

VII. Board of Directors' Report

(I) Review of the Company's Operation During the Reporting Period

2011 is the beginning year of the national "Twelfth Five Year" plan. Affected by a series of unfavorable factors such as the Japanese Earthquake and the European debt crisis, the national economy managed to maintain a stable and comparatively fast development. The steel industry made remarkable progresses in eliminating the obsolete facilities, merging and restructuring, and overseas investment. The industry centralization level was higher than the previous year. In 2011, the national crude steel and exported steel totaled 683 million tons and 49 million tons respectively, registering a YoY increase of 8.9% and 14.9% separately.

In 2011, opposite to the high yield, the steel industry operated with a high cost and low profit. Prices of major raw materials including iron ore, scrap steel, and coke experienced a sharp rise, and the price of the imported iron ore rose by 28.2% from the previous years, in particular. Due to the extensive economic slump in the major developed countries, the monetary restraint at home, the housing adjustment and control as well as the slower growth of the downstream manufacturing industries, the demand for steel decreased greatly, the steel price fluctuated, and the problem of the product structure became more prominent. In the meantime, the price of steel and price of ore became more attached to their financial attributes and more intertwined with each other, resulting in a further decrease of the profitability of the steel industry. In fact, the profitability of steel industry is one of the lowest among national industries. It's not exaggerating that China's steel industry entered a "Meager Profit Era".

Faced with complicated economic situation and market environment, the Company took rational measures to overcome the pressures on both ends: the purchase and the sales, so as to ensure stable production and balanced production and sales. In the meantime, the Company stuck to the differentiated competition strategy, continued to strengthen the measures in reducing cost, and dealt with the pressure of operational cash flow. As a result, the Company maintained a good overall performance. In 2011, the sales of steel totaled RMB 25.803 billion, realizing an operating revenue of RMB 222.86 billion, and a total profit of RMB 9.26 billion. The Company achieved the best operating results among the peers again.

1. Business scope and company strategies

With steel industry as its focus and carbon steel, stainless steel and special steel as its major classifications of products, the Company also engages in business areas such as steel-related trade, shipping, coal chemical industry, information services, and finance. The principle products of the Company include hot-rolled sheets and coils, heavy plates, cold-rolled sheets, galvanized sheets, tin plates, color-coated sheets, electric steel, seamless tubes and pipes, UOE & HFW welded pipes, hot-rolled pickled sheets, high-speed wires and rods, stainless steel, and special steel, which are widely applied and used in industries such as automobile, home appliances, oil industry, machine manufacturing, energy and transportation, construction and decoration, metal ware products, aviation, nuclear power, and electronic panels.

The Company implemented a competition strategy guided by value creation for customers, based on manufacture of premium products with cost improvement, with product and service differentiation as the major advantages and approaches.

2. Company priorities

(1) Strengthening the product management, and enhancing the Company's overall profitability

In the first half of 2011, availing itself of the relatively booming market demand, the Company maximized its steel production capacity, balanced and allocated the iron & steel resources according to the priority of product profitability in pursuit of profit maximization. In the second half of 2011, the Company timely adjusted the policies for production and operation in line with the changes of the steel market, further reduced the operating cost with the principle of optimization of system cost.

Furthering the efforts in new product development. In view of the needs of the key industries, the Company sped up developing the environmental friendly new products with strong competitiveness and large profit margin, enforced the research and development of the user application technology, promoted the package solutions, and consolidated the differentiated competitive advantages of Baosteel.

Increasing the market share of strategic and exclusive leading products. The Company cemented the competitiveness of automotive sheets, selling 4.548 million tons of cold-rolled automotive sheets in the year, accounting for 50% of the market share.

(2) Intensified the cost improvement and furthered the risk control

Strengthened the backward cost deduction mechanism, and optimized the structure of fuel and raw materials. The Company optimized the plan for coal ore blending by reducing the purchase of expensive imported coal and increasing the purchase of domestic ones; optimizing the alloy types, and using more low-cost alloys; as well as using more mixed scrap steel and less pure scrap steel. Enhanced the price linkage between sales and purchase system, made more accurate market prediction, and improved the price contribution from the bulk purchase of fuel and raw materials and from the sales market.

Practiced strict control over various expenses, promoted cost reduction with technologies and low-cost manufacturing. The Company furthered the control over the maintenance fee, subcontracting fee, plant overheads, and controllable marketing expenses. The Company also conducted benchmarking analysis of costs, deepening the cost benchmarking of the same procedures.

