

**Sustainability Report**  
2006



## About This Report

In July, 2006, Baoshan Iron & Steel Co., Ltd. (hereinafter referred to as "Baosteel" or "the Company") issued 2005 Annual Report on Sustainable Development, that is the first report of the kind for Baosteel as well as the China's iron and steel industry. Prior to that report, the Company issued 2003 and 2004 annual reports on environmental protection.

This report is the Company's second report on sustainable development, and from now on, the Company will issue an annual report of the previous year in the second quarter each year.

The report was compiled with reference to "Guide of Sustainable Development Report" GRI (G3 version).

## Range

This report mainly describes the activities in fields such as economy, environment and social responsibility of Baosteel and the following 12 branches and subsidiaries from January 1st to December 31st, 2006, unless otherwise specified:

1. Baosteel Branch Co.
2. Stainless Steel Branch Co.
3. Special Steel Branch Co.
4. Chemical Branch Co.
5. Shanghai Meishan Iron & Steel Co. Ltd. ("Meisteel")
6. Ningbo Baoxin Stainless Steel Co., Ltd. ("Ningbao Baoxin")
7. Baosteel-NSC Automotive Steel Sheets Co., Ltd. ("Baosteel-NSC Auto Sheets")
8. Yantai Lubao Steel Pipe Co., Ltd. ("Lubao Steel Pipe")
9. Baosteel Huangshi Coated and Galvanized Sheets Co. Ltd. ("Huangshi Coated Sheets")
10. Baosteel Research Institute ("Research Institute")
11. Shanghai Baosteel International Economic and Trading Co., Ltd. ("Baosteel International")
12. Shanghai Baosight Software Co. Ltd. ("Baosight")

Compared with the report of last year, this report has added some cases of sustainable development concerning Baosteel International.

The financial data in the report is in Renminbi Yuan (CNY). For the convenience of reference, you can calculate with the exchange rate: USD 1 = CNY 7.8087 (or CNY 1 = USD 0.1281) (based on the basic rate published by the People's Bank of China on Dec. 29, 2006). In case of Euro, it is recommended that calculation be made with the exchange rate: EUR 1 = CNY 10.2665 (or CNY 1 = EUR 0.0974) under the same standard.

In February, 2006, National Statistics Bureau adjusted the consumption coefficient of electric power for the statistics of energy resources. However, in this report due to the needs of the Company's internal management, the conversion of outsourcing electric power is still based on the original consumption coefficient of electric power, that is 10,000 kW h = 4.04 ton of coal equivalent.

## Language and Publishing Format

This report is published in both Chinese and English. The Chinese version will prevail in the event of any discrepancy between the two versions. In case there is any question about this report, please don't hesitate to contact us by phone or send letters to the address as follows:

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This report is issued in two formats - print and PDF and the PDF electronic version can be downloaded from Baosteel Website (<http://www.baosteel.com/>).





**Mission:** Turn into one of the world first-class iron and steel producers. Devote itself to providing the society with value-added products and service

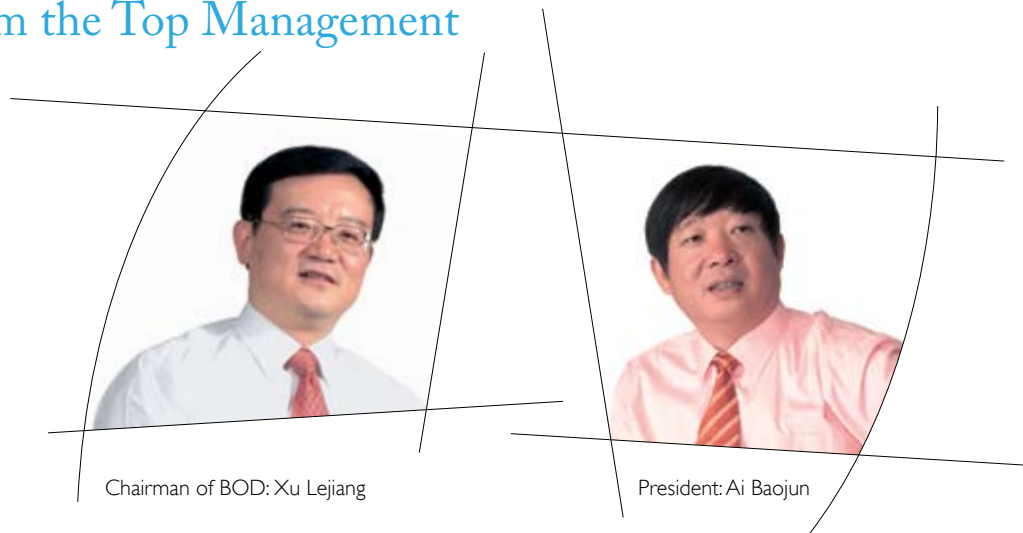
**Core value:** Good faith, cooperation, innovation, and pursuance of maximization of the enterprise's value

**Strategic Goal:** Upgrade itself to the most competitive iron and steel enterprise in the world

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## Message from the Top Management



After the world entered the 21st Century, it became more and more difficult for the mankind to evade the issue of sustainable development brought about by industrialization, urbanization and economic globalization. The core of the sustainable development is how to achieve the coordination of the economic growth, social development, resource conservation, eco-environmental protection, i.e. how to realize comfortable and healthy material and spiritual enjoyment brought about by the economic growth and at the same time to leave our descendants adequate resources and good environment for sustainable development.

In today's world, the economic development and, in particular, the development of iron and steel industry is confronted with the restriction of resources and environment; and at present in China, the inefficient growth of the economy and the iron and steel industry is leading to an even more prominent contradiction between the growth on one hand and the resource conservation and environmental protection on the other hand. In addition, the economic globalization has intensified the development disequilibrium and the difference between the poor and rich the world over; especially in some developing countries; and in China where the market economy system has not yet been perfected, the significance of resolving the people's livelihood problem and building a harmonious society is also gradually protruding obviously. Therefore, not only the Chinese Government and the governments of other countries in the world, but also all the enterprises and citizens with the sense of historical responsibility, including the Chinese enterprises and citizens, must be vigilant in peace time, and foster a sense of crisis, and the awareness of adversity.

In the process of the economic development, the modern enterprises are not merely the most active contribution groups, but also ought to initially take the social duties for the promotion of the coordination and harmonious development of the three targets - economic growth, social progress and environmental protection, becoming a major force for sustainable development. Being an iron and steel enterprise, we should fundamentally change the traditional production processes of high pollution and high consumption, transiting into a recycling mode enterprise. Meanwhile we should make great efforts to develop products friendly to environment as our unshakable social responsibility. In order to achieve the sustainable development, we need transformation of concepts as well as practical actions. For this purpose, we must discard the out-of-date idea that takes the social responsibility and environmental protection as enterprise costs and efficiency restriction, and from the view point of the great system of economy, society and environmental harmony, re-examine the relationship between the social duty and the enterprise long-term development, so as to turn the social duty into a driving force of enterprise growth and long-term benefits.

As one of the biggest modern iron and steel enterprises, Baosteel is feeling in increasing depth the sense of its historical responsibility, and striving to play a role of bellwether in the process of turning China from a country with big iron and steel industry into a country with strong iron and steel industry. This company has been strictly executing its mission - "Become a first-class steel manufacturer worldwide and commit to provide value-added products and service"; always perseveres in its core value - "Reputation, cooperation, innovation, and seeking the maximization of the enterprise value", that is to create value and realize harmonious development for the relevant stakeholders, such as shareholders, customers, suppliers, employees and society; and always pursues its strategic targets - "Become the most competitive iron and steel enterprise in the world". The above mentioned philosophy has integrated the three into one - the pursuance of the world first-class, the people-oriented concept and the initiative of undertaking social responsibilities.

Under the guidance of the above philosophy, the Company, through unremitting efforts, has been exploiting a new road to industrialization with Baosteel's characteristics and sustainable in development: constantly improving the modern enterprise system, devoting major efforts to the development of the industry, supporting the community development and social public service, and making its due contribution for the sustainable development of the society, the iron and steel industry and the enterprise.

For years, Baosteel has fully given its consideration to the needs of various relevant stakeholders, to achieving the common development mainly as follows: for shareholders, to keep on rewarding them with steady growth, fine performance and stable revenue and set up a platform for sincere communication with investors; for users, to highly concern about their perception of satisfaction and meet their demands, to the utmost extent, with value-added products and service; for suppliers, to focus on developing long-term cooperation with strategic suppliers and introducing them to the common promotion of the construction of green production chains; for employees, to dedicate itself to the erection of harmonious labor relationship and providing a good stage for their grown-up and the promotion of their own value; for community and society, to conscientiously undertake its social responsibility and moral obligation and making contribution to improve the community's eco-environment and to build a harmonious society.


The realization of the strategy goal of sustainable development is still a long-term and arduous task. The Company has worked out "2007~2012 Development Program of Baoshan Iron and Steel Co., Ltd." and started its implementation. This new round program will further melt the sustainable development into the symbolic goals of the Company's growth and the leap-forward development strategy. The leap-forward development in the new round program will further focus on the four major emphases, i.e. scale, technology, recycle economy and system capability construction, and take striving to build up a State-class innovative enterprise and a State-class demo base for recycle economy as its development goal. Baosteel, following the "Development Policy for the Iron and Steel Industry" laid down by the State, will adhere to taking the new-type industrialization road and promoting the development of green manufacturing and quality iron and steel goods by means of innovation on its own. Meanwhile the Company will take an active role in the strategic reconstruction in the China iron and steel industry, and exert itself to output mature and advanced techniques in iron and steel making, environmental protection, and resource utilization, to boost sustainable development of the whole society as well as the iron and steel industry. Besides, the Company will continue to set up further harmonious labor relationship and promote the common growth of the employees and the enterprise.

"We are determined to over come all the difficulties ahead of us, even they are as tough as strategic passes made of iron.."We have every reason to believe that through the joint efforts of all mankind, the future world will be even better and full of hope.

Chairman of BOD:



President:



# Strategy and Overview

## Company profile

### Sustainable development concept and strategic thoughts

- Awareness of adversity - challenges faced by sustainable development
- Further understanding of challenges and opportunities – background of laws and policies for promotion of sustainable development
- Sense of historical responsibility
- Company's vision frame with a trinity of mission, core Value and strategic goal
- To melt sustainable development into symbolic goals in the new round growth
- Capability system and strategy emphasis of the new round development





### Actions and accomplishment

Having initially opened up a new-type industrialization road of sustainable development with Baosteel characteristics

Having established and perfected the modern enterprise system to lay a foundation of corporate systems for promotion of sustainable development

Supporting the social public welfare activities

Input and income of the production and operation and of the sustainable development during the period of 2000-2006

### Baosteel will continue to make its efforts

Major strategic measures for the new round sustainable development

2007's management principles and objects

Further imagination for promoting the work concerning sustainable development

### Governance and organization structure

Evaluation and incentive mechanism for senior management

# Company Profile

Baosteel, with an annual steel production of 21.744 million tons in 2006, is the largest and most modernized iron and steel complex in China. With its comprehensive advantages in credibility, talents, innovation, management and technology, Baosteel has established its status as a world-class steel manufacturer in the international iron and steel market.

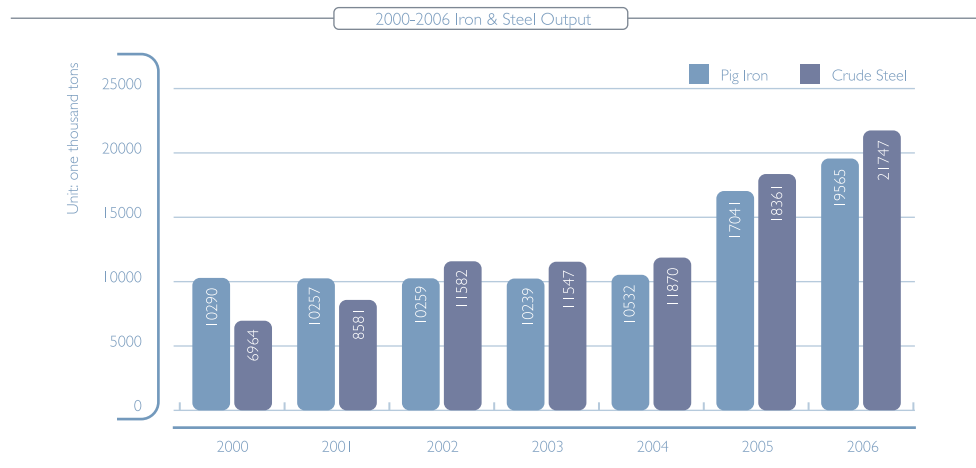
The Company is a stock company with the state holding 77.89% of the total stake by the end of 2005 and 72.96% by the end of 2006. The Company specializes in producing high-tech and high-value-added steel products. Meanwhile it is also engaged in trade, shipping, coal chemistry and IT service. Now it has become the main steel supplier for many industries, such as automobile, shipbuilding, exploration and distribution of oil and gas, household appliances, electrical apparatus, pressure vessel and container, food and beverage packing, metal ware, etc., and its products are used to produce stainless steel, special alloy, high performance building material, etc. Baosteel also exports its products to over forty countries and regions including Japan, South Korea, the United States and European Union while becoming the main steel products for the China market.

All the facilities of Company are built on the basis of advanced technologies of contemporary steel smelting, cold and hot rolling processing, hydraulic sensing, electronic control, computer and information communications. They feature large-scale, continuity and automation, and keep the most advanced technology in the world through constant technical import and renovation.

By adopting advanced quality management system in the world, its main products have been recognized by the international authoritative institutions and received attestation and reexamination by BSI (British Standards Institution) ISO9001, allowed to use the emblem of API (American Petroleum Institute), obtained a certificate from JIS (Japanese Industrial Standard) in Japan. Auto sheets passed the attestation of QS 9000 system by GM, Ford and Chrysler, the three most famous car makers in the world. Ship-building plates have obtained recognition by seven ship classification societies of China, France, America, Britain, Germany, Norway and Italy.

Being strong in research and development, the Company is mainly engaged in the development of new technologies, new products, new processes and new equipment, and has accumulated an everlasting driving force for development.

Attaching great attention to environment protection and pursuing sustainable development, the Company is the first enterprise which has passed the ISO14001 certification in the metallurgical industry of China.



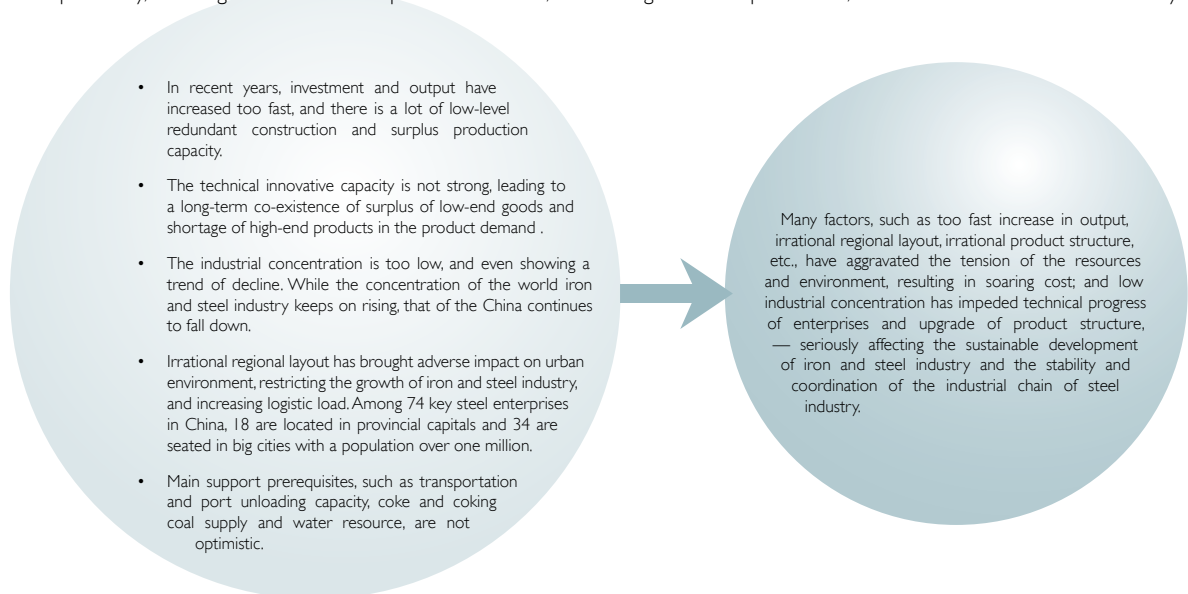


# Sustainable Development Concept and Strategic Thoughts

## Awareness of Adversity – Challenge Faced by Sustainable Development

- » The development of the present world economy, including iron and steel industry that we belong to, is confronted with a tight restriction of resources and environment. In China, the inefficient growth of the economy as well as iron and steel industry has made the problem especially severe.
- » The economic globalization has intensified the difference between the poor and rich the world over, especially in some developing countries. In China where the market economy system has not yet been perfected, with increasing employment pressure and remarkable contradiction in income distribution, the social security system urgently needs to be improved.

Therefore, not only the Chinese Government and the governments of other countries in the world, but also all the enterprises and citizens with a sense of historical responsibility, including the Chinese enterprises and citizens, must be vigilant in the peace time, and foster the awareness of adversity.



## Further Understanding of Challenges and Opportunities – Background of Laws and Policies for Promotion of Sustainable Development

### Major problems in the sustainable development of current China's iron and steel industry

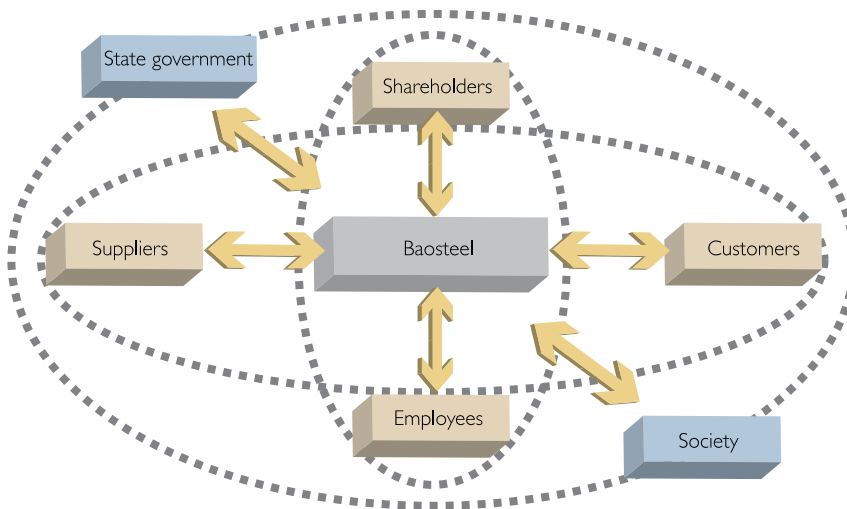
In 2005, solid waste of China's iron and steel industry accounted for 16% of the total industrial discharge, while waste water and gases accounted for 14%. The synthetic utilization rate of waste slag in the iron and steel industry in China is only 58%, but in Japan the slag utilization rate already has exceeded 98%. Our comprehensive energy consumption rate of per ton steel is 15 ~ 20% higher than that of advanced countries in the world.

- » From Feb, 2005, "Kyoto Protocol", aiming at restricting discharge of industrial waste gases in various countries, so as to control the global climate warming, came into force, and became an international law recognized by the United Nations. To China "Kyoto Protocol" means opportunities rather than pressure
- » Under the guidance of the scientific development concept of "the people-oriented, comprehensive, coordinated and sustainable development", the Chinese Government in its "Eleventh Five-Year Plan" stated that China shall build a socialist harmonious society by deepening reform, devoting major efforts to changing the pattern of economic growth, making China an innovative country and developing circular economy. Today, the sustainable development of China's economy and society has entered a very important period with strategic opportunity.
- » During the period of the Eleventh Five-Year Plan, one of the major challenging goals of economic and social development is that the energy consumption per unit GDP by the end of the period of the Eleventh Five-Year Plan should be reduced by about 20% in comparison with that of the end of the period of the Tenth Five-Year Plan.
- » In July, 2005 Development Policy for the Iron and Steel Industry, the first one in China, was issued. It takes the scientific development concept as the guideline, focusing on the change of the industry growth pattern, guiding strategic reorganization with an aim at improving the industrial concentration, highlighting the main line of structural adjustment, optimization and upgrading of industries, emphasizing the improvement of overall technological level of industries and fostering the capability of independent innovation, particularly introducing the development of recycle economy to the objectives of the industrial policy, thus designating a right direction and providing a good opportunity for the healthy growth of China's iron and steel enterprises
- » This policy requires that in the whole industry, the comprehensive energy consumption per ton of steel, the comparable energy consumption per ton of steel and new water consumption per ton of steel should be decreased to less than 0.73 ton of coal equivalent, 0.685 ton of coal equivalent and 8 ton, respectively by 2010 and less than 0.7 ton of coal equivalent, 0.64 ton of coal equivalent and 6 ton, respectively by 2020.

## Sense of Historical Responsibility

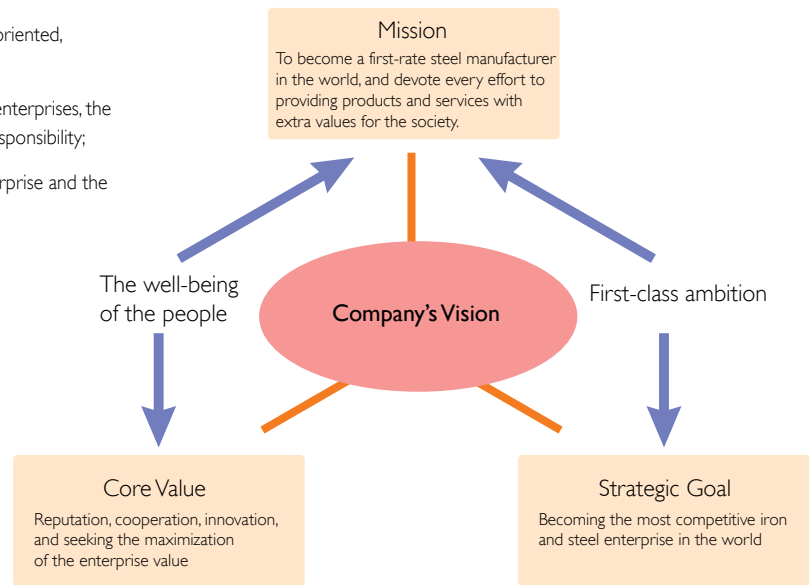
- » Baosteel should initiatively undertake the social responsibility for promoting the coordinated and hamonious development among the economic growth, social progress and environmental protection. This social responsibility mainly manifests itself in taking into consideration the needs of the various relevant stakeholders (shareholders, customers, suppliers employees and society), and in achieving the common development.
- » The Company should adapt itself to the needs of China's modernization construction, and initiatively take the social responsibility of the bellwether during the process of turning China from a great country of iron and steel into a strong country of iron and steel, that is also the expectation of the State. It should fundamentally change the conventional production process of high pollution and high consumption, and turn the Company into a recycle enterprise integrating into one the three major functions, they are function of steel product manufacture, function of energy conversion, function of social bulk waste treatment and resolution, and at the same time. It should make great efforts to develop environment-friendly products - a social duty incumbent upon iron and steel enterprises.
- » From the view point of the great system of the economy, society and environment, the Company should transform into the social benefit and the long-term interest for the enterprise growth the social responsibility which has from the conventional angle been deemed as restriction to the enterprise's cost and efficiency

Under the guidance of the scientific development concept, the Company will adhere to the coordinated development between the enterprise and the relevant stakeholders, including shareholders, customers, suppliers, employees and society; between the enterprise's production and operation and the needs of the national economy and downstream industries, and between the enterprise's production and operation and the resources and environment, and to the coordinated development between the extensional and internal development.



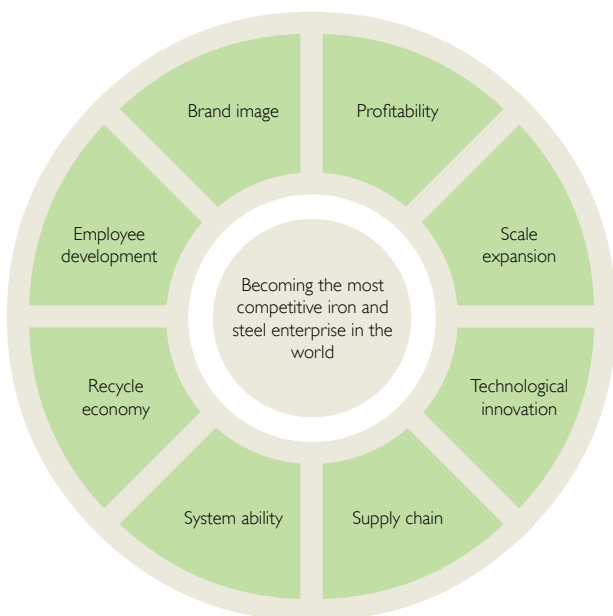
## Company's vision frame with a trinity of Mission, Core Value and Strategic Goal

- Embodying the scientific development concept of "People-oriented, comprehensive, coordinated and sustainable development";
- Integrating pursuance of being one of the world first-class enterprises, the well-being of the people and active undertaking of social responsibility;
- Establishing a developing structure benefiting both the enterprise and the relevant stakeholders.



## Symbolic Goals for Melting Sustainable Development into New Round Growth

### Eight symbolic goals of the comprehensive competitive force



- Iron and steel production capacity reaching a level over 50 million tons, establishing a large-scale steel production base producing market-oriented products of complete series of varieties and specifications, with quality steel products as their core, so as to keep the status of bellwether in the domestic market.
- Profit making ability keeping the forefront of the world major iron and steel enterprises, and significantly raising its enterprise value.
- Possessing a number of iron and steel core technology with self-owned intellectual property rights, possessing know-how of great influence on iron and steel industry, forming a capability of outputting and transplanting core technology chain, and setting up an innovating enterprise featuring open and self-integration.
- Building up a strategic supply chain, featuring safety, high-efficiency, low-cost and self characteristics, with a strong ability for resource control and allocation, becoming an important actor and director of the creation of supply chain value.
- Turning into a state-class demo base for recycle economy and the world first-class clean iron and steel manufacturer, and building up a recycling-type enterprise with three major functions, i.e. low consumption steel product manufacturing, energy transforming, and social bulk waste treating-digesting and absorbing.
- Forming a main market competition entity with an integrated managing capacity for trans-regional, multi-base, ultra-large-scale iron and steel production and creating a modern enterprise management mode.
- Becoming a public corporate in the world capital market, and shaping the global brand image of Baosteel.
- Performing people-oriented management, achieving common development of both the employees and the Company, and significantly enhancing the value of the employees.

## Capability System and Strategy Emphases of the New-round Development

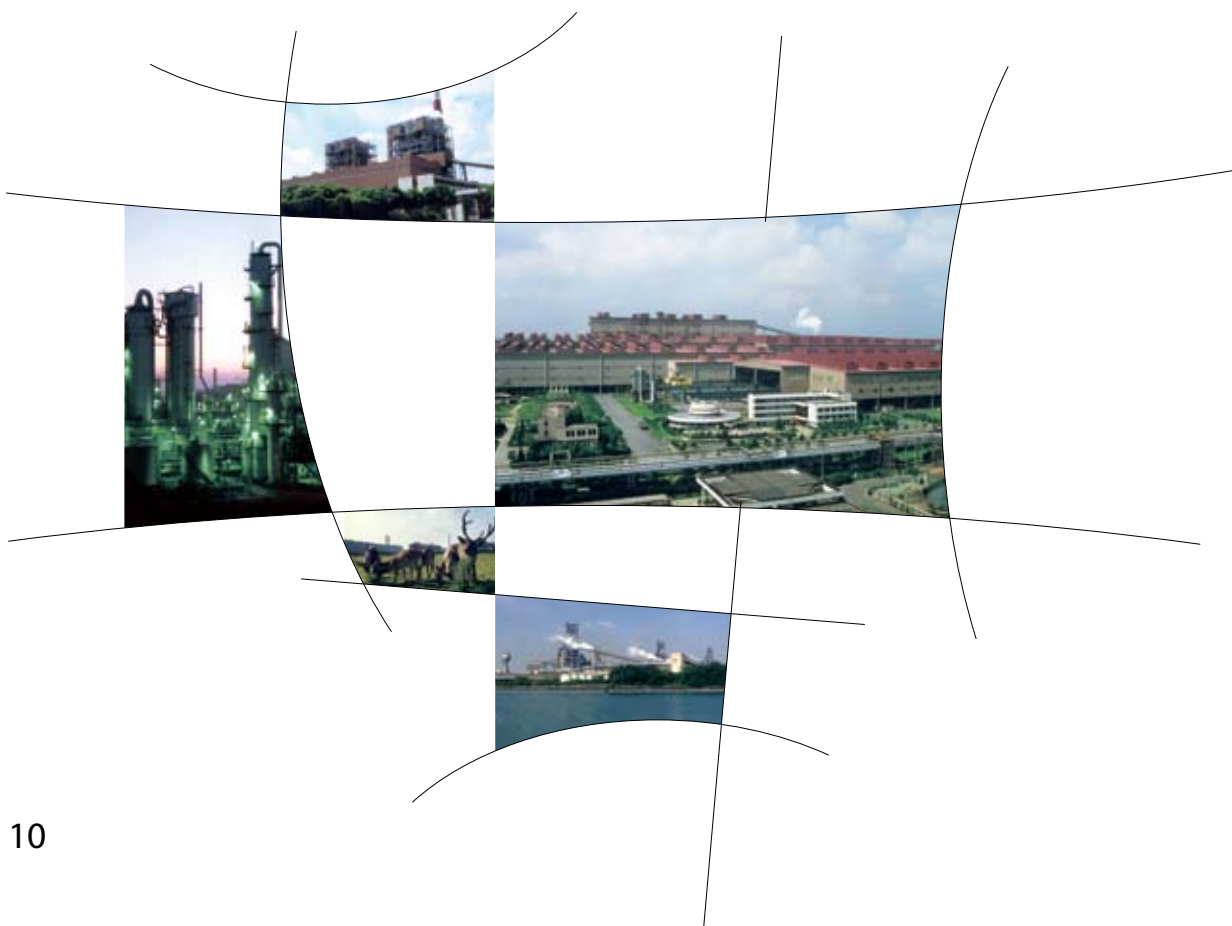
In the new-round development, the Company will adhere to the coordination of both extensional and internal development; putting strategy emphasis on the creation of the Company's core capability system, focusing on its value and the leap-forward development; and melting the scientific development concept into strategic behavior.

