

## V. Corporate Governance

### (I) Progress in Corporate Governance

Ever since listed at the stock exchange in 2000, with its goal of becoming a first-class international enterprise and an international public company, the Company has endeavored to create and execute, by means of standardizing its management and regulating its operation, a thorough and comprehensive corporate governance system, which features operational transparency in information publication, interactive relationship with investors, and strict and effective internal auditing and monitoring system, risk-controlling systems, sound credit and transparency in management, in strict compliance with the *Company Law*, the *Securities Law*, as well as relevant rules and regulations issued by China Securities Regulatory Commission and the *Rules of Shanghai Stock Exchange for Stock Listing*. Efforts have also been made for further improvement in its corporate governance system by means of keeping abreast with domestic and international progress in management and continuously enhance the efficiency of the board of directors, while focusing on creativity and innovation. The Company has been endeavoring in developing a strategic leading company governance system that combines the characteristics of Baosteel, of the steel industry and of Chinese characteristics.

#### 1. Strict corporate governance structure

The Company established its basic management framework and a top-down approval procedure must be followed in making decisions of great significance. The Shareholders' Meeting, the Board of Directors, the Executive Directors, and the presidents have their own distinctive and respective rights, making an interactive and balanced system among the departments of power, decision-making, management, and supervision.

#### 2. Board of Directors with enterprising spirit

##### (1) Overview of the Board of Directors

The Company attaches great importance to the Board of Directors and efforts have been made to improve the operating efficiency of the Board. The Board of Directors grows along with the Company's development. It moves toward a board with strategic importance in governance based on the standardized operation and by taking the following measures: constructing basic management system, clarifying the important decision-making powers for each level of management, establishing executive directors, emphasizing the function of independent directors in the strategic planning of the Company, deepening the function of special committees, and practicing the closed-loop management for board decisions.

The Board of Directors has 9 directors, including three independent ones. In addition, Mr. Wu Yaowen has been trusted by the State-owned Assets Supervision and Administration Commission of the State Council as the Outside Director of the Baosteel Group Corp. He is also one of the directors of the Company, and is comparatively independent from the Company.

Three special committees have been formed to be responsible for the Board of Directors: Committee for Strategic Development and Risk Management, Auditing Committee and Compensation and Performance Evaluation Committee. Effort has been made to expand the functions of the committees.

##### (2) Mature independent director system

As one of the first few companies in China which introduced the practice of independent directors, the Company attaches great importance to the role of independent directors and enjoys a mature system of independent directors both in institution and practice. The independent directors, senior experts in security, finance and accounting, and management at home or abroad, are well-known professionals in corporate strategy, business management, finance, commerce, and human resources. Their devotion, independent stands, professional perspectives and experiences have contributed greatly to the management, significant decision-making and corporate governance system of the Company.

The Independent Directors are found to be active in bettering the special committees, playing an important role in the special committees of the Board of Directors. With Mr. He Wenbo as the director of the Committee for Strategic Development, one seventh of its members are independent directors. Mr. Buck Pei, an accounting professor, acts as the director of the Auditing Committee, whose independent directors take up two third of its members. Ms. Katherine Tsang is the director of the Compensation and Performance Evaluation Committee, whose members are all outside directors, with three fourth of its members are independent directors. With independent directors serving as the directors of Auditing Committee and Compensation and Performance Evaluation Committee, the independency and justness of the auditing and evaluation work can be effectively ensured.

##### (3) Innovative measures of the Board of Directors

The Company understood very well the link between theory and practice. It highly emphasized the innovation in systems and constantly improved the decision-making pattern of the Board of Directors. Many innovative mechanisms for communication arose from practice, such as the outside directors' meetings and the directors and senior executives exchange meetings, and so on.

In August 2011, BOD of the Company began to try the "Offsite meeting for the directors of the Group and the Company", carrying out a "brainstorming" among the top management of the Company. The core topic for the meeting was Company's strategy. During the meeting, directors of BOD had in-depth and open discussion about such strategic issues as increasing Company's competitiveness, and enhancing the value of investment in capital market.

Based on the successful experience of foreign countries, the Company made a pioneering innovation to the "Offsite meeting" by combining this pattern with the characteristics of China's state-owned listed companies. To be specific, the Company enabled the organic connection between the two communication mechanisms: one being the communication with the controlling shareholder Baosteel Group, and the other the offsite meeting mechanism for directors of the Company's BOD, facilitating the strategic information exchange between controlling shareholders and the BOD of the listed company, and the cooperation between these two parties.

