Baoshan Iron & Steel Co., Ltd.
1H15 Results

August 2015
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Baosteel’s actual results or developments may differ materially from those indicated by these forward-looking statements as a result of various factors and uncertainties, including but not limited to price fluctuations, actual demand, exchange rate fluctuations, competition and other risks and factors beyond our control.
Contents

1 | 1H Results
2 | Industry Dynamics
## Operation Overview

<table>
<thead>
<tr>
<th></th>
<th>Unit</th>
<th>1H15</th>
<th>HoH</th>
<th>YoY</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Crude Steel Output</strong></td>
<td>million tons</td>
<td>11.0</td>
<td>↑ 5.9%</td>
<td>↓ 1.4%</td>
</tr>
<tr>
<td><strong>Sales Volume</strong></td>
<td>million tons</td>
<td>10.7</td>
<td>↑ 0.9%</td>
<td>↓ 4.6%</td>
</tr>
<tr>
<td><strong>Total Operating Income</strong></td>
<td>billion RMB</td>
<td>80.9</td>
<td>↓ 10.1%</td>
<td>↓ 17.2%</td>
</tr>
<tr>
<td><strong>Operating Cost</strong></td>
<td>billion RMB</td>
<td>71.5</td>
<td>↓ 11.4%</td>
<td>↓ 18.9%</td>
</tr>
<tr>
<td><strong>Gross Profit</strong></td>
<td>billion RMB</td>
<td>9.3</td>
<td>↑ 0.9%</td>
<td>↓ 1.1%</td>
</tr>
<tr>
<td><strong>Gross Margin</strong></td>
<td>%</td>
<td>11.47</td>
<td>↑ 1.24 ppts</td>
<td>↑ 1.86 ppts</td>
</tr>
<tr>
<td><strong>Total Profit</strong></td>
<td>billion RMB</td>
<td>4.4</td>
<td>↑ 15.6%</td>
<td>↓ 1.6%</td>
</tr>
<tr>
<td><strong>EPS</strong></td>
<td>RMB/share</td>
<td>0.19</td>
<td>↑ 18.8%</td>
<td>-</td>
</tr>
<tr>
<td><strong>BVPS</strong></td>
<td>RMB/share</td>
<td>6.98</td>
<td>↑ 0.6%</td>
<td>↑ 2.8%</td>
</tr>
<tr>
<td><strong>Weighted ROE</strong></td>
<td>%</td>
<td>2.76</td>
<td>↑ 0.43 ppts</td>
<td>↓ 0.07 ppts</td>
</tr>
<tr>
<td><strong>Leverage</strong></td>
<td>%</td>
<td>46.78</td>
<td>↓ 1.1 ppts</td>
<td>-</td>
</tr>
</tbody>
</table>
Maintain best performance

Baosteel created **270%** of total profit of median and large sized steel mills with only **3.4%** of crude steel output in 1H

**Total Profit**
- RMB 4.4bn
- RMB 1.6bn

**Main Business Profit**
- RMB -21.7bn

**Proportion of loss makers**: 42.6%

Note: “median and large sized steel mills” refers to 101 CISA member steel mills.
Data source: CISA. Company statistics.
Overall preparation for BF ignition of Zhanjiang project

- First iron ore ship berthed in Zhanjiang raw material port
- 1# and 2# units of power plant under operation
- 1B coke oven put into operation
- 1# BF ignition
1H Highlights

- **Breakthrough in high end products**

  - **Auto sheet**: World debut of new grade of 3rd generation auto sheet: QP1180GA
  - **Non-oriented silicon steel**: Acquire new energy vehicle certification from BYD, replace imported material
  - **UOE pipe**: Supply in batches for the first European order “Turkey TANAP project”
  - **Oil pipe**: Supply high standard oil pipe for BP project in Oman
  - **Drill pipe**: Supply super high tenacity drill pipe for CNPC Tarim oilfield, with record breaking drill depth of 8038m
  - **Marine engineering steel**: Supply high grade marine engineering steel for CIMC, support offshore oil exploration in the South China Sea
“internet + steel”, to build an ecosystem for steel industry

Ouyeel steel trading
- 3rd party steel trading platform
- 1H trade volume 2.9mn tons, up 63% YoY
- Registered clients 35 thousand

