

Baoshan Iron & Steel Co., Ltd.

2019&1Q2020 Result Briefing



PART 01

Performance

Disclaimer

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.

Completing Annual Operating Targets

01 2019 annual performance remains No.1 in domestic industry

02 EBITDA ranks top 3 among global representative steelmakers

03 Cost reduced by RMB 5.43 bn y-o-y

Performance maintains No. 1 domestically

EBITDA per ton Target top 3 globally

Cost reduction exceeds RMB 2 bn

05 Labor efficiency of regular employees improved by 11%

50% market share of cold-rolled auto sheet

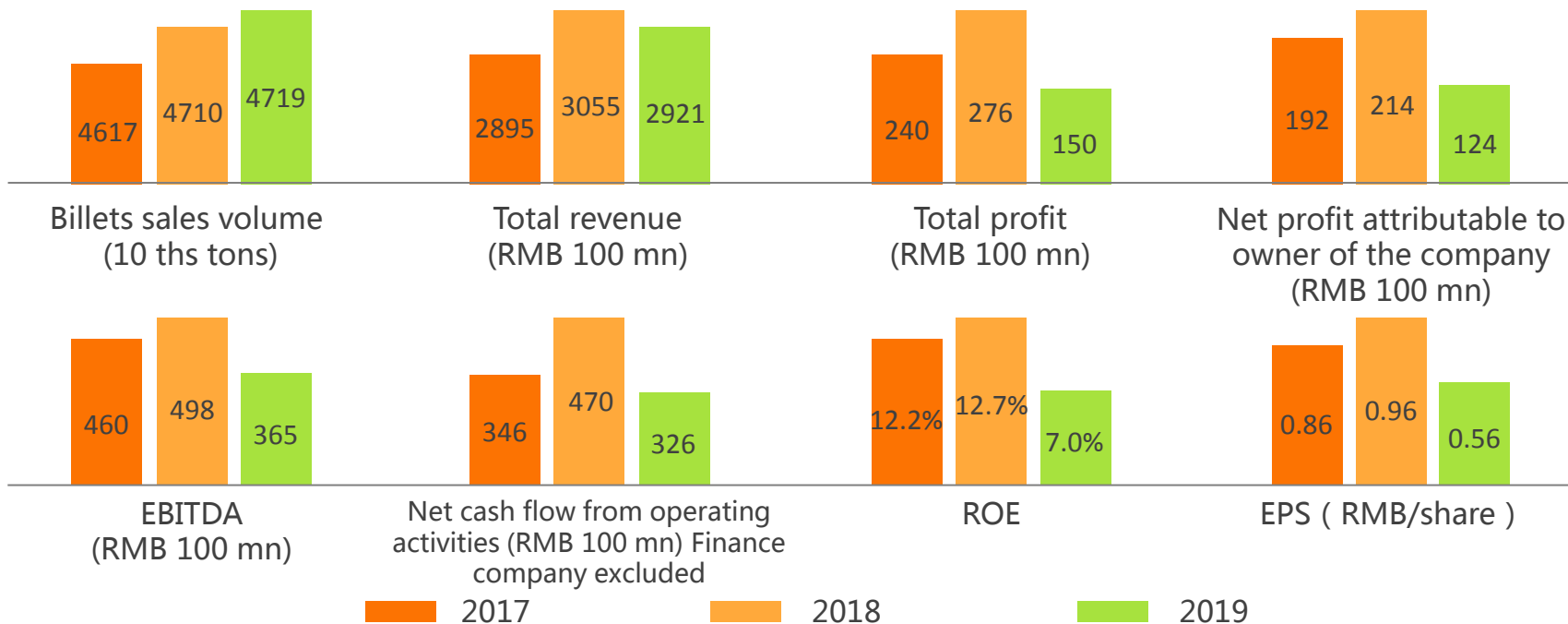
Labor Efficiency of regular employees improved by 8%

New round of plan and projects meet schedule

04 50% market share of cold-rolled auto sheet

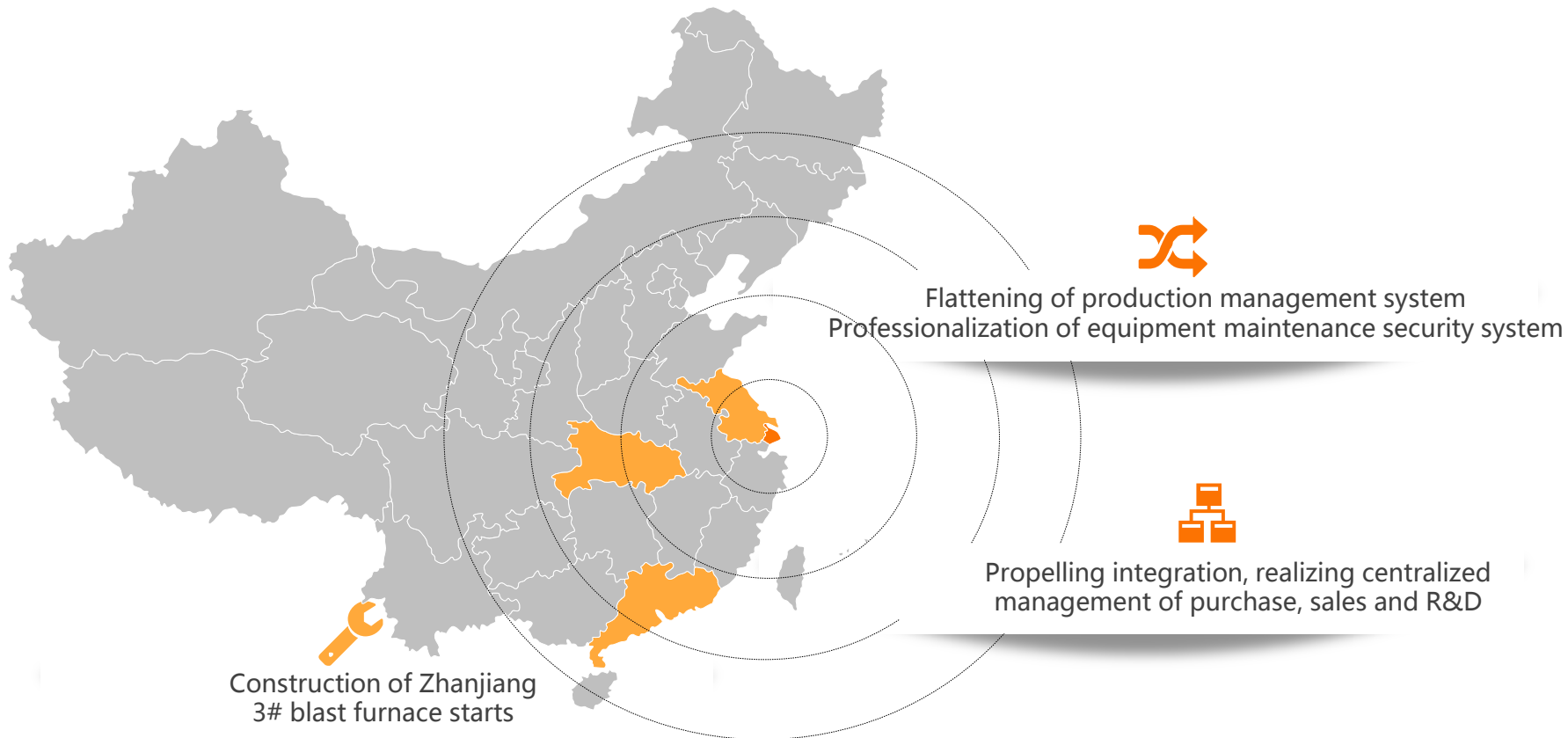
06 New round of plan and projects meet schedule

Operating performance dropped from top



Note: The Company's subsidiary acquired a subsidiary of Wuhan Iron and Steel Group in July 2019 and restated the year-end numbers in the 2018 financial statements in accordance with the provisions of the merger of companies under the same control.