Perfecting the risk management system, and the prediction, risk report and supervision mechanism. As a result, the Company became more efficient in risk management.

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(3) Enhanced the ability to serve customers, realized the transition from manufacturing to service.

Clarified the responsibilities of product management. Streamlined the management procedure. The sector responsibility operation system for heavy plates and steel bars were adjusted to help enhance the competitiveness of the products.

Deepened the technical service mode, improved the capability of sales system, and explored the customer-oriented marketing mechanism. More attention was paid to the technical cooperation with customers and more support was given to the marketing of technical services. As a result, the Company optimized its technical service system and enhanced its technical service capacity.

(4) Focused on energy conservation and emission reduction, and carried out environmental-friendly operation.

The Company promoted the energy management system of the headquarters and popularized this system in the Company to facilitate an all-round energy conservation and emission reduction. Gave play to the advantages of the new mechanism of Energy Performance Contracting, sped up the implementation of energy saving projects and promoted energy saving technologies.

Guided by the concept of environmental operation, the Company endeavored to build up a value chain of green purchase and green usage of steel products, and the guiding concept for product R&D changed from traditional design to environmental-friendly design. The Company issued the first "Guideline for Green Purchase" in China.

(5) Investment programs in key fixed assets under proper control

Following the principle of "making both ends meet and making investment carefully", the Company invested RMB 16.567 billion in fixed assets. A series of key projects were completed one after another, and the construction progress of key projects were under proper control.

(II) Overall Performance in the Reporting Period

1. Operating results

In 2011, the Company sold 25.803 million tons of steel, 2.1% higher than the previous year; and realized a total operating revenue of RMB 222.86 billion, 10.01% higher than the previous year. The gross profit was RMB 9.26 billion, and the net profit attributable to the Company's stockholders was RMB 7.36 billion.

Compared with the Company's annual operating plan 2011, the total operating revenue and the operating cost in 2011 were completed by 102.3% both.

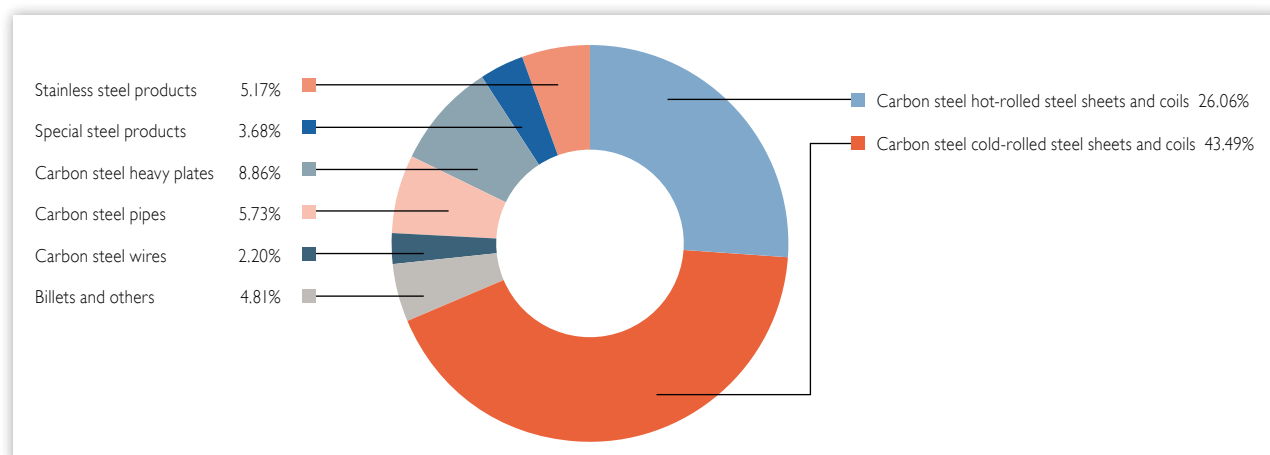
2. Distribution of operating revenue and cost of principal business segments:

