20 million tons

No. 1 in gross domestic profit

Unit: RMB billion



# Comprehensive Performance

## Financial structure & operational efficiency kept optimized

### Cash flow from operating activities

45.61 billion RMB, **reaching the historical besting level since listing** and counting for 106.8% of cash receivable.

Cash flow  
from operating  
activities 45.61  
Billion RMB



Total assets turnover rate 0.9,  
9.8% better y-o-y

Total assets  
turnover rate  
0.9

Non-fixed  
assets  
turnover rate  
2.4

Non-fixed assets turnover  
rate 2.4, 12.6% better y-  
o-y

Debt ratio  
43.5%

### Debt ratio

Capital structure kept optimized, **6.7% lower y-o-y**, 21.5% lower than industry average



# Comprehensive Performance

## Recognition by capital market & rating Credit rating well recognized

Remained at the **optimal level** among global comprehensive steel enterprises



**Baa1 upgraded to A3**

**Moody's Corporation**

**STANDARD  
& POOR'S**

**BBB+ upgraded  
to A-**

Rating outlook both remained **'Stable'**



## Promising performance in capital market



**Institutional  
Investor**

**No.1 in Best IR Companies  
of basic materials** by II  
magazine All-Asia  
Executive Team 2018

**Capital  
market**

**财富  
FORTUNE**  
CHINA

**Top 50 Board of Directors**  
by Fortune China



**Golden round table award  
Best Board of Directors**







## 2. Performance Analysis



# Performance Analysis



## Cost reform

Cost was cut down by 3.85 billion RMB compared with that of 2017, by 7 billion RMB compared with that of 2018



## Technology leadership

Input was increased on technology innovation, new breakthrough was achieved in first-launch products & key technologies, actual effect was accomplished on multi-base synergy R&D



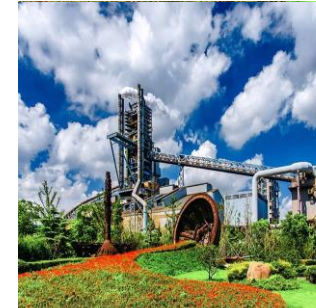
## Service first

Production & sales were synergized among multi-bases, progress was made on sales model innovation in terms of homogenized products, internationalized operation was further promoted



## Smart manufacture

Innovation driven, accelerating carrying forward smart manufacture and making substantial progress, smart manufacture stepped into new age



## Urban steel mill

100% of major pollution source emission process reached the target, zero event of major environment risk during the whole year



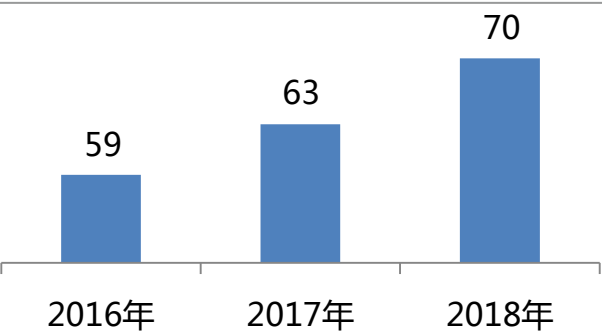
## Multi-base management

Exploration of multi-base management mode started solidly by carrying forward system construction, series of training and research of management assessment system



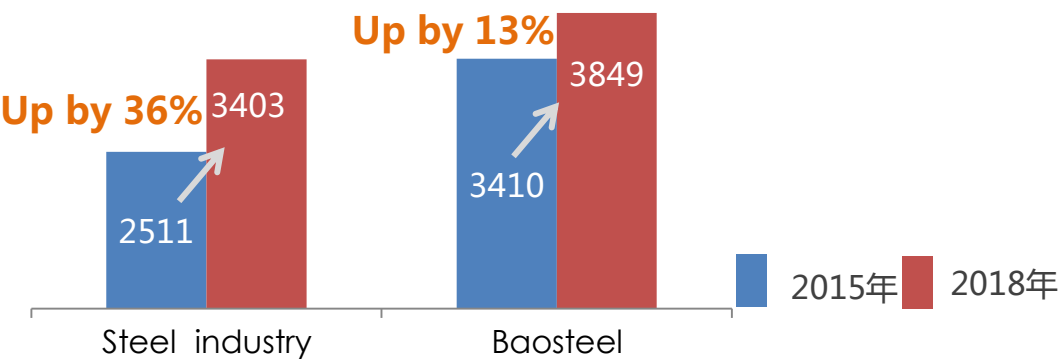
# Cost Reform

Cost reduction (v. 2015)



