1 Actual steel consumption

★ Actual steel consumption increased by leaps and bounds, but growth rate declined

With development of national economy especially for rapid growth of fixed asset investment, steel consumption in China increased dramatically. In 2014, steel production consumption in China was about 702 million tons, which was 23 times of 32 million tons in 1970’s, and the consumption per capita has also went beyond 500 kg. Due to New Normal of economic development and strategic adjustment of economic structure, the growth of domestic actual steel consumption decreased significantly in recent years.
**2 Steel consumption of main down-stream industries**

Construction Industry consumed about 55% of steel, and Machinery Industry consumed nearly 20%, which still ranked 1st and 2nd respectively in steel consumption. From the long-term view, the Construction Industry will show a decline in the proportion of steel consumption, while consumption of the Machinery and Automobile Industry will increase gradually.

**3 Steel export from China**

**Steel export increased rapidly**

In 2014, steel export from China was 93.78 million tons in total, increased by 50.5% year-on-year, while steel import was 14.43 million tons, increased by 2.5% only year-on-year. On the basis of data mentioned above, crude steel net export was 84.415 million tons, increased by 64.5% year-on-year. In the first quarter of 2015, steel export from China was 25.78 million tons in total, increased by 40.7% year-on-year, while steel import was 3.23 million tons, decreased by 10% year-on-year. On the basis of data mentioned above, crude steel net export was 22.55 million tons, increased by 53% year-on-year.
Steel production in China

Phase 1: Fluctuating development in the initial stage

Phase 2 (6.6% increase on average/year): Stable development in the beginning stage

Phase 3 (16.6% increase on average/year): Leap-forward development in the accelerating stage

Phase 4: Innovative development in the transition stage (transition period from Phase 3 to Phase 4)

Chinese steel production mainly located in coastal area such as Hebei, Liaoning, Shandong, Tianjin and Jiangsu Province, total output of which was 439 million tons accounted for 53.4% of national output.

In 2014, crude steel output in Jiangsu Province was more than 100 million tons for the first time. Then there are two provinces in China capable of producing crude steel more than 100 million tons.

There are five provinces in China producing crude steel more than Germany, who ranked seventh in the world.
6 Steel production by companies and concentration

- More than 40 million tons: HBIS, Baosteel
- 30 million tons: Sha Steel, Anshan Steel, WISCO, Shougang
- 20 million tons: Shandong Steel
- 10-20 million tons: Ma Steel, Bohai Steel, Benxi Steel, Valin, Jianlong, Wuan Steel, Fangda Group, Rizhao Steel, Anyang Steel, TISCO, Baotou Steel, Jingye Steel, Jiuquan Steel and Zongheng
- 5-10 million tons: Sanming Steel, Jinx, Zhongtian, Xinyu, Guofeng, NISCO, Zhongte, Shanxi Steel, Lingyuan Steel and Ruifeng Steel

7 Over capacity-imbalance between supply and demand

According to the information issued by the Ministry of Industry and Information Technology of the PRC, there were 305 steel companies approved by the Standard Conditions of the Iron and Steel Industry (revision 2012). As per the calculation method indicated in the Notice on Capacity Replacement of Some Industries with Serious Overcapacity (MIIT, 2014, No. 296), the iron making capacity of these 305 companies were totally 934.42 million tons, and the steel making capacity were 1.14822 billion tons. Considering approximate 200 companies capable of producing but out of the list, it is estimated that crude steel capacity in China is about 1.25 billion tons.
Steel price in China was declining in the whole year of 2014 only except for April seeing a slight rebound. Up to the end of December, CSPI was down to 83.09 points, decreased by 15.87 points based on the index in the beginning of 2014. In the beginning of May 2015, CSPI was down to 73.19 points, decreased by 9.9 points based on the index in the beginning of 2015 and 23.2 points based on the same period in 2014.

In 2014, steel settlement price of typical companies was 3,024 yuan, decreased by 1,444 yuan/t, 726 yuan/t and 358 yuan/t respectively based on the price in 2011, 2012 and 2013. And the settlement price in December even declined to 2,781 yuan/t. In the first quarter of 2015, the average settlement price declined further to 2,558 yuan/t.

Typical steel companies summarized by CISA in 2014 contributed the gross value of industrial output of 2.92 trillion yuan, decreased by 5.15% year-on-year. They provided sales revenue of 3.59 trillion yuan decreased by 2.98% year-on-year, and submitted the profit of 30.444 billion yuan increased by 40.36% based on 21.69 billion yuan in the same period of last year. 13 companies among 88 were lost with deficit rate of 14.77%. The total loss of these 13 companies were 1.747 billion yuan, decreased by 8.02% year-on-year.