One company with multi-bases management mode



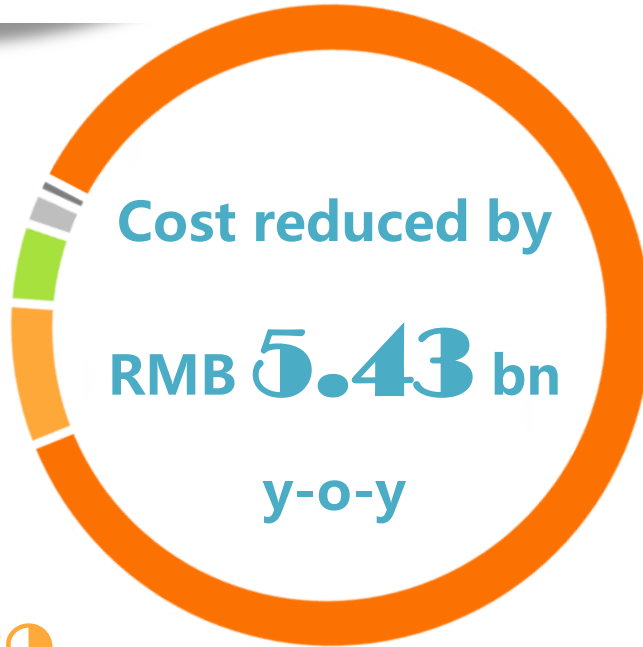
Cost Reform of 5 abilities

Administrative expenses RMB **0.04** bn

Logistic cost of raw material purchase RMB **0.09** bn

Selling expenses RMB **0.22** bn

Financial expenses RMB **0.39** bn



Manufacturing cost RMB **4.69** bn

Leading technology of 5 abilities



World premiere of 8 products, incl. extra low iron loss oriented silicon steel B18R060 and non-oriented silicon steel B27AHV1300M for electric vehicle motors.



5 achievements won the 1st prize of metallurgical science & technology progress, incl. the design & manufacture of complex hydraulic forming pipe fittings for automobile key technology & industrial application.



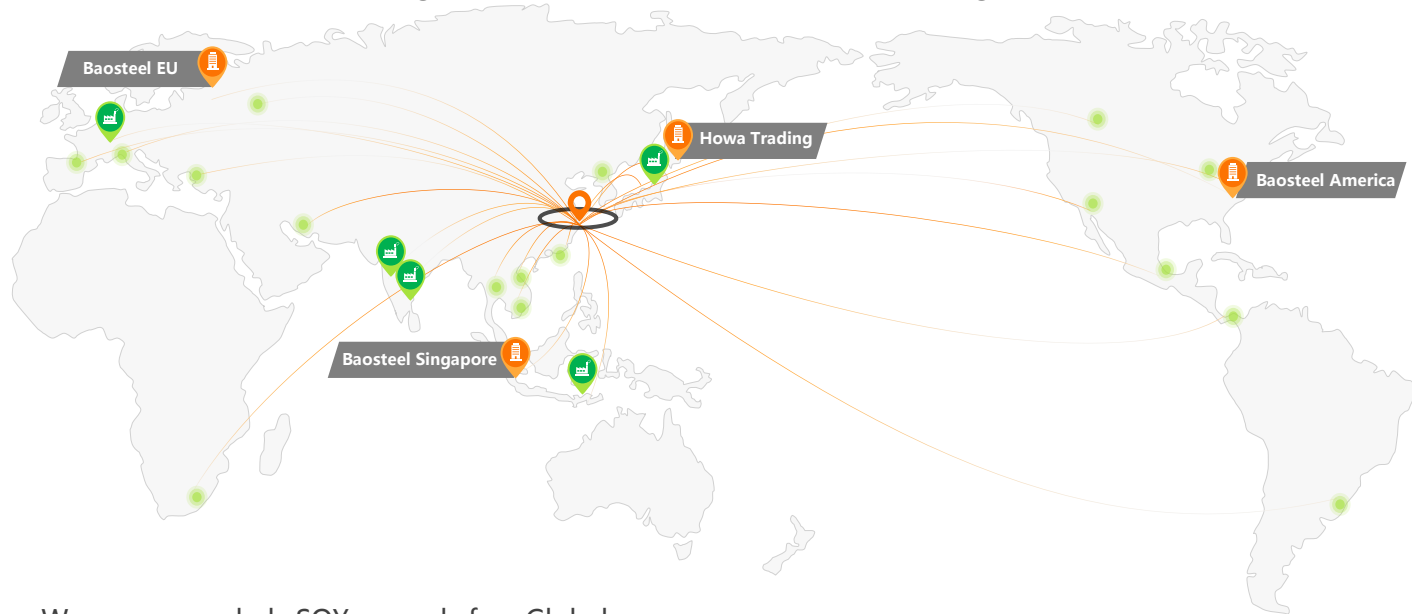
The company maintains 50% market share of cold-rolled auto plate, despite the decline of auto market.



100% market share of DC ultra-high voltage market of oriented silicon steel.

First in Service of 5 abilities

We have 141 sales offices worldwide, 4 overseas regional headquarters, 3 overseas steel processing service centers and 16 laser welding factories.



We are awarded SOY award for Global Supplier Excellence by GM for the 6th time, and the only steel supplier of excellence by GM Korea.



The America Technology Service Center is under operation and available in the design of Ford Global platform models.

Urban Mill of 5 abilities

Baosteel

Awarded the top social recognition regarding environmental protection in China – China Environment Award

Baoshan Base

Full realization of online monitoring and alert of polluter; 150,000 sq. of greenery increase in the mill

Meishan Base

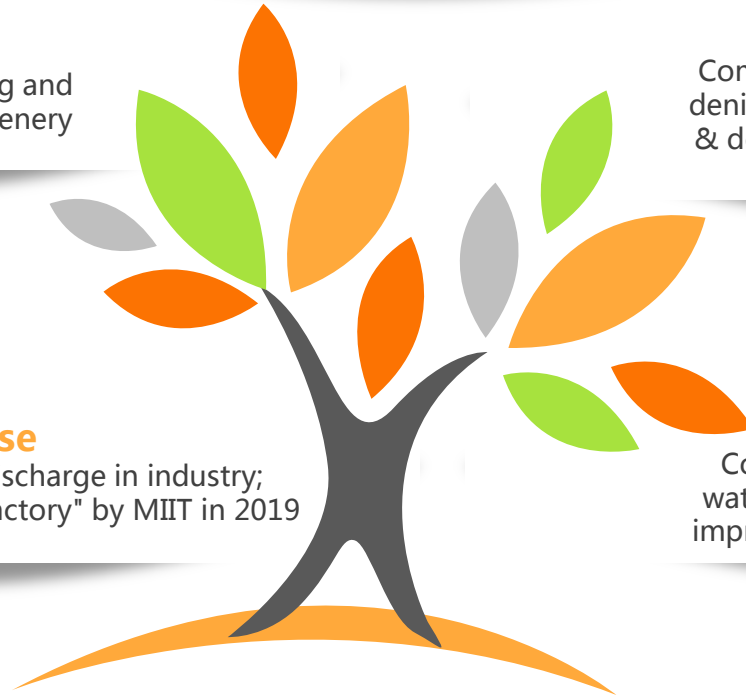
Completing the transformation of sintering denitrification & coke oven desulphurization & denitrification; 81% realization of exhaust outlet ultra-low emission