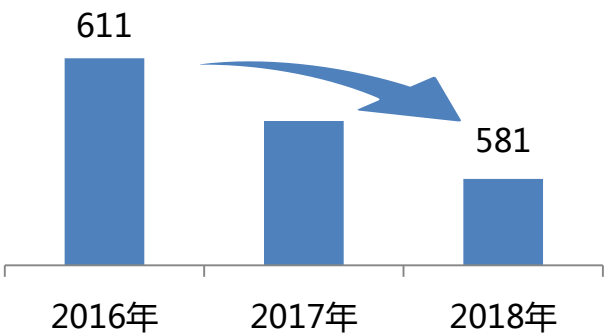
Accomplished cost reduction in 3 years reached **19.17 billion RMB**, surpassing the 1<sup>st</sup> round of planning target to reduce 17 billion RMB in 3 years

Selling cost per ton



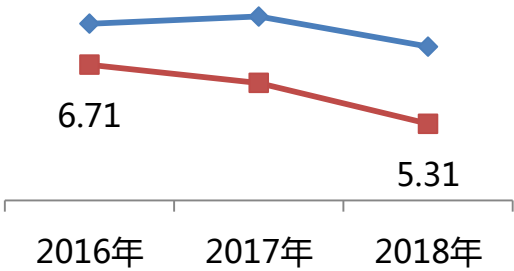
Selling cost per ton of the company rose obviously less than the average of the industry

Comprehensive energy consumption of steel per ton

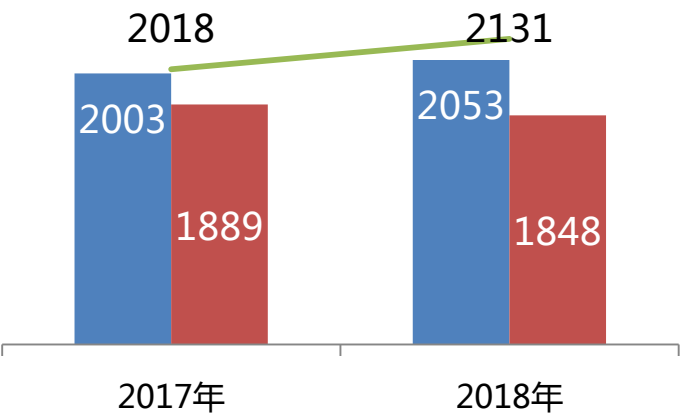


The realization of cost reduction is based on advanced technology, continuous improvement of index and high-quality sustainable development

Spot rate —  
Rejection & degrading rate —



Ranking of iron cost



**Dongshan base: No.2**  
6 places higher y-o-y

Baoshan base Dongshan base  
Average of domestic industry

# Technology Leadership

## Differentiated development of new products

Adhering to **differentiated development of new products** continuously satisfied and guided current and potential market demand by innovated products and services. In 2018, **7 products realized 1<sup>st</sup> global launch**, including thin grain oriented silicon steel B18P080 and high strength high precision magnetic rim steel SXRE750. Attended to the satisfaction of market demand & manufacture problem solving, **12 major technologies achieved breakthrough**.

## Multi-base synergetic R&D

Multi-base synergetic R&D took effects. Carried out R&D management mode '**One research institute and multiple research centers**', **mills and research centers synergy**.

'**Baowu R&D platform**' was built and to be carried forward by 'internet plus innovation'.



## Fruitful 'Golden apple' plan

Continuously carried forward '**Golden apple**' plan. In 2018, golden apple team successfully developed 2 1<sup>st</sup> globally launched products, **100+** key products, process and equipment technology that leading in industry, applied for **196 invention patents** and 36 international patents, increasing **direct economic benefits over 500 million RMB**.

## Intergrating into national innovation system

Undertaking national projects, taking the lead in **6 projects in key R&D** '13<sup>th</sup> 5-year plan', including 'the development and application of high efficiency, low loss silicon steel with special use', 'high performance and ultra high strength auto steel', **acquiring nation allocate funds 35.8 million RMB**.