(RMB Million)						
Segment	Operating revenue	Operating cost	Gross margin	Change in revenue YoY (%)	Change in cost YoY (%)	Change in gross margin
Iron & Steel Manufacturing	190,741	177,886	6.74%	9.35%	16.18%	-5.49 ppts
Iron & Steel Sales	194,782	190,676	2.11%	13.82%	14.19%	-0.32 ppts
Other	14,670	12,585	14.21%	15.46%	15.27%	0.14 ppts
Deduction between segments	-177,303	-177,904	-0.34%	13.76%	14.44%	-0.60 ppts
Total	222,890	203,244	8.81%	10.11%	15.77%	-4.46 ppts

Note: Based on the internal organizational structure, the Company is divided into the segments of iron and steel manufacturing, iron and steel sales, and the sector of other affairs. The iron and steel manufacturing segment consists of such iron and steel manufacturing units as carbon steel, stainless steel, and special steel; the iron and steel sale segment consists of such trading units as Baosteel International and overseas companies; the segment of other affairs consists of such units as finance, chemical industry and IT, etc.

3. Distribution as per products in 2011

Distribution of sales of steel products:



(1) Carbon steel

The Company's carbon steel products mainly included hot-rolled products and pickled products, cold-rolled products like plain cold-rolled sheets, galvanized sheets, electro-galvanized sheets, color coated sheets, electrolytic tinning sheets and silicon steel, as well as other products like heavy plates, steel pipes and tubes, wires and rods, and billets.

Hot-rolled products

Hot-rolled products included automotive steel, pipeline steel, steel for cold forming, mechanical structural steel, anti-corrosion structural steel, and tool steel, etc., which were widely used in such industries as automobile, petroleum and natural gas transmission, engineering machinery, containers, and hardware and tools.

In 2011, the shipments of hot-rolled products (including pickled products, but excluding heavy plates) was 6.821 million tons, making up 26.1% of the Company's shipments of carbon steel products. The shipments of high strength steel for engineering machinery occupied 38.5% of the domestic market.

Heavy plate products

Heavy plates mainly include plates for ships and ocean engineering equipment, energy, and pipelines etc., which are mainly used in industries of ship building, ocean engineering, machinery, pressure vessels, oil and natural gas transmission, etc.

In 2011, the shipments of heavy plates was 2.318 million tons, making up 8.9% of the total shipments of the Company's carbon steel products. Among it, the shipments of ship plates took up 6.2% of the domestic market.

Cold-rolled products

Cold-rolled products include plain cold-rolled sheets, galvanized sheets, electro-galvanized sheets, color-coated sheets, tin plates, chrome plated sheets, silicon steel, and full hard coils for use in the industries of automobile, home appliance, construction, packaging and transformer manufacturing mainly. Faced with an increasingly competitive market of cold-rolled automotive sheets, the Company intensified the efforts to explore the market for high strength automotive steel, the shipments of which in 2011 was much larger than that of 2010, registering a 19.5% growth, and taking up 65% of the domestic market. The Company made a breakthrough in the certification of super high strength steel with world-renowned automotive users. The Company actively promoted its silicon products in three major transformer producers in China (TBEA Co., Ltd., TWBB Company, and Xi'an XD Transformer Co., Ltd.) to substitute the imported silicon steel. The Company has established stable relationship with domestic famous joint ventures of transformer production. The anti-fingerprint electro-galvanized products achieved favorable results in the movie and television industry. Shipments of module steel grew by 36% from that of 2010, occupying 40% of domestic market. OA steel products made progress in marketing, and the shipments of electro-galvanized OA steel doubled from 2010.

The shipments of cold-rolled products in 2011 was 11.384 million tons, making up 43.5% of the total shipments of the Company's carbon steel. Among them, the shipments of cold-rolled automotive sheets totaled 4.548 million tons. The home appliance steel, silicon steel and tin plates took up 29.1%, 18.6%, and 26.3% of the domestic market respectively.

Steel tubes and pipes

The steel tubes and pipes are of two types: seamless tubes and welded pipes. The former includes oil well pipes, high pressure boiler tubes and machining tubes, and the latter includes welded casings, line pipes and structural tubes. These products are used in petrochemical industry, boiler building, mechanical processing, geology, transportation, and coal mining industry. In 2011, confronted with the severe market situation for steel tube and pipe products, the Company sustained the efforts to optimize the product mix, increased the shipments of high-end products, actively explored new markets and new clients, and realized differentiated competition. Large-diameter sulphur resistant casing, casing with premium connections, and super 13Cr oil tubing were accepted by domestic market and put into use in batches. Trial use was started for large-diameter nickel-base alloy casing.