Ouyeel logistics
- Modernized logistics and warehousing system
- Affiliated warehouses near 200, with domestic turnover capacity of 50mn tons

Ouyeel finance
- Own financial licenses of settlement, mortgage, factoring
- 3rd party settlement of “Oriental pay” in 1H: RMB 18.5bn
- Strategic cooperation agreement with 13 banks, acquire RMB 162.7bn credit line

Ouyeel material
- Build technical protocols from grade to spare parts, invite over 500 traders to join the platform

Ouyeel Commerce
- Baosteel 51%
- Baosteel Group 49%
- (RMB 2bn)
### Operating Results

#### Crude Steel Output

<table>
<thead>
<tr>
<th></th>
<th>1H14</th>
<th>2H14</th>
<th>1H15</th>
<th>HoH</th>
<th>YoY</th>
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<tr>
<td>1H14</td>
<td>11.0</td>
<td></td>
<td></td>
<td></td>
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<td>2H14</td>
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<td></td>
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#### Sales

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<tr>
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<tr>
<td>1H14</td>
<td>88.2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2H14</td>
<td>80.7</td>
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<td></td>
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BAOSTEEL 宝钢股份

**Gross Profit**

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<td>Gross Margin</td>
<td>11.5</td>
<td>↑ 1.2ppt</td>
<td>↑ 1.9ppt</td>
</tr>
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</table>
Sales Breakdown

- HRC: 39%
- CRC: 43%
- Plate: 5%
- Tube: 7%
- Others: 6%
Gross Margin by Product

- CRC: 14.5% 17.7%
- HRC: 14.9% 17.0%
- Others: 2.6% 11.1%
- Tube: -1.3%
- Plate: 0.4% -10.5%

1H14 vs 1H15
### Revenue and Gross Margin

#### Steel and Diversified Business

<table>
<thead>
<tr>
<th>Unit: Steel and Diversified Business</th>
<th>Revenue (billion RMB)</th>
<th>YoY</th>
<th>Gross Margin</th>
<th>YoY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Steel Making</td>
<td>51.4</td>
<td>↓ 20.5%</td>
<td>12.2%</td>
<td>↑ 2.5 ppts</td>
</tr>
<tr>
<td>Distribution</td>
<td>72.8</td>
<td>↓ 18.4%</td>
<td>3.1%</td>
<td>↑ 0.8 ppts</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Unit: Diversified Business</th>
<th>Revenue (billion RMB)</th>
<th>YoY</th>
<th>Gross Margin</th>
<th>YoY</th>
</tr>
</thead>
<tbody>
<tr>
<td>E-commerce</td>
<td>7.7</td>
<td>↑ 27.1%</td>
<td>0.02%</td>
<td>↓ 0.4 ppts</td>
</tr>
<tr>
<td>Chemicals</td>
<td>3.9</td>
<td>↓ 21.7%</td>
<td>6.3%</td>
<td>↓ 2.6 ppts</td>
</tr>
<tr>
<td>IT</td>
<td>1.6</td>
<td>↑ 0.2%</td>
<td>27.8%</td>
<td>↓ 3.0 ppts</td>
</tr>
<tr>
<td>Finance</td>
<td>0.3</td>
<td>↑ 5.9%</td>
<td>53.2%</td>
<td>↑ 0.2 ppts</td>
</tr>
</tbody>
</table>
The Company enjoyed **over RMB 10bn** profit from offshore financing during the past 10 years, benefiting from RMB appreciation and lower financing cost.

RMB depreciated sharply by over 3% in 2 days in August, the Company decided to hedge the offshore foreign debt exposure and thus incur an estimated FX loss of **RMB 2bn** in 3Q.

**Alert:**

**1-3Q net profit is expected to decline 50%-60% YoY**

USD against RMB trend in 2015
Contents

1  1H15 Results
2  Industry Dynamics
• GDP up 7.0% in 1H, economy restructuring is at the critical stage.

• GDP growth maintained 7.0% for 2 consecutive quarters, showing a stabilized trend.

• CPI up 1.3% in 1H. Pork price rose fast while overall price level was stable, much lower than the annual target of 3%.

• CPI growth has been lower than 2% in the past 11 months, leaving room for further monetary policy change.

Data source: National Bureau of Statistics
• Crude steel output was 410mn tons in 1H, down 1.3% YoY, first decrease in the past 20 years.