Technology innovation input increased,  
1<sup>st</sup> launch products and key technology breakthrough realized



# Service First

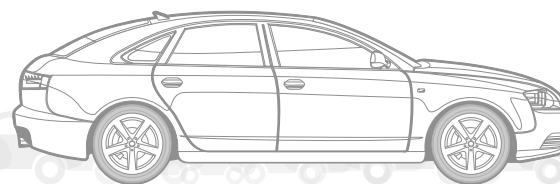
**Strive to seize the market opportunities,  
Improve the service system**

## New progress on the sales mode of homogenized products

Improve the hot rolling capacity pre-sale marketing model, provide diversified pricing and resource selection cycle, satisfy customers' needs of different cycle. Explore the sales mode of 'rapid and accurate delivery' of homogenized thick plate products in Dongshan base, shorten delivery period by 50%-60%. Online direct sales mode is widely used in non-auto cold rolling products, and realize the mixed marketing mode of futures as the main products with a small amount of spot supplement.

Establish a multi-base production and marketing balance operation mechanism, ensure the balance of iron, greatly improve the completion accuracy of mutual material supply contracts of each base, mutual material supply completion rate reach the annual target of 90%, mutual supply quantity reach 1.59 million ton, achieve the overall production and marketing balance with optimal benefits.

## Intensify synergy of multi-bases

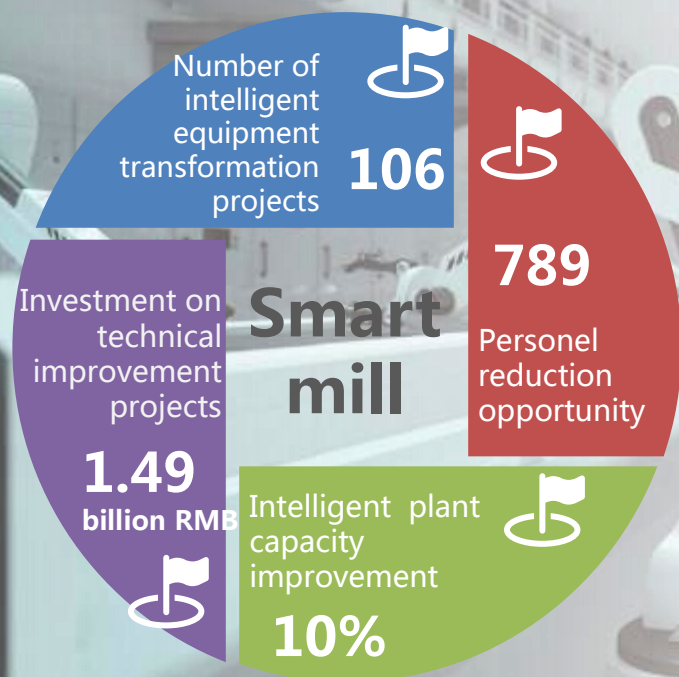


## Further improvement of international operation

The contracted export volume of carbon steel reached 102.7% of annual plan. Carry forward the switch of European Ford, German Volkswagen, Volkswagen commercial vehicles and Mercedes-benz parts. Completed all the preparation for batch supply of Mercedes-benz. Strengthen international policy research, trade friction coping and marketing strategy transmission. Carry forward the business integration of WISCO tailored blanks group, business performance made significant progress.



# Smart Manufacture



注：智能车间为宝山基地冷轧C008热镀锌试点建设车间



## Baoshan base

The **1<sup>st</sup> multi-blast furnace control center** in the world is completed and put into operation, **No.3 caster of steel-making plant** realizes automatic operation, smart manufacture of **4<sup>th</sup> stage silicon project** enters the stage of commissioning and trial operation, the steel product **unmanned warehouse** with largest area and highest intelligent level in China is put into operation.



## Qingshan base

Complete **the continuous casting machine offline duty** and **unmanned casting** transformation of 4<sup>th</sup> steel making, complete the transformation of single-ride system for **automobile** of transport department and intersection crossing unmanned transformation, coking company achieved **remote automatic operation of the cloth machine**.



## Dongshan base

Realize **the unmanned operation of the stacker-reclaimer** in the 1<sup>st</sup> and 2<sup>nd</sup> stage of raw material field, **unmanned crane** put into use in rear warehouse and finished products warehouse of 1550 cold rolling line, the **automatic input rate of L2 model** in hot rolling line maintained 98%.