#### (4) Honor for the BOD

In the reporting period, the Company received the "2011 Board of Directors Award" conferred by the "Tenth Forum for China's Corporate Governance", which was co-sponsored by Shanghai Stock Exchange and the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) and Organization of Economic Cooperation and Development (OECD).

#### 3. Full and transparent information disclosure

During the reporting period, the Company had combined as usual the compulsory and voluntary disclosures of information, treated all the shareholders on the principle of openness, impartiality, and justice, and increased its transparency through the timely disclosure of sensitive information about its stock price following the relevant rules strictly.

During the reporting period, the Company published four regular reports, and 28 interim announcements, and realized zero mistakes in information disclosure.

#### 4. Fine and interactive relation with investors

During the reporting period, the Company had taken the initiative to improve its work on investor relation (hereinafter referred to as IR), making good communication with the investors. During this period, the Company had received a total of 437 domestic fund managers and securities analysts in 104 batches who came to the Company for investigation and research; the Company had also arranged for 27 batches of investors to visit the factory areas, hosted teleconferences for 28 times. Meanwhile, upon invitation, the Company had attended 11 large-scale investor exchange meetings at home and abroad hosted by such international investment banks as UBS AG, Mogan Stanley, and Merrill Lynch. Through keynote speeches, panel meetings and one-to-one communication, the Company had in-depth exchange with foreign investors on such areas as the prospect for employment, economic trend, raw material market, and corporate planning.

The Company stuck to active and pertinent communication and service to investors. For many medium-small investors, the Company published performance report on the Internet after the publication of regular reports. For institutional investors, the Company held meetings of annual and semi-annual performance analysis. Chairman, president, vice president of financial affairs, and secretary to the Board took part in the above-mentioned activities, having real-time communication with the investors, learning about the investors' ideas, and answering the urgent questions from the investors. The Company also conducted surveys about IR service, collecting the preference and opinions from investors through questionnaires. The Company endeavors to improve and optimize its IR service.

The Company made effective use of the Internet to enable the fair information disclosure and continued to raise its level of informatization. In 2011, the IR team made adjustment to the website structure: added the FrontPage with IR column, the page of "Notice of Significant Events" to facilitate the users, and the analysts' report in addition to the special column of analysts. These additions further enriched the Company's website. In the meantime, the Company had uploaded videos of performance briefing for analysts and the materials for conferences to the company website. During the period, the Company videotaped the analysts' meeting, uploaded the video with slides to the IR column of the Company's website. This has facilitated the fair information disclosure because those who were unable to make onsite investigation due to various reasons such as time and place limit, and the limited reception capacity of the Company could watch the video and get online reports.

#### 5. Special activities on corporate governance

As early as August, 2007, the Company had completed the relevant work on the three stages of corporate governance, namely, self-check, public assessment, and rectification and improvement, as required in *Notice on the Relevant Items on Strengthening the Special Activities of Corporate Governance of Listed Companies*, winning the acknowledgement of Shanghai Securities Regulatory Bureau and Shanghai Stock Exchange. In addition, the Company had published *Report on the Rectification and Improvement of the Special Activities of Corporate Governance of Baosteel*, and would continue to improve its independent director system and internal control system in the reporting period. It would also establish and improve a mid- and long-term incentive mechanism that combined incentive and restriction.

#### 6. Awards in 2011

Date	Awards	Issued by
April 2011	"Top 100 of China Corporate Social Responsibility", ranked third among 50 domestic companies and first among 12 domestic raw material industry companies.	<i>Fortune</i> (Chinese version)
April 2011	Chen Ying: "7th XCF Golden Board Secretary of Listed Companies in China"; and member of "Board Secretary's Hall of Fame" awarded by <i>New Fortune</i>	XCF publishing house
May 2011	"Outstanding Board" Award (41 winners); independent director Buck Pei won the title of "Most Influential Independent Director" and Baoshan Iron & Steel Co., Ltd. Board Secretary Chen Ying won the title of "Most Innovative Board Secretary".	Chinese Listed Company Board Forum 7th "Golden Round Table" Award ceremony chaired by Board magazine
July 2011	Baoshan Iron & Steel Co., Ltd. ranked the 16th on the List of 2011 Top 500 Chinese Enterprises	<i>Fortune</i> (Chinese version)
August 2011	Awarded "Top 10 Social Responsible Companies" by CCTV finance channel	CCTV finance channel's "2011 CCTV China's Listed Companies Summit & CCTV Finance 50 Index Release Ceremony"
Dec. 2011	"Most socially responsible listed company" in China's Listed Company Reputation Ranking	2011 China Listed Company's Summit & "2011 China's Listed Company Reputation Ranking" chaired by the "Daily Economic News"
Dec. 2011	"2011 BOD Award"	"The Tenth China Corporate Governance Forum" chaired by Shanghai Stock Exchange and co-sponsored by SASAC and OECD