• Apparent consumption remained negative growth, oversupplied situation was still serious. Large increase in export absorbed excess output.
Steel industry FAI was RMB 229.4bn in 1H, down 12.3% YoY.

Investment fell rapidly under a weakening fundamental.
In 1H, China exported 52.4mn tons (+27.8% YoY); imported 6.65mn tons (-8.2% YoY). Net export were 45.75mn tons, up 35.5% YoY.

- Export growth slowed down but still high.
- Domestic steel price hit new record low, causing a lower export price. In 1H, average export price was USD 621/ton, down 21.7% YoY.
FAI totaled RMB 24 trillion in 1H, up 11.4% YoY, growth continued to slow down.
Investment and new start grew at 4.3% and -16.8% YoY respectively in 1H, growth rate in downward trend.

As the stock market risk released, real estate sales growth rebounded to 6.1% in 1H.
Output and sales were 12.10, 11.85mn units, up 2.6% and 1.4% YoY respectively in 1H. Auto industry was under great pressure, growth slowed down.

- Passenger car sales up 4.8% YoY, outperformed commercial car (down 14.4% YoY).

- We expect 2015 auto sales to grow at 2%, considering macro economy and auto makers’ destocking pressure.
Demand and Supply Analysis

Demand (home appliances)

- Washing Machine
  - Unit: million units
  - 2013: 72.0, 2014: 71.1, 1H15: 34.6
  - Growth rates: 8.2%, -3.3%, 4.3%

- Refrigerator
  - Unit: million units
  - 2013: 93.4, 2014: 88.0, 1H15: 49.3
  - Growth rates: 10.6%, -1.0%, 0%

- Air-conditioner
  - Unit: million units
  - 2013: 143.3, 2014: 144.6, 1H15: 90.0
  - Growth rates: 11.6%, 11.5%, 2.8%

- TV
  - Unit: million units
  - 2013: 140.3, 2014: 141.3, 1H15: 70.6
  - Growth rates: 6.2%, 2.7%

Data source: Wind

- Washing machine outperformed in 1H.
- Consumption upgrade will continue, smart appliances is expected to boost new demand.
- Expected growth rate of white goods in 2015: 5% for washing machine and air-conditioner, 0% for refrigerator.
Demand and Supply Analysis

- Demand (machinery)

- Transportation equipment’s growth fell from a high position, other sub-sectors remained low.

- Future trend is not optimistic due to excess capacity and depressed related industries.

- Growth downside is expected limited in 2H15, industry average 6% for the full year.
Demand and Supply Analysis

Demand (ship building)

- Completion, new order and carrying order were 18.5(+6.3% YoY), 11.2(-72.6% YoY) and 138(-9.2% YoY)mn tonnages respectively in 1H.

- Completion growth declined, new orders and carrying orders decreased every month.

- Ship making industry was still weak due to the sluggish shipping market and marine engineering market caused by low oil price.
• Overall inventory level is lower in 2015, 11mn tons by 14 Aug, down 2% MoM and down 14% YoY.

• As transferred from social inventory, steel mills inventory was in upward trend, while fell back since late June.

• Steel mills inventory was up 7% YoY and up 14% Ytd in late July.
• Imported iron ore 450mn tons in 1H, down 0.9% YoY. Average import price USD 63.8/ton, down 46% YoY.

• Entering 2015, Platts was still in downward trend and dropped to historical low USD 44.5/ton on 8 July. Platts was USD 56.75/ton by 19 Aug, down 21% Ytd and down 39% YoY.

• Iron ore price is expected USD 50-60/ton in 2015.

• Coke price is still in downward trend and expected to continue in 2015.
• Port inventory declined slowly in 1H, but remained high position.

• 81.7mn tons by 14 Aug, down 19% Ytd and down 26% YoY.
Due to weak downstream demand and losing support from raw material, steel price has decreased to the 20 years low.

Industry’s profit decreased significantly in 1H. According to CISA, median and large sized steel mills’ total profit was RMB 1.6bn, down 78% YoY, about 42.6% of which lost money. The industry lost RMB 21.7bn in main business, down RMB 16.8bn YoY.

Main business loss is unlikely reversed in 2H, industry is still expected quite weak.
BAOSTEEL  Make your life more valuable