The Company strives to enhance ten major capabilities, which are as follows:

In the extensional development we need to enhance the capability for resource control and allocation, capability for scale expansion, capability for capital operation, and capability for international operation; In the internal development we need to enhance the capability for market response, capability for system integration, capability for recycle economy, capability for technological innovation, capability for talent exploration, and, in particular, capability for risk control which should be enhanced and stressed on for safeguarding the growth in order to maintain sustainable competitive superiority.

The new-round leap-forward development has four major strategic emphases, which are as follows:

Scale development	by 2009 to achieve 30 million tons of production capacity by relying on the existing production bases, and by 2012 raise to 50 million tons and more by means and ways of acquisition, merger, building new facilities, etc.
Technological innovation	to enhance the self-integrating and innovating capability of the Company, so as to form the core and key technology with unique competitive superiority and to create flagship products with the Company's core capability.
System capability construction	by 2008 to form a trans-regional, multi-base, ultra-large-scale, integrated management ability, and to possess the ability for the management system after expansion, which can quickly cover new coming enterprises and operate them rapidly.
Recycle economy	to establish a developing mode for recycle-type enterprise, and to become a model enterprise for the development of recycle economy.



# Actions and Accomplishment

## Initially Opened Up a New-Type Industrialization Route of Sustainable Development with Baosteel Characteristics

- » By taking quality steel goods as the guide line and constantly optimizing the product structure the brand of the Company has been brought into effect.
  - The Company has set up six major bases for quality goods products: automobile steel sheet, stainless steel, shipbuilding plate, electrical steel, oil pipe steel and high performance building steel, thus promoting further optimization of its product structure and enhancement of its comprehensive competitive force.
  - Baosteel's automobile steel sheet was awarded the title of "China Famous Brand Product" in 2005.
- » Taking the route of technological innovation centering on self-integration, the Company has realized industrial upgrade and become stronger
  - To give the first place to the independent intellectual property right, and push ahead the technological innovation strategy and the system construction. In 2006, the Company's input rate for R & D was 1.0%; it made 656 applications for patents, including 312 invention patents, and creating 1890 pieces of know-how and reaching RMB 1,316 million of economic efficiency of R & D.
  - Succeeded in producing X120 pipeline steel, the first enterprise in China and the fourth in the world.
  - The Company has started up over 50 key R & D projects in succession, and been supporting the development of future-oriented technology, commonality technology, sustainable developing technology, etc. In the fields of R & D of thin-strip continuous casting process, non-coke Iron-making technology, electromagnetic metallurgy technology, nano-technology, simulation technology, dioxin pollution control technology, etc., the Company has made segmental progress..
  - In 2006, the Company became a pioneer enterprise of State Innovation Enterprise.
- » Taking recycle economy as the guarantee, the Company has realized harmonious development together with society and environment
  - In 2004 the Company was listed on the first batch of industrial tourism demonstration spots in China.
  - In 2005 State Environmental Protection Administration of China formally granted Baosteel Co. Ltd. the title of "China Environment-Friendly Enterprises", therefore, the Company became the first winner of the honorable title in Shanghai and the only one in the metallurgical industry.
  - In 2006, it was listed as a demonstration base and pioneer enterprise of recycle economy in the State "Eleventh Five-Year Plan".
  - By 2006, all its branches and subsidiaries obtained the certification of ISO14001 Environment System International Standard.
  - In China it has become the first iron and steel enterprise with the possessing capacity for mass-producing full series of environmental steel sheets for household appliances, and totally meeting the requirements of ROHS Directive of European Union.
  - While expanding its long-term stable strategic suppliers, the Company has been striving to launch green purchasing, and accelerating in effect the certification of quality and environment management system among suppliers, leading them to promote sustainable development.
- » Taking the system innovation as an engine, the Company has promoted the reform of the management and information systems.
  - In 2004 in the state informatization test it was listed on the first place among the top-500 Chinese informatization enterprises.
  - The informatization drives the integration of supply chain management. In 2006, Baosteel has completed the construction of the procurement and supply chain system and put it into operation, and the range of materials and enterprises through centralized procurement keeps expanding.
  - By pushing forward the six sigma precision operation, the Company has initially formed a continuous improving capability, and won the title of "National Advanced Enterprise for Six Sigma Promotion" for three successive years (2004-2006).
- » By mainly relying on the strategic supply chain, the Company has achieved the coordinated development between modern steel production and modern service sector, and realized a win-win cooperation among the enterprise, customers and suppliers.
  - The Company has been continuously perfecting the steel trade system and the steel processing, delivery service system.

- The Company has at proper time been expanding, through the steel industrial chain, the relevant modern service sectors, including scrap steel supply, electronic business, steel packing strip, forward agency, etc. Besides, the Company has been providing customers and suppliers with a quick and convenient online remote service.
  - The Company has completed the construction of VIP customer channel, giving play to the integral superiority of the supply chain which can create value for customers. Its project of "Building VIP customer channel and upgrading the customer satisfaction level" won 2006 metallurgical enterprise innovation top prize granted by China Iron & Steel Association.
  - In 2006, the Company's all-round customer satisfaction level was raised to a new phase—highly concerning customers' perception.
- » By creating learning organizations, the Company promoted the common growth of both the employees and the Company
- Guiding the construction of learning organization with the three concepts "Efficiency, Precision and Value", the Company has been focusing on upgrading the ability in four aspects, namely, "study, communication, response and improvement". Baosteel Branch Co., the core base of Baosteel, won the first place of the national "Model Unit of Learning Organization", and was granted "National May 1 Labor Award".
  - The Company has built a strategic phased training system, which is focusing on upgrading the international working ability of kernel talents and the education system of employees' life-long learning.
  - The Company has been fostering with great efforts knowledge-type staff to push ahead the group innovation by employees. Mr. Han Mingming, a worker of the Company, was granted the second-class award of State S & T Progress of this year and won the first place of "2006 Top-Ten Worker Inventors in Shanghai".
- » The efficiency is substantially rising along with the scale growth. The Company's performance and development prospects, and the social image of its blue chips stocks in A-Share market are increasingly recognized by the investors, both at home and abroad as well as all circles..
- With steel production capacity scale being greatly increased in recent years and facing the adjustment of steel market, the Company's sales revenue and total profit in 2006 were 5.13 and 4.34 fold of that in 2000 respectively.
  - The Company has realized its commitment that the bonus of its shareholders would not be less than 40% of the net profit, and the accumulated dividend distribution has reached RMB 23.6 billion for the last six years since it was listed.
  - The Company has provided the broad investors with a multi-channel, multi-direction, sincere information platform, so as to minimize the risks of its shareholders. In 2005 and 2006, the Company was granted the title of "Best Relation with Investors Award" by UK Investor Relations, an international authoritative magazine.



## Establishing and Perfecting the Modern Enterprise System to Lay a Corporate System Foundation for Promoting Sustainable Development

- » Improving the Company's governance structure
  - The Company has established a fairly perfect legal person governance system ever since being listed on the market. Shareholders Congress, Board of Directors, Board of Supervisors, and Management, with definite responsibilities, all are operating normally.
  - The Company is one of the earliest companies to establish independent director system and independent supervisor system in China. The proportion of independent directors in Board of Director newly set up in May, 2006, rose to 45% from 36% in the previous session, and the directors coming from outside of Baosteel exceeded 50%. Within Board of Directors, the audit committee has independent directors accounting for 2/3 of the total, and the salary and evaluation committee consists of directors all from outside.
  - In 2006, Board of Directors adopted "Restricted shares incentive program for A-Shares" so as to set up a mechanism of common share of benefits and risks between the shareholders and management.
- » Improving internal control system
  - The Company has erected the management concept that the internal audit work should melt into the business flows, and the internal audit sectors actively provides business departments with the consultation concerning pre- and mid-internal control and management, thus giving a full play to the internal audit supervision.
  - In 2006, the Company formulated "Internal control and management procedures" to perfect its internal control and management system.
  - The Company gradually establishes and gives impetus to the risk management system
- » Improving the Company's standards Implementation system
  - In 2006, the Company organically integrated into the standards Implementation system in the corporate level all the new managerial elements, including corporate governance, internal control of risks, finance and operation management, flow operating, etc.
  - The Company gained the certification of the "trinity" system of quality, environment and professional health and safety for every individual steel production unit.
- » Actively pushing ahead the construction of employees' democratic management and harmonious labor relationship
  - Through the management system and flow construction, the Company has formed a standardized labor relation, implementing an all-employee collective labor contract system, and setting up a whole set of organizations and systems for upholding the labor's lawful rights and interests. Moreover, high-level leaders of the Company regularly held real-time talk with employees through the Company's network.
  - The Company's employee congress is an organ of power, in which the employees can exercise democratic management, and also a basic form of the Company for implementing democratic management. The Company has established a perfect system of the employee congress and has been carrying it on normally.
- » Taking "good faith" as its basic value, and the Company is fostering the corporate good faith spirit with great effort
  - The Company has always been adhering on operation with good faith and carrying on "good faith" education among its employees. The Company worked out "Baosteel Good Faith Management System" and "Baosteel Good Faith Criteria" in recent years, so as to guarantee the process control in the good faith management.
  - The Company vigorously pushed ahead the construction of honest culture with good faith as its core, and built up a punishing and preventing system, so that the work of anti-corruption and honest promotion could reach the result of remediation, both its root causes and its symptoms.
  - China Enterprise Confederation and China Entrepreneurs Association granted Baosteel the title of "2006 China Top Honesty Enterprise".

## Promoting Industrial Progress and Supporting Community Development and Social Public Welfare Activities

- » Promoting the progress of the iron and steel industry by outputting technology and management
  - Baosteel's converter slag treatment technique can solve not only the pollution problem occurred in disposing slag, but also the issue of recycle and re-utilization of slag source at the same time. Up to now, this technique has been output to more than ten steel enterprises, at home and abroad.
  - Baosteel's energy resource management technique is the most advanced one in the domestic steel works, and has been successfully introduced to other steel enterprises in China.
  - Baosteel's steel-making RH refining technique, an independent self-integrative innovation, has won the bids in Caofeidian Project of Shougang Group, and the projects of Shaogang Group and Xingtai Iron & Steel Corp., respectively, thus breaking through the monopoly by a few foreign big companies
  - Successfully output Baosteel's modernized management technique to Maanshan Iron & Steel Co. and Bayi Iron & Steel Co.
- » Supporting the community development and jointly building a harmonious community
  - Relying on Baosteel, Baoshan District has already built an industrial economy featuring metallurgical industry and its supporting and extension sectors, and become one of the largest steel products trading centers in China.
  - In recent years, Baosteel and Baoshan District jointly planned the urban development, so that the district would become a new modernized riverside city zone with a subsidiary function and coordinated development in ecology, livelihood and production.
  - In 2005, Baosteel Group and Baoshan District Government signed two agreements, namely, "Cooperation agreement for joint development of feature products between District and Holding Corp." and "Mutual supporting and joint development agreement between Shanghai Baoshan District People's Government and Shanghai Baosteel Group".
  - The Youth League organizations in the Company often launch various volunteer activities in large scale to offer services to the community residents. Presently, over ten volunteer service teams in Baosteel have set up close relationship with the surrounding communities, and regularly offer volunteering services to 9 homes for the aged and 7 welfare schools for children.
- » Supporting social public welfare undertaking
  - For years, Baosteel has actively launched social public welfare activities, like subsidizing education, supporting the remote and poor areas, social donation, etc.; and set up a long-term mechanism through Baosteel Education Fund and the helping-the-poor and offering-warmth fund.
  - For the purpose of supporting social public welfare undertaking, Baosteel has donated an accumulated amount of RMB 300 million since its establishment.

## Main Social Honors for Sustainable Development Accomplishment Obtained by the Company in 2006

- » In January, it won the first prize of State S & T Progress Prize in National Science and Technology Congress, for "Research on the variety, production and application of Baosteel's high-grade automobile sheet".
- » In February, it topped the list of "2005's Most Responsible Enterprises" in China with its outstanding performances in five aspects, namely, leading position in the industry, honesty and law-compliance, people-oriented spirit, green environmental protection and reward to the society, in the selection activity sponsored by China Newsweek.
- » In June, it won four prizes in the Second Annual Investor Relationship Meeting, namely, "Best Large-Scale Company Prize", "Best Share Reform Prize", "Best Communication Prize" and the second place of "Top 50 Companies of Investor Relationship Management".
- » In June, it was again appraised as "Most valuable Listed Company" by CCTV.
- » In July, it was awarded the title of "National Harmonious Labor Relationship Model Enterprises".
- » In September, it won "Outstanding Contribution Prize for Fostering State Skilled Talents" in National Working Conference for High-Skilled Talents, the Eighth Chinese Grand Prize Conference for Technique and Ability, and National Commending Conference for Technique Crackajack.
- » In October, Brand "Baosteel" was topped the lists of both "2006's Top-Ten World-Influenced Chinese Brands" and "2006's Top-Ten Chinese (Iron & Steel) Brands in World-Market".
- » In November, it won the first place of the steel rolling process manufacturing in the first national assessment and comparison for independent innovation ability among large- and medium-scale industrial enterprises.
- » In December, Baosteel's Standard & Poor's credit rating raised from "BBB +" to "A-", "Stable in future", and Baosteel became the second steel enterprise in the world acquiring this rating.
- » In December, it was awarded the title of "2007 China Outstanding Employer in Shanghai Area" in the selection activity of "China Outstanding Employers TM2007 Shanghai Area".
- » In December, it was awarded the title of "National Advanced Enterprise for Six Sigma Promotion", holding this title for successive three years.



# Efforts to be Made by Baosteel

## Major Strategic Measures for a New Round Sustainable Development

- » By continuously marching on the road of superior products in order to meet customers' demands, Baosteel will strive to promote the development of national economy and improve people's living quality.
  - To further develop strategic steel products represented by automobile sheets, electrical steel, pipeline steel, energy pipeline, shipbuilding plate, stainless steel, special alloy, keeping them on the leading position in domestic market.
  - To make the automobile sheets and high quality sheets for home appliances become international brand, and other strategic products such as electrical steel become national brand in China.
- » Baosteel will march on the road of open and self-integrative innovation to promote its construction of an innovative enterprise.
  - To focus efforts on making breakthrough in the frontier metallurgical technology such as thin slab continuous casting and rolling, strip continuous casting, non-blast furnace iron making process, etc.; to develop new steel products for some important downstream industrial sectors, to promote researches on key technological processes, such as low-cost iron-making process, so as to form core technology in steel engineering field.
  - With the implementation of the "Baosteel development programs on technical innovation system", to form and perfect the R&D system, the integrated engineering system and the sustainable improvement system.
  - To formulate and implement the strategic targets of Baosteel intellectual property rights and standardization, enabling the employees to have useful knowledge, which is full of science and technology, and making the technology as valuable assets of the Company.
  - To set up a platform for group type co-operation among production, education, R&D, and to actively participate in the national innovation system.
- » Baosteel will enhance the development capability for recycling economy and build the world first-class iron and steel enterprise symbolized in green manufacture.
  - To pass the re-audit of "National Environment-Friendly Enterprise" by 2008.
  - To achieve the first-class level with the key recycling economy index among equivalent international iron and steel companies by 2010; to fulfill the various tasks of energy saving and contaminant emission reduction, which are stipulated in "The 11th Five-Year Planning" by national and local governments.
  - To build up a circular-type iron and steel company by 2012, with the functions of lower energy consumption for steel products, effective energy conversion, and treatment of social wastes, to become a demonstrative model of circular economy and a technological leader among the iron and steel companies in China.
- » Baosteel will establish and improve the strategic supply chain system characterized by co-operations between upper-stream and down-stream partners with the win-win results, so as to continuously promote the value creation of the supply chain.
  - To remarkably increase the proportion of the long-term confirmed strategic resource supply and the proportion of the procurement (indicated by sum of money) by strategic suppliers.
  - To form a relatively large and stable group of strategic customers and further innovate and perfect the marketing and service system both at home and abroad.
  - To build up an integrated system for production control, and stable manufacturing capacity matched with three production series, namely, carbon steel production, special steel production and stainless steel production. Those production units, which are of enough conditions will speed up production standardization in large scale.

- » Baosteel will continuously push forward the system innovation and management improvements, so as to deepen the integrated operation and competency system of the Company.
  - To initiate a flow-actuated, integrated precision operation system, and construct an effective and transparent business process flow, with the organization structure having combined longitudinal integral management and horizontal cooperation management.
  - To accelerate enterprise IT construction and form an extendable and flexible platform for promoting the digit operation and b2b business mode.
  - To improve the efficiency of Baosteel's integrated management featured as cross-region, multi-sites, and super large-size; to rapidly transfer the management skills and experience to the acquired firms.
  - To promote the brand strategy, build self-owned brand culture (characterized by innovation concept) and expand brand influence.
  - To cultivate and make use of assets operation capability, decision-making supporting capability, cost competition capability, capital securing capability, risk control capability, integrating capability, etc.; to establish an extendable, confluent, effective and controllable financial system based on the provision of high quality financial information.
  - To make all the employees set a sense of risk management and establish an all round risk management system throughout the Company; to complete the basic flow chart for risk control in each management node and operational stage, so as to further improve internal control system with increasing capability in risk control and prevention.
- » To further promote concurrent growth of both the Company and the employees, and construct harmonious labor relationship.
  - To perform people-oriented management, with focus on flexible management and care about employee' development; and to push forward comprehensive employee development in an all round way.
  - To cultivate and establish a highly professionalized and internationalized talent team with excellent leading capability, a technical talent team with self-innovating capability, and an operation talent team capable of performing precise operation.
  - To set up a flexible individualized and diversified employee welfare system with Baosteel characteristics; to form a talent recruiting and allocating system facing world-wide talents; and to set up an employee training and life-time learning system for employees at different positions and of different series.
  - By setting up learning organizations to build up a knowledge management platform for all employees to learn and communicate with each other.
  - To make great efforts in 10 aspects, namely to further standardize labor contract system and perfect collective contract system, to enhance democratic management and open information system, to implement strict labor security and safety protection management, to establish a system for concurrent development of both the Company and the employees, to build an effective mechanism for employee appeals, to further enhance the ties between the Party and the crowd and between the carders and the crowd, to maintain management stability, to strictly perform management basic systems, and to strengthen employee cultural and spiritual civilization construction, so as to continuously promote harmonious labor relationship in the Company.
- » Baosteel will further support the development of Baoshan District and jointly build up the harmonious community.
  - To further improve the construction of iron and steel industrial chain, develop metallurgical and other derivative sectors within Baoshan District through Baosteel Group, and contribute to local tax income and employment opportunities at some nodes of down-stream industrial supply chain.
  - To enhance the system of socialized synergy with numerous derivative companies in Baoshan District, so as to promote the development of modern logistics sector and steel market of Baoshan District.
  - To support the development of industry, culture and tourism in the District, to work with local government to construct culture and tourism base with special industrial features and suburban landscape, concurrently with the construction of the superior steel product base.
  - To pay higher attention to environmental protection during the future Baosteel development, by enhancing circular economy, interactions between the enterprise and community, and sharing for energy networks.
  - To increase employees' income with the premise of increasing economic efficiency of the Company, and to promote the market prosperity of Baoshan District.

## Operation Guide-line and Operation Targets in 2007

- » Baosteel's operation guide-line in 2007 is: "To realize sustainable development by deepening coordination, improving soft strength, enhancing core competitiveness; making innovation, developing new arena."
- » Baosteel's operation targets in 2007 are: "To achieve a sales revenue of RMB 159 billion, a consolidated profit of RMD 1.5 billion, an R&D input rate of 1%, and comprehensive energy-consumption per ton of steel yield being less than 725 kilogram coal equivalent".

## Some Further Ideas about Promoting Sustainable Development

It has been listed as the key work of the Company to promote sustainable development, with focus on the following key aspects:

- » To establish a mechanism to systematically promote sustainable development.
- » To conduct systematic and in-depth research and work out the strategies for sustainable development, and construct management system and culture for sustainable development.
- » To position the sustainable development issue in corporate governance and detailed operating management, and specify improvement directions for sustainable development.
- » To create a performance index system for sustainable development with Baosteel characteristics, and set up relevant performance index filling system and management files so as to promote the Company's sustainable development.
- » To promote sustainable development in a systematic and standardized manner with proper support of information system; and.
- » To continuously improve the preparation of annual report on the corporate sustainable development.



# Corporate Governance and Organization Structures

Baosteel strictly abides by Company Law, Securities Law and related stipulations of China Securities Regulatory Commission as well as the requirements of Stock Listing Rules of Shanghai Securities Exchange, to streamline the governance structure, standardize operations, and set up a sound legal entity governance system. It has achieved the detachment of the 5 issues of assets, personnel, authorities, business, and finance, with clear duties and responsibilities assigned to the Shareholders' Meeting, the Board of Directors (BOD), the Board of Supervisors, and managements.

Baosteel is one of the earliest companies to establish independent director system. With sufficient information disclosure, good interactive investor relations, strict and effective internal control and risk management system, the Company conducts honest and credible operation and transparent management.

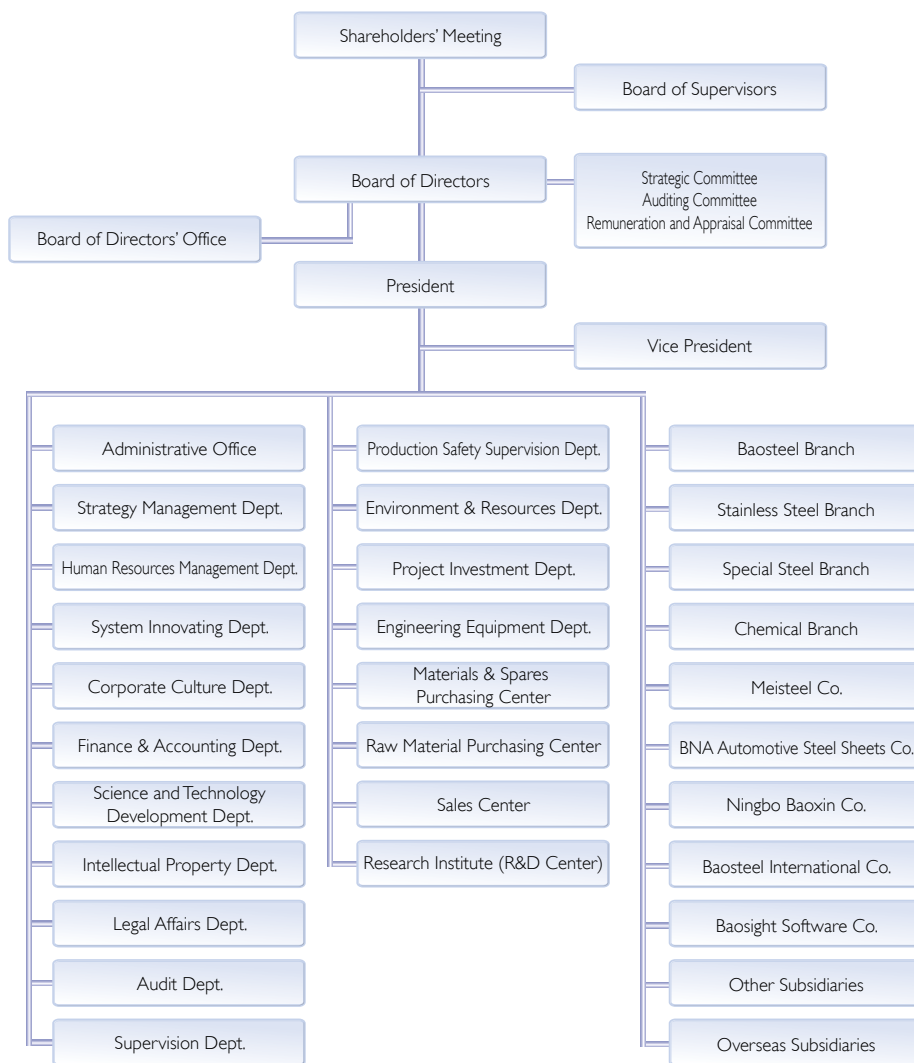
In May 2006, the Company successfully completed the change of the BOD members, resulting in a new BOD with 11 directors, among which 5 are independent directors, being 45% of the BOD members. Besides, one director is from outside of Baosteel Group. With fairly high degree of independence, the BOD plays an important role in optimizing the corporate governance.

Through elections, the Company also set up some professional committees under the Board of Directors: Strategy Committee, Audit Committee, Salary and Evaluation Committee. Independent directors count for 1/6 of the strategy committee members, and the Board Chairman acts as the head of the committee. In the Audit Committee, independent directors count for 2/3 of the members. The Salary and Evaluation Committee consists purely of external directors (with 3/4 members being independent directors). Further, the heads of the Audit and Salary Committees are both independent directors.

In form of Board Resolutions, the Company has constructed the basic management framework, streamlined the major management systems and policies of various business units, made necessary revisions and improvements, and drawn out time nodes accordingly, which laid a sound foundation for a comprehensive documentation system of corporate governance. The Company also worked on how to optimize the internal control system, with the "Internal Control Policies and Procedures" approved by the BOD and being fully executed.

In accordance to Articles of Association and other regulations of the Company, the Company adopts different levels of authorization in terms of important business decisions. Shareholders' Meeting, BOD, Executive directors, and managers all have specific and clear authority, which enables clear differentiation among the power, decision-making, execution and supervising bodies, to achieve effective inter-control, implementation and synergy.

In 2006, Baosteel Co. Ltd. held 6 regular board meetings, 1 temporary board meeting and 1 shareholders' meeting.



## Evaluation and Incentive Scheme of Executive Personnel

The rewards for the board directors and supervisors are decided and approved by Shareholders' Meeting, and those for executive-level managers by the BOD. The salary levels are carefully defined based on various factors such as business size and profitability of the Company, market prices for talents, etc.

The Company continuously improves the existing performance evaluation system and C&B system for the executive-level managers, the incentive and binding mechanism for the directors, supervisors and top managers. In 2006, the BOD approved an "Incentive scheme with restrictive A-share", which would establish common interests between the shareholders and management team. Such a mechanism of shared interests and risks is aligned to the corporate development strategy, enhancing the Company's strengths and competitiveness, and essentially promoting sustainable and healthy development of the Company. (Currently, this scheme is still pending for consent of the China Securities Regulatory Commission and further approval by the Shareholders' Meeting.)

# Social Responsibility



## Construction of faithfulness

To promote faithfulness system by taking faithfulness as the basic value concept

By looking into both root causes and symptoms, and setting up a punishing and preventive mechanism to cultivate honest and clean culture

## Employees

Employee profile  
Safety, health, rights & interests protection of employees  
Employment procedure  
Constructing a harmonious labor relationship  
Equal opportunity and diversity  
Concurrent growth for both employees and the company

## Investors

Building multi-layer and convenient communication channel  
Active disclosure & regular contacts  
Cordial and interactive communication  
Seeking for win-win results with investors



### Suppliers

- Creating values jointly on the basis of faithfulness
- Establishing long-term stable strategic partnership
- Conducting sunlight procurement and promoting the construction of green production chain jointly

### Users/Customers

- Product innovation and brand creation
- Coordinating through supply chain to create values for customers
- Care about customers' perceptions, to enhance management for customer satisfaction

### Social contribution

- High concern about educational affairs
- Rewarding the country with steel products, and feedback to the society
- Providing volunteer service and displaying youthful color
- Supporting community development and building up a harmonious community
- Supporting remote poor and rural areas

It is Baosteel's consistent pursuance to become one of the most competitive iron and steel enterprises in the world and a company publicly respected with social acknowledgment.

Baosteel makes great efforts to perform its social responsibilities, to achieve harmonious development and joint progress with shareholders, customers, suppliers, employees and other social interests:

Shareholders are the foundation of the Company's business. With steady growth, good performance, and stable profits, the Company will continuously provide rewards to the shareholders;

Customers are the partners of the Company's operation. With extra-value products and services, the Company will try to meet customers' needs or even more to exceed what they expect, and to create values for them;

Suppliers are significant resources to the Company. Through long-term co-operations with strategic suppliers, the Company aims at setting up a competitive supply chain system;

Employees are the most important assets of the Company. By providing solid platform for employees' growth and incentives to realize their own value, the Company will achieve joint-development with its employees;

The society is the living space of the Company. The Company consciously takes social responsibilities and moral obligations, making the contribution on improving the ecologic conditions, social progress and community harmony.