Dongshan Base

1st realization of zero waste water discharge in industry; awarded the recognition of “Green Factory” by MIIT in 2019

Qingshan Base

Completion of 108 key projects on “gas, water & solid waste treatment” ; prominent improvement in key environmental indicators



Top Credit Rating Within Industry



标普信评
S&P Global

A-



Moody's Corporation

A3

FitchRatings

A

Maintaining top credit rating among global integrated steel enterprises

Ongoing Cash Dividends

01

It is stated in the Company's Articles that "Cash dividend distributed shall be no less than 50% of the net profit attributable to owner of the company in the audited consolidated financial statements of the year" .

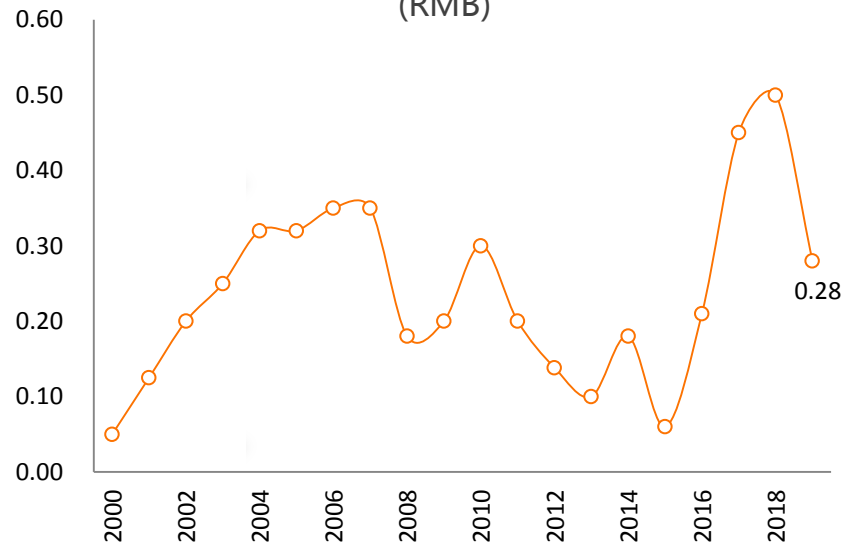
02

Ever since listed in 2000, the Company has been insisted on returning annual dividends to shareholders, with a cumulative cash dividend rate of over 50%.

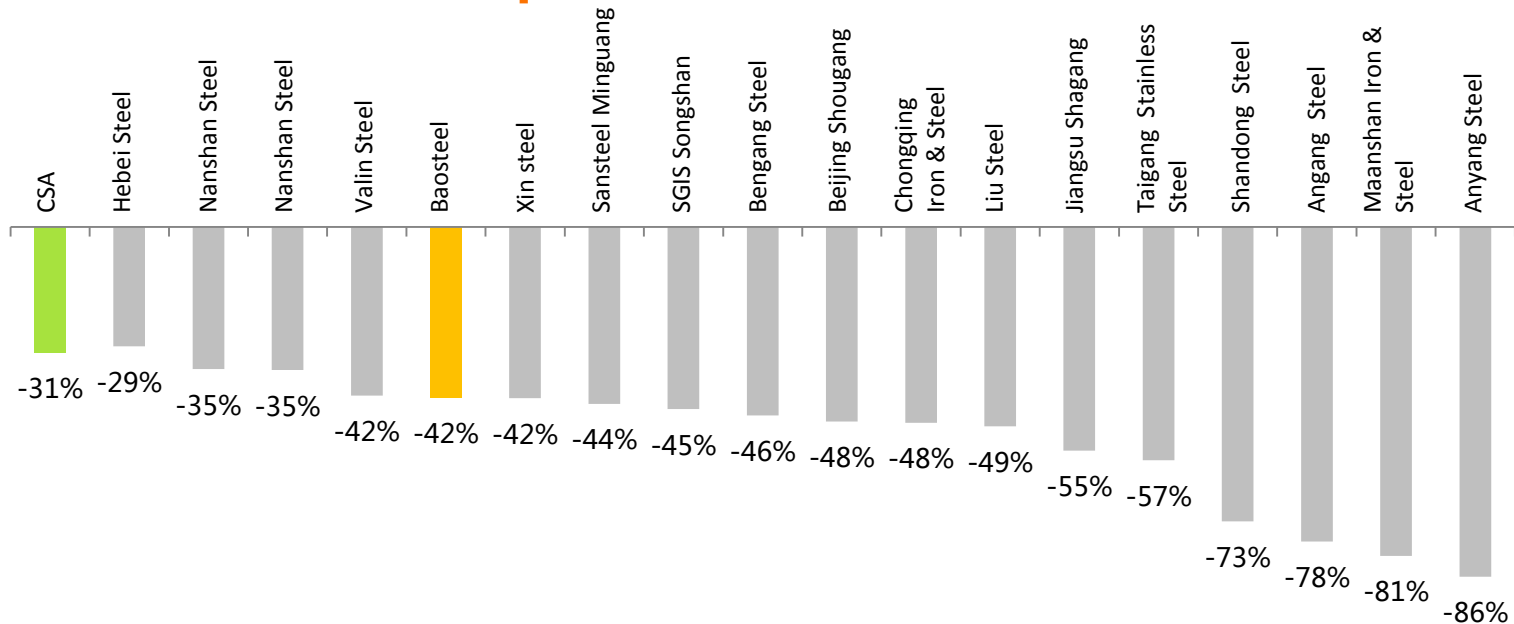
03

Cumulative dividend of RMB 85.4 bn (incl. RMB 5 bn for share buyback & proposed dividend for 2019), of which RMB 22.3 bn has been distributed to public shareholders, exceeding the social financing amount upon listing.