## Meishan base

The **intelligent transformation of raw material system** is completed and put into operation, the nation' s **1<sup>st</sup> intelligent hot molten metal crane** is put into operation in the steel plant, realizing automatic cruise, unmanned casting in the mold area and centralized control of converter operation.

## Innovation driven, smart manufacture made substantial progress

# Urban Steel Mill

Results of major environment protection index kept improving, 100% of major pollution source emission process reached the target, zero event of major environment risk during the whole year



**Baoshan base** has realized the online monitoring and warning of comprehensive pollution sources. The air security control plan during the first fair was successfully implemented, smoothly promote the start and implementation of a series of projects such as rotary hearth furnace and tidal flat renovation, completed the plant ecological greening construction area of 250,000 square meters.



**Qingshan base** completed the rectification of law enforcement problems of environmental protection stations in Hubei province, clean up the equipment defects, production management and other problems, complete the rectification. The comprehensive utilization rate of solid waste increased from 96.5% to 99.02%, and the utilization rate of return production increased from 14.70% to 18.38%



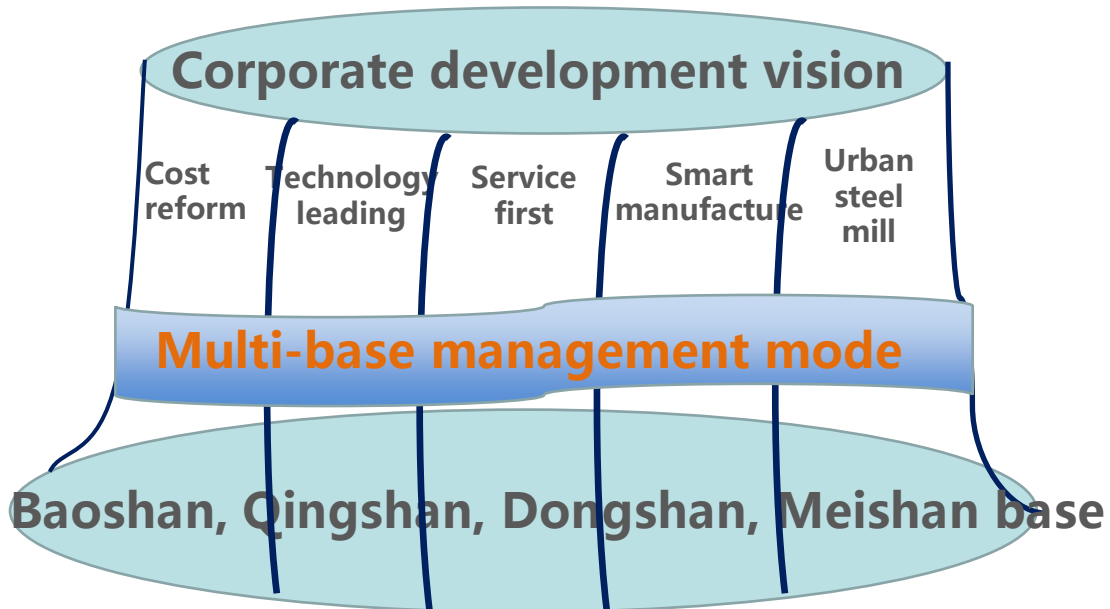
**Dongshan base** completed the completion of the first and second bf system environmental protection acceptance, and the third bf system project environmental assessment passed the expert review, awarded as "national advanced metallurgical greening unit", it was successfully selected into the recommended list of "clean production environment-friendly enterprises in China's iron and steel industry" in 2018 and ranked first.



**Meishan base** to promote water pollution prevention and control, strengthen law enforcement supervision mechanism, completed sintering denitrification and coke oven desulfurization denitrification transformation projects, the comprehensive reduction rate of pollutants decreased by 20.93% compared with the same period of last year, the utilization rate of hazardous waste returned to production reached 98.7%.