Baosteel is committed to the value concept of faithfulness. It follows the promises to the shareholders, customers, suppliers, employees and the society. It teaches all its employees to enhance Baosteel culture, improve self capability, strive to make progress, and create learning organizations so as to make contributions to building an innovative enterprise.





# Construction of Faithfulness

## Taking “Faithfulness” as the Basic Value Concept to Enhance the Construction of the Faithfulness System

It is Baosteel's belief that construction of faithfulness is essential to the development of market economy. Baosteel takes it as the foundation for making itself bigger and stronger, also as a precondition to realize continuous and stable development, so that Baosteel can stand on a solid and invincible position in the fierce market competition.

To keep its promises and commitments to the shareholders, customers, suppliers, employees and social interests, Baosteel persists in providing quality products and services to the customers, adheres to fair and just commercial behaviors, maintains an effective information channel with shareholders, equity investors and debt holders, keeps on the construction of anti-bribery system in the commercial activity and the people-oriented faithfulness system.

Baosteel has worked out a management system and criteria of faithfulness to guarantee the process control of faithfulness management from the process flow and mechanism. With relevant rules and regulations, the faithfulness management is standardized and systematized. By actively launching the drive of “Demonstrating behaviors of the managerial personnel”, all of employees have been inspired and brought to take faithfulness as self-discipline and abiding by regulations and labor discipline as a conscious action. All these have contributed to a fine environment for the operation, innovation and development of the Company.

At the Employee Representatives Convention held in early 2006, employee faithfulness was added as a clause in the collective labor contract. Faithful commitment has become a common rule and target for both the Company and employees and has received good comments from the society.

### “Baosteel Performs as a Leader in the Construction of Corporate Faithfulness.”

Due to its good business behaviors, strong value concept on faithfulness, sound faithful management system, active performance in social responsibilities, and achievement of high social recognition and good public records, Baosteel was awarded as “The Best Faithful Company in China, 2006”.

As described by China Enterprise Confederation and China Entrepreneur Association, “Baosteel started systematically to push forward the construction of the enterprise faithfulness since 2004, working as the domestic leader in this area. Baosteel is featured by its honest culture with the faithfulness as its fundamental concept. Baosteel people do things earnestly and treat others sincerely, keeping faithfulness in mind. Baosteel is not only a leader in the iron and steel industry in China, as a leading party going abroad to world market, but also a leader in the construction of enterprise faithfulness.”

## By Examining Both Root Causes and Symptoms, to Construct a Preventive Mechanism and Cultivate Honest Culture

In order to cultivate honest culture with faithfulness as its core, the Company has worked out “Executive comments on building up a system for preventing and punishing corruption by laying equal stresses on perfecting education, system and supervision”. The effect of this document covers all the subsidiaries and branches of Baosteel, and they are implemented through the annual “responsibility assignment” and demonstration of the managerial personnel.

Through thesis education, special training, professional training, and so on, the Company gave trainings to the managerial personnel at various levels and employees on relevant policies and businesses, and has achieved a training coverage ratio of over 90% for employees, and 96% for the managerial personnel at various levels, and efforts are being made to achieve a ratio of 100%.

The Company persisted in building up systems for preventing commercial bribery. The Company launched activities such as writing an “Honest and faithful commitment letter” and “signing honest commitment letters by both parties”, thus enhanced the employees' self-consciousness about commercial faithfulness. Whenever there is an important case, people were taught they have to respect the regulations of “no pass under 3 conditions”. In major projects, a “Building high quality project, trying to be outstanding leading staffs” drive will be launched. Furthermore, the Company has set up “Reporting system for combating corruption and advocating honest”, enacted “Further regulations on being honest in business activities”, expressively specified 8 prohibitions. It has so far published 2 lists of names of units with which no transaction will be done by Baosteel and units prohibited to do business with Baosteel. It has canceled businesses with 56 units that had been listed as units prohibited to do business with Baosteel and investigated 4 discipline violation and illegal cases, with relevant persons being punished via judicial procedures.

# Employee

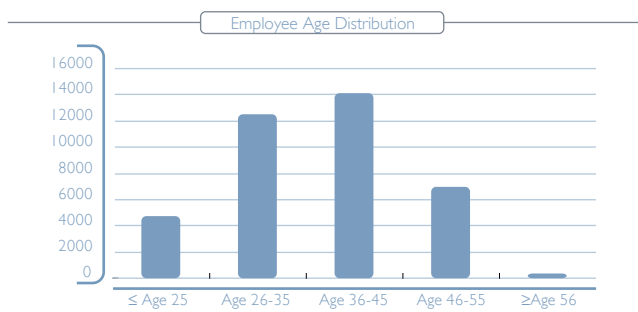
## Employee Profile

With gradual expansion of the production scale, the Company has pays high attention not only to improve labor productivity, but also to continuously provide more employment opportunity for the society. Up to the end of this report, the Company has 38,720 employees in total, among which 23,546 are production staff, 11,496 are technical staff, and 3,678 are managerial staff. In total, there are 20,072 employees with the academic record above college degree.

Our employees are working in various places including Shanghai, Jiangsu, Zhejiang, Shandong, Hubei and some overseas areas.

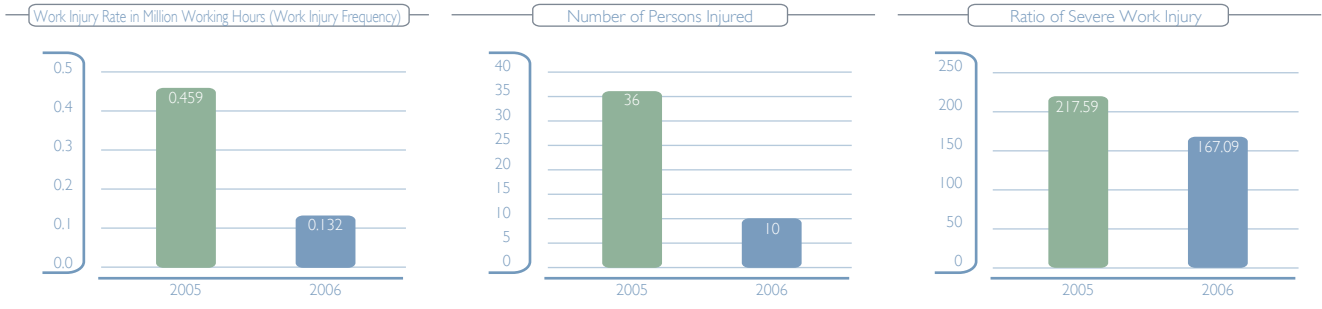
As steel industry is characterized with heavy duty and high temperature, the Company has a gender ratio of 6.9:1 (male to female). Our female employees are mainly on the managerial and technical positions. Our employees are young and full of vigor, with the majority covering the age of 26-45 being 86.9% of the total number.

For those who intend to resign from their posts, the Company pays full respect to their personal decision..



## Safety, Health and Rights Protection for Employees

- » The Company always adheres to a safety management concept of "Safety First, Zero Violation and Zero Accident", placing employee safety on the top position. Therefore, there was a significant improvement in the safety index in 2006.



### » All-around Management Measures

- Baosteel Safe Production Committee comprises of different ranks of managers, managerial personnel at various levels and employee representatives. The delegation meeting is held once half a year, to discuss the issues regarding employee health and safety, and also make decisions on key items about occupational health and safety. The Employee Representative Council sets up a Labor Protection Committee, with specific operation policies to supervise daily production safety and employee labor protection affairs. In the Collective Contract of the Company, there are also specific clauses concerning employee health and safety.
- Baosteel pursues a safe and healthy management targeting at "creating a clean and healthy workplace to improve people's living standard". Stressing on the importance of risk prevention and the process control of the occupational hazard sources, the Company conducts the occupational health management in an all-around manner covering occupational health monitoring, health checkup, and identification of potential health hazards. Meanwhile, the Company also monitors the occupational health management of its contractors (relative parties), gives comments and suggestions for improvement, and regards safety as an important evaluation index.
- Baosteel conducts comprehensive demonstrations for hazardous emergency events.

To get prepared for any emergency case of accident or natural disaster, the Company has established an emergency rescue system, which consists of following drills such as for emergency response, flood prevention, hazardous chemical accident, and emergent people assembly in case of a gas accident. The Company leader in charge will be assigned as the commander in chief for such drills to organize and conduct "comprehensive drills for dealing with accidents and emergency in Baosteel".



» Health Safeguard Plan giving priority to prevention

- To keep the employees healthy, the Company observes a health safeguard strategy giving priority to prevention, and implementing the active fitness plan. Baosteel provides sites to encourage employees for fitness and daily exercises. Employees are also encouraged to take part in community activities, with funds provided by the Company

With its continuous development, the Company always keeps in mind the issue of employee health. The Company has completed the construction of a large-scale integrated stadium with first-class equipment and facilities for fitness, sports, leisure and entertainment, which is quite rare among domestic companies.

- Baosteel has established a long-term co-operation with medical and hygienic agencies, which provide medical examinations and occupational health checkups for employees. The Company organizes health checkup once every year, which covers 100% of the employees. For those who work on special posts, special occupational examinations are arranged, with other policies for their recreation and regular job-change, etc. And for female employees, gynecology examination is arranged once every year in addition to regular checkups.

The Company has developed an information system for employee health management, which facilitate the inquiry of health information in time for all employees.

- In the plant area, a health examination center; a rescue center; a disease control center and regional clinic stations are built up to provide employees with timely and complete medical and health services.

Baosteel Sports Center is divided into eastern and western areas. The eastern area is equipped with facilities such as five standard outdoor tennis courts, a stadium and a golf court. In the western area there are facilities including an indoor stadium, a swimming pool, a gym center, and an indoor tennis court, among which, the indoor stadium can contain as much as 3000 people and basketball, volleyball, badminton, table tennis games can be held there, it can also be used to hold large meetings or entertainment performances.



» Competitive salary

To attract and reserve the talents in conformity with corporate strategic development and enterprise culture, Baosteel holds the belief of "attracting special talents with special pay, and excellent talents with excellent pay and good conditions". For this purpose, the Company provides different salary standards that match to the competitiveness of the Company. The minimum salary at entry level in Baosteel is about 1.73 times of the lowest salary standard in Shanghai 2006, which ensures the employees could share the economic growth of the society and the Company's development.

» Sound Insurance and welfare system

To ensure our employees keep their mind on work without much worries after retirement or in case of accidents, Baosteel pays full amount of money for the statutory social insurances according to relevant national regulations, i.e., pension insurance (including supplementary pension insurance), medical insurance, unemployment insurance, work-related injury insurance, maternity insurance, and as well housing provident fund. In addition to these policies, the Company provides its employees with commercial pension insurance.

Further, in order to deal with economic difficulties in case of unexpected accidents or severe diseases, Baosteel provides its employees with comprehensive insurances against unexpected accidents with the interests for domestic medical insurance and international accidental/medical insurance and rescue plan.

» All-around assistance funds

With regard to some special group of people, for instance, those who suffer severe diseases and their families, Baosteel adopts various approaches to help them, with the various actions to help the poor for children's education, family daily life, medical care, or re-employment.

## Employment Procedures

For the employment, Baosteel has held the principle of "careful organization according to planning, and rigorous selection based on scientific evaluation". In conformity with the steel industry particulars and its cultural features, the Company has worked out a recruitment system, with a reasonable and practical recruiting process, which includes 4 stages of "recruitment planning, recruitment scheme, execution, and successive work". During the execution stage, we adopt scientific evaluation methods from resume selection, interview by experts, competency test, in order to identify and obtain what we need for the Company.

Meanwhile, Baosteel also makes efforts to be a socially responsible company as a corporate citizen of the society. Under the principle of fair and reasonable recruitment, we give priority to giving more opportunity for local people, trying to increase local employment rate and relieve the social pressure on the employment.



## Constructing a Harmonious Labor Relationship

Aiming at building “Cohesion Project”, Baosteel has been actively improving the democratic management of harmonious labor relationships on 8 aspects, i.e., to respect, understand, care for, promote, specify, give incentive to, rely on and gather together with employees.

- » Standardized labor relationship management
  - Pursuant to relevant state laws and regulations regarding labor relationship, Baosteel has been strengthening building up the system for internal labor relationship . Now it has established a relatively complete management system, including Labor Contract Management Methods, Employee Resign Management Methods, Detailed Management Regulations on Labor Contract of Employees Concerning Commercial Confidentiality, Executive Methods on Employees on Leave, Regulations on Employee Retirement and Resign Management, etc.
  - The Company has established standardized and people-oriented management processes, such as establishment, modification, termination, renewal, cancellation of labor relationship, and procedures for democratic appeal and resignation application.
- » Perfect organizational structure
  - The Company has been continuously perfecting and improving the employee democratic participation system, democratic supervision system, democratic management system and company affair open system, which take Employee Representative council as the basic form, and also has established and perfected multi-level employee representative system to safeguard employees' interests and rights. In case of a significant policy or decision is to be implemented, or there is a major change in corporation business and operation, the Company will ask for employees' comments and suggestions via Employee Representative Council or Corporate Information Briefing Meeting, and employees will be informed in time.
  - Baosteel also has other sound internal organizations such as labor union, labor dispute mediation council, labor law supervision office, labor protection and safety inspection group.
- » “E-line voice of mind” system. Through online facility, the Company has established a long-term mechanism to care about employees' demands and concerns, gather first-hand information from employees, and provide real-time interview between top management and employees via intranet, which contributes to the harmonious labor relationship within the Company.
- » Implementing collective Labor Contract Institution for All Employees. Labor Unions of all the subsidiaries sign collective labor contracts with the Company, with 100% employees being protected by the collective negotiation.

### National Model Corporation of Harmonious Labor Relationship

Since the establishment of Baoshan Iron and Steel Co., Ltd. on February 3, 2000, the Company has been holding a strong belief in “people-oriented concept” and keeping on the principle of “voluntary will, equality and negotiation”, which are reflected in all the specific conditions of labor relationship management. For creating harmonious and stable labor relationship, Baosteel has been aiming at concurrent development of the Company and the employees. As the Company targets to become one of the most competitive steel and iron enterprise in the world, it strictly abides by Labor Law, Labor Union Law and other laws or regulations, strives to standardize enterprise performance, and carefully executes Labor Contract system, Collective Contract system, Employee Representative Council system, together with organizations such as Labor Unions, Labor Dispute Mediation Council, Labor Law Supervision office, Labor Protection and Safety Inspection Group. By playing an important role of Employee Representative Council, the Company has made solid progress in equal consultations and collective contract, effectively promoting the overall development of the Company in production and operation. In 2006, Baosteel was honored as a “National Model Corporation of Harmonious Labor relationship”.

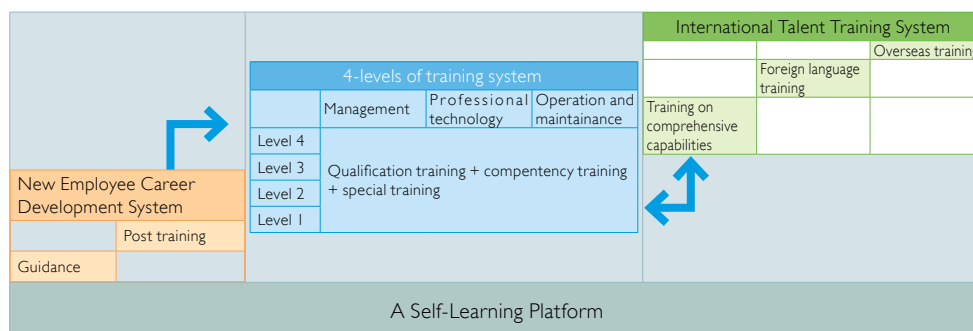
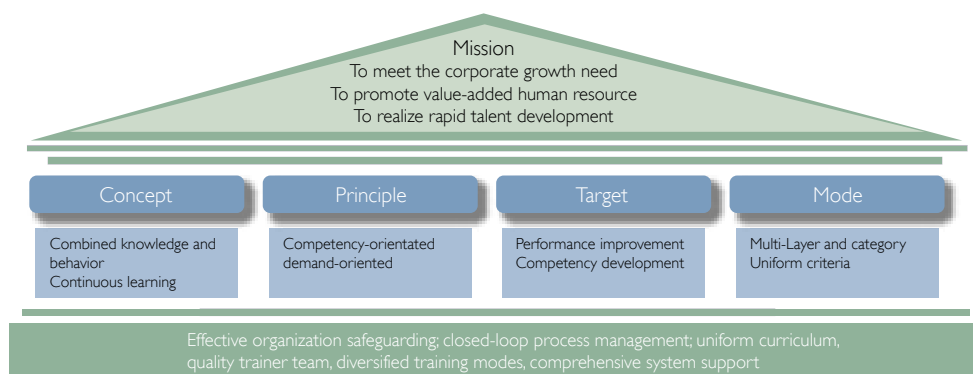


## Equal Opportunity and Diversity

- » Baosteel pursues an "equal opportunity" value concept, which is reflected in the policy/decision-making processes and embodied in different types of employees or different social groups. For instance, different employees on the same posts, male or female, are rewarded according to a uniform salary standard. There is no sex, post or group discrimination in the Company.
- » The Company pays high attention to national minority employees by providing certain allowances to some of them, and offering some important managerial posts for them according to their performance.
- » Baosteel encourages foreign employees and Chinese people who have completed overseas study and returned from abroad and joined the Company. In 2006, the Company strengthened its efforts for such recruitment, worked out special recruiting plan for overseas talents, so as to improve diversity and globalization of the Company.
- » In order to improve the working skills of female employees, the Company started conducting special study on the ability of female employees. Through the friendship association of "female engineers, economists, accountants, and technicians", almost 2000 female employees were investigated and analyzed, and an article entitled "Investigation results on working ability of female Baosteel employees", which was positively recognized and high evaluated by relevant experts in Shanghai. Besides, the male to female proportion in our management team is 3:1, which means more female employees working in the management staff, compared to the male to female proportion of all employees of the Company.

## Employees and the Company Grow Together

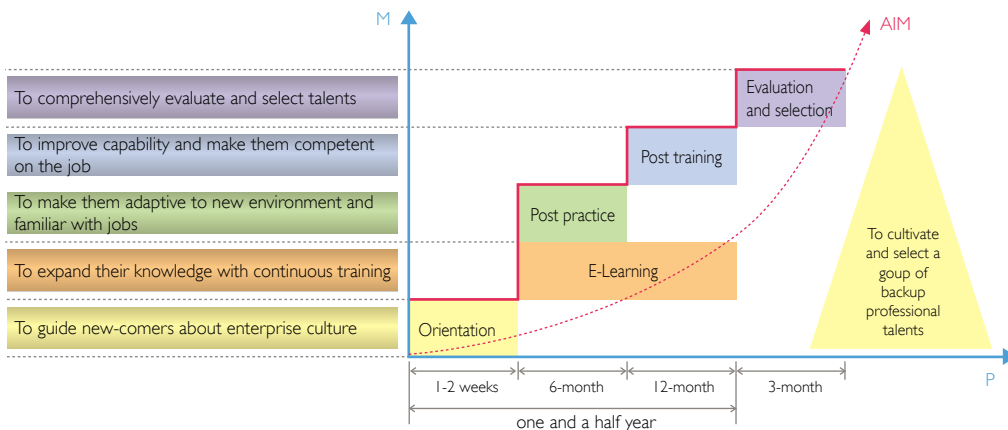
- » By summarizing many years of experiences on training and education in the Company, Baosteel has established a strategic training development system, which is suitable for the Company development and strategic targets. It has made efforts to improve employees' professional skills, creativity, and other comprehensive capabilities, with a focus on enhancement of international competition of key talents, so as to meet the needs of both individuals and the Company. Accordingly, there is a curriculum system to offer training programs and life-long learning for all employees, which could help realize the purpose of concurrent development of the Company and employees.



In 2006, average training hours for each employee were 80.2 hours, covering a number of 116,417 person-times, among which management staffs were up to 19,133 person-time, technician 43,029 person-time, and operator/maintenance people 54,255 person-times. The average education years for employees are increased by years, up to 14.26 years in 2006.

- » Baosteel keeps improving the professional training system for new-entry graduates. Through 5M Mode specifically designed for those new graduates, we adopt career guidance, e-Learning training, post practice, real job performance, and evaluation and selection, to improve their personal capabilities and adaptability to the position.

### New Employee Professional Development 5M Mode



### Rated as one of the “China’s Top Employers” (Shanghai Region)

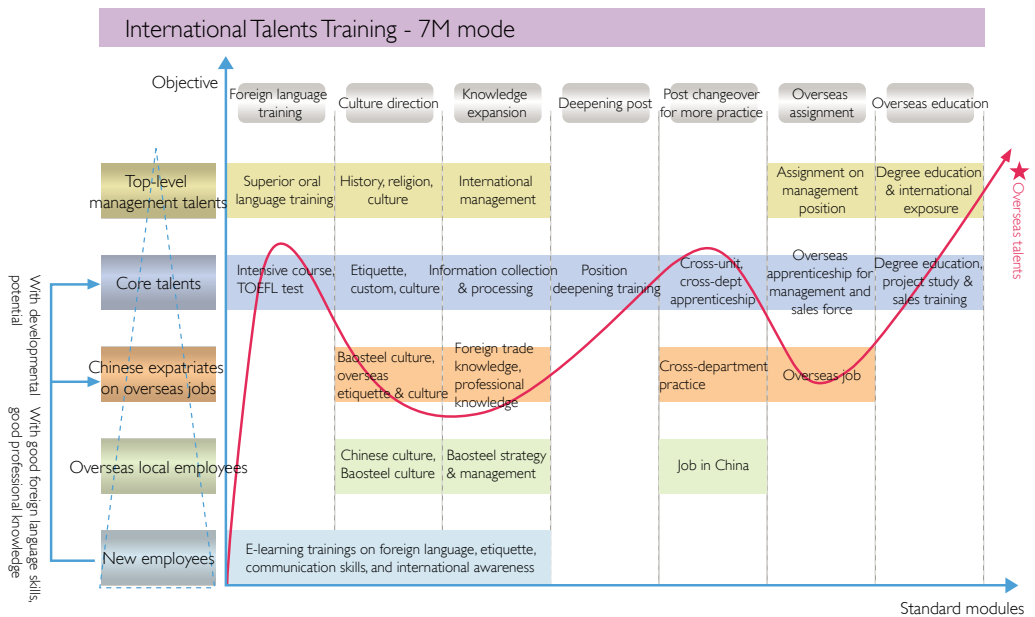
In May, 2006, Baosteel participated in “China’s Top Employers” competition activity organized by the famous international ranking firm CRF (Corporate Research Foundation), the media company CBN (China Business News), and the educational institution CEIBS (China Europe International Business School). The criteria were mainly related to such factors as brand power and social influence, development potential and social contribution, enterprise culture and employee relationship, continuous innovation and environmental protection, talent policy and attraction/retention. After comprehensive evaluation, the organizers concluded that Baosteel had achieved excellent performance in the above aspects, particularly, in the fields of respect to employees, continuous innovation, good development potential and strong corporate cohesion. The organizers believed that Baosteel fully satisfied the criteria as a top employer. Thus, the Company was awarded with this honor, among 38 outstanding international and local companies in Shanghai, including Siemens, Bayer, Shanghai Volkswagen, etc.

Remark: CRF is an outstanding international organization specialized in identifying top performance companies. During the past 15 years, CRF has successfully conducted a dozen of patented programs for top performer identification in 10 countries (Holland, Belgium, Germany, U.K., Spain, South Africa, Australia, Sweden, and China). By giving the definition of a top performer in the local area, CRF identifies the top companies and discloses their good performance to the public. This program has been recognized by over 2000 companies worldwide to be an effective way to attract and reserve talents. On May 23, 2006, the “China’s Top Performers™ 2007, Shanghai District” was ceremoniously kicked off by CRF in Shanghai, jointly with other partners including CBN, ChinaHR.com, CEIBS, Hay Group, Shanghai Daily.





- » Baosteel has established an ITT-7M (International Talent Training) program, providing a menu with 7 modes, i.e. "foreign language training, culture direction, knowledge expansion, post deepening, post changeover for more practice, overseas assignment and overseas education". The program is to upgrade employees' ability on foreign language, cross-cultural communication, information processing and business operation cater to meet the needs of different employees from different levels.



- » By striving to enrich the contents of a learning organization, Baosteel cultivates employees with knowledge, and promotes collective innovations.

Focusing on 3 concepts, "Efficiency, Accuracy and Value", the Company has made continuous efforts to enhance four competencies of the employees, i.e., "learning, communication, response, and improvement". It did effective work, promoting technical innovation activities, such as the activity of the technical innovation group named after Mr. Kong Liming, an inventor of Baosteel, which was awarded No. 1 National "Model Learning Organization" and National Labor Day Award.

The Company actively fosters the condition of grassroot technological innovations and improves the employee competencies. In 2006, Baosteel launched a large-scale skill contest for those skilled workers on similar posts of different plants, In total 52 subsidiary plants/workshops took part in the contest concerning 469 technical, operation and maintenance indexes.

Besides, the Company has introduced an incentive mechanism to encourage its employees to give play to their potential and realize self-surpass, by setting up various awards such as "Golden Bull Award", "Zengle Innovation Award", and Technical Innovation Premium named after Mr. Kong Liming (with 1 million RMB fund).

Many operators in Baosteel have become skilled workers with multiple capabilities, or even specialists in some aspects. More and more workers have grown up, with some have become excellent inventors, such as Mr. Zhou Caibin, Mr. Kong Liming, Mr. Du Guohua, Mr. Han Mingming and Mr. Wang Jun, who were awarded the title of "Shanghai Top Ten Worker Inventors" successively.



- » Baosteel advocates such life style as “work effectively and live happily”. Through communities or organizations, the Company tries to create conditions for employees to enrich their leisure time.
- The Company supports employees to organize different associations for their spare time activities including weiqi, Bridge, calligraphy, arts, and sports such as soccer, basketball, table tennis, badminton, tennis, billiards, etc.
- In our company, there are regular employee culture and art festivals and sports games, so as to enrich employees' life. The Company also organizes and holds various recreation activities to meet the employees' spiritual and cultural requirement.
- In 2006, the Company formed a team to taking part in the 13th Shanghai Sports Games. 200 athletes took part in the game on behalf of the Company, and had got excellent results with both the team total scores and number of golden medals ranked at the top place among units participating in the game..
- Various creative activities related to Baosteel thesis are regularly carried out in Baosteel. Many outstanding works on music, painting, and photos came up into people's sight. The Company also has a professional-level choral ensemble, which has won many prizes in various national contests.



Based on the principle of “sincere & interactive communication to achieve win-win results”, Baosteel makes efforts to establish a multi-channel, multi-field communication platform, so as to continuously improve its management on IR (Investor Relations), and enhance two-way communication with investors and increase corporate transparency.

## Building Multi-layer and Convenient Communication Channels

The diversity of investors indicates that diversified management measures are needed to improve investor relations. By full use of telephone, telefax, and Internet, etc., the information disclosure and exchange have been provided for Baosteel and investors. Baosteel has already established several information exchange platforms including “one-to-one” discussion, performance analysis, on-site survey, shareholders’ meeting, news briefing, online performance report, browse on company website, video-conference, and conversation with industrial sector analysts, etc. By offering more choices for investors, the Company improves effective communication with investors.

In 2006, Baosteel restructured IR (Investor Relations) section on the Company website, enabling inquiry and downloading of regular reports, company announcement, company candid video records, and other materials that are of investors’ interest. Meanwhile, the English version of the IR section was also updated for convenient retrieval by overseas institutional investors. After such adjustment, the website became more substantial in contents with friendlier interface.

## Active Disclosure & Regular Contacts

In addition to meet the statutory disclosure requirement, Baosteel continues to increase the voluntary information disclosure. Besides the annual report, the Company also works out “company candid video records” and other materials containing management data about production, sales and procurement, helping investors be aware of the Company’s overall situation. Baosteel has already formed a tradition to hold online (or candid) performance release conference in addition to its regular reports, activating communications with investors about company’s business performance, market status, etc. Baosteel also actively participates in various investor meetings organized by major investment banks, to keep the overseas or domestic investors informed about the Company’s status.

## Cordial and Interactive Communication

The disclosed information is required to be genuine and precise. As influenced by the supply and demand status of the industry, the iron and steel market experienced strong fluctuations in recent years. Thus, during the communication with investors, Baosteel has the responsibility to let them know the true situation and alert them about potential risks.

Sufficient communication between the Company and investors not only provides investors with precise company information, but also makes Baosteel understand the concerns and interests of the investors. This enables the Company to have necessary adjustment through marketing efforts and information disclosure, which is helpful for company’s capital market decision-making in the future.

## Seeking for Win-win Results with Investors

When planning the capital operation projects in the past years, Baosteel always insisted on the ideas to have sustainable development as a precondition and confirmed schemes after discreet research and discussion. After publicizing the project plan in the market, the Company would have sufficient communication with investors, strives to balance interests of various parties, and make some adjustment on the scheme, in order to achieve long-term win-win results of both the listed company and investors.

Ever since becoming a public-listed company, Baosteel has been providing cash dividend every year, with distributing ratio not less than 40% of the net profit of that year. The cash dividend shows a stable and slightly increasing trend, offering stable investment return to its investors. The Company accepted the suggestion of specified dividend ratio as wished by investors. After approval by shareholders’ meeting in 2004, Baosteel specified the distributing ratio not less than 40% of the net profit of each year. During the equity system reform, the Board of Directors agreed to submit a request to shareholders’ meeting from 2005 to 2007 to discuss the annual cash dividend of not less than CNY 0.32 per share. By promising a minimum cash dividend ratio, the Company can stabilize investors’ expectation and safeguard solid return for them.