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In 2011, the shipments of steel tubes and pipes reached 1.500 million tons, making up 5.7% of the total shipments of carbon steel. Among them, the high-pressure boiler tubes, non-standard oil well pipes had a domestic market share of 21.5% and 23.8% respectively.

Wires and rods

Wire and rod products include steel cords, spring steel wire rods, cold heading steel wire rods, high strength steel strands, bridge cables, and welding wires, which are widely used in the fields of radial tyre manufacturing, automotive components, fasteners, bridge building, and mechanical manufacturing. The Company is the only one in China that produces the full range of the steel cords (B72LX, B82LX, B86LX, B92LX, and B96LX)

In 2011, the shipments of wire and rod products was 577 thousand tons, making up 2.2% of the total shipments of carbon steel.

Steel billet products

Steel billet products mainly included such high value-added products as die steel, axle steel, and mooring chain steel. Mooring chain steel R5 is the exclusive product of the Company. In 2011, the Company passed ABS and DNV certification and became the first producer in China to pass the certification by classification societies, making due contribution to the independent R&D and sustainable development of China's deep water oil and gas exploration technology and equipment. Currently, the product has been successfully used in the "Offshore Oil 981", the 6th generation 3,000 meters deep-water semi-submersible drilling platform, which was the first of its kind to be designed and constructed by China and represented the top-notch offshore drilling platform technology in the world.

In 2011, the shipments of steel billets was 871 thousand tons, making up 3.3% of the Company's total shipments of carbon steel.

(2) Stainless steel

The stainless steel products covered 300, 400, and BN series hot-rolled and cold-rolled product series, including austenite, ferrite, martensite, ultra martensite, ultrapure ferrite, dual phase steel, ultra-low-carbon steel, nitrogen stainless steel, etc., which were widely used in such industries as automobiles, home appliances, solar energy, construction and decoration, pressure vessels, containers, elevators, rail transportation, and metal products. In 2011, the Company continued to optimize the product mix, adhered to the working direction of "creating values for customers, and providing competitive products", set up the development target of focusing on the R&D and promotion of the 400 series products and nickel-saving products, in an effort to substitute the new products of 400 series for the conventional 300 series, and meanwhile, it also committed itself to the continuous improvement of 400 series products. On top of the original product series, the Company made remarkable breakthrough in market exploration and brand influence with steel for solar energy represented by 445J1M, the steel for construction represented by 445R, the steel in line with the concept of healthy life B425, the nickel-saving economic stainless steel B304M1, and the ultra-low-carbon-nitrogen ferrite B430LNT, etc.

In 2011, the shipments of stainless steel products was 1.353 million tons, making up 5.2% of the total shipments of the Company's steel products and making up 12.7% of the domestic market share.

(3) Special steel

The special steel collection includes special metallurgical series, stainless steel series, and construction steel series. The Company kept expanding the scale and grades of products in light of "pursuing fineness in special metallurgical series, becoming stronger in stainless steel series, and enlarging the scale of construction steel series". After years of R&D and technology innovation, the Company had developed a series of products competitive in the international market with independent intellectual property rights, including steel rods, seamless pipes, steel wires, steel pies, steel rings, steel discs and shaped steel, which were widely used in aviation, aerospace, energy, automobile, railway, ship building, machinery, power station, electronic instrument and petrochemical industries. The Company is national key R&D base for high and new metal materials.

In 2011, the total shipments of special steel was 962 thousand tons, making up 3.7 % of the total shipments of the Company's steel products..

The Company's income from and costs of major iron and steel products are as follows:

(RMB Million)

Products	Revenue	Cost of goods sold	Gross margin	Change in revenue (% YoY)	Change in cost (% YoY)	Change in gross margin (Percentage points)
Cold-rolled carbon steel	58,963	51,693	12.33%	3.45%	18.32%	-11.02 ppts
Hot-rolled carbon steel	38,811	34,598	10.86%	11.35%	19.44%	-6.04 ppts
Heavy plates	11,743	12,784	-8.86%	16.39%	24.97%	-7.48 ppts
Steel tube & pipe	10,843	9,818	9.45%	6.69%	7.67%	-0.82 ppts
Stainless steel	18,043	17,795	1.37%	2.01%	3.48%	-1.40 ppts
Special steel	11,209	11,311	-0.91%	14.37%	15.14%	-0.68 ppts
Other steel products	8,747	8,747	0.00%	12.88%	13.86%	-0.86 ppts
Total	158,358	146,745	7.33%	7.48%	15.82%	-6.67 ppts

Note: The shipments of steel products of the Company in 2011 included the 1.652 million tons of hot-rolled carbon steel products sold to BNA, but did not include the 2.024 million tons of cold-rolled products sold by BNA.