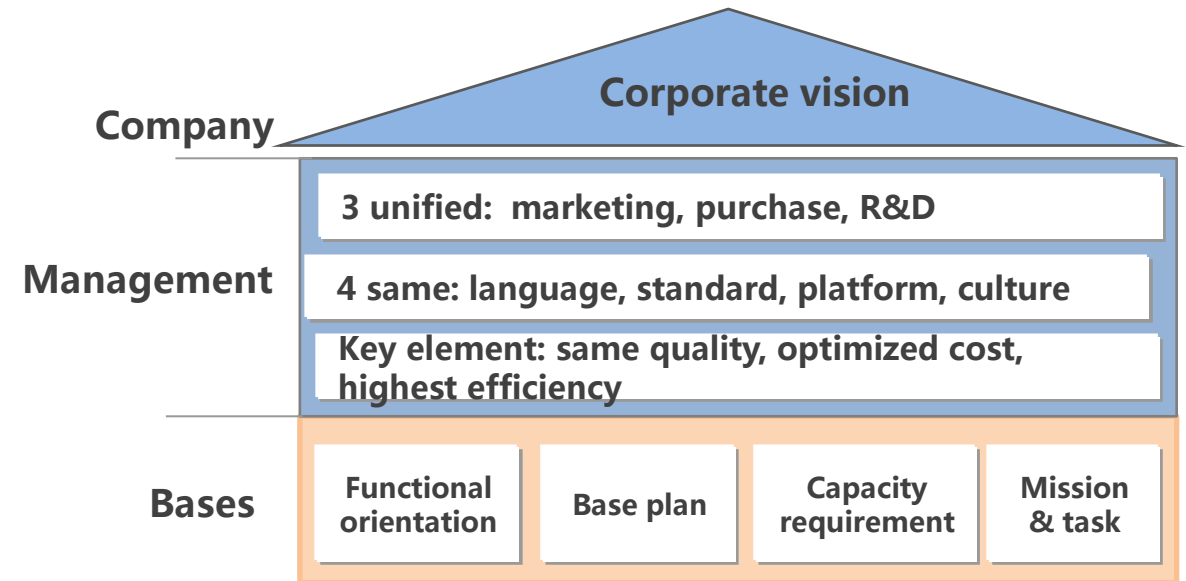
# Multi-base Management

To build **high-efficient and synergetic** operation system by forging multi-base management capacity, conducive to **forming joint forces** and **ensuring the bases to better carry and develop '5 major capabilities'** .



## Corporate vision:

to become the most competitive steel company and the most valuable listed company in the world



Further explore and practice multi-base management and control operation mode, clarify the orientation and management relation of bases, organize and push forward management system construction, series of training and management assessment system research. Organize the preparation of multi-base management mode construction 6-year plan, formulate milestone target and management index in multiple fields, play the role of management traction.





## 3. 2019 Outlook

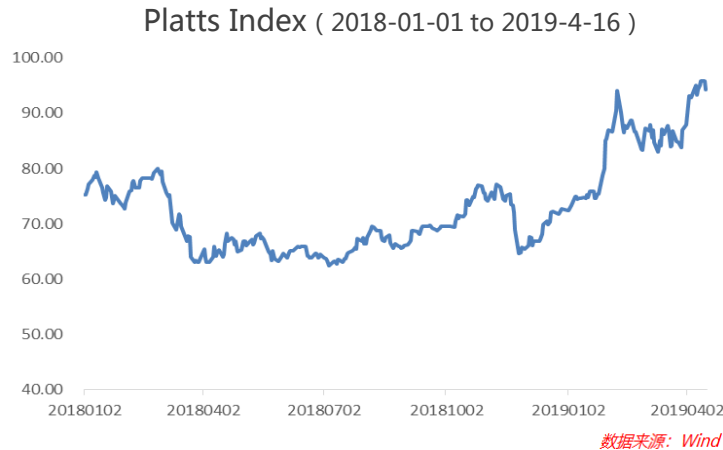


# 1Q2019 Market Review

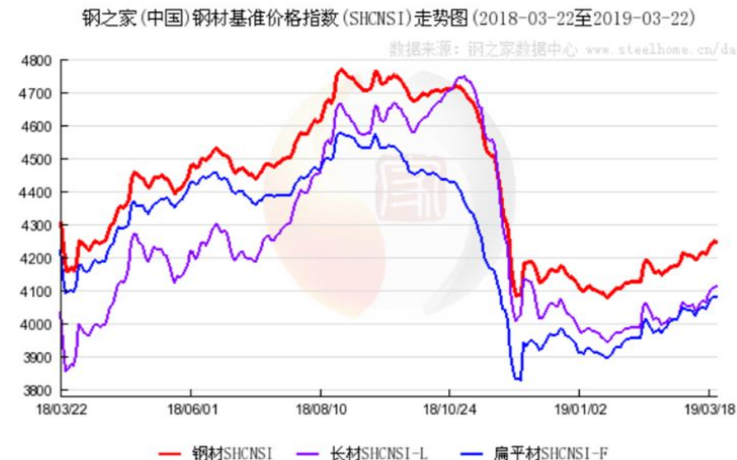
## Steel market remains subdued

In Q1, "long strong flat weak" remains. Long products market is strong while the automobile market is weak. Affected by the vigorous infrastructure investment and the dam break in Brazil, the raw material price rises sharply.