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### (II) Performance of Directors' Duties

#### 1. Directors' attendance of the board meetings

Name	Independent director	Required number of board meetings	Attendance in person	Attendance by correspondence	Entrusting a representative	Absence	Two consecutive absence
He Wenbo	No	6	6	2	0	0	No
Ma Guoqiang	No	6	6	2	0	0	No
Liu Zhanying	No	5	5	2	1	0	No
Zhao Zhouli	No	3	3	0	0	0	No
Zhu Junsheng	No	3	3	0	1	0	No
Wu Yaowen	No	6	4	2	2	0	No
Buck Pei	Yes	6	5	3	0	0	No
Katherine Tsang	Yes	6	5	2	1	0	No
Edward C. Tse	Yes	6	5	2	1	0	No
Total number of board meetings in 2011						6	
Including: On the spot regular meetings						4	
Board meeting by correspondence						2	
On-site Board Meetings combined with other ways of communication						1	

#### 2. Dissents from independent directors

No independent directors have voiced their dissents on proposals of the Board of Directors and other proposals in the reporting year.

#### 3. Establishment and improvement of the relevant work systems and main content of the independent directors and the fulfillment of the directors' duties

In *Articles of Association* and its appendix *Rules and Procedures for the Meeting of Board of Directors*, the Company specified its independent director system. The Company had signed *Agreement on the Employment of Independent Directors* with the independent directors to clarify their rights and duties. In the reporting period, the Company sorted out relevant laws and regulations about independent directors and organized them according to topics. The Company made some changes to these rules and regulations in accordance with the Company's reality and then published *Standards for Independent Director Management*.

On March 26, 2008, the Company passed *Proposal on the Work System of the Annual Report of Independent Directors of the Company* at the 11th board meeting of the 3rd session, specifying that the independent director should perform his rights and obligations and work diligently in the compilation and disclosure of the annual report.

The independent director, in performing his duties, is free from the influence of the Company's main stockholders, actual controllers, or units or individuals that have a stake with the main stockholders and actual controllers.

All related transactions that should be approved by the Board of Directors of the Company or by the Shareholders' Meeting have to obtain a written document of transaction consent and independent opinion from independent directors before the transaction.

The independent director have fulfilled his trust, attending the board meetings actively, performing his special powers in accordance with the law and the administrative rules and regulations, voicing his opinion on key issues like the Company's related transactions, external guarantee, and incentive by stock right, providing professional and constructive suggestions for the Company's major decisions, carefully supervising the work of the management, and safeguarding the legitimate rights and interests of the Company and all the shareholders.

In accordance with *Work System on the Annual Report of Independent Directors*, the Company organized the independent directors to pay an on-the-spot investigation of Baosteel during the period of making the annual report. This enabled the independent directors to have a deeper understanding of the Company, provided them with information support in their decision-making, and helped them increase the efficiency of decision-making.

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### (III) Independence of the Company as against the Controlling Shareholder in Respect of Business, Personnel, Assets, Institutions and Finance

- (1) Sales and operations: The Company has full authority over its sales and operations management.
- (2) Personnel: The Company is totally independent of and separate from Baosteel Group Corporation in regard to production, human resources and payroll management. The senior executives, including the President, the Vice Presidents, and the Board Secretary, do not hold any concurrent positions in Baosteel Group.
- (3) Assets: The Company owns all of its production processes, including raw materials processing, sintering, coking, iron smelting, steel manufacturing and steel rolling, as well as related infrastructure and facilities, such as ships and ports. The Company also exercises complete authority over its research and technology, manufacturing, procurement and sales processes.
- (4) Organizational structure: The Company is totally independent of and separate from Baosteel Group Corporation with none of the Company's departments overlapping with those of or reporting to the holding company.
- (5) Finance: Equipped with its own finance and accounting department, the Company has independent accounting, auditing and financial management systems. All bank accounts of the Company are independent of the holding company and taxed separately.