Dividend per share from Baosteel (RMB)



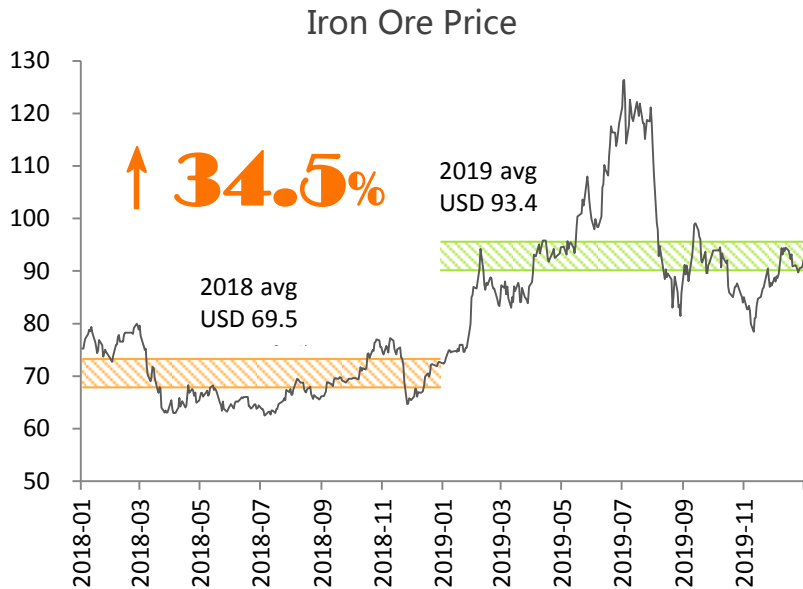
Comparison with peers



In 2019, the net profit attributable to owner of the company declined significantly among both flat steel & long steel producers, while pipe & special steel enterprises pulled up the industry .

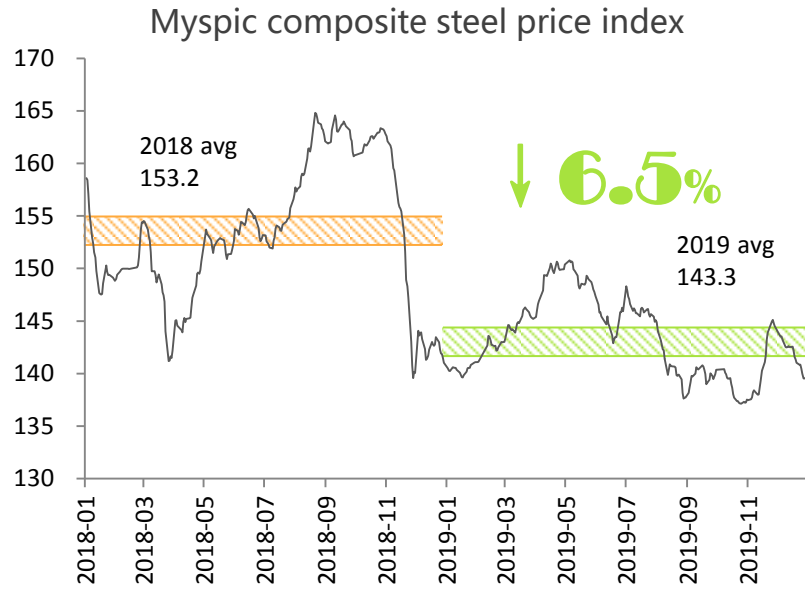
Narrowing margin of the industry

In 2019, the steel industry was squeezed at both ends, with raw material prices rising and steel product prices dropping, gross profit declined significantly.



01

Affected by Brazil mining disaster, iron ore price rose by 34.5% yoy, pulling up the raw material costs of steel enterprises significantly.



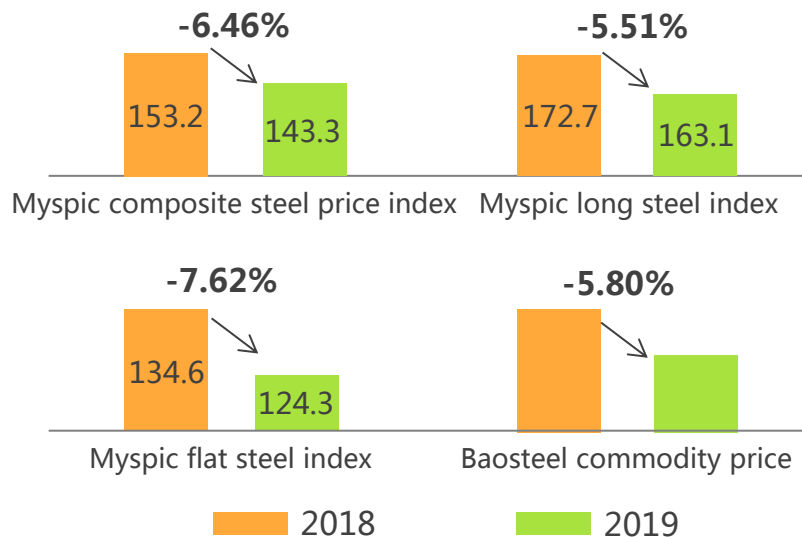
02

Domestic crude steel production was close to 1 bn tons, supply & demand were getting more relaxed, leading the steel price index down by 6.5% yoy.

Flat steel trapped at the bottom

Affected by the decline of auto industry, flat steel was still weaker comparing to long steel, bringing greater challenge to Baosteel.

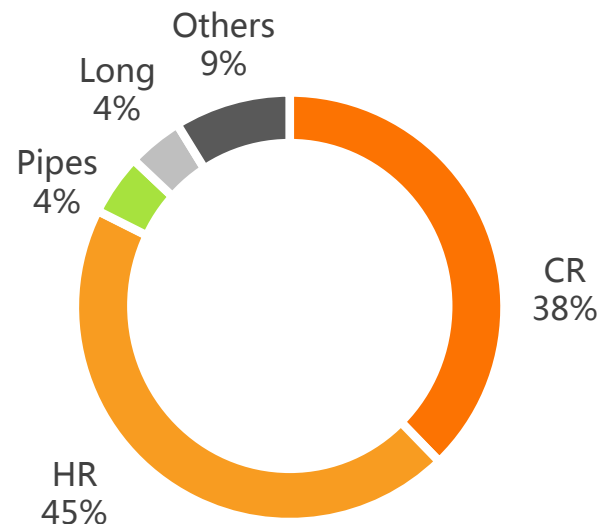
Strong long & weak flat situation continued



01

Auto industry remained weak in 2019, while steel industry still featured "strong long & weak flat".

2019 Baosteel product structure

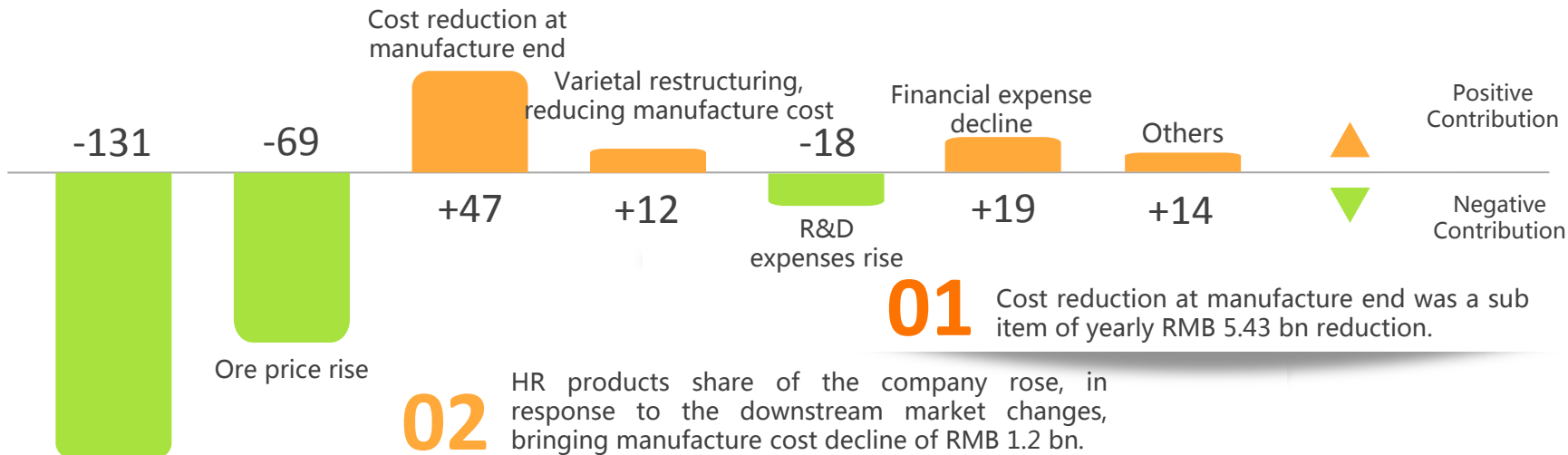


02

Hot & cold rolled products combined accounted for 83% of Baosteel product structure, suffering the greatest impact.