Baosteel’s practices in IR and information disclosure have gained positive recognition of the capital market. In 2006, the Company received numerous awards and honors, such as “Top large-scale company”, “Top equity system reformer”, “Top communicator”, and No. 2 of “50 Companies with top IR Management” jointly evaluated by “Security Market Weekly” and Engineering & Management Institute of Nanjing University. Another honor is “Best Progress in IR Management” elected by the authoritative IR magazine in UK.

## Suppliers

The Company regards its suppliers as its business partners, who are as important and equal as the clients. It has been making efforts to establish the procurement – supply chain with an aim to build up the most competitive procurement & supply chain, on the principle of mutual benefit-sharing and mutual risk-bearing, and promoting the joint development of the Company and suppliers.

### Jointly Creating Value on the Basis Faithfulness

The Company introduces to suppliers its value and conception with “faithfulness” as its core, and continues to intensify and promote the cooperative partnership between supply chains through regulating access condition and establishing scientific evaluation system.

The Company seeks win-win benefits with suppliers, and does not intimidate suppliers in purchasing price and payment by right of its advantageous position in the field. Suppliers, big or small, strong or weak, are all equal. Regarding the rates of contract performance, delivery accuracy and price execution as the major standards, the Company resolutely rejected and restricted those suppliers who force the price increase by their advantageous positions in the market or break contracts at will.

In the year 2006, the Company won the respect from its suppliers by right of its honest image in business. The rate of contract fulfillment turned to be on a high level for the procurement of resources in short supply.

The Company organized the production departments, R&D departments and suppliers to form a virtual cooperative team in a “production-supply-research” mode, to make joint efforts to develop new steel products from new raw materials.

### Establishing Long Term, Stable Strategic Relation of Cooperation

The Company insists on establishing stable cooperative relation with suppliers in the form of middle- and long-term procurement agreements, and conducts sufficient communication and consultation in aspects such as market information, operating environment, development planning, cost control, and scientific research. By doing so, the Company has made it possible to face challenges together with the suppliers and give full play to the resource, expertise and technological advantages of strategic cooperation, and promote the overall operational efficiency.

In 2006, the Company signed the strategic cooperation agreements and long term supplying contracts with several suppliers in the fields of mine, coal, ferroalloy and international shipment.

In 2006, the Company's proportion of strategic resources was fixed up to 75%, while the proportion of procurement from strategic suppliers reached 77.6%.

### Implementing Sunlight Procurement and Jointly Promote the Construction of Environment-friendly Production Chains

The Company signed agreements of honesty with suppliers to implement sunlight procurement project together. The Company has established and improved the procurement management system in combination of seeking resource, implementation and strategic management within the enterprise, in order to be sure that the procurement process is highly efficient, transparent and controllable. Meanwhile, the Company has improved the hierarchical authorization system. Various sectors such as the introduction of new suppliers, pricing and the signing of important contracts should be conducted in accordance with the strict regulations and procedures in order to avoid any uncontrollable conditions. The Company added the agreement of honest and clean procurement when signing official contracts with suppliers, so as to avoid the transaction of money and power from occurring from the very beginning and to maintain a clean supply chain.

The suppliers have been instructed to pay attention to environmental protection and reasonable and effective utilization of resources, to promote the construction of environment-friendly production chains together. Concerning the un-renewable feature of raw materials for iron and steel, the Company has increased the investment in scientific research to accelerate the revolution of the raw material utilization through the integration of production, supply and research. Due to the increasing shortage of high quality coal for metallurgical application in domestic market, high-sulfur/high-ash coal has been developed and put into use through technological revolution to replace low-sulfur/low-ash coal. In order to reduce the influence of poor quality coal on the environment, the Company has increased the investment in environmental protection equipment, by increasing a desulphurization plant. In order to increase utilization of low grade iron ore, the Company purchased nine million tons of low grade Yangdi Iron Ore from Australia. In order to reduce the environmental pollution caused by the procurement and transportation of scraps, and to intensify the efforts of constructing scrap base, the Company has increased investment in scrap process base, and also expanded the procurement scale for clean scraps. The amount of clean scraps the Company purchased in 2006 reached 700,000 tons, almost 22.4% of the total procurement volume of scraps.



Following the concept of creating the optimal marketing value chains of best service, highest speed and lowest cost, the Company has long been persisting in orientating its products towards the needs of clients and keeping the promises of three “is”, namely, the customers’ plan is Baosteel’s plan; the customers’ standard is Baosteel’s standard; the customers’ interest is Baosteel’s interest. The Company has devoted itself to establishing strategic partnership with clients, strengthening the coordinating effect with clients, and attaching importance to the contribution made by service increment to the optimal marketing value chain, in order to seek mutual benefits with clients.

## Product Innovation and Brand Promotion

The development and promotion of new products is the key factor for the Company to realize sustainable development, and also the source of promoting products competitiveness. The Company attaches importance to the products quality and needs for environmental protection, making it possible for the clients to meet the needs of environmental protection in the process of use, store and transportation. In addition, the Company takes into consideration the quality of the transformation among products of various configurations within their life circle, in order to eliminate or alleviate the impact the transform process may have on the environment. The Company developed a series of healthy and environment friendly products in 2006. Now the Company has already had the ability to supply in batches environment friendly products, including high-strength and high-toughness thick plate, self-adhesive coating electrical steel, thin-type tin plate (DI plate), high-strength steel for automobile, high-temperature and high-pressure boiler pipe, chromium-free post-treatment galvanized product, chromium-free color-coated steel sheet for household appliances, vibration-absorbing composite plate and high-strength series enamel steel. Among the products are:

(1) Automobile steel sheets. Through the acceleration of the domestic attestation of steel sheets for automobile and the development and application of high strength steel, the Company had passed the attestation for 67 kinds of steel and 153 spare parts by the end of 2006, and these products have been supplied to clients in batches.

(2) Household appliance products. The development and sales of environment friendly products have been increased on the basis of the promotion of such new products as refrigerator casing, pickling steel and hot galvanized, fingerprint-resistance products. The annual sales volume of seven categories of environment friendly coating products exceeded 350,000 tons, an increase of 227.8% compared to the same period last year. All the environment friendly products for household appliance made by Baosteel have passed SGS non-contaminated examination attestation, fully meeting the requirements stated in EU ROHS environmental protection instructions, and achieving the goal of “producing green products” in the real sense. Meanwhile, the Company compiled “manuals of environment friendly products for household appliance”, actively guiding and encouraging clients to use environment friendly products.

(3) High strength steel products, mainly include hot rolled high strength steel for cold formation, hot rolled high strength steel for auto beam, dual phase steel, high strength weatherproof steel for railway vehicles, cold rolled TRIP, hot galvanized steel of high yield ratio, etc. In 2006, the Company sold 1,410,000 tons of high strength steel products, an increase of 11.4% compared to the same period in 2005.

Moreover, aiming at Baosteel leading product — automobile steel sheets, the Company introduced “synchro-brand” of automobile steel sheets, stating that Baosteel automobile steel sheets should be in step with the environmental protection efforts, development speed, technology and improvement of Chinese auto industry. The Company insists on developing in line with Chinese auto industry, with the growing needs of clients, with worldwide upgraded automobile steel sheets technology, and with social harmony and sustainable development. For instance, according to the requirements of lowering energy consumption for the sake of environment in auto industry, Baosteel managed to develop the series of high strength steel for automobile, and in accordance to the R&D of new products in auto industry, Baosteel implemented the mode of “involving in advance”, developing iron and steel for new automobiles developed by downstream customers. The Company also insists on keeping pace with auto industry in various sections from R&D, production, logistics to service.





## Supply Chain Coordination Creates Value for Clients

The Company dedicates to establishing strategic partnership with clients, intensifies common development with clients, and attaches importance to the contribution made by service increment to the optimal marketing value chain, in order to seek mutual benefits with clients. Applying consistent quality management and 6 $\sigma$  operation mechanism, the Company has shortened the delivery cycle and increased weekly delivery rate through intensifying weekly delivery management..

Through establishing the business platform of supply chain coordination, which is oriented towards strategic clients, the Company has realized the connection of business information and data between the Company (production sectors, regional companies, cutting and processing centers), service enterprises such as logistics, and strategic clients, and in turn, realized share of supply chain data in the whole process. The coordination business platform has given full play to the role of various Baosteel business sectors in the service for strategic clients, consolidated the inter-dependence between the Company and the clients, and thus, has become a bridge for the Company as well as for the clients in various industries to promote competitiveness at the same time.

The Company has successively completed the construction of three "key account passage" systems by 2006, and started another two "key account passage" projects. By doing so, it has further promoted the service for strategic clients in such fields as information share, demand realization, production, storage and transportation, processing and distribution and delivery, thus giving full play to the overall advantages of supply chain.

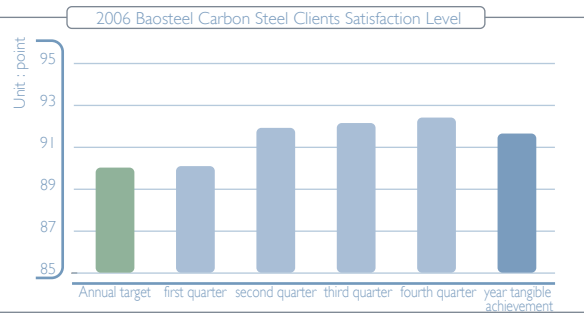


## Caring about Consumer's Perception, and Enhancing Consumer Satisfaction Management

The Company has always attached great importance to consumer satisfaction, taking the lead to carry out consumer satisfaction survey in domestic iron and steel industry. With over ten years' of practice and experience, a reasonable customer satisfaction investigation and evaluation method has been gradually formed with reference to domestic and overseas advanced evaluation methods in view of its own characteristics. We have realized quantitative analysis with mathematical statistics method on investigation findings, made rectifications and return visits for unsatisfied items, and sought common improvement of the related departments based on users' suggestions. The Company has provided favorable environment for conducting effective consumer satisfaction survey by introducing "consumer satisfaction project" and carrying out comprehensive TSM (target satisfaction management). In 2006, Baosteel consumer satisfaction management entered a new phase of development. Apart from the evaluation of consumer satisfaction, the Company began to show further concern over the real perception of clients, deeply explored the expectation and needs of clients, and introduced consumer perception survey. By keeping on optimizing "perception evaluation mode" and using analysis methods, the Company has improved the evaluation system and increase the scientific level and comprehensiveness of TSM.

The satisfaction survey includes 4 items, namely quality, service, supply ability and price, and over ten sub-items, covering customers' overall experience with our products. At the same time, the investigation object is expanding continuously, from over 100 direct users to 285 in 2006. The Company realized integrated management in consumer satisfaction investigation system in 2006. The satisfaction level, with an annual average of 91.62 points, is moving with an increasing tendency while remaining stable, exceeding the target score by 1.6 points. In addition, the Company has been awarded the title of "Excellent Suppliers" awarded by key clients and Baosteel International the title of "National Consumer Satisfactory Enterprise" and "Shanghai Consumer Satisfactory Enterprise."

The Company's project of "raising the customers' satisfaction level by building customers key account passage" was awarded the first prize of "2006 Metallurgical Enterprise Innovation of China Iron & Steel Association", the second prize of "2006 Shanghai Quality Technology" and the second prize of "2006 Quality Technology of China Quality Technology Association".



## Dedication to the Society

Apart from the huge economic contribution Baosteel has made, it is also enthusiastic about the cause of public good. Baosteel has found an effective way to reward the society, which seeks the best results by using multiple methods. It has successively established Baosteel Education Award, Baosteel Art Award, and Baosteel Fund for Helping the Poor, supporting Hope Project and remote and poverty-stricken areas by donation. A long term working mechanism has also been built. Since the founding of Baosteel, it has invested more than RMB 300 million in work for the public good.

### Concern over Education

#### Baosteel education fund

Founded in 1990, "Baosteel Education Fund" is the most well-known education award nationwide funded by state-owned enterprises, supported and instructed by the government and participated by colleges and universities, with leading scholars in domestic education circle and science circle taking part in the appraisal. It is also the earliest scholarship for higher education set up by the state-owned enterprises. Baosteel made further investment in September, 2005, increasing the fund from 50 million to 100 million. Baosteel education fund has rewarded 11697 excellent teachers and students from 118 colleges, universities and science & technology institutes during the past 16 years. The reward and subsidy has accumulated to RMB 85 million.

In 2006, according to the accreditation of Baosteel education award appraisal meeting, 30 students represented by Zhou Yechun from Fudan University were awarded the top prize of Baosteel Excellent Student Award, 10 teachers represented by Luo Xuegang from Central South University were awarded the top prize of Baosteel Excellent Teacher Award, 513 students represented by Yang Daobo from Central University for Nationalities were awarded Baosteel Excellent Student Award, and 188 teachers represented by Xia Jianxin were awarded Baosteel Excellent Teacher Award. In addition, the Company added another three universities, namely, Shangdong University, Xiamen University and China University of Politic Science and Law to be appraised for receiving Baosteel education award.

#### Hope Project — jointly building Great Wall of love

During the last decade, Baosteel has all together donated RMB 30 million to Hope Project, invested or partially invested in the establishment of 38 elementary schools in central western regions and the areas covered by the Long March of the Red Army.

In 2006, the Company conducted a series of Hope Project activities aiming at helping the poor in study, including "online charity auction", "Donating books", "Re-experiencing Long March — visiting elementary schools sponsored by Baosteel Hope Project". Members of Communist Youth League voluntarily donated more than 20 thousand books, conducted "one-to-one" activities in helping the poor students from several elementary schools sponsored by Baosteel in areas covered by Long March, and provided the schools with teaching facilities and study materials, improved the educational condition in these schools.

In the Book Donating activity, which was named "Imparting Knowledge, Igniting Hope" and launched by Baosteel, 12500 books and 60 computers were donated to elementary schools by the Company. Furthermore, in the activity called "Transferring Knowledge to Tibet", the Company donated 4000 books to the elementary schools sponsored by Baosteel Hope Project in Tibet.



#### "I made it to become a member of Baosteel!"

The elementary schools sponsored by Baosteel Hope Project have gradually developed into the cradles for cultivating talents, with good learning and teaching atmosphere as well as improving teaching quality. In 2006, Yang Minhua became the first college student who was graduated from Baosteel Hope Elementary school and entered Baosteel for work.

Yang Minhua came from Xianghu town, Ruijin county, Jiangxi province. In 1996, the elementary school where Yang studied was renovated with the help of Baosteel, and named "Baosteel Ruijin Hope elementary school". In 2002, Yang, by right of excellent performance in college entrance exam, was admitted to Shanghai Electric Power Institute, majoring in automatic control, and became the first college student graduated from Baosteel Hope Elementary School. In March, 2006, Yang submitted his resume to the HR department of Baosteel Branch Co., and successively passed the strict appraisal.





## Serving the State by Proving Iron and Steel Products, and Feeding Back the Society

### Baosteel fund for helping and sending warmth to the poverty-stricken people

In 2004, Baosteel donated 20 RMB million to Shanghai Charity Foundation, and established Baosteel fund for helping and sending warmth to the poverty-stricken people.

Shanghai Children Health and Development Hotline, which was sponsored by Baosteel fund for helping the poverty-stricken people, has been put into operation for nearly two years. It has by far provided free consulting service for over 2000 children and their families, receiving good comments from all walks of life.



The picture shows the consultants answering the questions raised by middle school students during the activity called "true love under the blue sky" held by Shanghai Municipal Government on Feb.4, 2006.

### Reward the society by high quality products; serve the country through providing iron and steel products

Baosteel has been invariably concerned with the construction of national defense and the undertaking of scientific expedition. The Company has successively given color-coated sheet facilities as presents to "Hard-boned Sixth Company" of Heihe military subdistrict in Hei Longjiang province and Ganbala radar station of Lhasa command post of Chengdu air force. Besides, it also presented a power supply building made from Baosteel fluosol color-coated sheet to the Antarctic Great Wall Station of Chinese polar scientific expedition office. The building was entitled "Baosteel Building of Chinese Antarctic Great Wall Station".

In September, 2006, Baosteel donated ten sets of panelized building structure for duty houses with a total value of RMB 1.6 million to Urumqi frontier guards of military district in Xinjiang Autonomous Region.



Xinjiang Military Region gives Baosteel a silk banner as a gift.

Yuan Cai, the deputy chairperson and secretary general of Shanghai Charity Foundation, said, "Baosteel always takes it as an obligation to reward and make contribution to the society. For many years, it has actively participated in work for the public interests. Baosteel has created a favorable social image and presented excellent enterprise culture by establishing fund not only for charity, but also for education and elegant art. It is my hope that more enterprises like Baosteel can make efforts to promote the development of charities, and in turn, contribute to the construction of harmonious society. Our society is in need of the atmosphere and spirit characteristic of mutual consideration. I'd like to express my sincere thanks to the love movement Baosteel staff have engaged in.

## Contributing Volunteer Service and Displaying Youth Color



Zang Yong  
(Winner of the 2005 Golden Prize for Youth Volunteer Service of China, employee of the Energy Department of Meishan Steel Branch)



Cai Shaojie  
(Member of the Youth Volunteer Team of Baosteel Iron Smelting Plant and secretary of the Blast Furnace Workshop Branch of the Communist Youth League)

### Let Volunteer Service Become Part of the Happy Life

At present, the Company has nearly 5000 registered young volunteers. Among them, Zang Yong of the Meisteel Branch, who was awarded "The 2005 Golden Prize for Youth Volunteer Service of China", is an outstanding representative.

Zang hasn't got one penny for his volunteer service of more than 3000 hours in 9 consecutive years. Instead he's got happiness which money cannot buy. This kind of happiness comes from the satisfaction of the demands of people who need help, from the fulfillment of social obligation and from the realization of individual value.

Zang Yong: "Giving is an attitude of life and a state of life. By giving we get happiness. I hope that more pursuers of happiness will join the volunteers and then the world will become happier, warmer and more harmonious."

In Baosteel Iron Smelting Plant, there is a team of volunteers active in volunteer service. This team used to be awarded the honorable title of "Volunteer Service Advanced Collectivity of Shanghai". It has successively attracted more than 500 employees to throw them in supporting poor children in their study, community service, helping the old and lonely, volunteer blood donation, and so on.

Cai Shaojie (Member of the Youth Volunteer Team of Baosteel Iron Smelting Plant and Secretary of the Blast Furnace Workshop Branch of the Communist Youth League): "Love not only means merit, politeness or broad mind, but also means a state of life. As employees of Baosteel, we should carry forward the corporate culture and make contribution to building a harmonious society and establishing Baosteel's socially respected corporate image. I hope that more and more people will take the lead in learning, spreading, carrying forward and passing love from generation to generation."

### Volunteer Blood Donation — Hope Project for Life

About 1000 young volunteers in Baosteel Branch have zealously entered for the campaign "Ignite Hope for Life with Youth-Shanghai Young Blood Donation Volunteers Initiative". They have organized several volunteer blood donation campaigns when the blood bank of Shanghai is in urgent need of blood. More than one thousand person-times young volunteers have initiatively donated blood of more than 150000 milliliters in total.

In 2006, Baosteel Branch launched the campaign "Hope Project for Life — Baosteel Young Hematopoietic Stem Cell Donation Volunteers Initiative". Blood samples of 188 young employees were taken on site.

Meisteel has 1142 registered young volunteers who, on annual average, participated in volunteer activities for 17 hours/person and 8 times/year. In the hematopoietic stem cell donation campaign by Red Cross Society of China Nanjing Branch in 2006, more than 200 young volunteers from Meisteel donated their blood samples.

## Supporting Community Development, Jointly Building a Harmonious Community

Ever since its establishment, Baosteel has always been vigorously supporting the construction and development of Baoshan District. It has also been strengthening the interactive development with regional economy and initiatively undertaking the social responsibilities.

With the backing of Baosteel, industrial economy featuring metallurgy and its accessory and supplementary industries has been formed in Baoshan District, producing six major types of products, such as containers, steel structures, elevators, nonferrous metal, metal cans, and steel products and so on. The above-mentioned industries account for 40% of the industries in the district and are playing a dominant role. Besides, Baoshan District has become one of the biggest steel products exchange centers in China.

In recent years, Baosteel and Baoshan District have jointly designed to build "Refined Steel of Baoshan" which means the interactive development of Baosteel and Baoshan regional economy. It explores the way to develop recycle economy and a conservation-conscious society and seeks to make Baoshan a centralized and radiate district of world-class refined steel producer and other related industries, such as logistics, so as to make Baoshan a modernized new city zone alongside the Yangtze River functioning as a supplementary city with ecology, life and production developing in harmony.

Baosteel and Baoshan municipal government have signed Cooperation Agreement by the County and Holding Companies on Collaborative Developing Distinctive Products and Agreement by Baoshan District and Baosteel on Mutual Supporting and Collaborative Development.

Baosteel has launched civilization construction activities with surrounding communities and schools, gradually forming various volunteer service patterns including large-scale volunteer service on big anniversaries, helping and giving warmth to the needed during Spring Festival, daily visiting service and fixed community service, "I Helping I" long term joint construction service with the community, and extensive service into the society. With the long acting comprehensive volunteer service system established, Baosteel provides more than 70 service patterns which are closely related to residents' life for surrounding communities, with people having received services reaching nearly 10000 in total.



## Helping Outlying and Poverty-stricken Areas

In recent years, Baosteel has helped poverty-stricken areas in the Puning County, Mojiang County, Jiangcheng County and Zhenyuan County of Puer City in Yunan Province. From 2004, it has input altogether more than RMB 22 million in the countries in poverty-stricken mountainous areas, improving the basic productive and living conditions and construction of educational and hygiene facilities.

So far, 16 hope schools and 34 health centers have been set up and 196 households have been modified. 10 Villages with sufficient Food and Clothing have been built and 8 villages have been improved as a whole. 1801 people have been supported in their study. Large quantities of books, things used in culture and education, computers, and tens of thousands of clothes and quilts have been donated to these areas.



Jiangcheng County of Simao City of Yunan Province (now Puer City) has 26 nationalities such as Hani, Yi, Han, Dai, Yao, and Lahu, with a population of 118000, 81.3% of which are minorities. Jiangcheng County was confirmed by state council in 1986 as one of the 26 national poverty-stricken counties in Yunnan for its underdeveloped infrastructure and its large- and deep-scaled poverty. Since 2004, Baosteel International has been helping Jiangyuan County directly. In three years, it has input supporting construction fund of RMB 5.35 million to build Villages with sufficient Food and Clothing, Welfare Housing Villages, Well-off Villages, clinics, vocational school buildings, and so on, helping local residents to cast off poverty and set out on a road to prosperity and well-off. Through the implementation of supporting construction project, food and clothing problem

of poor residents in this county has been solved and a good foundation for sustainable development in the future has been established.

Since 2002, Baosteel has been helping Zhongba County of Tibet Autonomous Region directly. It has input fund of over RMB 57 million, most of which is given to the grass-roots level and farmers and herdsmen. 38 supporting construction projects have been launched to improve the productive and living conditions of farmers and herdsmen. At present, another group of helping Tibet projects is under construction. These projects include renovation of the ramshackle buildings along the streets in the county, model points for well-off, trading markets for agricultural and animal products.



# Environment



## Objectives

- General objectives
- Recent objectives
- Responsibility and objectives for energy saving
- Responsibility and objectives for environmental protection

## Management

- Organization
- Certification of management systems
- Integrated management

## Being concerned about global warming

- Implementing "Program of Saving Energy Action and Execution in Thousand Enterprises"
- Conducting energy audit and working out the energy saving plan
- Using clean energy to reduce pollution discharge
- Promoting clean production
- Developing recycle economy



Community environmental protection and remediation

Environment developed jointly by the enterprise and communities  
Remediation of ecological environment of the river around the enterprise

Exchange and cooperation

International exchange  
Domestic exchange  
Science and research cooperation  
Common responsibility  
Social training

Research and innovation

Intellectual property  
Technical achievements  
Green products  
Research and innovation of environmental protection and energy saving technology

We will do better

Iron and steel industry is a typical resource and energy intensive industry. It brings about a huge burden on the environment from exploitation and transportation of raw materials, such as iron ore and coal etc., to manufacturing, application, final discarding and recovering process of steel products. In order to realize sustainable development of the entire society, maintain competitiveness of steel products, and ensure the existing space for steel products in the future, sustainable development strategy is the logical choice of steel industry development, and is also a historical responsibility of steel enterprise assigned by the society.

As a leading enterprise of China steel industry, Baosteel Co., Ltd. determines to be a model which is most conscious of its social responsibility, marching on the sustainable development road. Baosteel always attaches importance to environmental protection, regarding environmental protection as its responsibility and obligation for the society, promoting clean production in an all round way. It decreases the input of raw materials and fuels by controlling from the sources. It promotes environmental protection and energy saving and consumption reduction technologies, by increasing utilization efficiency of resources and energy, concentrating on developing green products, developing recycle economy, and realizing reclamation of wastes.

Baosteel passed certification of environmental management system ISO 14001 in January of 1998, and passed renewal replacement examination of ISO 14001 in July 2004. In 2005, Baosteel put a high premium on certification of newly acquired enterprises after the new issuance and acquisition. Through more than one year of integrated management practice, all branch companies or subsidiaries of Baosteel have passed relevant certification of corresponding environmental management systems.

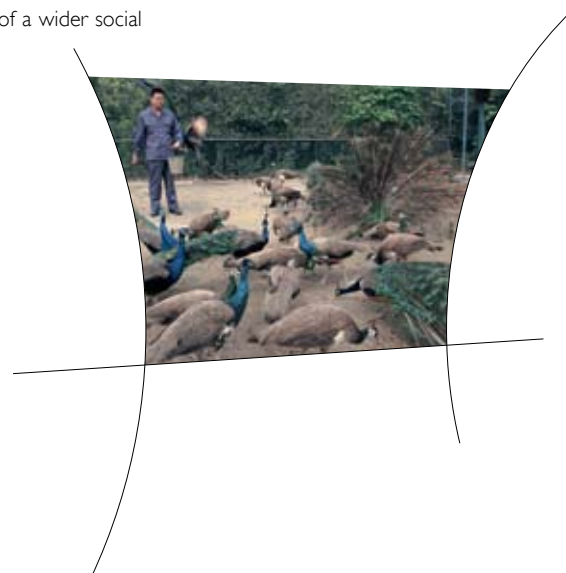
In 2005, Baosteel was awarded the title of "China Environment-Friendly Enterprise", and was the first enterprise winning the honor in China's metallurgical industry and in Shanghai. In 2008, the government will review and evaluate the enterprises for the title of "China Environment-Friendly Enterprise". All branch companies and subsidiaries of Baosteel will be reviewed as a whole body at that time.

"Green management" is one of the important concepts adopted by Baosteel to practice sustainable development. Green concepts, such as green design, green manufacturing, green marketing, and green products, have been deeply rooted in the mind of every employee of Baosteel, and has been always practiced in their daily work.

Baosteel pays attention to protection and recovery of natural environment in the production plant area and surrounding living quarters, and puts a premium on protecting biological diversity of the region where the Company is located. Through landscaping on the greenbelt with grass, trees etc., flowers keep blooming in three seasons and plants keep green in all seasons. Greenbelt surrounding living area is increased every year. Baosteel has set up a biological protection area and adopted artificial cultivation, etc., and in the plant area dozens of species of animals are living, with the amount increasing gradually in number, and several hundreds species of plants are flourishing.

Baosteel Co., Ltd. is always responsible for the society, and deals with environmental protection issues earnestly with a high sense of responsibility for the mankind. It abides by regulations and laws, and has established internal environmental control standards for compulsory implementation, which are more stringent than laws and regulations. Normally proportion of environmental investment for new or expansion projects is usually not lower than 5% of the total investment, and large amount of capital has been used for technological transformation and daily maintenance of environmental technologies and equipment every year. In recent years, the Company has not got any major punishment for not abiding by environmental laws and regulations.

In the coming years, Baosteel will take environmental protection as one of key tasks to develop recycle economy, reducing the pollution to the environment in production processes from the source. It will use raw material and energy in a rational way by increasing its utilization efficiency through recycling secondary resource to a great extent, therefore, minimizing output of pollutants. The Company will take measures, such as reduction from the source, process reuse, end recycling, as basic means, to realize cascade utilization and recycling of all kinds of natural resources or secondary resource on the industry chain of internal enterprises and areas and even on the "ecological chain" of a wider social scope, and promote the harmonious development of the enterprise and society together.



## General Objectives

### Building up the first class green steel enterprise in the world

We are going to build Baosteel into a first class green steel enterprise in the world, which will be characterized in the following aspects:

**First-class management.** All production units shall acquire corresponding environmental management system certification, with whole process tracking of management of wastes; by realizing informatization of energy and environmental management and real-time monitoring to supervise operation effect of energy and environment facilities and situation of environmental quality, find and correct environmental pollution events within plant area at real time, and realize automation of management and statistic report.