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### (IV) Establishment and Improvement of the Corporate Internal Control System

As a listed company for pilot project of standardized internal control, in 2011, the Company planned and implemented the pilot project with its goal of "Intensify internal control, and standardize the Company's operation", following the concept of simple and high-efficiency and the principle of consistency. The project plan had been approved by the Board of Directors.

According to the *Basic Standard for Enterprise Internal Control and the Guide to Enterprise Internal Control*, the Company conducted a thorough examination of its internal control system, laying emphasis on reexamining the procedures of various businesses and recognizing major risk point and key control factors. The Company added 11 articles about internal control related to the financial statements.

In terms of the supervision and evaluation of internal control, based on a review of the previous work of self-evaluation regarding the internal control, and in accordance with the requirement of the *Guide for Enterprise Internal Control Evaluation*, the Company established a supervision and evaluation system for internal control that enables the functions of both the internal auditing and self-evaluation of internal control. The Company conducted the supervision for internal control and self-evaluation of the internal control on a project basis "on different levels and for varied categories". The Internal Control Self-evaluation Report was approved by the Board of Directors.

On the front of internal control audit, the company employed Deloitte Touche Tohmatsu Certified Public Accountants Limited to conduct internal control audit for the pilot department of the Company, and provided audit report for the internal control of the parent and important subsidiaries of Baoshan Iron & Steel Co., Ltd. The audit report shows that the parent and important subsidiaries of Baoshan Iron & Steel Co., Ltd. maintained effective internal control for the financial statements in all major aspects in line with the *Basic Standard for Enterprise Internal Control* and related regulations.

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### (V) Examination and Incentive of the Senior Executives

The Company enjoys a well-formed structure of corporate governance, with an assessment and appraisal mechanism for senior executives, which was approved by the Remuneration and Appraisal Committee and the Board of Directors. The compensations of senior executives are dependent upon the performances of the Company as a whole and of themselves, and normative procedures have been well established with regards to their targets, daily compensation management, achievements, assessments and achievement-assessment relationship.

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### (VI) Self-evaluation Report of the Board of Directors on the Company's Internal Control and the Report on Performance of Corporate Social Responsibility

1. The 18th meeting of the 4th Board of Directors of the Company examined and passed the *Self-Evaluation Report of the Board of Directors of Baosteel on the Company's Internal Control*. Deloitte Touche Tohmatsu Certified Public Accountants Limited issued its evaluation, which was disclosed at [www.sse.com.cn](http://www.sse.com.cn).
2. The 18th meeting of the 4th Board of Directors of the Company examined and passed the *2011 Sustainability Report*, which was disclosed at <http://www.sse.com.cn>.

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### (VII) The Establishment of the System of Looking into the Responsibility of Major Mistakes in the Disclosure of Information of the Company's Annual Report

The 4th meeting of the 4th Board of the Company held on March 30-31 2010 examined and passed the revision of *Methods of Information Disclosure Management* pursuant to the requirements set out in CSRC Document [2009] No.34 *Circular on Properly Handling the 2009 Annual Reports of Listed companies and the Related Work*, in which the accountability system for major errors in information disclosure in annual reports was added.

According to the accountability system for major errors in information disclosure in annual reports, if the person liable violates the stipulations of such state laws and regulations as *Company Law, Securities Law, Administrative Measures on Information Disclosure by Listed Companies, the Rules of Shanghai Stock Exchange for Stock Listing, Accounting Standards for Business Enterprises*, intentionally or due to gross negligence, which has resulted in the false record, misleading statement, or major omission in the annual report, the Board of Directors shall punish the person(s) directly liable and other persons liable dependent upon the seriousness of the case and shall disclose the reasons for the correction, supplement and revision as well as the influences thus caused truthfully following the relevant stipulations by China Securities Regulatory Commission and Shanghai Stock Exchange. It shall also disclose information about the accountability measures and punishment of the relevant persons liable by the Board of Directors.

No correction of major accounting errors, no statement of major information omission, and no correction of advance notice of annual performance occurred in the reporting period.