Results Decomposition

The company's total profit declined by RMB 12.6 bn yoy, reasons can be decomposed as follows:



01 Cost reduction at manufacture end was a sub item of yearly RMB 5.43 bn reduction.

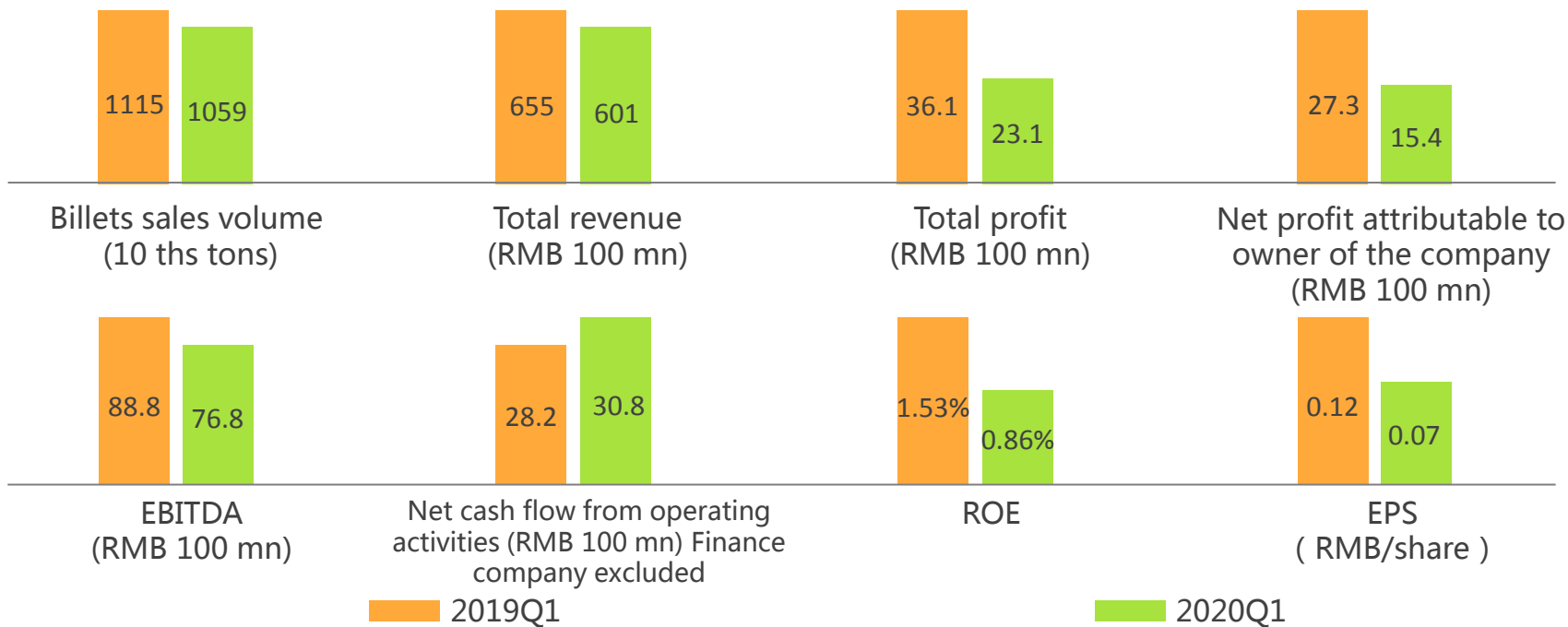
02 HR products share of the company rose, in response to the downstream market changes, bringing manufacture cost decline of RMB 1.2 bn.

03 R&D expenses rise: RMB 1.51 bn rise in Baoshan & Qingshan base, most of which were new products in the production line.

04 Financial expenses decline: ① Exchange loss decreased significantly yoy ② Scale of liability with interest continued to decrease

Steel price decline

1Q Results declined yoy



Affected by the epidemic in 1Q, profit of steel industry declined by about 50%.
The company obtained relative stable results despite of the difficulties.



Steel industry is about to meet **intense competition**
in cost, efficiency and management

PART 02

Bao-wu
integration

3-year retrospect of Bao-wu Integration

2017

Baoshan and Qingshan base made 1-day, 100-day, 1-year and 3-year plans, getting starting quickly from marketing, procurement, R&D, finance and IT dimensions.



In accordance with the principle of "one plant for one plant, one factory for one factory", a networked matrix model of "5 special groups + 16 functional lines" has been set up to steadily and item by item promote the plan to land.

2019

Realizing the transplanted & coverage of "18+8" information system and centralization of procurement, marketing & R&D, the "one company with multi-bases" management mode set food on Wuhan Iron & Steel.

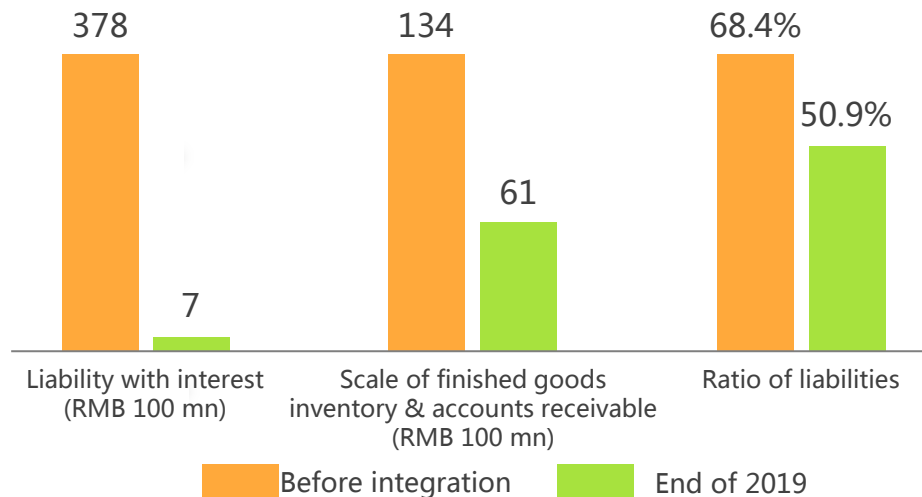
Quality of assets improved in Wuhan Iron & Steel

01 Establish the operation management system with cash flow as the core, continuously improving asset quality.

02 Analyze & clean up aging, low-efficient and ineffective working capital to control the overall size of working capital.