**First-class technology.** It means to increase input, speed up development and application of advanced and innovative recycle economy technology, accelerate construction of advanced environmental protection facilities and comprehensive resource utilization facilities and technical renovation of existing energy saving and environmental protection facilities. Following items should be accomplished: to promote the application of technologies, such as coking coal damping, dust dry removing method, heat accumulation combustion, combustion of low Nox, in-depth treatment of wastewater from chemical industry etc.; to construct and implement flue gas desulfurization projects of both coal-fired power plant and sintering plant in an all-round way; to turn secondary resource utilization from simple treatment to high value added utilization, so as to increase recovery production efficiency.

**First-class index.** Main indexes of energy and environment should be up to those of the first class in the world: energy consumption, fresh water consumption and waste water discharge amount, discharge of pollutants, such as SO<sub>2</sub>, Nox, smoke dust, heavy metal, organic substance, dioxin, COD, SS, oil, ammonia nitrogen, phenol cyanogen etc, come up to the first class in the world.

**First-class efficiency.** Outstanding energy saving efficiency with first class energy cost in the world: investment of environmental projects and operating cost of environmental facilities should be effectively decreased under the precondition of assuring the first-class environmental protection indexes. The comprehensive efficiency of resource utilization should be increased year by year, being superior over similar domestic enterprises.

**First-class appearance.** With tidy and hospitable appearance of plant area by means of strict management and technological transformation, the Company shall totally eliminate black smoke and yellow smoke in plant area, effectively controlling flying dust in storage yards, roads and construction sites, and keeping match with greenbelt in plant areas, and forming a clean, orderly appearance with comfortable environment.

**First-class guidance.** Baosteel should be built into a model of domestic steel industry in developing recycle economy, a main supplier of recycle economy management and technology, and a leading enterprise for sustainable development. By participating in activities of world steel industry, it will bring back issues concerned in the world to China and bring the existing situation and requirements of China steel industry to the world. This will increase the chance to speak to the world steel industry, and become an important representative of China's steel industry in the world steel industrial arena.

## Recent Objectives

- » To pass reaudit of "China Environment-Friendly Enterprise" in 2008;
- » The main energy and environmental protection indexes of Baosteel will be on the first-class level of the similar world steel enterprises in 2010, and fulfill energy saving amount and total pollutant reduction amount during the period of "the 11th five year plan" given by the national and local government;
- » To build up recycling steel enterprise having low consumption function for steel products, energy conversion function, social large amount wastes treatment- dissolution or absorption function in 2012, and become a leading steel enterprise developing recycle economy and following sustainable development routine.

## Responsibility and Objectives for Energy Saving

Baosteel Group Co. Ltd., signed Letter of Energy Saving Target and Responsibility with the State Development & Reform Commission, promising to save energy to the amount of 1,266,400 tons of coal equivalent during the period of "the 11th five year plan", among which Baosteel shall fulfill saving an energy to the amount of 1196400 tons of coal equivalent.

Meanwhile, Baosteel Group Co. Ltd. signed Letter of Energy Saving Target and Responsibility with Shanghai Municipal Government, which stipulates that for per RMB 10 thousand of production output Baosteel Group Co. Ltd. shall decreased 40% of energy consumption in 2010 on the basis of that in 2005, and this target will be fulfilled by main industrial companies within Baosteel Group Co., Ltd., including Baosteel Co., Ltd.

In order to assure fulfilling the energy saving task and to achieve more saving, the Company will break down total energy saving target and the energy consumption per RMB 10 thousand production value proportion target to all secondary units and then further breakdown the targets to their workshops.

## Responsibility and Objectives for Environmental Protection

During "the 11th five year plan", Baosteel Co. Ltd. (including Luoqing Project of Baosteel Group Co. Ltd.) signed Letter of Total Ppollutant Discharge Amount Target and Responsibility with Shanghai Municipal Government. For details, see the following table:

Item	Controlled total amount (ton) of 2010	Notes
COD	2790	
SO <sub>2</sub>	14000	Excluding the in-plant power station

### State Environment-Friendly Enterprise

In order to promote clean production, sustainable development of relevant industries, strengthen prevention of industrial pollution, follow a new type industrialization road, State Environmental Protection Administration started to launch "China Environment-Friendly Enterprise" movement in whole country in 2003, and has set up a group of model enterprises with high technology content, good economic benefits, low resource consumption, less environmental pollution, balanced development of environment and economy.

The title of "China Environment-Friendly Enterprise" is currently the highest honor of domestic enterprises in environmental protection, and its examination mainly includes indexes of environment, management and products.





## Organization

Environmental protection and resources utilization commission is the top decision-making body of environmental protection and resources utilization of the Company, responsible for establishing environmental protection and resources utilization policy of the Company, guiding and studying environmental protection and resources utilization strategic planning, coordinating relation of all subsidiary companies and all branch companies and resources distribution, and making decision for major projects on environmental protection and resources utilization etc.

Standing body of the commission is environmental protection and resources utilization department, and currently has two operating groups: "environmental protection and system promotion" group and energy saving and resources utilization" group.

All branch and subsidiary companies have corresponding production administrative body for environmental protection, energy management, and comprehensive utilization of resource. In part of branch and subsidiary companies, above business is done by one administrative body, therefore simplifying administrative body, increasing work efficiency.

Environmental Protection and Resource Utilization Management Commission				
Chief				
General Manager				
Deputy Chief				
Deputy General Manager in Charge	Director of Environmental Protection and Resource Utilization Department		President of the Research Academy (Technical Center)	
Commission Member				
Director of the Environment and Resource Institute of the Research Academy	Persons in charge in functional departments	Deputy Director of Environmental Protection and Resource Utilization Department	Leaders in charge in the branches	Leaders in charge in the subsidiaries



## Certification of Management Systems

Baosteel sets up the management system and carries out environmental management according to the requirements of ISO 14001 international standard and national environmental management. It organizes internal auditors to conduct internal audit for the system regularly, and receives regular audit of external audit units to assure the continual improvement of environmental management system.

Baosteel Branch, received ISO 14001 certification in 1998, is the first company in the domestic metallurgical industry.

After Baosteel increased share issuance and acquired other companies, Baosteel established a work plan for environmental management system according to the "unified planning and conducting certification separately" operation model of the comprehensive management system of the Company in 2005, and all subsidiary (branch) companies broke down the plan according to requirement and targets of the plan, carried out their internal plans, and implemented environment system management of all subsidiary (branch) companies according to ISO 14001 standard.

By 2006, all subsidiary (branch) companies of Baosteel passed ISO 14001 certification.

## Integrated Management

### » Promoting integrated management

Integrated management has been key work of Baosteel after the new issuance and acquired other companies in 2005. In 2006, Baosteel continually promoted integrated environment management by means of environment and resources quarterly meeting, places emphasis on study and promote advanced management idea and technology of Baosteel branch companies, improved and integrated energy saving, environmental protection and comprehensive utilization of resource management system on the basis of existing work, and made advantages of integrated synergistic effect.

### » Training management staff

Baosteel held all kinds of fundamental management training seminar on energy saving, environmental protection and comprehensive utilization of resource together with integrated environment management promotion such as management statistics training, specified and unified data statistics and calculation method, increasing accuracy and comparability of data. In order to cooperate to promote system certification, it held training courses on "Environmental laws and regulations and environmental protection knowledge" and "Environmental management system standard (2004 version)", and more than 80 management staff members, who were in charge of environmental protection and system certification of all branch (subsidiary) companies of Baosteel, attended the training. Other special training on environment cost management is also held for relevant management staff of functional departments and all branch (subsidiary) companies.



» Establishing the system for counterpart liaison persons

Environmental protection and resources utilization department has established a counterpart liaison person system for contacting with environmental protection department and energy management department of all branch (subsidiary) companies, the personnel of environmental protection and resources utilization department is responsible for contacting and keeping communication with one or more branch (subsidiary) companies. Since they know practical production situation of all branch (subsidiary) companies in time, they can make rapid response, and provide better service and support for field management.

» Organizing professional management and technology promotion group

Baosteel promotes advanced management ideas and technology of Baosteel Branch by means of organizing specific work promotion group (Virtual group) while solving practical problems for branch companies. In 2006, Baosteel organized specific promotion groups (Virtual group) within the Company to promote environmental protection on energy saving, electricity saving, SO<sub>2</sub> and smoke dust discharge reduction etc., and achieved good results

Under the leadership of environmental protection and resources utilization department, Baosteel Branch, Stainless Steel Branch, Special Steel Branch and Meishan Steel company organized water saving promotion group, set up water saving promotion system, work file system and information exchange system etc., and carried out water saving technical exchange and promotion work. In 2006, fresh water consumption index per ton steel of Baosteel decreases 15.73% compared with that in 2005, saving almost 16,000 thousand m<sup>3</sup> of water in the whole year.

» Centralized treatment of industrial secondary generated resources

After Baosteel increased issuance and acquired other companies, central treatment is gradually used for industrial wastes produced by all branch (subsidiary) companies according to the principle of integrated operation, with remarkable integrated efficiency from the central treatment.

That Chemical Company treats waste water containing phenol for Special Steel Branch Company; Baosteel Development Company uses waste sulphuric acid from Special Steel Branch Company as the raw material for producing iron dioxide and the project of the centralized treatment and comprehensive utilization of solid secondary generated resources of Lujing Project have all reflected advantages of integrated management.

» Carrying out inter-plant energy saving and environmental protection labor contest

In 2006, 7 professional groups of all branch (subsidiary) companies initiated inter-plant energy saving and environmental protection labor contests of the same lines. The main purpose was to find gaps through aligning standards, initiate labor contests, learn from each other and make progresses, so as to push all branch (subsidiary) companies to improve index levels of same lines.

## Being Concerned about Global Warming

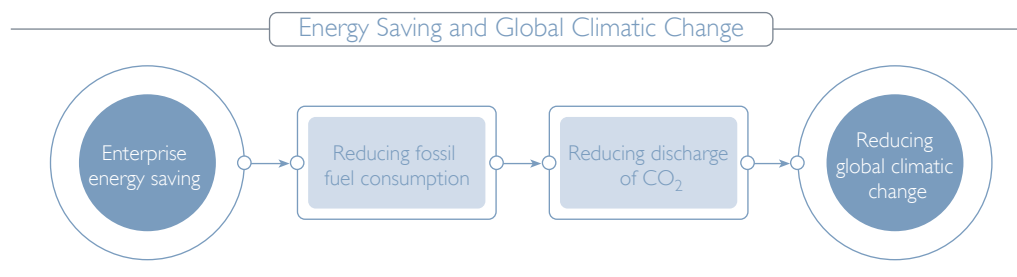
In February of 2007, the UN Intergovernmental Panel on Climate Change (IPCC) has issued "The fourth assessment report on global climatic change", pointing out that it is possible that more than 90% of temperature rise from mid-20th century up to now is related to discharge of greenhouse gases resulting from human being activities.

Since the industrial revolution, human being has burned large amount of fuel, such as coal and petroleum etc., discharged excessive CO<sub>2</sub>, so concentration of greenhouse gases in the atmosphere have been gradually increasing, intensifying greenhouse effect, and making earth temperature increasingly higher.

Scientists predicted that rising temperature would result in hundreds and thousands of people being forced out of their homeland by floods in the next 20 to 90 years, causing serious problems, such as outbreak of diseases, shortage of food and drinking water etc.

It is started in the report draft related to global warming issued by IPCC in April 2007 that if in decades from now on, human beings reduce discharge of CO<sub>2</sub>, and remain greenhouse gases in the atmosphere at a certain level, most of the adverse influences could be avoided.

We believe that energy saving is the most effective environmental protection, and also is the most effective and direct technical way of controlling global warming. Therefore, Baosteel actively promotes more deep-rooted and refined energy saving. Moreover, using clean energy, developing green product and actively taking part in clean development mechanism are also helpful to reducing discharge of greenhouse gases such as CO<sub>2</sub>.



## Implementing "Program of Taking Energy Saving Action and Exrcution in Thousand Enterprises"

In July 2006, Baosteel successively signed "Letter of Energy Saving Target and Responsibility during the period of the '11th Five-Year Plan'" with State Development and Reforming Commission and Shanghai Municipal Economic Commission. In order to ensure the fulfillment of "Letter of Energy Saving Target and Responsibility during the period of the '11th Five-Year Plan'", the Company organized and held energy management meetings, signed letters of energy saving and consumption reduction responsibility with all branch (subsidiary) companies, breaking down indexes and assigning related responsibilities, and requested the parties, who signed the letters of responsibility, to insist on giving priority to energy saving, take specific measures for enforcement of energy saving tasks, promote energy saving technology, and make more efforts to conduct propaganda for energy saving, so as to fulfill energy saving and consumption reduction targets of the Company.

### Program of Taking Energy Saving Actions and Execution in Thousand Enterprises

FGHZ No.571 (2006) document entitled "Notice on distributing 'Program of Taking Energy Saving Actions and Execution in Thousand Enterprises' " pointed out: in order to implement the concept of the 5th Plenary Session of the 16th Central Committee of the Communist Party of China and "Notice of the State Council on fulfilling recent key work of building energy saving society"(GF No. 21 (2005)), intensify energy saving management of key energy consumption enterprises, and promote reliable utilization of energy and increase energy utilization efficiency, State Development and Reforming Commission, State Energy Office, State Statistic Bureau, State Quality Supervision Bureau and State-owned Assets Supervision and Administration Commission of the State Council decided to implement "Program of Taking the Energy Saving Actions and Execution in Thousand Enterprises" in key energy consumption industries according to "energy-saving law of the People's Republic of China" and "Procedures for energy saving management of key energy consumption enterprises". Therefore, "Program for Taking the Energy Saving Actions and Execution in Thousand Enterprises" is established.

It is decided to organize and take energy saving actions in thousand enterprises since 2006 in nine energy consumption industries, i.e. steel, non-ferrous metal, coal, electric power, petro-chemical, chemicals, building material, textile and paper-making, with the aim to realize the target of saving energy equivalent to about one hundred million tons of coal equivalent during the period of "the 11th five-year plan".



## Conducting Energy Audit and Drawing up Energy Saving Plan

“Program for taking the energy saving actions in thousand enterprises” requires all enterprises to carry out energy audit, and complete audit report according to the requirements of “General principle of energy audit on industrial and commercial enterprise” and National Standard (GB/T 17166-1997). Through energy audit, enterprises should analyze situation, find problems, attain the potential, and put forward feasible energy saving measures. Enterprise energy saving plan should be established on this base, and carried out carefully.

Therefore, the Company invited experts outside the Company on energy audit to give trainings to energy management staff of relevant branch (subsidiary) companies, and held promotion meeting regularly to enforce energy audit; and organized relevant technicians to compile energy saving plan, taking the development strategy of the Company for the next 6 years into consideration.

Energy audit report, 2005 and energy saving plan, 2006-2012 have been submitted to Shanghai Municipality, and these reports will be of important guidance for energy saving of the Company in the coming years.

## Using Clean Energy to Reduce Pollution Discharge

Main primary energy source in China is coal, and proportion of coal in primary energy source used by China steel enterprises can reach to more than 80%, even over 99%. Coal has disadvantages such as low utilization efficiency and heavy pollution, making China's steel industry be called as “high energy consumption and heavy pollution” industry.

After Baosteel increased issuance and its acquisition of other companies, combined with technical renovation of newly acquired enterprises, the Company has shut down some production equipment such as coal burning boilers and gas generators, increased consumption of natural gas, and optimized company energy utilization structure. Now, the major energy used by Stainless Steel Branch and Special Steel Branch is natural gas, other branch (subsidiary) companies are also gradually increasing the proportion of clean energy utilization.

Energy consumed by Baosteel in 2006		
Coal	10 thousands tons	1 694
Coke	10 thousands tons	72.5
Other coking product	Ton	8 917
Natural gas	10 thousands m <sup>3</sup>	34 676
Gasoline	Ton	1 490
Kerosene	Ton	37
Diesel oil	Ton	7 575
Fuel oil	Ton	1 822
Liquefied petroleum gas	Ton	28 240
Thermal energy	GJ	43 402
Electric power	A hundred million kilowatt hour	33
Energy provided by Baosteel in 2006		
Coke oven gas	10 thousands m <sup>3</sup>	5 684

Since the first half of 2005, natural gas in Shanghai market has been in short supply, and the production of the manufacturing enterprises of Baosteel, especially Stainless Steel Branch and Special Steel Branch, has been severely affected. In 2006, Petro-China Liquid Natural Gas Co., Ltd. and Shanghai Gas Group, etc. gave great support to Baosteel, therefore, assured normal production of the Company. Baosteel has also signed strategic partnership agreement with Petro-China Liquid Natural Gas Co., Ltd., and carried out exchange and cooperation in an all-round way.

## Promoting Clean Production

» Implementing refined material policy with less raw material for use

In recent years, with the rapid growth of China steel output, supply of iron ore, raw material of stainless steel, and steel scrap etc. in the international and domestic market is growing increasingly tense with raw material prices soaring abnormally. Some medium and small-sized steel enterprises used low grade raw material to decrease production cost because it is difficult for them to bear the rising prices of raw materials. Facing the serious raw material situation, Baosteel persisted in implementing refined material policy in the blast furnace for iron making, trying to maintain the stability of composition and the property of raw material, and stabilized the input proportion of steel scrap. These made Baosteel lose competitive advantages in raw material cost, but resulted in environmental efficiency of low energy consumption and low discharge to environment.

In 2006, main raw materials consumed by Baosteel are as follows:

Raw material	Unit	Amount
Iron ore and finished ore product	10 thousands tons	3121
Steel scrap	10 thousands tons	457
Manganese ore	Ton	10066

Most iron ore used by Baosteel comes from three main overseas mining companies, and is transported by sea. Main fuel used by Baosteel comes from domestic market, manufactured product is mainly sold in domestic market, with the transportation of fuel and products mainly on railway and road. Baosteel is concerned about the impact on the environment brought about by transportation of raw materials and fuels, and has been taking relevant measures for strict control, so there is no serious environmental accident arising from transportation.

» Adopting energy saving processes to recover surplus energy for use

Since the beginning of the construction, Baosteel has been laying emphasis on using advanced energy saving processes and technology, and is the first to apply relevant technology and equipment such as TRT, CDQ, CCPP in China. After the Company increased issuance and its acquisition of other companies in 2005, Baosteel reconstructed old enterprises with advanced energy saving technology and equipment, and eliminated many backward production facilities. Main applied energy saving process and technology are as follows:

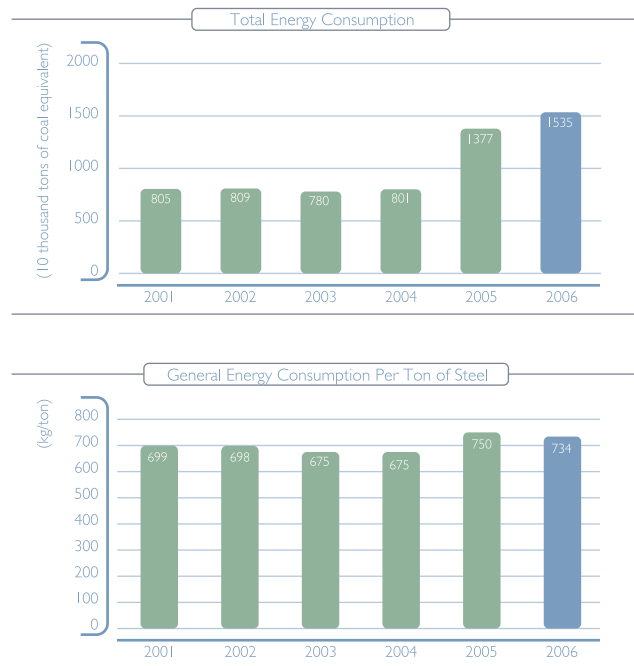
Process	Main energy saving process and energy recovery technology
Coking process	CDQ, gas refining
Sintering process	Low silicon and high iron sintering, thick material layer, low temperature igniting, waste heat recovery from sintering process and flue gas of sintering machine
Blast furnace process	TRT, high blast temperature, large injection of coal, low silicon iron making, long life operation of blast furnace, rich oxygen combustion, moisture removal of blast air, optimization of fuel for hot blast furnace, residual heat recovery of hot blast furnace.
Steelmaking process	Protect converter with splashed slag, combined blowing, desulfurization, desiliconization and dephosphorization of melted iron, secondary refining of molten steel, continuous casting, converter gas recovery, converter gas sensible heat recovery, COJET multifunction oxygen lance, heat accumulation-type ladle baking, steam heat accumulator technology
Rolling process	Heat accumulation-type combustion in reheat furnace, flue gas recovery in reheat furnace, thermal insulation of reheat furnace, vaporization cooling, hot delivery and hot charging of con-cast billet, continuous steel rolling
Utility system of energy	Large-sized oxygen generating plant, oxygen liquefaction and evaporating plant, optimization of control system of oxygen manufacture equipment, large-sized gas cell, balance management and dispatch of gas system, CCPP, classification utilization of water, water quality standard and analysis control, energy center



In 2006, total amount of recovered surplus energy in the Company amounted to 1.376 million tons of coal equivalent, saving 352 thousands tons of coal equivalent, with the energy consumption of output value decreased to 1.19 tons of coal equivalent/ RMB 10 thousand in 2006 from 1.35 tons of coal equivalent/ RMB 10 thousand in 2005, a decreasing rate of 11.85%.

Energy consumption of the Company in recent years is shown in the figure.

Since Baosteel increased issuance and acquired several companies in 2005, production capability of Baosteel greatly has increased in large amount, and total energy consumption also increased. At the same time, because overall energy and environmental management of newly acquired enterprises was relatively poor, making the energy unit consumption of the Company higher than that before 2004. Other energy and environment indexes in the report also have the same situation, which will not be repeatedly stated.



» Strengthening environment management with emphasis on end treatment

The main atmospheric pollutants discharged during steel production process are SO<sub>x</sub>, NO<sub>x</sub>, dioxin, smoke dust etc. As for denitration, Baosteel has applied low NO<sub>x</sub> combustion technology for power generation unit and reheating kiln, effectively controlling discharge of NO<sub>x</sub>. If desulfurization denitration integrated technology under research and investigation can be successfully applied, NO<sub>x</sub> discharge problem of Baosteel will be further solved. As for dioxin control and discharge reduction, Baosteel is the leading company over other domestic steel manufacturers, keeping up the pace with global advanced technology. Discharge of fume dust is effectively controlled by taking measures such as splashing water on road, setting up windbreak on raw material store area, spraying coagulator on raw material surface etc. Therefore, the environment is continually improved in the plant area. At the same time, Baosteel has done a great deal of work to apply international convention "Montreal Protocol on Ozone Depleting Substances", speeding up the implementation of "China State Plan on Gradually Eliminating Substances that Deplete the Ozone Layer", and speed up to eliminate CFCs and Halon. Combining technological renovation projects, Baosteel is gradually replacing CFCs. It is clearly stated in the new round development plan of the Company that all CFCs will be eliminated before 2010.

**Three year action plan for promoting environmental protection:** To cooperate with Shanghai Environmental Protection Bureau, by installing on-line monitoring instruments on boilers of Special Steel Branch Co. and the exhaust stack of sintering machine of Stainless Steel Branch.

In 2006 the Company worked out an overall plan for environmental automatic monitoring and supervising system, which covers the construction of air quality automatic monitoring system, continuous monitoring system of flue fixed polluting sources, waste water online continuous monitoring system, video monitoring system, noise monitoring system and corresponding information systems. According to the plan, the Phase I construction of the automatic environment monitoring, supervising and management system of Baosteel Co., Ltd. will be started in 2007.

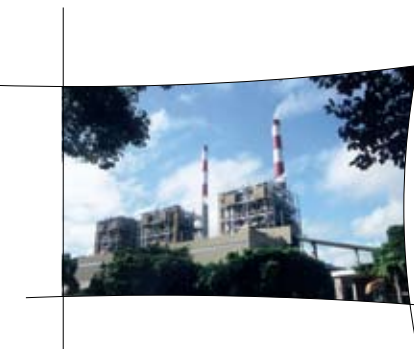
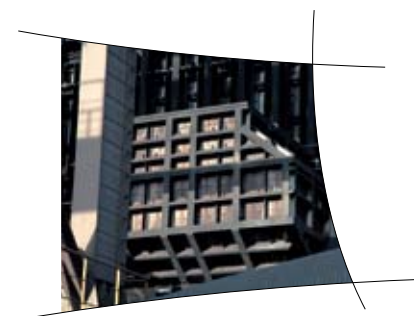
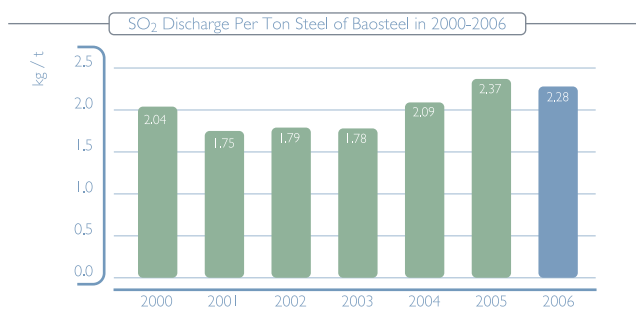
**Gas desulfurization project launched in an all-round way:** Implementing flue gas desulfurization project for coal fired power plant and sintering machine can not only decrease SO<sub>2</sub> discharge index; but also can greatly reduce dust pollution because of synchronous dust removal from desulfurization system.

In 2006, desulfurization plant of 2# generator unit of Baosteel power plant was officially put into operation.

On September 29, Shanghai Development and Reform Commission and Shanghai Power Plant Desulfurization Promotion and Coordination Group held "Shanghai Coal-fired Power Plant Desulfurization Project on Site Meeting" at Baosteel.

In view of the fact that there is lower sulphur concentration in sintering gas, and traditional desulfurization technology has poor effect, Baosteel conducted research on demonstration project of "sintering flue gas desulfurization technology" and achieved satisfactory results. In the coming years, Baosteel will adopt self-developed sintering flue gas desulfurization technology to conduct gas desulfurization technical renovation on 3# sintering machine of Baosteel Branch, 1# sintering machine of Stainless Steel Branch and 3# sintering machine of Meishan Steel Company.

The following figure shows SO<sub>2</sub> discharge per ton steel in Baosteel in recent years.



### Measures taken by Special Steel Branch Co. for reducing SO<sub>2</sub>

12.4 million RMB was invested to implement the desulfurization project of flue gas produced by 8 sets of 20 ton of coal-fired boilers. In 2006, research was conducted for boiler desulfurization system to find suitable agent and amount, stabilize operation effect, and further reduce SO<sub>2</sub> discharge;

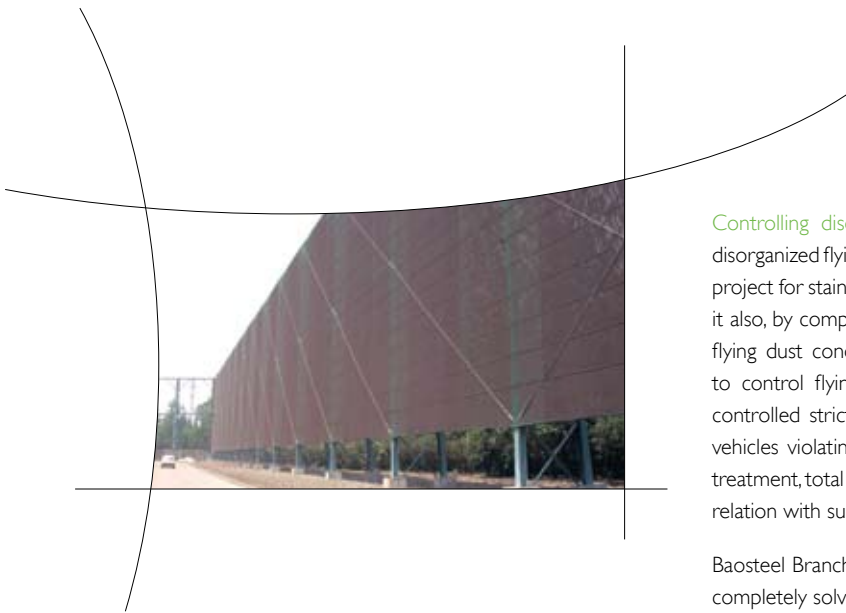
In order to change all the facilities from using fuel gas into using natural gas, 96.5 million RMB was invested to carry out renovation on 141 sets of reheat furnace, annealing furnace and other industrial furnaces or kilns..

In May 30, 2006, the gas workshop which had existed for more than 40 years was demolished, completely eliminating pollution of gas workshop to the surrounding region, improving the living environment of the inhabitants.

Through construction of above projects, SO<sub>2</sub> discharge of Special Steel Branch has been decreased from 1768 tons in 2005 to 438 tons in 2006, and SO<sub>2</sub> discharge per ton steel decreased from 2.04 kg/t-s to 0.42 kg/t-s, a reduction of 79.51%.