Mining prices rose sharply as a result of Brazil's dam collapse. The platts index was \$83 in the first quarter, up 16% from the previous quarter, keeps growing in April.

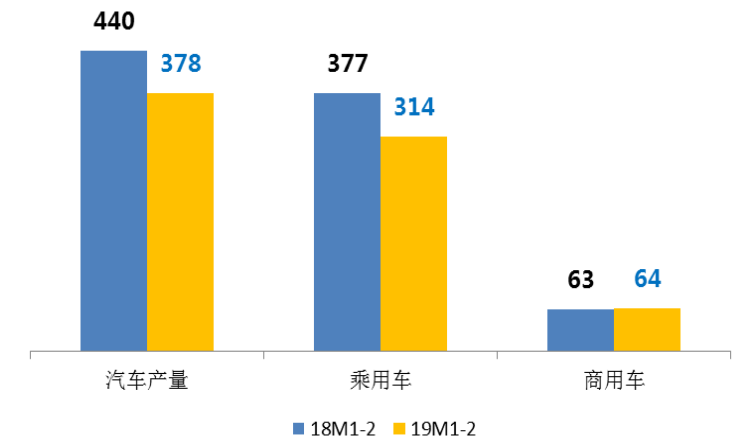


Domestic steel price index is 108 in 2019Q1, down 6.2% year-on-year, down 2.1% quarter-on-quarter. "Long strong flat weak" remains.



Automobile production and sales continued a downward trend in the first two months in 2019, with the output of 3.77 million vehicles, down 14.08% year on year.

Passenger car production fell 16.79% year-on-year





# 1Q2019 Performance



## Main financial indicators

No.	Index	Unit	1Q2018	4Q2018	1Q2019	Compared with 1Q2018	Compared with 4Q2018
1	Crude steel output	Million ton	11.89	12.12	<b>11.84</b>	-0.05	-0.29
2	Operating revenue	Billion RMB	67.5	79.6	<b>65.4</b>	-2.2	-14.2
3	Total profit	Billion RMB	6.9	6.2	<b>3.6</b>	-3.3	-2.6
4	EBITDA	Billion RMB	12.3	12.1	<b>8.9</b>	-3.5	-3.2
5	Operating net cash flow	Billion RMB	3.59	8.85	<b>1.36</b>	-2.24	-7.50
6	Cost reduction	Billion RMB	1.81	-0.02	<b>1.86</b>	0.05	1.88
7	Operating cycle	Day	42.8	-	<b>34.9</b>	7.9 days shorter	-



## Domestic large and medium steel enterprises

Total domestic profits remain **No.1**

Rank	Company	Jan & Feb profit	Profit share
1	Baosteel	188,600	8.7%
2	Hunan Hualing Group	140,844	5.9%
3	Jiangsu Shagang Group	132,895	5.5%
4	Jiangxi Fangda Group	120,040	5.0%
5	Beijing Jianlong Group	109,736	4.6%
6	CITIC Pacific	103,338	4.3%
7	Fujian Sangang Group	102,003	4.2%
8	Hebei Jinxi Group	65,000	2.7%
9	Shiheng Group	64,655	2.7%
10	Qian'an Jiujiang	60,916	2.5%
	Total of Top 10	1,088,027	46.2%
	Total of 94 steel enterprises	2,168,981	100.0%

# 1Q2019 Performance

## 2019 Evaluation of overall business objectives

The first quarter of the five major operating goals have reached or exceeded the interim progress

### Cost reduction

The **cost reduction reached 1.862 billion RMB** compared with 2018Q1, 82% of the annual target, which helped offset the adverse factors in the purchase and sales market and supported the improvement of business performance.

### Sales volume of cold rolling auto steel

Automobile output decline 11.3% year-on-year, the sales volume of cold rolled automobile plate is **2.1 million tons**, basically stepping on the time schedule.