03 Keep deleveraging, optimizing financing structure, reducing consolidated costs of capital.

Assets quality comparison

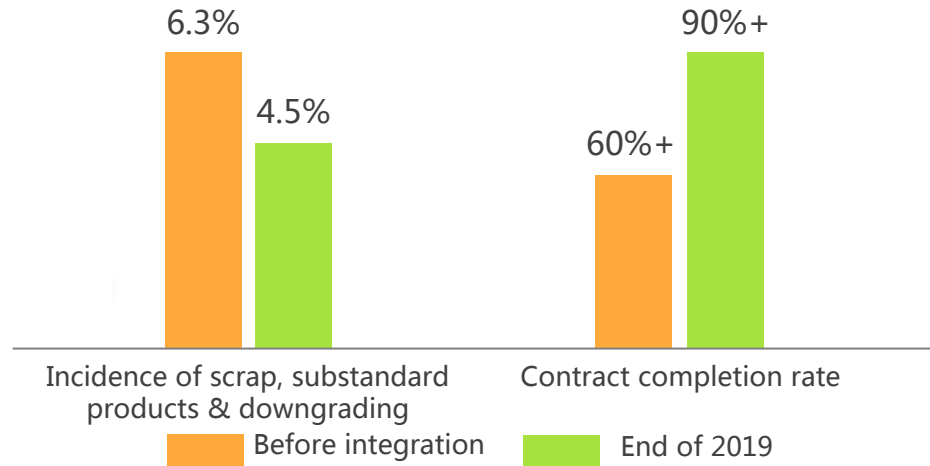


Progress in technical-economic indicators in Wuhan Iron & Steel

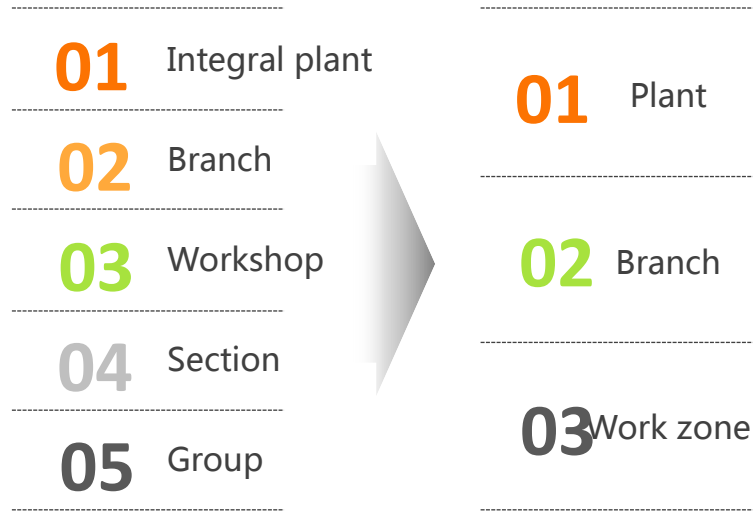
01 Benchmarking Baoshan base, improved the whole process quality control system and reduced quality loss.

02 Based on manufacture management information system, changed the contract control mode, steadily improving contract completion rate.

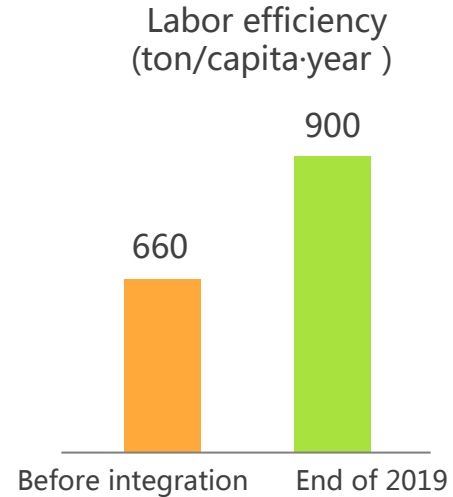
Technical-economic indicators of Wuhan Iron & Steel



Transformation & development breakthrough of Wuhan Iron & Steel



The traditional 5-tier management was reduced to 3-tier, with over 50% reduction of organizations.



Continued to improve labor efficiency, with a cumulative increase of 36% over 3 years.

“Not a minute stopping production”

in Wuhan Iron & Steel

01 Prevention & control of epidemic

- **Preparing supplies** : Multi-channel procurement to ensure the epidemic prevention supplies in place.
- **Self prevention** : Strict staff entry & exit management to achieve “no meeting production” .
- **Ensure stability** : Responding to employees’ doubts, multi-channel publicity of epidemic prevention knowledge, all round inspection.
- **Strengthening joint control & prevention** : Interacting with government & society, actively receiving guidance from experts to ensure scientific prevention & control.

02 Maintaining production

- **Coping with insufficient raw & secondary materials** : Mitigating the risk of outages by replacement & reduction.
- **Coordinating the resumption of related enterprises** : Requesting the government for the resumption of related enterprises to solve the raw material problems such as pellets.
- **Opening up bottlenecks** : Changing land transport to water transport, opening up “green channel” for water transport.
- **Getting support from strategic partners** : Supported by both upstream & downstream industry to solve the difficulty of “raw material in & products out” .

03 Charity

- **Fully committed to supply oxygen to hospitals** : Rather limiting oxygen in BF than hospitals, in responsible for 50% & more of medical oxygen supply in Wuhan.
- **Supplying the construction of Fire-God & Thunder God Mountain hospital** : Quick supply of over 200 tons of color coated plate, organizing over 130 technical staff to support the construction site in 5 days & nights.
- **Organizing volunteers team** : Over 300 volunteers joined the front line of the fight against the epidemic, committed to the production at work & fight against the epidemic after work.



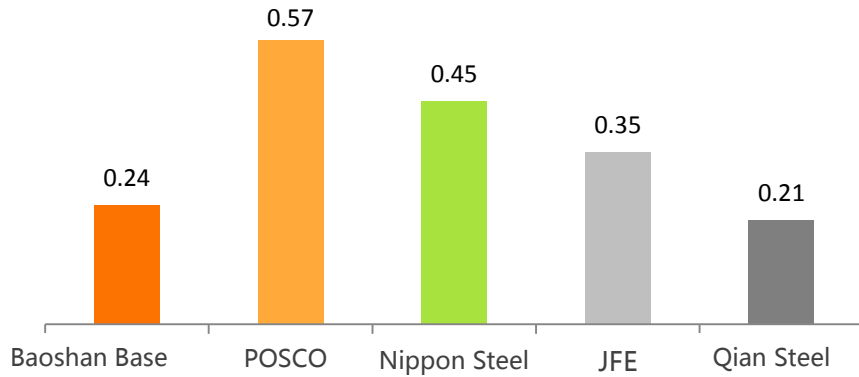
Bao-wu Integration has survived **Great Test**

PART 03

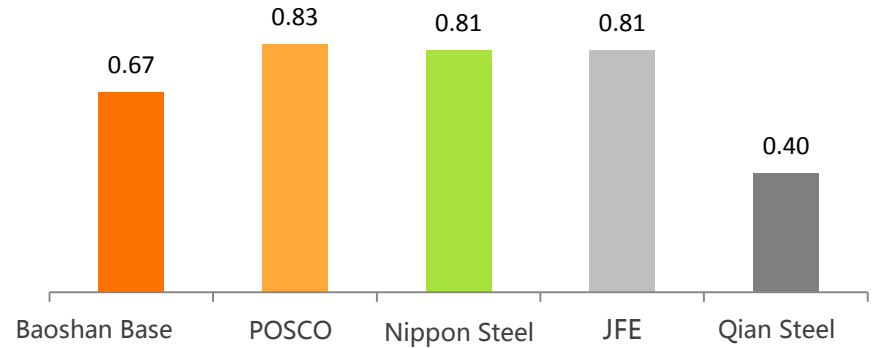
Urban Mill

Comparison with peers in terms of environmental protection

SO2 emission per ton of steel (kg/t-s)



NoX emission per ton of steel (kg/t-s)



01 Compared with advanced global peers, is leading in the emission of SO2 & NoX.

02 There is still slight difference compared with Qian Steel, the 1st domestic peer to fully complete ultra-low emission standards.