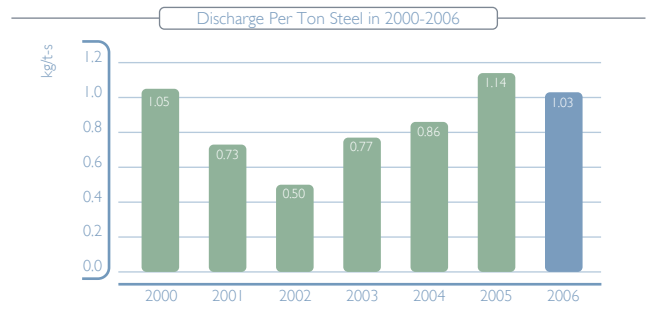
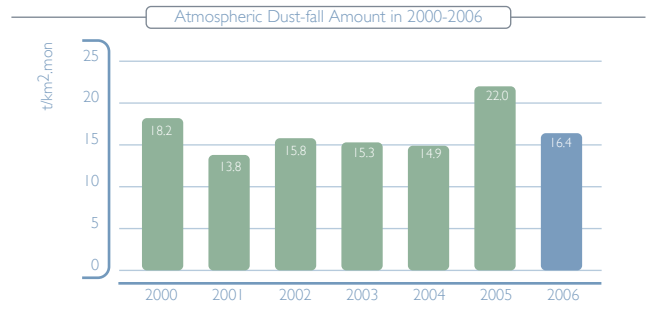






**Controlling disorganized flying dust:** in 2006, Baosteel continued to treat disorganized flying dust. Stainless Steel Branch, by completing the dust elimination project for stainless steel scrap cutting, eliminated original serious yellow smoke; it also, by completing the coal yard wind-proof net project, improved regional flying dust condition. Measures, such as truck washing platform, were taken to control flying dust in the construction site. Transportation process was controlled strictly, and traffic permits in plant area were retracted for those vehicles violating rules and bringing about pollution. Through comprehensive treatment, total dust-fall was decreased to 65% of that in 2005, greatly improved relation with surrounding communities.

Baosteel Branch Co., by completing raw material yard wind-proof net project, completely solved. Some important environment pollution problems.

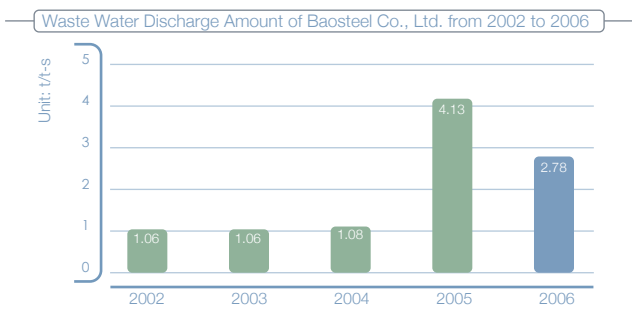
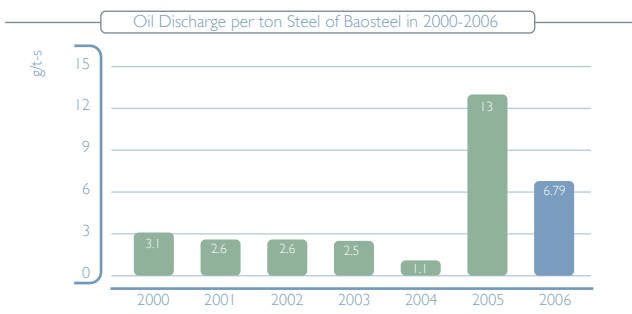
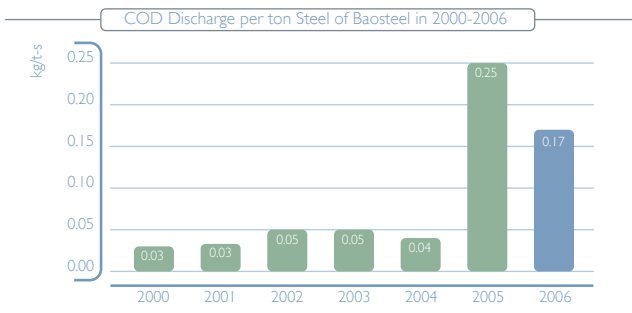


Waste water discharged to outside is up to the discharge standard with total discharge amount reduced. On the one hand, the Company reduces total discharged waste water by means of water saving to decrease fresh water consumption, on the other hand, concentrated treatment and recycling are applied for discharged water to further reduce the amount of waste water discharged to outside.

In June 2006, Special Steel Branch, by investing RMB 129 million to complete "the 10th Five-year plan" water saving project, improved waste water pipeline of the pipe plant and precision alloy land block of Special Steel Branch steel, and put the equipment of waste water concentrated treatment and recovery into operation in an all round way. Waste water discharge index per ton steel was decreased from 16.95t/t-s in 2005 to 3.59 t/t-s in 2006, COD discharge per ton steel was decreased from 0.72 kg/t-s to 0.17 kg/t-s, and oil discharge per ton steel decreased from 0.09 kg/t-s to 0.02 kg/t-s.

Meishan Steel Company implemented west discharge outlet project for comprehensive treatment, and discharge of COD, ammonia nitrogen and petroleum in waste water was reduced by 35-55%.

By joint efforts of all branch (subsidiary) companies, all indexes of discharged waste water by Baosteel in 2006 were improved compared to those in 2005, as what is shown in the following figure.



**Environmental safety and hazardous wastes management.** The Company has established environmental safety management system, which is strictly implemented. At the same time, it identifies newly added environmental factors annually, and establishes corresponding management measures and emergency plans. Therefore, in recent years, neither serious environmental safety accidents, nor serious hazardous substance leakage accidents happened in Baosteel.

Baosteel has established relevant hazardous waste management systems, with strictly management on hazardous wastes according to laws and regulations, and committed qualified units to manage, transport and treat hazardous wastes. No hazardous wastes produced by Baosteel have been ever exported to overseas.



## Developing Recycle Economy

Developing recycle economy is a long-term strategy of national economy and society development. So-called recycle economy means reduction, recycling and reclamation activity considered as a group during production, circulation and consumption process. Compared with traditional economy, recycle economy differs in following aspects: traditional economy is one linear economy with one directional flow of "resource - product - pollution discharge", and it is characterized in high exploitation, low utilization and high discharge. Recycle economy requires performing economic activities in one feedback flow with "resource - product - recycling resource", and it is characterized in low exploitation, high utilization and low discharge. All substances and energy can be reasonably and durably utilized in the continual economy circulation, so decreasing the impact of economic activities on natural environment as little as possible.

» Comprehensive utilization of secondary resource

The so-called "discarded substance" is also a resource, a secondary resource generated from production process. Under certain technical, economic and social conditions, these secondary resources can be recycled. We advocate to use the term of "secondary resource" to replace usual "wastes", for the purpose of forming an idea to save and protect resources, and turning that idea gradually into our action.

Main secondary resources of Baosteel include blast furnace slag, steel scrap, iron-containing mud, fly coal ash, waste refractory material etc. In 2006, Baosteel produced 12.94 million tons of all kinds of industrial solid secondary resource, among which 12.72 million tons were used in a comprehensive way with a utilization rate of 98.32%. Among which, 2.91 million tons were returned to production for use, accounting for 22.48% of total solid secondary resource, reaching the best level in recent year, realizing RMB 1024 million of replacement profit. For the comprehensive utilization of industrial solid secondary resource in 2006, see the following table:

Industrial solid wastes	Quantity (10 thousand tons)	Proportion (%)	Comprehensive utilization rate *(%)	Back to production rate (%)	Main utilization methods
Blast furnace slag	548.8	42.43	100	-	All was used to produce slag micro-powder and used as admixture for cement
Steel scrap	310.4	23.99	100	11.80	Sent for re-sintering, manufacturing cement, roadbed, concrete engineering, soft soil treatment
Cinder	2.5	0.20	100	-	Electric power plant
Fly coal ash	41.8	3.23	100	-	Ash can be directly used as concrete admixture after fine grinding, and part of it can be used as roadbed material
Iron containing mud	138.3	10.69	100	67.81	Blast furnace gas mud and converter OG mud were sent for re-sintering, brown iron oxide produced by steel rolling process was used to manufacture magnetic materials, desilicization mud cake was used to manufacture iron oxide pigment
Hazardous wastes	2.2	0.17	58.17	22.23	
Other industrial solid wastes	249.6	19.29	91.68	64.06	
Total	1293.6	100	98.32	22.48	

\*Note: including utilization by outside companies.

As for recycling packing materials, Baosteel has also established and strictly implemented relevant management system. Baosteel has classified and recycled the packing materials whenever they are of recycling value. At present, it only recycles packing material of purchased products from outside. But, at present no statistic data about the percentage of recycled packing materials is available.

Ningbo Baoxin Company adheres to "3R" manufacturing principle of recycle economy, and takes all effective measures to improve manufacturing environment and increase resources utilization rate. It built up waste acid regeneration station to receive and treat waste acid discharged from cleaning line, and after regeneration of waste acid, the acid is sent back to acid cleaning line for recycling. By using nontoxic  $\text{Na}_2\text{SO}_4$  neutral salt as electrolyte, and at the same time, establishing one set special regeneration and purification system,  $\text{Na}_2\text{SO}_4$  consumption could be effectively cut down. The filtered and regenerated rolling oil can be utilized by rolling mill again. All paper during stainless steel production is recycled after re-coiling. Waste discharge is decreased to the limit to realize resources recirculation.

Through promotion of clean production and recycle utilization of all resources, Ningbo Baoxin company has achieved double efficiencies on both environment and economy: waste discharge is up to standard, with wastes decreased, and at the same time, production cost is reduced, saving almost RMB 30 million a year from recycling waste acid, and saving almost RMB 14 million from waste oil recycling, plus waste paper recycling, etc. The Company has realized the promotion of environmental protection to economic efficiency, and formed beneficial recycle of economic development and environmental protection.

» Recycle utilization of water

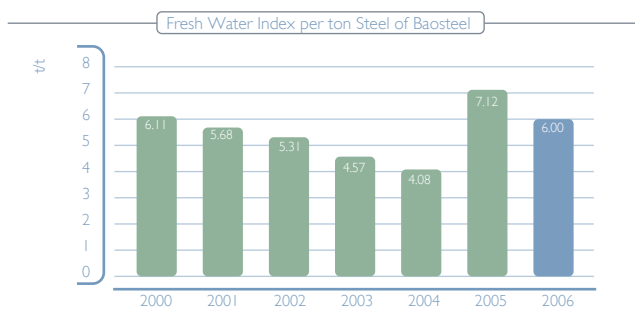
Main production water of Baosteel comes from Yangtze River: Baosteel Branch, Special Steel Branch and Meishan Steel Company directly get water from Yangtze River, and production water supply of Stainless Steel Branch comes from one small branch of Yangtze River - Wenzaobang River.

Baosteel Branch Co. has its own reservoir, which gets water from Yangtze River and is used as main water source of production water and domestic water of Baosteel Branch. Through many years of operation, Baosteel has developed a management technology for large-scale reservoir ecology. There are dozens of aquatic organisms in Baosteel's reservoir; and through setting up reservoir algae controlling biological chain, water quality of Baosteel reservoir is stabilized, assuring production water and domestic water of Baosteel Branch. In recent years, the fish condition in Baosteel reservoir is as follows:

Year	Input quantity (half a kilo)	Quantity caught (half a kilo)
2003	150000	26906
2004	63000	35910
2005	23418	50581
2006	26534	
Total	262952	113397

Baosteel recycles waste water, and carries out a series of water saving technology such as distribution as per the quality, conservative use and continuous utilization for water resources, decreases fresh water use, and tries its best to effectively save water resources. Recycling rate of production water of all branch and subsidiary companies of Baosteel amounts to 97%.

Therefore, in recent years, fresh water index per ton steel of Baosteel is dropping year by year, as shown in the following figure.



### Recycling Steam Condensate of Chemical Branch Co.

Chemical production process requires large amount of steam, in addition to part of the steam directly going into process medium, most part of the steam was cooled as steam condensate after transferring heat to process medium through indirect heat exchange, and finally was discharged. According to water quality tracking for the steam condensate, it was found that water quality reached pure water standard. In addition, steam condensate has sensible heat of 80-100°C, and direct discharge was wasting high quality water and heat energy. Considering at that time, Chemical Branch had more than 20 sets of steam generating boilers and steam generators for recycling waste heat of process medium, and about 350 -400 thousands tons of pure water was consumed annually.

Therefore, the steam pipe network was renovated 5 times within the chemical area. The steam condensate produced by ammonium sulfate manufacturing plant, the second phase desulfurization plant and KK benzene hydrogenation unit and drained water in steam pipe network were connected with pipeline and recycled by means of drainage pump technology. And at the same time, part of the recycling heat from low pressure steam can be utilized.

At present, recycling of steam condensate has become an independent system, with a capacity over 50 ton/hr. In 2006, 395.2 thousands tons of steam condensate were recycled, with an efficiency up to RMB 11.856 million, reduced fresh water consumption and raised water resource availability.



# Community Environmental Protection and Remediation

Main Baosteel plants are located along the bank of Yangtze River; where live various species which are protected by the Chinese government. Although it is not necessary to know the exact number of species in Yangtze River; we just know one reason: everyone shall care for environment, protect Yangtze River and protect diversity for species.

Therefore, Baosteel Co., Ltd. lays emphasis on environmental protection and environment ecological construction in the production area and surrounding living area, guides afforesting construction of production area and surrounding region with the new concept of building an ecological garden, and tries to construct one modern factory with beautiful environment in harmonious and prosperous surroundings.

Baosteel has been elected as National Afforestation Model Unit for many times by Nation Afforestation Committee, Shanghai "Garden Unit" by Shanghai Afforestation Committee, and "Afforestation Model Unit" by National Metallurgical Afforestation industry.

In recent years, in addition to laying emphasis on ecological environment of production area, Baosteel also invested part of its capital to improve the environment of surrounding living area and recover surrounding ecological environment. Residents living in the surrounding areas of all manufacturing plants of Baosteel deeply feel that air quality has been greatly improved and the greenbelt of living area has increased in recent years.

## Environment Developed Jointly by the Enterprise and Communities

The tidal-flat enclosure project along the south bank of Yangtze River of Baoshan District (Baosteel section), which concerns the long-term development of Baosteel and Baoshan District, was launched on October 26, 2006. In order to realize the long-term cooperation and interactive development, Baosteel and Baoshan District decided to start the tidal-flat enclosure project in March, 2006. It was planned to complete in one year the tidal-flat enclosure, the construction of a wave-proof wall, and greenbelt planting for landscape. The design standard of the wave-proof wall is of the first class, which should be capable of resisting high-tide level once every 200 years. The construction of the project is of positive significance for developing extended industries of a premium steel product base, speeding up the construction of quality product Baosteel, and extending long-term cooperation between Baosteel and Baoshan District.

In 2006, the project entitled "Joint development for environmental protection between Baosteel and Baoshan District" started, and "Baoshan District environmental monitoring center building" in planning will have following functions:

- » To set up environmental quality monitoring and evaluation system covering the whole district to dynamically reflect environmental quality and provide basis for making environmental decision;
- » To set up on-line monitoring system on some important pollution sources to dynamically monitor total pollution discharge and provide directions for environmental law enforcement;
- » To set up integrated system and information sharing platform in the region for environmental supervision to learn environmental capacity on time and provide support for environment management;
- » To set up a public complaint-receiving center and pollution emergency response system for regional environment and to deal with environmental conflict on time and provide guarantees for environmental safety.



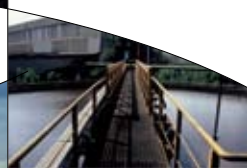
## Remediation of Ecological Environment for the River Around the Enterprise

The river surrounding Baosteel Branch Company is a water course around the plant area, with a full length about 20.7 km and a storage capacity (including rain trench) about 1500 thousand m<sup>3</sup>. The main function of the river is to collect rain and sewage within plant area and discharge together, with the effect of regulating water storage and flood control. Since main water resources of the river comes from waste production water discharged by all production workshops, which meet discharge standard after treatment, and also from domestic waste water and rain water resources, the river has abundant water and water quality is relatively stable, like a natural water storage water course and water resource that can be recycled.

As one ecological waste water treatment process, artificial wetlands has great advantages not only on investment and energy consumption, compared with traditional waste water treatment process, but also has more stable and obvious treatment effect. Therefore, it is one technology in the field of waste water treatment, necessary for research and development in the future. Besides, during the treatment of waste water, artificial wetland system does not have secondary pollution and problem of wastes, and can also maintain original natural landscape, even adding ecological system and landscape function within the original region, therefore realizing consistency of economic and social benefits.

In order to further improve the surrounding environment and realizing comprehensive utilization of the water of the river surrounding the plant, in 2006, Baosteel Branch Co. initiated the research on ecological regulation and comprehensive utilization of the plant surrounding river. In the research Baosteel Branch Co., through using subcurrent wetland, conducted, in an exploitive way, the research on purifying water body of the plant surrounding river. Featuring large processing load and small occupying space, subcurrent ecologic wetland can not only play a fine role in purifying water body, but also can beautifying the environment. By filtering, absorbing organisms living in water; degrading microorganisms, ecologic wetland can effectively reduce the amount of organism, such as N, P and phenol and Fe, Mn and heavy metal ions in water body with good results. Therefore, the outlet water is now up to the state standard of second class surface water body.

The ecological recovery construction of the river surrounding Baosteel Branch Co. can be used as a physiochemical preprocessor of recycled waste water in the near future, so as to provide better water quality for subsequent water treatment, and create good conditions for further recycle utilization of the river water. In view of long-term development, the main task is to purify water body of watercourse for the river surrounding Baosteel, change the landscape value of the river, and improve the ecological environment and enterprise image of Baosteel.



# Exchange & Cooperation

In the background of economic globalization comes the new enterprise strategic management concept, that is, to achieve bilateral and multi-lateral win-win situation through exchange and cooperation. Cooperation results from exchange. Having realized the significance of exchange and cooperation with its upstream and downstream enterprises, and that with enterprises from the same industries as well as from social organizations, Baosteel has been collaborating or signing strategic cooperative agreements with its key suppliers, customers, even its competitors to establish a long-term, stable and mutual-beneficial partnership relations. It has reached agreements with scientific research institutes on strategic research and technical cooperation so as to jointly improve the steel production technology. Baosteel also has been actively participating in concerning social organizations for sustainable development of Steel Industry. It implemented cooperation with World Bank in the fields of raising the efficiency of energy utilization, jointly developed clean development mechanism (CDM) project under the "Kyoto Protocol", and actively participated in activities of organizations at home and abroad, so as to promote sustainable development of steel industry.

## International Exchange

To further carry out technical exchanges and to promote the application of new technology in energy saving, environment protection and comprehensive utilization of resources, Baosteel organized in 2006 various technology exchange activities with POSCO from Korea, GE and Tri-Mer Corp. from USA, and Japanese companies like Mitsui, Mitsubishi, Nippon Steel and JFE, as well as German companies like Thyssen Krup and Siemens. Communication and cooperation activities were carried out with DNV in the aspect of enterprise energy auditing and enterprises' sustainable development.

From May 28th to June 1st, 2006, Sino-Japanese Energy Saving and Environment Protection Seminar was sponsored jointly by China's National Development & Reform Committee, Ministry of Commerce with Japanese METI (Ministry of Economy, Trade and Industry) and Japan-China Economic Association. During the meeting, Baosteel presented systematically its experience in energy saving and environment protection, and communicated technically with Nippon Steel and JFE. In addition, in 2006, Baosteel achieved its far-ranging contact and communication with its international counterparts and specialists via its participation in the 2nd Sino-Japanese Advanced Technology Communication in steel industry's energy saving and environment protection technology (in Japan), Global Energy Challenge Forum (in Belgium), Sino-German Energy Convention (in Shanghai).

In 2006, the 2nd year that Baosteel joined International Iron and Steel Institute (herein after referred as IISI), its performance in various activities was recognized by its international counterparts. After taking post of IISI director, Mr. Xie Qihua, the former board chairman of Baosteel, was elected as Executive Director of the Institute in the 40th Council of IISI held in October 2006. She, therefore, became the first IISI Executive Committee member coming from China's domestic steel plant.

Baosteel has joined 8 of the 9 committees affiliated to IISI Council. It is also the members of the 4 Committees under International Stainless Steel Forum (herein after referred as ISSF), a comparatively independent institute under IISI.

After joining IISI, Baosteel has dispatched 3 FELLOWS to work in IISI and ISSF. In the future, more people from Baosteel will be involved in the work of IISI.

As to involvement in IISI Committee Congress and project meetings, Baosteel sent out in 2006 more than 70 person-times to participate in the 37 meetings out of the total 93 meetings of IISI and ISSF.

In 2006, Baosteel was involved in IISI's projects including 21st Century Maintenance Project, Kyoto Protocol, Iron & Steel University Website Project, Sustainable Development Report Project, Living Steel Project, LCA, SRO Short-term Iron & Steel Forecast, India 2020 Project, etc.

In Living Steel project's meeting held in Barcelona in February 2006, Baosteel's proposal to conduct contest demonstration in China succeeded from the fierce competition and ranked No. 1 in comprehensive appraisal. Thereafter, it gained for China an opportunity to carry out contest demonstration, which will be done definitely under the lead of Baosteel. By taking the opportunity, Baosteel expects to further cooperate with companies in construction industry chain, so that to gradually form a joint effort contributing to the development of China's living steel structure industry by appropriately introducing advanced international technology and operational practice into construction industry chain's market, and gradually removing the various obstacles which may restrict the development of steel structure for civil use in China. Baosteel wishes at the same time, to bring up, via Living Steel Project, some personnel capable to participate in, or host international cooperative projects.

In November 2006, IISI hosted the steeluniversity.org Challenge. Among the participants from 22 countries of 5 continents, 13 were young competitors from Baosteel who took part in the Competition in Baosteel's Training Center and achieved No. 2, 3, 8 and 10 among the top ten winners.



## Domestic Exchange

Technical exchanges in various scopes and forms are organized between Baosteel and its counterparts in the country so that they may learn from each other and make progress altogether.

From May 25th to 27th, 2006, Baosteel hosted its 2nd Academic Annual Conference - Baosteel BAC 2006. As a significant international gathering in steel and iron industry, the Conference saw more than 500 famous technical specialists, opinion leaders in the industry, entrepreneurs, technical elites from renowned enterprises, universities, science and technology institutes of 23 countries and regions. Among these participants, 161 were from abroad. This number accounted the most in a convention hosted by a domestic enterprise up to now. During the conference, a Production, Learning & Studying Technology Innovation Forum was held with principals from universities and institutes as main body. 7 "Baosteel Professors" were invited to extend more than 30 technical exchange seminars for specific subjects. Through the Session, technical engineers from Baosteel exchanged views directly with foreign specialists. Long-term contact and cooperation relationship was set up herein after.

For the purpose of co-progress of the steel industry as well as the whole society, Baosteel is active in various national and international exhibitions to exhibit its fine products, advanced technology and successful management experience to its counterparts from abroad and home

In China's 1st Environment-friendly Social Outcomes Exhibition held in July 2006, Baosteel, with its orientation of "Green Baosteel, Fair home", demonstrated from 6 aspects, namely, energy saving, water saving, material saving, clean production, recycling utilization and green products, its philosophy, measures and achievement dedicated to the creation of an environment-friendly and harmonious society. All that you see is the leisurely floating white clouds, rather than smoke and fog all over the sky; all that you hear is the cry of deer, rather than the raffles of noises. That is exactly what Baosteel is on its way to develop recycling economy and new industrialization.





In the Exhibition, an Environment-Friendly Declaration was announced for the first time in the country. Initiated by those influential enterprises, including Baosteel, which are well-known for their high technology, high profit, low energy consumption, and less environment pollution, the Declaration calls on an environment-friendly approach from all scopes of the society for the realization of environment commitment and self-discipline, and also it appeals to an overall social commitment to speed up the construction of an environment-friendly society.

An Energy Saving Propaganda Week was an event determined in the 6th Congress of State Council's Energy Saving Office for the purpose of enhancing the whole nation's awareness on energy saving, resources and environment. Baosteel dedicated itself greatly to organize series of activities in the Energy Saving Propaganda Week once every year by publicizing its diverse energy saving education activities. In the national Energy Saving Propaganda Week 2006, Baosteel sponsored and participated in the 3rd China Energy Saving Expo. During the Expo, Baosteel concretely exhibited its energy-saving outcomes under the subject of "Saving Energy, Minimizing Consumption, Increasing Utilization and Creating a First-class Clean Iron and Steel Enterprises". During the Opening Ceremony of the Week, Baosteel Branch, together with other 20 companies were awarded the title of "Shanghai's Advanced Units in Energy Saving for 2005".

### Main Contents of Environment-Friendly Declaration

Our common understanding: Environment is an important foundation in the development of economic society. To be friendly to environment is to call on an amicable attitude and friendly behavior towards our environment. To initiate an environment-friendly society is to advocate a social ideology of harmonious coexistence between the human and the nature. To construct a social system with harmonious economic, social and environmental development and to achieve sustainable development is to adapt to environmental capacity in line with the order of nature and under the promotion of green technology.

Our commitment: We commit ourselves to take an active part in the great social practice to construct an environment-friendly society, that is, to follow the rule of the nature, to conserve our natural resources and to protect the environment. We advocate an environment-friendly philosophy by integrating environment-friendly culture into every level of the economic development. We apply environment-friendly theory as the guideline and criteria to social economic activities. We implement environment-friendly concept in all the fields and all aspects of social development, including industrial development, rural and urban development, regional development, and enterprises production. We follow environment-friendly guideline to develop towards the harmonious coexistence of the human and the nature.

Our proposal: We advocate our government to fully execute its leading function to create a sound policy surrounding and mechanism guarantee for the construction of environment-friendly society. We propose enterprises play their backbone role during construction of environment-friendly society by following the criteria of environment-friendly enterprises and developing themselves, in pursuit of the unification of social, economic and environment benefits, towards the new industrialization with high technology, sound economic return, low resources consumption, less environment pollution, and sufficient use of human resources. We call for the public to exert its master's responsibility to the society and itself, to strengthen the concept of energy saving and environment protection, to develop Chinese civilization and environmental culture, to actively respond to and support government's approach for environment improvement, ecology protection and energy saving, and to contribute to the creation of environment-friendly atmosphere by taking actions from trifle things and from oneself.



## Common Responsibility

It is estimated that CO<sub>2</sub> emission during the process of Baosteel production accounts around 2.1 ton/ton steel, while that figure from Baosteel's upstream enterprises is about 0.28 ton/ton steel if converted to the iron and steel output of Baosteel, however, if the secondary resources from the production process re-circulated, CO<sub>2</sub> emission may be reduced as 0.22 ton/ton steel.

It is human's common responsibility to reduce greenhouse gas emission, and Baosteel actively attaches itself to this activity by taking various possible approaches, among which comes CDM, a win-win project involvement mechanism.

The feasibility study for CDM cooperation has been carried out between Baosteel and international institutes like World Bank and Deutsche Bank. A CDM Cooperation Intention Agreement has been signed with World Bank for CDQ project of Meishan Steel Co., which means the project is coming to its actual execution stage.

Baosteel, representing Chinese Steel industry enterprises, takes an active part in APP program to seek for a common strategy coping with climate change and technical cooperation with enterprises from other countries, so that to enhance the popularization and application of high-efficient energy saving technology and to achieve the target of economic development and air pollution reduction.

In 2006, Baosteel joined World Business Council for Sustainable Development (WBCSD), therefore became the 2nd domestic enterprise in WBCSD, and ranked in the first group of WBCSD members in the Steel and Iron industry worldwide. It indicated that Baosteel's determination to protect environment, impulse recycling economy and harmonious development of the human society, as well its strong sense of social responsibility.

### Clean Development Mechanism

Clean Development Mechanism (shortened as CDM) is a flexible mechanism introduced to Kyoto Protocol in the 3rd session of the Conference of Parties (COP3) to the United Nations Framework Convention on Climate Change (UNFCCC). CDM allows Annex I economies (mainly referred to developed countries) to invest on the Greenhouse Gas Emission Reduction Projects in non-Annex I economies (which mostly are developing countries) so that the purchased certified reduction may meet part of their committed Greenhouse Gas emission limitation and reduction in Kyoto Protocol.

CDM allows a sound prospect in South-North cooperation in Greenhouse Gas Emission Control. On one hand, it is seen by developed countries the flexibilities to commit their responsibility in the most cost effective way; on the other hand, it helps the developing countries to achieve sustainable development by taking advantage of their low cost on emission reduction to obtain investment and technology from developed countries. CDM enables the whole world to decrease the total cost for emission reduction by working jointly towards the common reduction target. Therefore, CDM comes to be a Win-Win choice.

### Asia Pacific Partnership on Clean Development and Climate (APP)

In July 2005, an intent declaration was initiated by China, US, Japan, Australia, India and Korea to jointly set up the Asia Pacific Partnership on Clean Development and Climate (APP). With the intention to promote the development and promotion of clean energy and high-efficient energy saving technologies via international cooperation, APP aims at developing economy, decreasing poverty, ensuring energy safety and reducing air pollution in the process of dealing with climate change. The 8 working groups in APP will define different activity for different sections like electricity, cement, steel and aluminum, etc. The activity program, via its application of research, information exchange and project demonstration, is dedicated to develop cooperation between public and private sectors without any enforcement measures.

### World Business Council for Sustainable Development (WBCSD)

WBCSD is an international organization working closely with United Nations. In 1995, the WBCSD was formed through a merger between the Business Council for Sustainable Development and the World Industry Council for the Environment, set its headquarter in Geneva. WBCSD has been dedicated to the promotion of sustainable development in the past 10 years. In line with its vision of facilitating economic growth, ecological balance and harmonious social development, WBCSD has benefited from its global network and seen more than 1000 global commercial leaders' involvement. It has grown into an alliance with members coming from more than 170 international enterprises and from about 20 important industries like petroleum, chemical, automobile, power, Iron and Steel, as well as mining, etc.