### Regular employees labor efficiency improvement

Make a new plan for the transformation of staff, improved labor efficiency **by 2.5%** in 2019Q1, exceeding the annual target time schedule.

### Major project implementation schedule

The 3<sup>rd</sup> blast furnace project of Zhanjiang base was approved in February and started construction in full by the end of March.



# 2019 External Market Analysis

Global growth slowed, upstream price remains high while downstream demand growth declines  
Industry supply will be under pressure



- The world's three major economies to ease, the United States cut interest rates to strengthen expectations, good for global demand, **China's GDP growth is expected to be 6.0-6.5%**, with some downward pressure
- In 2019, the overall approach of macro economic regulation will shift from deleveraging **to counter-cyclical adjustment and stabilizing aggregate demand**, and monetary policy will shift from neutral to **moderately tight and loose** to maintain reasonable and sufficient liquidity
- **Large-scale domestic tax cuts** and fees will play a positive role in boosting economic growth and stimulating domestic consumption
- There are **tentative signs of a rapprochement** in the sino-us trade dispute

- In 2019, new seaborne-based iron ore production further slowed down. Iron ore prices, supported by domestic iron and steel scale and the trend of "long strong plate weak", **remained high** on the whole
- 2019 **car production continued negative growth**, the decline is expected to be about 2%; Thanks to the national tax cuts and subsidies and the support of the rural policy for home appliances, the home appliances market is expected to have **a small overall growth** for the whole year
- The **long - distance oil and gas pipeline** in China has ushered in a new construction peak
- China's new round of UHV engineering (nine lines) demand for **high performance oriented silicon steel** increased



- In the steady growth policy support, **strong demand** for long materials, automotive board demand **overall weak**, construction machinery steel demand **remains high**, home appliances board demand is expected to **increase slightly**
- With the periodic settlement of the sino-us trade dispute, the domestic steel export situation has improved recently compared with the expectation at the beginning of the year, but affected by the global trade friction, the steel export of the whole year is likely to show a **downward trend**
- Steady growth strength than expected, domestic steel demand forecast to **1%**
- The domestic environmental protection production limit is loosened, and the production capacity of blast furnace, electric furnace and new rolling line brought by the replacement of production capacity is put into production one after another. In 2019, the domestic steel **supply is facing increasing pressure**

# 2019 Internal Business Environment Analysis

## Insure the balance of production & marketing, seeking stability

The increase of outsourcing coke in some bases brings about the risk of cost increase and resource security, and the stability of blast furnace in each manufacturing base is facing a greater test, which puts forward higher requirements for the balance of iron, steel and slab in each base.

## Rapid production reach of new line, Promoting upgrading

It is important to climb the production line, verify the process and improve the quality of silicon steel in Baoshan. In 2H2019, the cold rolled high-strength steel and hot rolled flat slitting units in Dongshan will be put into production successively. Benchmarking the same kind of units at home and abroad, the production capacity improvement and index optimization should be realized a.s.a.p. Meanwhile, the sales department should coordinate with each other to make order receiving arrangements for related products.

## Environmental control getting strict, Protecting the red line

The coal limit policy of the manufacturing base was continued, and the environmental protection control is increasingly strict. The No.1 blast furnace in Qingshan will be removed, and the iron output will be reduced y-o-y.

## Production and construction operations, double responsibility

The preliminary design of the third blast furnace system in Dongshan, the introduction of equipment, the bidding and construction of the project and a series of other construction work will be carried out.

## Continue promoting cost reform, There's still potential

In recent years, in response to market changes, the company's cost change endogenous ability will be basically formed. Baoshan sintering transformation will be completed, iron cost compared to Dongshan will reduce 80~100 RMB.





# 2019 General Objective



Business performance to maintain **domestic 1<sup>st</sup>**, Ton per staff to challenge the **world's top 3**

Cost to reduce over **2 billion** RMB y-o-y

**50% market share** of cold rolling auto steel

Labor efficiency of regular employees to improve **by 8%**

**To achieve the time target** of new round of plan and major projects

BAOSTEEL 宝钢股份

做未来钢铁的引领者



# 在梦想的路上 我们从未停止脚步

To be driven by innovation, to practice 5+1 strategy, to tamp the basis of development

To benchmark and exploit potentials, to turn risks into benefits, to maintain industry leading

To become the most competitive steel company & the most valuable listed company in the world