Has the company achieved ultra-low emission standards ?



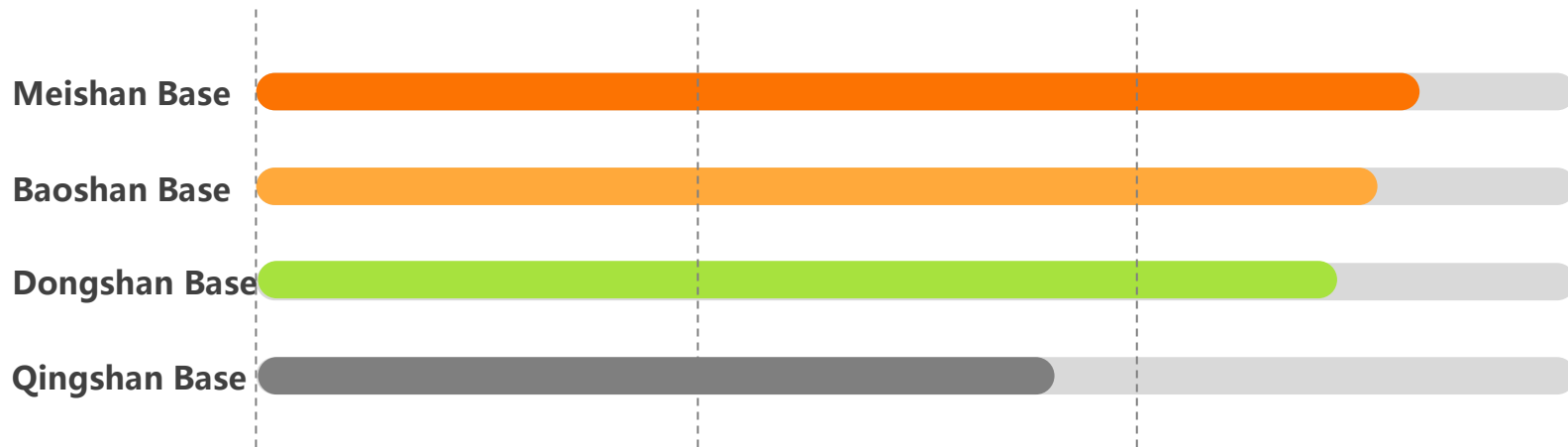
Current emission limit
of the steel industry



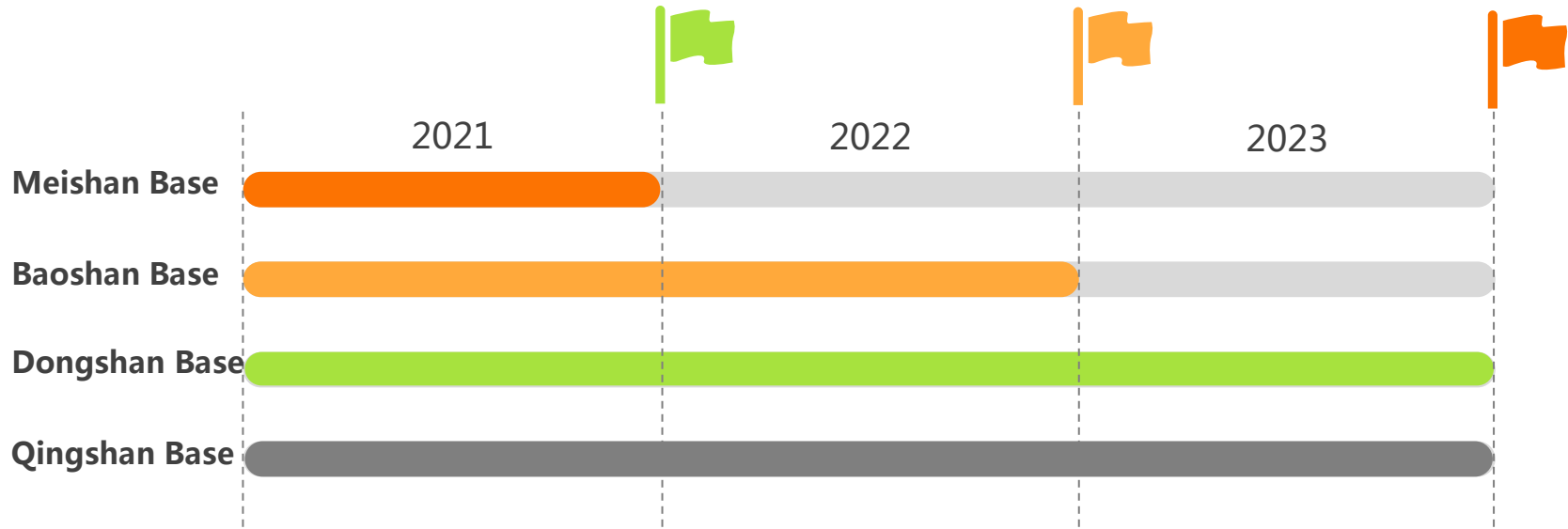
Special emission limit
of the steel industry



Ultra-low emission standard
of the steel industry



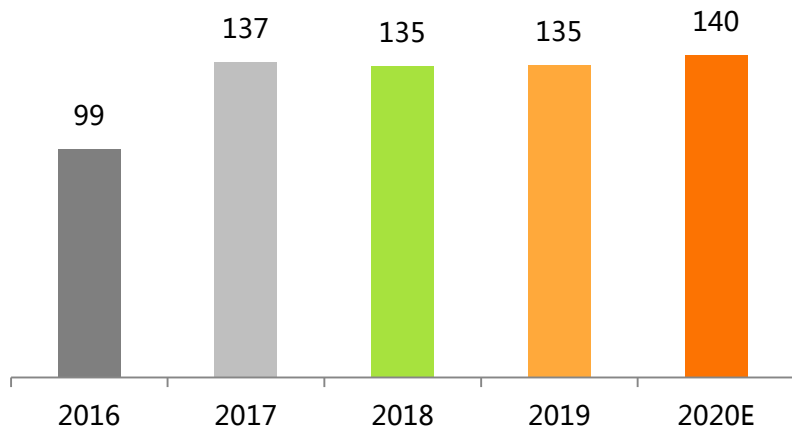
When will the company achieve ultra-low emission standards ?