## Social Training

As a nation which is giving more and more attention to energy saving, environment protection, as well as comprehensive utilization of resources, demands are rising from all walks of industries and enterprises for training, expertise teaching and technical exchange. In addition to the active participation to various technical exchange seminars organized by either the government or industrial associations to share its advanced technology and management experience, and its publication of concerning essays, Baosteel undertakes some training and teaching tasks assigned by the government or social organizations. For external trainings on energy saving and environment protection alone, which received positive response, Baosteel dispatched up to 14 person-times of experts during the year.

To implement "Thousand Enterprises Energy Saving Activity Program", an itinerating session was organized by State Development and Reform Committee, State Statistic Bureau, etc. In order to meet the request of State Development and Reform Committee, Baosteel has sent its specialists to give lectures for five times with an audience of more than 2000 persons.



## Research & Innovation

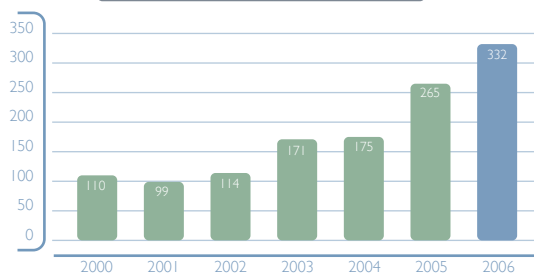
2006 was a starting year of China's "11th-Five-Year Plan" and Chinese government paid unprecedented attention to science and technology. It defined the strategy of building up an innovation-style nation, explicitly stated that enterprises should be the main entities for technical innovation, which means a great opportunity and also a big challenge for Baosteel. In order to build Baosteel into a model of innovation-style iron and steel enterprises, Baosteel worked out a new-round strategic objective in technical innovation development as follows: taking the market as the orientation and satisfying customers' demands as the goal, Baosteel will dedicate to self-reliance innovation with the target, by 2020, to possess itself of world first-rate technology and top-end premium iron and steel products with independent intellectual property rights, and important patented technology in the field of the world iron and steel industry, and become a leading enterprise with core technology competitiveness in the world iron and steel industry.



## Intellectual Property Right

Since the founding of Baosteel, it has been awarded a total of 1,266 authorized patents by 2006, placing it in the leading position in China steel industry.

Baosteel Patent Quantity for Previous Years



## Sci-tech Achievements

In 2006, 6 sci-tech achievements of Baosteel were awarded, respectively, by the state and the metallurgical industry, among which "new technology of metallic detection and auto removal of iron" was awarded the second prize of the State Sci-Tech Award, "development and application of sintering magnetic deflection feeding device" etc. (3 items in total) the first prize of Metallurgical Sci-Tech Award, and "Research of computer simulation system for Baosteel smelted steel delivery" etc. (two items in total) second prize of Metallurgical Sci-Tech Award. Especially, the research and development of new iron removal technology has broken through the traditional technology adopted at home and abroad for dozens of years and eliminated the defects of high energy consumption, big mechanical damage, poor reliability, low efficiency and frequent shutdown etc. This achievement constitutes 3 series (involving 11 kinds of products) of new-type technology for iron removal, with 4 invention patents being applied (among them, two have been patented), 2 practical and new-type patents and several technical know-how of the Company. Since the new devices were put into operation in 2003, economical benefit created for last three years has topped RMB 40 million. Now this technology has been applied in some large-scale iron and steel enterprises such as WISCO, Tangshan, Benxi and Maanshan etc., and Zhenhua Harbor Machinery Co. and Jiangsu Lianhe Cement Co. etc., and also exported to Japan, Mongolia and Thailand etc., which changed the situation that for iron removal devices we have to rely on import or imitation of foreign products, thus raised iron removal technical level of our metallurgical and related industries and achieved huge economic efficiency and good social benefit. It indicates the Company's concept of promoting recycle economy by relying on sci-tech progress, and the Company's contribution to raise iron resource utilization rate and energy saving for the whole metallurgical and related industries as well.

## Green Products

Baosteel has always been dedicated to R&D and production of green ecologic products, providing the society with large amounts of green products which can reduce global greenhouse effect, lower environmental risk of product use and extend service lifetime and use green products in a recycling way:

- Thermal aluminum and zinc plated products
- Thermal zinc plated products
- Electrical zinc plated products
- Colorfully coated products
- Free chromium galvanized steel sheets for automobiles
- Free chromium thermal galvanized steel sheets for household appliances
- Free chromium galvanized steel sheets for household appliances
- Free chromium thermal aluminum and zinc plated steel sheets for household appliances
- Free chromium pretreated color-coated steel sheets for household appliances
- Self-adhesive coated electric steel
- Thermal-galvanized steel sheets with self-lubricating treatment
- Self-cleaning type color-coated steel sheets
- High-strength thin sheets, thick plate, pipe, rod, enamel steel and structure steel for construction
- Thinned DI material
- Laser butt-welded plate
- High-efficiency free-of-orientation electric steel
- Vibration-resistant compound plate

## Research and Innovation of Environmental Protection and Energy Saving

### ▪ De-sulfurization of sintering flue gas

Considering iron and steel enterprises emit large amount of SO<sub>2</sub>, among which the sintering process emits 60% of total SO<sub>2</sub> emission of an iron and steel enterprise. Since SO<sub>2</sub> content in the sintering flue gas is so low that it is difficult to adopt existing de-sulfurization processes. Therefore, we conducted a research on the "De-sulfurization technology on sintering flue gas" as a demonstrative project and built a test system of 90,000 m<sup>3</sup>/h sintering flue gas de-sulfurization for industrial use, which was the first project of this kind in China, and is located in the Stainless Steel Branch Co. The test data indicated that application of this technology makes sintering flue gas de-sulfurization rate and de-dust rate reach above 95% and emitted SO<sub>2</sub> content and dust content less than 50 mg/m<sup>3</sup>. This technology has solved the problem of low SO<sub>2</sub> content (< 500 mg/m<sup>3</sup>) sintering flue gas and achieved a good result for de-sulfurization and de-dust process, not only forming Baosteel's self-reliance technology but also being worthy promotion in the iron and steel industry. 4 core patents and 4 technical know-how have been formed.

### ▪ Establishment of research and evaluation system for regenerative heat combustion and heat accumulator

Baosteel started research of regenerative heat combustion technology (HiTAC) in 1999 and built first regenerative pilot furnace domestically in 2002; and applied regenerative heat combustion technology in a Cr-Fe mine palletizing furnace in 2004 to save energy over 30%; and developed diagnostic devices for performance of the heat regenerative chambers, which may on-line detect temperature distribution in the chambers. Therefore it provided a quantitative principle for reasonable replacement of the heat accumulators; and developed 3-dimensional temperature detection devices. It is dedicated to regenerative furnaces, which may substitute traditional thermocouples and raise temperature control accuracy. By pay attention to accumulation during research, 12 patents including core individual technology of burner structure and heat accumulators etc. have been applied. At present, Baosteel has promoted the application of heat regenerative combustion technology in reheating furnaces, ladles and radiation pipe furnaces.

By developing high performance ceramic heat accumulating balls and using them in the hot rolling plant of Baosteel, a cost reduction of 30-50% has been achieved. Site test result shows that heat accumulating balls of Baosteel can be used to totally replace imported balls. And the reduction of one time investment for each furnace could be more than RMB 1 million. The result is remarkable.

### ▪ Research of high-temperature variation treatment process of converter steel slag

Research of converter smelting process contains smelting mechanism of lime and lightly sintered dolomite, influence of slag-making and smelting process on steel slag, influence of slag basicity and other factors on free CaO precipitation, influence of slag phase composition, slag variation treatment simulation test, slag variation treatment process, and variation evaluation and analysis etc. Based on research consequences, we developed high-temperature liquid steel slag variation treatment process and utilization of sensible heat of high-temperature slag to make secondary slag. Application for two invention patents has been accepted: "A method to artificially synthesize calcium aluminate" (200510111856.7) and "An additive for steel slag treatment" (200610024549.X).

### ▪ Evaluation of life period of Baosteel's galvanized products

After nearly 2 years of study, Baosteel LCA team has mastered the LCA research method of steel products, established modeling method

of steel product life time lists and the evaluation model of steel product impact on environment, and put forward LCD environmental decision-making method. The Team also accumulated experiences of collecting and reporting LCD research data, enhanced its ties with international LCD research organizations and experts of steel industry, developed electric galvanized product life time list software and life time evaluating software, initiated application research of LCD environmental decision-making. During the study, one technical know-how and 3 software copyrights were formed.

- **Research of reutilization of used carbon-containing refractory materials**

Performance and treatment of used Mg-C bricks and steel-hook materials were comprehensively analyzed and hydration mechanism was studied. By utilizing ladle high-aluminum Si-C brick regenerated metallurgical auxiliary material as a refined-steel ladle cleaner, we achieved the same result as using new refined ladle cleaner. Used Mg-C brick and steel-hook material were regenerated into high-quality and high value-added raw materials and products, which were applied in the ladle of the steel works and slag ditch in the iron works and has achieved very ideal test application results. Main progress of this technology is the treatment of raw materials and manufacture technology of products. In this project 3 patents, 1 technical know-how were formed with 7 papers issued.

- **Reduction of CO<sub>2</sub> emission**

Baosteel actively responded the call of the government for "during prospective economic development, carbon emission related to GDP should be greatly decreased by the middle of this century, realizing carbon emission of zero increase, even negative increase". Active development and application of energy-saving technology, which could effectively raise energy source efficiency and reduce CO<sub>2</sub> emission. In Baosteel Branch Co. and Special Steel Branch Co., heat regenerative combustion technology was applied and heat accumulator developed. Their performance has been better than those of imported ones. In the field of "Developing renewable energy source to substitute fossil fuel, and adopting means to catch and store CO<sub>2</sub>", we started research on reduction of CO<sub>2</sub> emission from industrial kilns and furnaces as demonstrative projects, to fully recover the waste heat and waste gas emitted from kilns and furnaces to produce hydrogen etc. as new energy source so as to serve the society.

For the basic research on "Converter steel slag absorbing CO<sub>2</sub>", up to now Baosteel has completed researches such as the influences of converter steel slag on ocean water quality, on nutrition of ocean planktons and on ocean floating animals. From these researches we learned slag dosage rules of promotion and inhibition of representative alga and semi-dead content range of ocean animals after the converter steel slag is applied in the ocean. We also learned stripping rules of environment-sensitive metallic elements contained in the slag in sea water and PH value change rules, which laid some research foundation for further application of the converter slag in ocean projects.

- **Reduction of dioxin emission**

For the "basic research of Baosteel dioxin pollution situation and protection technology", organization of POPs Lab has been finished by now and the lab has been put into operation and primarily achieved accurate dioxin analytical results. Establishment of high-level POPs Lab makes Baosteel capable of practicing the Stockholm International Pact. To cooperate with POPs Convention Implement Office (POPs CIO) of State Environmental Protection Administration (SEPA), the General, primary industrial tests were carried out to reduce dioxin emission from #1 sintering machine of the Baosteel Branch Co. and 100t electric arc furnace of the Special Steel Branch Company. The results indicates that through specific technical measures of adjusting sintering raw materials

and processes etc., dioxin content in the main waste gas emitting from sintering during industrial test can be reduced by around 50%, compared with that before the test. Meanwhile, several results of research on and development of dioxin decomposition catalyst have been applied for patents.

- **Technology using microorganism to treat industrial wastewater**

Ingredients in wastewater from coking and chemical process are complicate and changeable, and there are a lot of toxic and harmful substances with high contaminant chromaticity in it. It has always been a great trouble in the field of domestic and foreign wastewater treatment. For dozens of years, no outstanding research result has been turned up. Bio-treatment processes have advantages of low operation cost, easy operation and management and without secondary pollution etc., so it is a development orientation of coking and chemical process wastewater treatment.

In the project of "research evaluation of COD ingredient analysis and bio-decomposition of coking and chemical process wastewater in the Baosteel Chemical Branch Company", bio-iron ~ bio-membrane compound process was used in a creative way to conduct strengthened treatment on coking and chemical wastewater for seeking a high-efficient bio-treatment process of coking and chemical process wastewater. At the same time, it analyzed the categories and quantity of difficultly decomposed organic compounds in the coking and chemical process wastewater. This research is of great significance for reducing contaminant emission in the coking and chemical process wastewater, selection of in-depth treatment technology and selection of re-use points for in-depth treated water, and will provide process renovation with technical support.

- **BSSF steel making molten slag processing technology featuring recycle economy**

China's steel output has reached 0.4 billion tons with an annual production of steel slag of 40 million tons. With iron ore resource getting decreased everyday and energy cost increasing without a stop, today how to process steel slag with high efficiency and environment protected at the same time is a key problem which must be solved for realizing recycle economy and sustainable development in steel industry.

BSSF technology is a new technology, which processes steel slag in molten condition, developed by Baosteel with an effort of more than 10 years. Aiming at the characteristics of steel making molten slag, Baosteel is the first who created this molten slag processing technology, which takes cooling, breaking and separating slag from iron with multiple media in a tightly closed vessel as the core technology. Thus, it successfully developed the highly efficient, clean, safe and resource-saving steel slag processing technology and related equipment, formed 35 inventing and practical new-type patents with self-owned intellectual property rights. After many years of utilization at site, especially by large scale industrial application in Baosteel for internal steel slag processing in the last 2 years, it has been proved that this technology has such advantages as the processing course is fast, safe, environment-protective, clean and pollution-free, and it is easy to conduct magnetic finished product slag separation.

With this technology developed to the forth generation, in addition to being used in Baosteel in an all round way, application of this technology has been promoted in Nanchang Steel, Xuanhua Steel, Maanshan Steel and JSW Steel in India successively.



## We will do Much Better

Baosteel always dedicates itself to all-round environmental management, standing in front of other enterprises in China in various respects. We always care for international environmental status and closely follow international environmental demand to promote related works. For some work that the national related agencies do not have requirements for management and statistics, Baosteel also has worked out some management work. However, there is still room for improvement, for instance, for some items, no related statistic data are available, e.g.:

- We have not analyzed the influence that weather change brings to the Company in various fields yet;
- We have paid attention to biologic diversification in enterprises' productive areas and peripheral areas, but have not investigated the location and size with high biologic diversification value related to the Company's production and management activities, and also not studied effects of the Company's productive and management activities on areas with high biologic diversification value. At present we have not set up policies, measures and future plans to manage biologic diversification;

These are really what we need for further improvement. The Company has established related plans, which will mainly refer to the requirements of G3 edition of GRI "Guidance of sustainable development report" and by implementing the management and statistics of each index, it will try to do a perfect job and make progress continuously.

We have opened an environmental protection public phone: 0086-21-26641001 and earnestly hope that all friends caring for Baosteel development, including Baosteel's employees, give us your suggestion and comments, and believe we will do much better with your assistance.



"Stockholm Convention on Persistent Organic Pollutants (POPs)" was passed at Stockholm, the capital of Sweden on May 22, 2001, and it is the third international convention with compulsory demand of reducing emission, next to "The Vienna Convention for the Protection of the Ozone Layer" in 1987 and "United Nations Framework Convention on Climate Change" in 1992, and is an important step of the international society to adopt prior control action for toxic chemicals.

At present, this convention concerns POPs, forbidden to adopt and manufacture, mainly including insecticide, Termiticide, industrial chemicals and by-products, three categories and 12 kinds in all, which are respectively Aldrin, Chlordane, DDT, Dieldrin, Endrin, Heptachlor, Mirex, Toxaphene, Hexachlorobenzene, Polychlorinated Biphenyls (PCB), Polychlorinated dibenzo-p-dioxins and dibenzofurans (PCDD/PCDF).

POPs mean chemicals occurred in the environment, accumulated through food chains and unfavorably impacted on human health and environment. Compared to regular contaminants, POPs are very difficult to be decomposed in the natural environment and can be transferred through carriers of water or air, and are easy to cause cancers after accumulated in human or animal bodies and greatly hazardous to human health. POPs not only have carcinogenesis, teratogenicity, mutability, but also endocrine interference. Investigations display that POPs have continuous impacts on human beings for several generations and constitute severe threatening for human survival and multiplication and sustainable development.

The Convention was signed by Chinese government in May 2001.

Enjoy a rich and colorful life by  
melting iron and steel into it.







## Operation

### Economic Performance

- Main business
- Cash flow
- Capital suppliers
- Taxes and duties
- External donation
- Profit appropriation principle and bonus plan
- Tax relief and financing support

### Market Share

- Sales
- Purchase

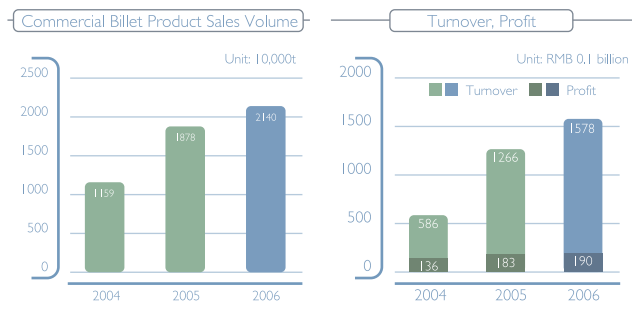
### Major Indirect Economic Impact

# Economic Performance

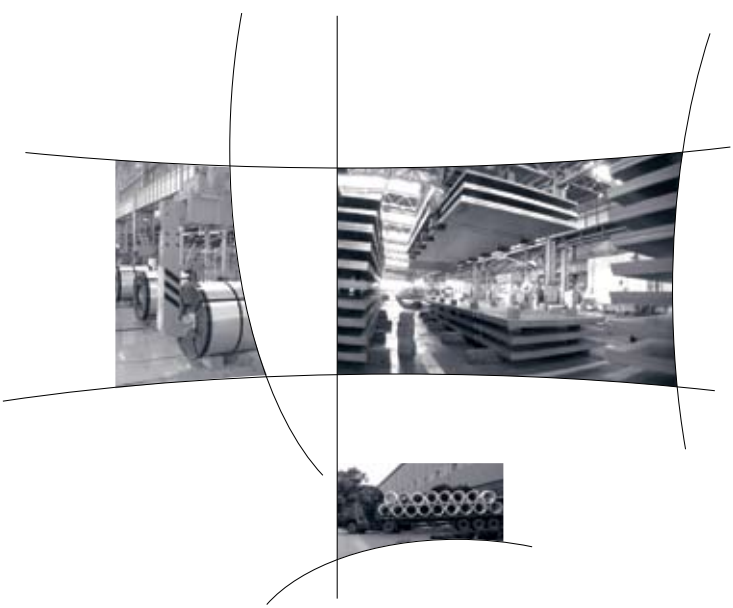
## Main Business

In 2006, the sales volume of commercial billet products amounted to 21,405,000 tons, an increase of 14.0% compared to the previous year; sales income of RMB 157.79 billion was realized, 24.6% more than that of the previous year; the gross profit totaled RMB 19.01 billion, an increase of 3.8% compared with the previous year; the net profit added up to RMB 13.01 billion, a year-on-year increase of 2.7%.

The changes in sales volume, sales income and total profit of commercial billet products of the Company for the last three years are shown in the following chart:

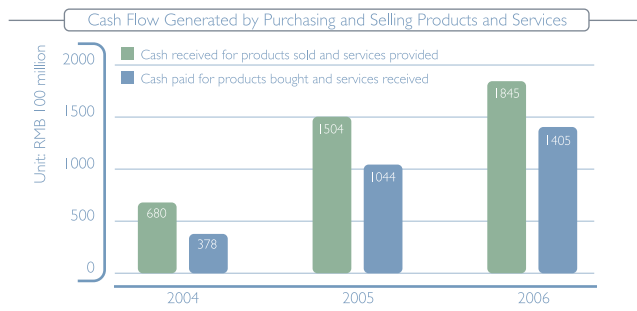


Faced with integration and merge in the international steel industry and the rapid development of the domestic companies of the same trade, and the continuous and significant increase in the raw materials and fuel prices, the Company is devoted to deepen the integrative synergism, carries out product differentiation strategy, and extensively promotes reducing costs and increasing efficiency programs, which made the rate of the gross profit of the carbon steel for the whole year maintain at 26.1% and the cost per unit declined from 2005 so that the profit was increased; the rate of gross profit of the stainless steel products amounted to 12.1%, turning loss to gain in this respect; The average rate of the gross profit of the special steel products was 7.8%, a 2.6% increase compared to 2005.



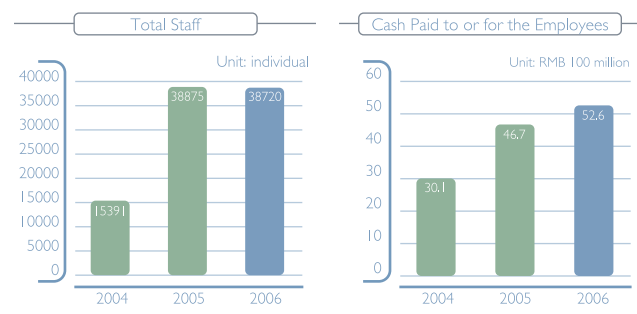
## Cash Flow

In 2006, the net operational cash flow was RMB 21.6 billion, among which: RMB 184.52 billion was received in cash for product sales and labor services provided; RMB 140.5 billion was paid for the procurement of raw materials, product parts, facilities, and service etc.

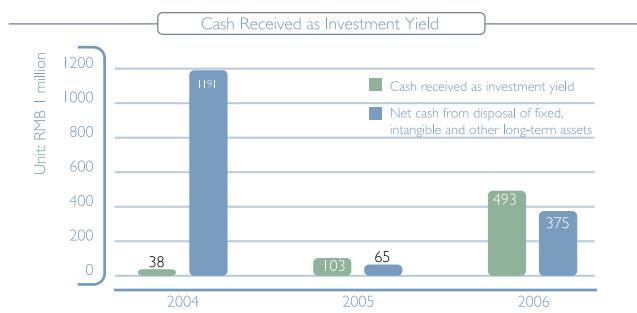


The changes in cash flow for the last three years are shown in the following chart:

In 2006, 38,720 people were employed by the Company, 155 people less than those in 2005; the cash funds for salaries and welfare added up to RMB 5.26 billion, RMB 0.59 billion more than that in 2005. The changes in this for the last three years are shown in the charts below:



In addition, in 2006 the Company obtained a yield of RMB 0.49 billion from investments, and a fund of RMB 0.38 billion in disposal of fixed, intangible and other long-term assets. The changes in this for the last three years are shown in the charts below:



## Capital Suppliers

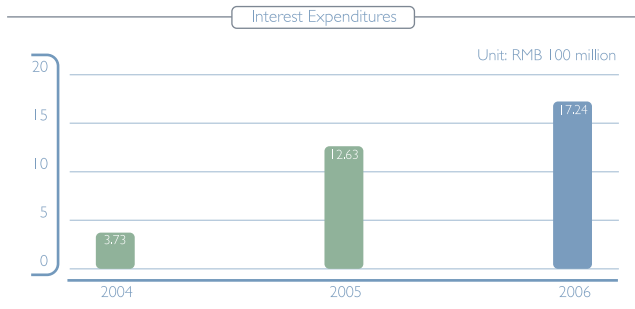
The Company brings its advantage in centralized capital management into full play, flexibly uses various financing methods, continuously optimizes the structure of liabilities, and reasonably and effectively limits the financing costs. As a result, its assets-liabilities ratio at the end of 2006 dropped by 1.9% from the end of 2005.

The Company attaches importance to promoting its relationship with banks. Relying on its fair credit standing, the Company has broadened the financing channels and guaranteed long-term adequate cash supplies that are necessary for production and operation by taking such measures as signing Bank-Enterprise Cooperation Agreement, Prompt Repayment Agreement and so on.

The Company is targeted at establishing a group-type credit-granting system, where the affiliates can obtain bank credit support and services same as preferential and good as the headquarter does if it is assured that the headquarter has been granted adequate bank credit and rich variety of bank credits.

Currently, the Company's main partner banks are: China Construction Bank, Industrial and Commercial Bank of China, Bank of China, Bank of Communications, HSBC Shanghai Branch and National City Bank of New York Shanghai Branch.

The interest expenditures over the last three years:

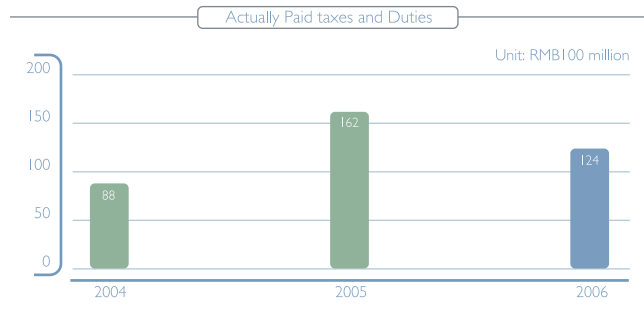


## Taxes and Duties

Thanks to its honest operation and outstanding performances, the Company has been able to reward considerably to the society. Since 2000, the accumulative taxes and duties of various kinds paid to the State has amounted to RMB54.49 billion, among which RMB 12.36 billion was paid in 2006 as real taxes and duties.

Good rate paying credit has enabled the Company to achieve "Shanghai Rate Paying Credit Grade A" in successive years. The ranking of the Company (Legal Person) among the national top 100 taxpayers ascended to No. 5 from No. 7 in 2003 and No. 6 in 2004.

The taxes and duties over the last three years:



Note: The Tax Payment that was listed in the Tax section of the Sustainable Development Report for 2005 is provided by Baoshan Iron & Steel Co., Ltd (the Juridical Person).

## External Donation

Focusing on Honesty, Cooperation, Creativity and Pursuit of Maximization in the Enterprise Value, the Company takes "Building up Harmony of the Society" as its own duty, concerns about the society and shoulders social responsibilities. The social donation in 2006 totaled RMB 23.29 million, among which RMB8.37 million is of poverty alleviation fund, RMB 11.28 billion for donation, RMB 3.64 million for sponsorship.

To support the development of the national environmental protection cause and promote the concern and support of the whole society on it, the first temporary meeting of the Company's 3rd Board of Directors passed a resolution agreeing to donate RMB 50 million to China Environmental Protection Foundation for establishing the "China Baosteel Environment Award" fund.

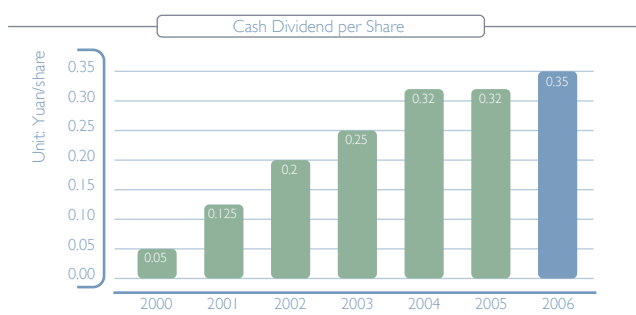
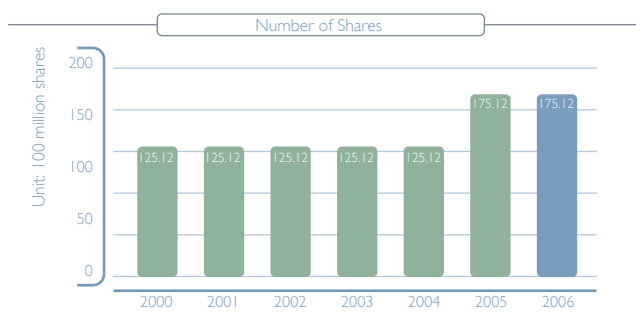


## Profit Appropriation Principle and Bonus Plan

According to the Articles of Association of the Company, the allocation order of the after-tax profit is as follows: making up losses, drawing statutory common reserve fund, drawing optional common reserve fund and paying the dividend of common stocks. The statutory common reserve fund equals to 10 percent of the Company's after-tax profit and may not be taken when its accumulated amount reaches 50 percent of the Company's registered capital. In accordance with the national laws, administrative regulations and the Company's operating performance and development needs, the Board of Directors shall decide the specific proportions of the statutory common reserve fund to be taken and the dividend of common stocks to be paid, and submit them to the shareholders' general meeting for approval. The Company shall not allocate dividend before the loss is made up and the statutory common reserve fund is withdrawn.

In 2006, RMB 13.34 billion of net profit (not combined) was realized. To achieve the goal of a long and sustainable development, and to better implement the operational concept of "Maximization of Shareholders' Value", the Board of Directors proposed that the cash dividend per share for 2006 was RMB 0.35 according to the Corporation Law and the Articles of Association of Baoshan Iron & Steel Co., Ltd.

The number of shares and the cash dividends per share for the past years in the Company's history are shown below:



## Tax Relief and Financing Support

Strictly abiding by various tax-related laws and regulations, the Company positively makes tax revenue planning, reasonably taking advantage of relevant preferential policies. In 2006, the income from the Three Wastes Treatment Projects was exempted from taxation in accordance with relevant policies, which should have been RMB 29 million. In addition, the income tax deduction totaled RMB 0.133 billion for 2006 under the increased deductions policy for technological research and development expenses.

Relying on the strong competitiveness of its products, the Company actively made every effort to attain governmental financial policy support. High and New Technology Export Seller's Credit of RMB 3 million has been granted by the Export-Import Bank of China.



## Sales

Most of the Company's products are sold within the boundary of China to satisfy the increasing demands of the downstream industries for high-quality steel products. Through further developing the market of high value-added products and strengthening the cooperation with domestic strategic clients, the Company has stably been expanding its market share year by year. In 2006, the direct sales volume and the sales volume for the strategic clients made accounted for 75% of the total sales. Meanwhile, the Company persists in realizing 10%-15% of the total sales volume in oversea markets so as to improve the Company's competitiveness in the international steel market. The year 2006 saw that 86.1% of the billet products went to the domestic market and 13.9% to oversea markets.