Some companies such as Bao Steel and Sha Steel made profit more than 1 billion yuan. Top 10 companies made profit 25.2 billion yuan in total accounted for 59.63% of total profit of the whole industry. Especially for HBIS, CITIC Pacific Special Steel, profit of these companies increased by 263.15% and 44.3% respectively by means of institutional reform, innovation of business mode as well as cost efficiency. And loss of top 10 companies were 11.46 billion yuan, which accounted for 97.56% of total.
In the first quarter of 2015, key large/medium scale steel companies contributed the gross value of industrial output of 61.8155 million yuan, decreased by 18.47% year-on-year. They provided sales revenue of 76.2918 million yuan decreased by 14.48% year-on-year. Total loss of these companies was 987 million yuan. 50 companies among 101 were lost with deficit rate of 49.50%. The total loss of these 50 companies were 10.355 billion yuan, increased by 27.31% year-on-year.

Low growth: Production and consumption developed in fluctuation at the peak range.

Low price: Steel price at the absolute low level, while ore price at the relative low level.

Great pressure: Great pressure imposed by environmental issues, and financial conditions not favorable for development of steel industry.

Low profitability: Severe market competition; operation difficulties for long-term.

Resolution

1. Idea innovation
2. Business model innovation
3. Management innovation
4. Technical innovation

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New normal, opportunities and development of Chinese steel industry

New Opportunities of Chinese Steel Industry

- New Normal is one strategic opportunity to speed up structural adjustment, transformation and upgrading of the steel industry.

- New Normal is one important opportunity to promote fair competition for the steel industry.

- New Normal is one fatal opportunity to accelerate transformation of Chinese steel industry from large to strong.

Changes of Chinese steel industry over the coming years

1. Coordinated competition instead of disordered competition; improve industrial concentration by means of accelerated consolidation and reorganization

2. From steel manufacturing to material service

3. From domestic development to integrated development home and abroad

4. Development driven by innovation instead of by investment

5. Diversified development instead of single development

6. Extensive development with high consumption and emission to sustainable development with low carbon emission

Six changes
11 Forecast of production, consumption and raw materials demand

Crude steel production in China has already in the peak round showing downward trend as well, but recovery and fluctuation in some individual years cannot be refused. Pig iron production tells the same story. And due to increase of scrap supply, the average drop of pig iron output will be faster than the same of crude steel over the coming years.

Considering material consumption of steel making, ratio of iron to steel, proportion of BOF and EAF production as well as casting iron production, iron ore demand will enter a transition phase moving downward.

Unit: 10^4 t

12 MPI—your reliable partner

Established under the approval of the State Council (1972)

One of the first engineering consulting institutes with First-grade qualifications

MPI specially engaged in development plan and strategies research of metallurgical industry.

The employees who have obtained doctor’s and master’s degrees account for 90% of the staff, those who have been awarded high-level technical titles account for 70% of the staff, and those who are state registered consulting engineers, senior technicians or who enjoy special government subsidy account for 50% of the staff.

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Understand government policies

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Energetic team with specialties covering whole process of metallurgical industry

Strong innovative power, quick response, high efficiency

Client-oriented, wide range of contacts, integrated service
Business fields

Technical Consultation: overall planning, mineral resources, steel market, energy saving & environmental protection, general layout, diversified operation, technological economy, management consultation

Forum and information service: China Steel Report and six high-end forums

Technology promotion: de-S of sintering fume, energy resources management (power generation by surplus heat or energy, energy saving for water pumps, coal prewetting etc), technology agent

Business

- Research and analysis of industrial policy
- Mineral resource exploitation and green mine planning
- Technical service for sintering fume desulphurization
- Research on metallurgical industry layout planning
- Industry and industrial park planning
- Energy resources diagnosis and energy saving
- Logistics and logistics park planning
- Preparation of project proposal, application report and feasibility
- Recycling economy planning
- Industrial and enterprises development planning
- Assets evaluation and technological estimation
- Market survey, analysis and prediction
- Energy saving and emission reduction and cleaning production planning
- Social security evaluation
- Industrial chain extension planning
- Preparation of energy saving evaluation report
- Host and cooperator of industrial conferences
- Consultation for new technology promotion and application
- Promotion of human resources management
- Overall development strategy
- Enterprises merging planning
- Analysis of capitalized cost
- Marketing management
- Operation management
- Procurement management
- Payment and performance management
- Lean assessment
Yuan Baohua, the former Central Advisory Commission member, the former director of the State Economic Commission, honorary president of the China Enterprise Confederation

Wang Wanbin: Deputy secretary-general and Party secretary of the 11th National People’s Congress Standing Committee
Thank you for your attention!

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