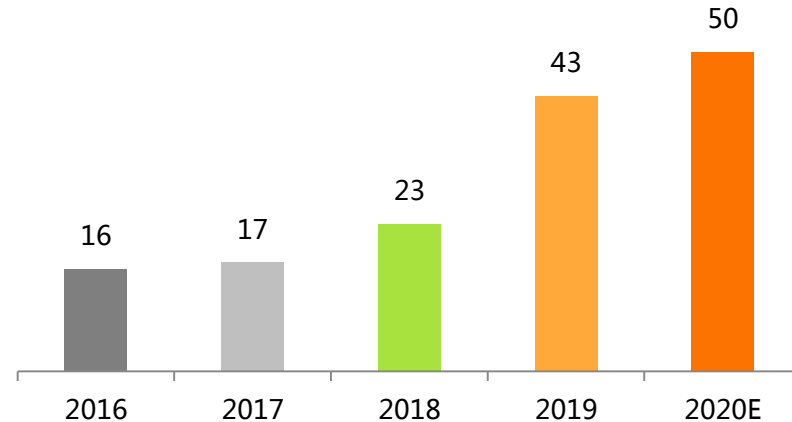
Note: Organized emission of Meishan Base (e.g., smokestacks) will achieve ultra-low standard in 2023, while unorganized emission (e.g., dusts) will enjoy special treatment for the transition period.

Future **Environmental cost** outlook ?

Environmental cost (RMB/ton of steel)



Annual input (unit: RMB 100 mn)



With the constant input for environmental protection projects and increasing external requirements, environmental expenditure is expected to maintain an increasing trend in the next 3 years.



We are trying our best
to protect environment

PART 04

Outlook

Impact of the epidemic on upstream

01 Iron Ore

Supply: The impact is currently limited in areas such as South Africa, Peru, Chile and India. Supply of iron ore from Brazil and Australia is relatively stable.

Demand: Currently BF production has been reduced in Japan, Korea and Europe, 2Q overseas demand is greatly affected. Mysteel predicts the overseas pigiron production will be reduce by 27.67 mn tons.

Annual outlook : The epidemic is facing uncertainty. If it is still not effectively controlled by the end of 2Q, given the stable supply of the mainstream mines, the annual iron ore price will probably drop below USD80.

02 Coke

Supply: Supply was slightly tight at the beginning of the year, and gradually got relaxed in 2Q with the resumption of coke suppliers.

Demand: Peak season for electricity is yet to come in summer, with the epidemic still going on, downstream and processing trade activities will decline YOY in 2Q.

Annual outlook: Price was relatively high in 1Q, but there is a downward trend with the supply & demand loosening in 2&3Q, and will probably be stable or slightly rise in 4Q.

03 Scrap

Supply: Trade was sluggish due to tight supply at the beginning of the year, while the supply & demand will gradually loosen with the improvement of labor & logistics and the rise of scrap returns from March.

Demand: Currently steel margin is declining, full process steel makers are reducing scrap added, and capacity utilization of EFA is still low, thus scrap consumption is lower than previous years.

Annual outlook: Recent price decline will accelerate scrap usage. It fluctuates at a low level during the epidemic, but is expected to rebound along with price steel, with the improvement of epidemic overseas.

Impact of the epidemic on downstream

Downstream industry	Domestic impact	Overseas impact
Construction	Short-term stagnation stops with the certainty of intensification counter-cycle adjustment policies. There is a steady warming trend and growth of construction will probably hit 7~10%. New construction is expected to become a new growing point.	No
Real estate	Local governments have more space to implement their tailor-made policies, while the main tone of central government control remains, the main policy of limited purchase or credit is not relaxed, therefore real estate is still under downward trend.	No
Machinery	Production & sales is experiencing short-term sluggish, however with the support of mid & long term construction outlook, demand may release at a later stage, whole year prosperity is expected.	Relatively big (Overseas demand may greatly shrink)
Auto	Sales was gloomy in 1Q, leaving great space for policies. However resident income declines and consumer confidence has not resumed, a two digital annual decline is expected.	Relatively small (Disrupted supply of key components treats domestic resumption)
Home appliances	In spite of the suppression in the short run, prosperity is expected to improve with the completion of construction and promotion policy. However, annual production and sales are under pressure due to the delay in demand.	Relatively big (Export counts for a big share of home appliances, causing great reliance on overseas demand)
Ship building	Orders decline sharply in the short run, and will stay in the bottom of a long cycle.	Big (Impact on global trade and orders)

Triple dilemma for flat steel

01 Decrease in effective operational rate

According to incomplete statistics, current effective operational rate is 20%~30% below average, in spite of the almost full resumption of downstream enterprises.

02 High inventory at customer end

1Q sales of flat steel caused overstocking at customer side, high material inventory led to the delay in demand that brought by resumption.

03 Spread of epidemic overseas

- Overseas demand shrank and steel price fell, putting greater stress on 2Q steel export, intensifying domestic competition.
- Manufacturing export orders represented by home appliances and light industry declined sharply, indirectly affecting steel demand.
- Global supply chain is affected, key imported intermediate goods such as domestic auto and electrical components may face stop of supply, therefore forced to stop production.



Imbalanced impact of the epidemic

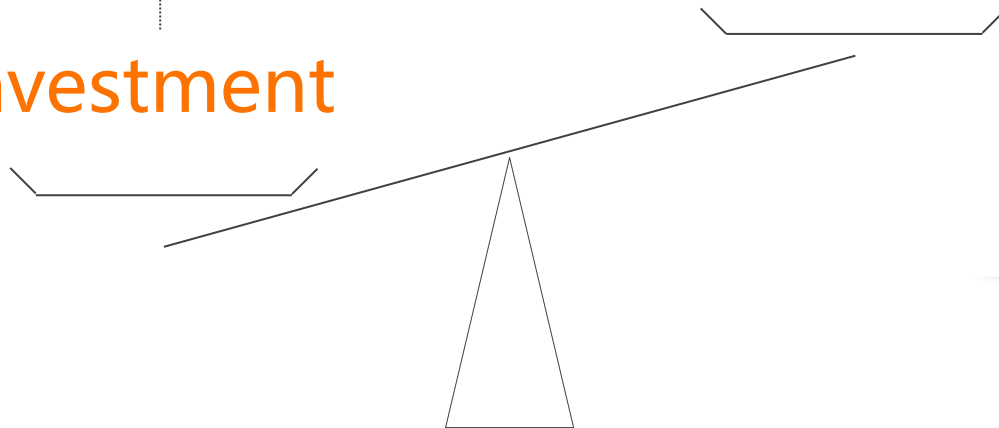
Counter-cyclical policies confront the impact of the epidemic and the investment driver sees quick results, while the consumer confidence takes longer to recover.

Industries such as construction, real estate and machinery are driven, from which bars, hot rolled steel and thick plates may benefit.

Investment

Consumption

Different from investment, part of the consumption may disappear because of the epidemic, demand for cold rolled steel is not optimistic.





The epidemic will further aggravate
variety difference

2020 Operation Target

01 Operating performance No.1 in domestic

02 EBITDA per ton
To challenge global top 3

03 RMB 1.08 bn
Cost reduction YOY

05 1200tons/capita·year
In the main steel industry

04 Over 50% domestic share
of CR auto market

06 Turnover of capital
To reach industry average

07 Major projects to meet schedule

Thank you !