Market performance of main products:

### Carbon Steel

**Cold rolled products:** In 2006, the sales volume was 7.598 million tons, accounting for 35.5% of the total sales of commercial slab products. The cold rolled products include common cold rolled products, hot dip galvanized products, electro-galvanized products, color-coated products, tinplates, silicon steel products and rolled hard coils etc., mainly used in industries such as automobile, home appliances and packaging, the Company holds the biggest market share of cold rolled products in the domestic market, among which: the sales volume of cold rolled steel sheet for auto amounted to 2.22 million tons, a share of 51.7% in the domestic market; the sales of the steel sheet for home appliances totaled 1.924 million tons, a share of 36.8% of in the domestic market; the sales volume of non-oriented silicon steel amounted to 859,000 tons, a share of 17.5% in the domestic market.

**Hot rolled products:** In 2006, the sales volume was 8.52 million tons, accounting for 39.8% of the total sales of commercial slab products. The hot rolled products include pipeline steel, railway vehicle steel, construction steel, container steel, shipbuilding plate, etc., mainly used in industries such as pipelines, construction, railway vehicle, machinery and vessels. In 2006, the development and application of high-grade steel such as high strength vessel plate, high grade pipeline steel, petroleum reserve steel and so forth filled up the blanks in the domestic market. The sales volume of steel plate for ships and vessels amounted to 587,000 tons in the whole year; a share of 9.7% in the domestic market; the sales of the pipeline steel totaled 445,000 tons with a domestic market share of 28.8%.

**Tubular products:** In 2006, the sales volume was 1.189 million tons, accounting for 5.6% of the total sales of commercial slab products. The tubular products include petroleum pipes, high pressure boiler tubes, mechanical pipes, etc., mainly used in industries such as petroleum and petro-chemistry, boiler-building, and machining. The Company is one of the major oil well pipe suppliers in China. In 2006, the sales volume of oil well pipes amounted to 492,000 tons, a share of 17.9% in the domestic market.

**Wire rods:** In 2006, the sales volume was 691,000 tons, accounting for 3.2% of the total sales of commercial slab products. Wire rods mainly include steel cord, high-quality spring steel, high-grade cold heading steel, high-strength stranded wire, steel for bridge cables, micro alloy welding wires, etc., widely used in fields such as automobile manufacture, high-grade standard parts making, bridge-building and so on. The steel for bridge cables that Baosteel researched and developed by itself was used on Xihoumen Bridge, the 1st suspension bridge, and Sutong Bridge, the 1st cable-stayed bridge in succession. In 2006, the sales volume of high-grade cold heading steel amounted to 248,000 tons, a share of 13.3% in the domestic market.



Steel Billets: In 2006, the sales volume was 1.494 million tons, accounting for 7.0% of the total sales of commercial slab products. The billet products mainly include such high value-added products as die steel, axle steel billet and oxygen cylinder steel. The B-Series Non-hardened-and-tempered steel for plastic mould that Baosteel developed by itself was a brand-new product first created by Baosteel in the international mould industry. In 2006, the sales volume of die steel amounted to 194,000 tons, a share of 13.3% in the domestic market.

### Stainless Steel

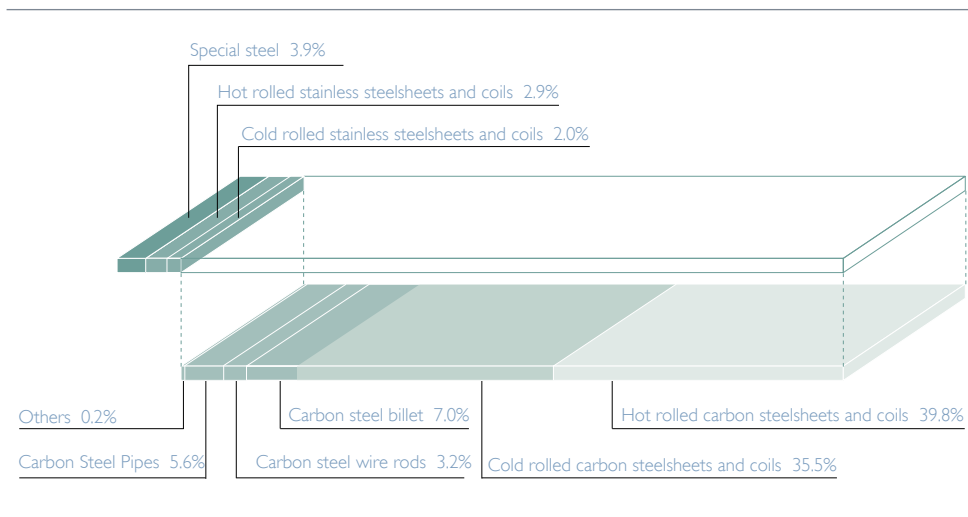
Hot rolled stainless steel coil: In 2006, the sales volume of hot rolled stainless steel was 619,000 tons, accounting for 2.9% of the total sales of commercial slab products. Hot rolled stainless steel products are mainly austenitic stainless steel, which also include ferritic steel, martensitic steel, duplex stainless steel, super-martensitic steel, extra mild steel, nitrogen stainless steel, etc., mainly used in cold rolled base material, manufacture industry, and articles-making industry. The sales volume of hot rolled stainless steel for industrial use amounted to 245,000 tons, a share of 40.9% in the domestic market; the sales of the hot rolled stainless steel for article-making totaled 252,000 tons, a share of 50% of in the domestic market.

Cold rolled stainless steel coil: In 2006, the sales volume of cold rolled stainless steel was 420,000 tons, mainly used in businesses like home appliance, articles, decoration, elevator, kitchen and industrial trades. The sales volume of the cold rolled stainless steel 304 amounted to 320,000 tons, a market share of 13.4%; the sales of Steel Grade 403 totaled 65,000 tons, a share of 10.7% in the domestic market.

### Special Steel

In 2006, the sales volume of special steel was 826,000 tons. The special steel products of the Company mainly consist of special metallurgy series, stainless steel series and structure steel series, applied widely in industries like spaceflight, aviation, environmental protection, electronics, electrical power, communication, petroleum, chemical industry, machinery, home appliance, automobile, locomotive, medical apparatus, etc. The sales volume of the special metallurgy series amounted to 45,000 tons, a market share of 14.2%; the sales of the stainless steel series totaled 140,000 tons, a share of 31.7% in the domestic market.

The following chart shows the sales of commercial slab products of the Company in 2006:



## Procurement

Regarding the procurement of raw materials, spare parts and equipment, as well as logistics and transportation, the Company has attached great importance to cooperation and alliance with strategic suppliers. By taking a variety of measures such as signing long-term agreements, promoting technological exchange, holding management seminars, intensifying integration of resources, and conducting strategic procurement, a strategic cooperative partnership with mutual trust and win-win relation has been established with major suppliers, putting a stable and competitive supply chain into shape. Thus, the Company is assured of a long-term, stable and safe supply. The amount that the Company purchased from the first five suppliers in 2006 accounted for 26.1% of the total procurement of that year.

Strategic cooperation between the Company and the suppliers is summarized as follows:

Ferrous alloy: establishing long-term strategic cooperative relations with major suppliers.

Stainless steel material: cooperating closely with strategic suppliers through optimizing logistics, improving quality, exchanging applied techniques, and reducing costs.

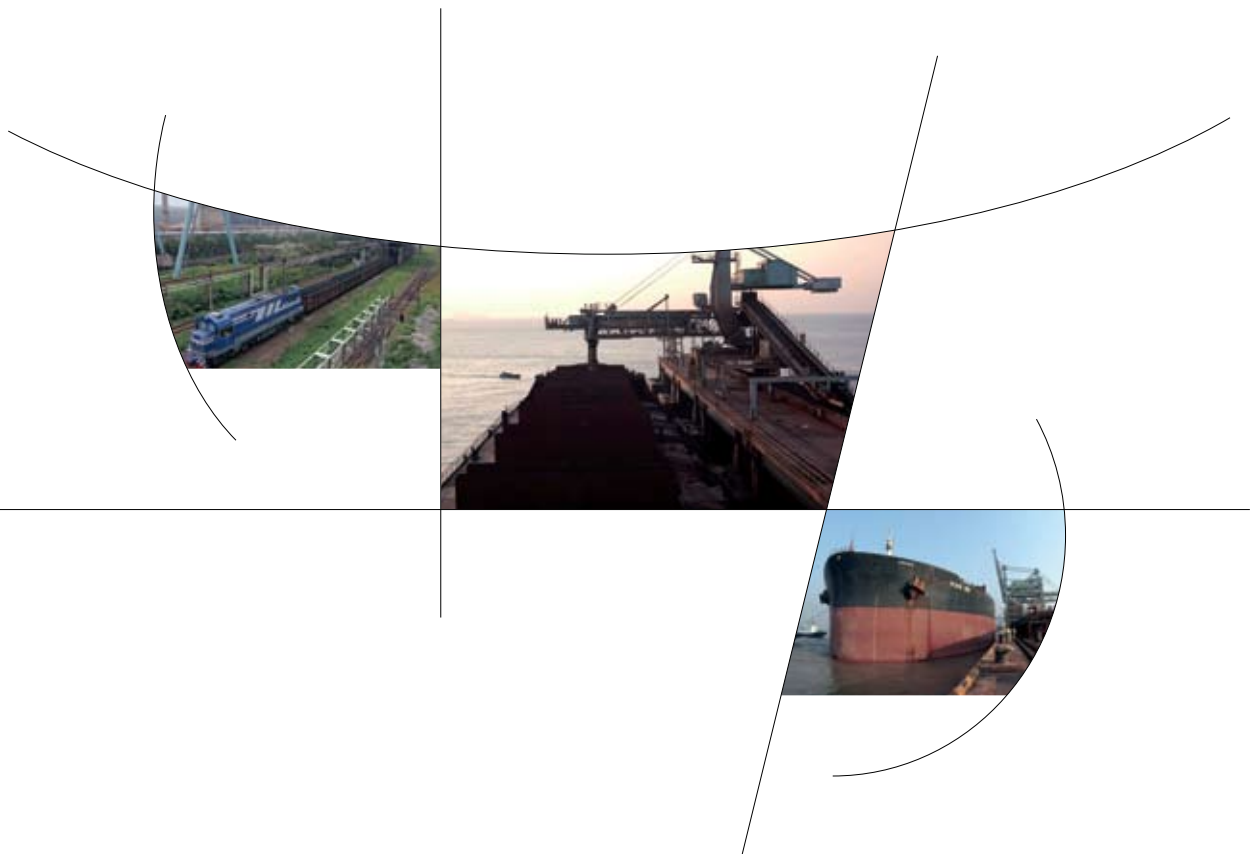
Coal: maintaining long-term relationship with suppliers to make sure that supply through long-term agreements reaches 50% of the demand. Strategic suppliers have played a significant role in guaranteeing adequate coal for Baosteel even when coal is in short supply.

Waste steel and pig iron: further speeding up the establishment of the waste steel base, expanding the supply of waste steel from the base, increasing the purchase proportion of finished waste steel and pure waste steel.

Iron ore: total amount of confirmed resources 100% meets the Company's needs for its own use.

Ocean transportation: signed long-term COA shipping contracts with the large international ship owners in Japan, Europe and China; and signed shipping contracts with Japanese and European ship owners for shipping 300,000 tons of iron ore from Brazil.

Inshore and inland waterway transportation: a long-term shipping agreement of 6 years was signed with China Shipping (Group) Company; it was a great breakthrough in the cooperation with Cosco Shipping Co., Ltd. The number of rented ships increased from 2 to 3. A long-term agreement was signed in the beginning of 2007 with annual contracted shipping amount increased to 5 million tons.



## Major Indirect Economic Impact

In 2006, there was no major indirect economic impact, such as big lawsuits, arbitration, and assets procurement, sale or merger in the company.





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# Addendum

# 1

## A Brief Introduction of Branches and Subsidiaries

### Baosteel Branch Co.

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With the Phase I project put into production on September 15th, 1985, and after Phase II and III construction during the 10th Five Year Plan, Baosteel Branch Co. has become the largest and most advanced steel manufacturing complex in China, also one of the largest integrated steel production bases in the world. Located in the northeast of Shanghai, Baosteel Branch Co. covers an area around 20 square kilometers.

Specialized in the production of world top-graded high-tech and high value-added products, including CR, HR steel and seamless pipe steel, etc., the Branch Co. saw its annual output of 14.5218 million tons of steel in 2006. With wide applications to the international and domestic industries of automobile, household appliances, oil fields, pipeline transmission, shipbuilding, and construction, its products have been exported to over forty countries and regions. With the approval of ISO/TS 16949, its dominant products are certified by international authority institutions. To be specific, the oil casing and drilling pipes are applicable to the logo of API; its HR and CR sheets are certified by JIS; its HR plates for ship building are accepted by seven ship classification societies in China, America, the UK, Germany, Norway and Italy.

Baosteel Branch Co. produces a wide range of products, including normal cold rolled sheets, hot-dip galvanized sheets, electro-galvanized sheets, color coated sheets, silicon steel sheets, electro-tinned sheets, hot rolled pickled strips, damper plates and hot rolled strips, heavy plates, seamless pipes, rods and slabs, etc.

Address: Administrative Center, Fujin Road, Baoshan, Shanghai  
Postcode: 201900  
Tel: 86-21-26646114  
Fax: 86-21-26648046

### Stainless Steel Branch Co.

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As one of the important, high-quality stainless steel bases in China, Stainless Steel Branch Co. was first established in 1938. It is located in the Baoshan District of Shanghai and covers an area of 3.53 square kilometers.

In 2001, the nation's first combined production line of stainless steel and carbon steel was launched in the Branch Co. With world advanced and well-developed technical equipment, the Branch Co.'s annual output reaches 1.5 million tons of stainless steel, 1.9 million tons of carbon steel, 1.28 million tons of stainless hot-rolled strips, as well as 1.81 million tons of carbon hot-rolled strips.

In addition to its principal austenite steel production, the Branch Co. is capable of producing other successfully developed products like ferrite, martensite, super-martensite, dual-phase steel, super-low-carbon, and nitrogen steel. The carbon steel line produces high-quality carbon steel, corrosion-resistant steel, high-strength low or micro-alloy steel, weld structural steel, pipeline steel, etc.

With the wide applications to various fields, including kitchenware, tableware, household appliance, transportation, architecture and decoration, petro-chemical, environment protection, medicals, water tank, the Branch Co.'s products are warmly accepted by their consumers and enjoy a promising sales not only in the country but also in USA, Germany, Rumania, Korea and Taiwan region.

Address: No. 580 Changjiang Road, Baoshan District, Shanghai  
Postcode: 200431  
Tel: 86-21-26034567  
Fax: 86-21-26034364

## Special Steel Branch Co.

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Located in Wusong Industry Area of Baoshan district, Shanghai, Special Steel Branch Co. was established in September 1958 as one of the earliest special steel production bases in China. Up to now, the Branch Co. has been developed into a high-quality special steel manufacturing center of Baosteel and the largest special steel production base of the nation.

Equipped with world's advanced special metallurgical equipment, 100-ton ultra high power DC electrical arc furnace, 60-ton AC electrical arc furnace as well as world's leading production lines for stainless long profile products, alloy bar steel, module, silver steel and so on, the Branch Co. has formed its production and sales system focusing on the main products as high temperature alloy, Titanium alloy, special steel, special alloy materials, as well as automobile steel, bearing steel, stainless steel, tool and die steel and others. It has adopted advanced, applicable information technology to speed up the modernization of its traditional process. With its products ranging from long profile of bar, pipe and wire, to strip and forge products, which are widely used in the various fields such as aviation, space industry, nuclear power, automobile, machinery, electronics, instruments, petro-chemical industry, etc., the Branch Co. comes to be a key production base of raw materials for industrial and military use, as well as a R&D base for new metal materials.

The Branch Co. passed ISO 9001 Quality Management System certification in 1999, and was honored with "Shanghai Municipality Quality Control Award" in 2003.

Address: No. 333 Tongji Road, Baoshan District, Shanghai

Postcode: 200940

Tel: 86-21-56679080

Fax: 86-21-56670867

Website: [www.baosteel-specialsteel.com](http://www.baosteel-specialsteel.com)

## Chemical Branch Co.

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The Chemical Branch Co., focusing on the production, sales, R&D of metallurgical and chemical products and specializing in non-steel manufacturing sector, is the core coal-chemistry branch of Baosteel. In addition to its two major production bases in Shanghai Baoshan and Nanjing Meishan, the Branch Co. is entrusted by Baosteel Co., Ltd. to manage Suzhou Baohua Carbon Black Co., Ltd. With its annual processing capacity of 2.8 billion cubic meters of COG, 600 thousand tons of tar, 150 thousand tons of crude benzene and 910 thousand tons of output for various chemical products, the Branch Co. ranks No. 1 in China coal chemical industry.

Its principle products amount to more than 50 categories, including refined gas, benzene, naphthalene, phenols, quinoline, oils, coumarone resin, ammonium sulfate, carbazole, anthraquinone, pitch coke, carbon black, etc., and are widely applied in the areas like architecture, pharmaceutical, pesticide, plastics, tire and dyeing.

Address: Baosteel Wei 3 Road, Shengqiao, Baoshan District, Shanghai

Postcode: 200942

Tel: 86-21-26648409

Fax: 86-21-56196149

Website: [www.baochem.com](http://www.baochem.com)

## Shanghai Meishan Iron & Steel Co., Ltd.

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As Baosteel's subsidiary located in Nanjing, Shanghai Meishan Iron & Steel Co., Ltd. is a large iron and steel complex covering coking, sintering, iron-making, steelmaking and steel rolling, and has an annual production capacity of 3 million tons of steel. Its most updated technology in hot rolling and steelmaking endows the Branch Co. with 9 series of 56 products, namely, cold forming steel, structure steel, automobile structure steel, corrosion-resistant structure steel, welding gas cylinder steel, oil and natural gas pipe steel, and butt welded pipe steel, boiler structure steel and corrugated plate etc. Among these, for automobile structure steel, which has been applied to the automobile production of several brands, it has developed a package supply capability to automobile enterprises. As one of high-quality pipeline steel producers, the Branch Co. has become a supplier of those renowned enterprises like CNPC with its products widely applied in the key natural gas and electric power projects in Shanghai, Suzhou and Nanjing. Its hot rolled strip products are rated as the top ten products in the nation's metallurgical industry; And some other new products like Carbon structure steel, welding gas cylinder steel, automobile beam steel are honored with Golden Cup Award by Chinese Steel and Iron Association.

In 1999, the Branch Co. successfully passed ISO9001 Quality Control System certification, and was honored with "Shanghai Municipality Quality Control Award" in 2003.

Address: Xinjian, Outside Zhonghuamen, Nanjing, Jiangsu Province

Postcode: 210039

Tel: 025-86364326

Fax: 025-86701540

Website: <http://www.bsmeishan.com/>

## Ningbo Baoxin Stainless Steel Co. Ltd

Founded in March 1996 and under the holding of Baosteel, Ningbo Baoxin Stainless Steel Co., Ltd. is a joint venture company specialized in cold rolling stainless steel production. Thanks to its favorable location in Ningbo Economic & Technical Development Zone, which is close to Beilun port, one of the four deepwater ports in China, and within 35 kilometers from Ningbo city, the Company enjoys a convenient logistic and transportation advantage.

Covering an area around 650 thousand square meters, the Company has a designed annual production capacity of 600,000 tons. Its 35% green coverage makes the Company a modern garden factory.

The Company has introduced advanced technology and equipment from Germany, France and Japan, etc, and has absorbed the stainless steel-making process and technology of Nisshin Steel Co., Ltd. It is also following the modern enterprise management experience of Baosteel. In addition, its raw material is supplied by renowned manufacturers such as Baosteel Stainless Steel Branch Co. and Nisshin Steel Co., Ltd. Therefore, the Company plays a leading role in terms of product variety, product quality and credibility.

Its principal products include cold rolled stainless steel in 300 and 400 series with surface finish grade of 2B, 2D, No.3, No.4, HL, BA, etc., and thickness ranging from 0.20-5.0mm, width from 40-1320mm. They are mainly used in the industries like elevator, automobile, household appliance, kitchen utensils and construction decorations, etc.

Address: Economic & Technology Development Zone,  
Zhejiang Province (Beilun Xiapu)

Postcode: 315807

Tel: 86-574-86718888

Fax: 86-574-86907128

## Baosteel NSC/Arcelor Automotive Sheet Co., Ltd

Baosteel NSC/Arcelor Automotive Sheet Co., Ltd is a joint venture under the holding of Baosteel. It is specialized in producing and selling high-grade automotive steel sheets.

Located in the plant area of Baosteel Branch Co., the Company has an annual production capacity of about 1.70 million tons, among which, 0.9 million tons are cold-rolled sheets and 0.8 million tons hot dipped galvanized sheets. Its principal production equipment and key technology represent the world's top level of steelmaking industry. Since the establishment in September 2002, the Company has seen its first line put into operation in December 2004, and 4 main lines successfully achieving projected monthly production targets by September 2005.

As a professional producer of automotive sheets, the Company enjoys the comprehensive advantages in management, technology, resources and cost from its three investors, namely, Baosteel, Nippon Steel Corporation and Arcelor. With the ambition to become the world's top producer, the Company dedicates itself to the R&D of automotive sheets and provides the auto companies with world first-class cold rolled and galvanized auto sheets and services.

Address: Cold-rolled Comprehensive Building, #5 Neiwei Road,  
Plant area of Shanghai Baoshan Iron & Steel Co., Ltd.

Postcode: 201900

Tel: 86-21-26643519

Fax: 86-21-26643880

## Yantai Lubao Steel Pipe Ltd.,

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Yantai Lubao Steel Pipe Ltd is a subsidiary under the holding of Baosteel. With its location in Yantai, a port city in Shangdong Province, the Company enjoys convenient water and land transportation.

As the largest manufacturer of seamless steel pipes in Shangdong Province, the Company now owns a high-precise Adv. Accu-Roll hot-rolling seamless pipe production line with an annual output of 300,000 tons of seamless pipes in more than 400 specifications and over 20 types. These products, with diameters varying from 114mm to 325mm, include seamless steel pipes for fluid transmission, hydraulic pillar; boiler; oxygen tank, and rolling stock, etc, and are widely applied in various fields and trades like oil, chemistry, boiler; architecture, coal, pipe machining, etc. The Company's products have been sold to more than 20 countries and regions in 5 continents.

The Company has successively passed certification of ISO9001 Quality Control System, ISO14001 Environmental Management System and GB/T18001 Occupational Safety and Health Management System. Its principal products have been approved by international authoritative organizations. To be specific, pipeline steel has been authorized to apply API emblem of the US; ship-building pipes have been certificated by ship classification societies in China, America and Norway. Therefore, the Company was honored with the title of "the Enterprise Honoring Contracts and Abiding by It's Words" in Shangdong Province, and is a "State Product Inspection-free Company".

Address: 185 Middle Xingfu Road, Ya, Shangdong Province

Postcode: 264002

Tel: 86-535-6843034, 6843244

Fax: 86-035-6843727, 6842245

Website: [www.lubaosteelpipe.com](http://www.lubaosteelpipe.com)

## Baosteel Huangshi Coated and Galvanized Sheet Co., Ltd

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The Company, under the holding of Baosteel, is a joint venture located in the Development Zone of Huangshi City, an opening city along the Yangtze River in Hubei Province.

The Company possesses one 150,000-ton zinc-plating production line and one 50,000-ton color-coating production line. Its color-coating sheets are widely used as building material in domestic key constructions for various projects such as Taiyuan Steel workshop, Handan Steel workshop, Lanzhou petroleum-chemistry, Yan'an oil field, Datang Thermal Power and Qingzang Railway projects. Its Zinc-plated sheets also contributed to the state key projects like "Shenzhou VI" space project, Zhengzhou International Expo Center, Sinopec Research Center, Shanxi Yuci Power Plant, etc

The Company has passed the "three in one" certification, which combining certification of Quality Control system, Environmental Control System and Occupational Health and Safety Management System in one package. In recent years, the Company has been successively awarded the titles of "State Dual-Excellent Company with Foreign Investment", "Leader of China Industrial Sector", "Hubei Province Advanced Technology Company with Foreign Investment", "Occupational Sanitary Model Enterprise of Hubei Province", "Clean and Harmless Plant of Hubei Province", "Environment-friendly Enterprise of Hubei Province", etc. Both zinc-plated sheets and color coated sheets of the Company are rated as famous brand products and "well sold products produced in Hubei province".

Address: 18 Hangzhou (W) Road, Huangshi City, Hubei Province

Postcode: 435003

Tel: 86-714-6356725

Fax: 86-714-6351726

## Shanghai Baosteel International Economic & Trading Co., Ltd.

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As a subsidiary completely owned by Baosteel, the Company covers a wide range of business, including the import and export trade of various commodities and technology, steel trades, processing and logistics, supply of scrap steel, automobile trades, e-business, packaging straps, freight agent as well as language translation.

Its 5 affiliated regional trading companies, 3 specialized trading branch companies as well as 17 Cutting, Processing and Logistic Centers cover all over 14 provinces, autonomous regions and municipalities of the country. The Company has an annual trading capacity of 19.35 million tons, as well as 2.51 million tons of cutting and distributing capacity.

Address: Baosteel Building, 370 Pudian Road, Pudong New Area,  
Shanghai  
Postcode: 200122  
Tel: 86-21-58350000  
Fax: 86-21-50623344  
Website: <http://www.baointl.com/>

## Shanghai Baosight Software Co., Ltd.

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This Company was established in April, 2000 and listed in April, 2001. Its headquarters is located in Shanghai Pudong Zhangjiang High-Tech Park. Under the holding of Baosteel, it is a listed software enterprise with a registered capital of RMB 260 million.

The Company's main business units include 11 Operation Departments, 12 branch companies and 6 subsidiaries. The Company has made great efforts to build up an "engineering-product-service" industrial chain. It achieved a sales revenue of RMB1.521 billion in 2006.

Based on Baosteel's 20-year experience in information application, the Company is capable of combining information technology with modern management techniques, project planning and consulting with engineering implementation, and software component design with customized design. It is in possession of the network technology with the best cost-effectiveness, the software technology for setting up decision-making platform system, the integrated technology to solve information isolated island problems, and supporting technology to provide professional service to customers. Its products and services are found in numerous industries including metallurgy, petrol-chemistry, power, transportation, finance, retail, media, government, medical health, and so on. The Company occupies a leading position in such fields as enterprise informatization, process automation and city informatization.

Address: 515 Guoshoujing Road, Zhangjiang High-tech Park,  
Pudong New District, Shanghai  
Postcode: 201203  
Tel: 86-21-50800830  
Fax: 86-21-50800701  
Website: [www.baosight.com](http://www.baosight.com)

## Overseas Subsidiaries

### **Howa Trading Co., Ltd.**

Address: 102-0082, Howa Building, 15 Banchi, Ichiban-Cho,  
Chiyoda-Ku, Tokyo Japan  
Tel: 81-3-3237 9121 Fax: 81-3-3237-9203

### **Baosteel Hongkong Trading Company Limited**

Address: Room 2901, 29/F. Office Tower, Convention Plaza, 1  
Harbour Road, Wanchai, HONGKONG  
Tel: 852-2827 7773 Fax: 852-2879 4811

### **Bao-Trans Enterprises Ltd.**

Address: 29/F. Office Tower, Convention Plaza, 1 Harbour Road,  
Wanchai, HONGKONG  
Tel: 852-2528-5766 Fax: 852-2529-5117

### **Bao-Island Enterprises Limited**

Address: 29/F., Harbour Centre, 25 Harbour Road,  
HONGKONG  
Tel: 852-2833 3223 Fax: 852-2827 0001

### **Baosteel Singapore PTE LTD.**

Address: 6 Temasek Boulevards #25-02 Suntec Tower Four SINGAPORE 038986  
Tel: 65-6333 6818-101 Fax: 65-6333 6819

### **Baosteel America INC.**

Address: Continental Plaza I, I/F 401 Hackensack Ave. Hackensack, NJ 07601, USA  
Tel: 1-201-457 1144 Fax: 1-201-457 0909 / 001-201-457 1777

### **BAOVALE MINERACAO S.A.**

Address: Rua Lauro Muller 116, Sala 3103 CEP 22299-900, Rio De Janeiro RJ BRASIL  
Tel: 55-21-2531 1363 Fax: 55-21-2531 0298

### **BAOSTEEL TRADING EUROPE GMBH**

Address: 1 Nonnenstieg Avenue, Hamburg, Germany  
Tel: 49-40-4199 4101 Fax: 49-40-4199 4120





# Addendum

## 2

### Reader's Feedback Information Form

Baosteel is greatly concerned about your comments to this Sustainable Development Report. We appreciate your comments and opinions you could feedback to us so that we'll have continuous improvement.

Please fax the form with your answers to +86-21-2664 3433, or

You may also visit our website (<http://www.baosteel.com/>) and answer the questions on line.

1. Have you found in this Report the information you need? If not, please write it down.

2. In which part you are most interested in the report?

If you do not mind, please provide us with your personal information:

Name	_____	Occupation	_____
Organization	_____	Address	_____
Post Code	_____	E-mail	_____
Phone	_____	Fax	_____

Contact us:

Environment and Resource Department of Baosteel

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<http://www.baosteel.com>