## (VIII) Horizontal Competition & Related Transactions

### 1. Horizontal competition

During the reporting period, the Company's controlling shareholder Baosteel Group also has 69.56% shareholding of Baosteel Group Bayi Iron and Steel Co., Ltd., 56.15% shareholding of Ningbo Iron & Steel Co., Ltd., 70% shareholding of Desheng Iron & Steel Co., Ltd., three of which are also involved in the iron and steel manufacturing and transaction.

Bayi Iron and Steel Co., Ltd. mainly produces bar steel and section steel, and a certain amount of hot-rolled steel and planks. As for the product structure, the major products of Baoshan Iron & Steel Co., Ltd. are steel sheets and tubes, while the major products of Bayi Iron & Steel are long steel products. In the light of region, Bayi Iron & Steel, located in Xinjiang, has distinctive features of a regional market, and its client market is quite far away from that of Baoshan Iron & Steel Co., Ltd. There is almost no overlapping in their end users. Therefore, the two companies are not in substantial horizontal competition. As for Ningbo Iron & Steel, compared with the "Premium Product" strategy of Baoshan Iron & Steel Co., Ltd., it has limited products of hot-rolled coil aimed for the medium and low-end market. Therefore, there is no substantial horizontal competition between Ningbo Iron & Steel and Baoshan Iron & Steel Co., Ltd.

The fourteenth meeting of Board of Directors held on March 28, 2006 approved the "Proposal about the subject implementing domestic reorganization of iron and steel industry and build new steel plants", and selected Baosteel Group as a pilot to carry out domestic reorganization of iron and steel industry. Baoshan Iron & Steel Co., Ltd. reserves the right to acquire the related assets from Baosteel Group, and may choose to do so at any time it thinks appropriate.

Commitments made in Issuance Prospectus by Baosteel Group:

- (1) The Company has the right to acquire, at any time it thinks appropriate, Baosteel Group's assets and businesses that may be in competition with the Company;
- (2) The Company shall enjoy the priority of similar business opportunities acquired by Baosteel Group, who will not invest until the Company gives up the commercial opportunities;

As one of the engines of domestic iron and steel industry, Baosteel has been taking an active part in the reorganization of the industry in accordance with the national policies on iron and steel industry. By way of various capital operation including acquisition, merging, and transfer for free, Baosteel has quickly enlarged its production scale, and strengthened its comprehensive power, enhancing its core competitive power.

In the long run, the Company will choose to acquire, at appropriate time, high-quality iron and steel assets that are under the control of Baosteel Group and have undergone reorganization and cultivation. Baosteel Iron and Steel, through following standard procedures, protecting the interest of medium and small investors, and ensuring full disclosure of information. The specific measures taken for this purpose include that the controlling shareholders consults with the related parties and makes commitments of non-competition, and allows the listed company to reserve the right to acquire, at any time it thinks appropriate, the Group's assets and business which may be in competition with the Company.

In order to avoid any possible substantial horizontal competition, Baoshan Iron & Steel Co., Ltd. will keep in line with the commitments made by Baosteel Group and continue to carry out the following measures to avoid horizontal competition:

- (1) After obtaining business opportunities such as investment and business combination of the iron and steel industry, the Company will submit the issue to the Board of Directors for examining. The directors with conflicting interests will withdraw from the voting process.
- (2) The Company will continue to closely observe the investment by Baosteel Group that is similar to the business of the Company. When potential substantial competition arises, and when the business in competition coincides with the objectives and interest of the Company, the Company will acquire this business or assets from Baosteel Group at a fair price according to the standard procedures stipulated by the *Articles of Association*. The directors/shareholders with conflicting interests will withdraw from the voting process of the proposal in the Board meeting/shareholder's general meeting.

### 2. Related transactions

Refer to (IX) "Significant Events (VI) Significant Related Party Transactions" for additional information about the related transactions in the reporting period.

The party that has related transactions with the Company is Baosteel Group and legal entities directly or indirectly under control of it. Baosteel Group is the parent company of the Company and is the substantial controller of the Company.

Related transactions with the related parties are conducted under the market principle with maximum benefit and operation efficiency. They are reflecting professional cooperation and win-win situation.

The related transactions of the Company are carried out according to the open, fair, and just principles and do not harm the interest of the two parties concerned. At examining of the related transactions at the Board meetings, the related directors waived from voting, and independent directors provided independent opinions.