4. Major markets

Sales revenues and cost by geographical regions:

(RMB Million)						
Regions	Operating revenue	Operating cost	Gross margin	Change in revenue (% YoY)	Change in cost (% YoY)	Change in gross margin (Percentage points)
Domestic Market	199,018	180,998	9.05%	9.11%	15.32%	-4.89 ppts
Overseas Market	23,872	22,246	6.81%	19.23%	19.60%	-0.28 ppts

In 2011, the Company exported 2,745 million tons of iron and steel products, 411 thousand tons more than the previous year; and the regional distribution of steel products is as follows:

Regions	2011	2010
East Asia	38.1%	48.4%
Southeast Asia	19.4%	19.2%
America	18.8%	13.4%
Europe and Africa	23.7%	19.0%
Total	100.0%	100.0%

5. Major suppliers and customers

In 2011, the Company's procurement amount from the top five suppliers made up 31.9% of its total annual procurement.

(RMB Million)		
No.	Name of supplier	Amount of purchase
1	Unit One	13,381
2	Unit Two	12,229
3	Unit Three	9,668
4	Unit Four	4,766
5	Unit Five	2,103

In 2011, the Company's sales income from the top five customers made up 13.9% of its total operating revenue.

(RMB Million)		
No.	Name of supplier	Amount of sales
1	Unit One	12,023
2	Unit Two	11,621
3	Unit Three	2,944
4	Unit Four	2,261
5	Unit Five	2,052

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6. Changes of assets structure

As at the end of this reporting period, the Company had a total consolidated asset of RMB 231.1 billion, RMB 15.04 billion more than that at the beginning of the year; a total debt of RMB 117.63 billion, RMB 12.89 billion more than that at the beginning of the year; a shareholders' equity of RMB 113.47 billion, RMB 2.15 billion more than that at the beginning of the year. Its debt-to-asset ratio reached 50.9%, 2.4% more than that at the beginning of the year. For details, see the table below:

Assets	At the end of 2011	Rate against the total assets	At the end of 2010	Rate against the total assets	Change of the rate
Current assets	79,234	34.3%	68,864	31.9%	2.4 ppts
Including: Cash and cash equivalents	14,379	6.2%	9,201	4.3%	1.9 ppts
Inventory	37,390	16.2%	38,027	17.6%	-1.4 ppts
Receivables	21,072	9.1%	15,697	7.3%	1.9 ppts
Non-current assets	151,865	65.7%	147,201	68.1%	-2.4 ppts
Including: Fixed assets	115,371	49.9%	117,737	54.5%	-4.6 ppts
Construction-in-progress	16,283	7.0%	9,763	4.5%	2.5 ppts
Total assets	231,100	100.0%	216,065	100.0%	-

Liabilities and shareholders' equity	At the end of 2011	Rate against the total assets	At the end of 2010	Rate against the total assets	Change of the rate
Current liabilities	98,838	42.8%	73,196	33.9%	8.9 ppts
Including: Short-term borrowings	38,876	16.8%	23,611	10.9%	5.9 ppts
Non-current liabilities due within one year	16,810	7.3%	3,537	1.6%	5.6 ppts
Non-current liabilities	18,792	8.1%	31,547	14.6%	-6.5 ppts
Long-term borrowings	7,326	3.2%	8,587	4.0%	-0.8 ppts
Notes payables	8,919	3.9%	18,475	8.6%	-4.7 ppts
Long-term payables	0	0.0%	2,542	1.2%	-1.2 ppts
Total liabilities	117,630	50.9%	104,743	48.5%	2.4 ppts
Shareholders' equity	113,470	49.1%	111,322	51.5%	-2.4 ppts
Total liabilities and shareholders' equity	231,100	100.0%	216,065	100.0%	-

- (1) Cash and cash equivalents was RMB 5.18 billion more than that at the beginning of the year. This is mainly because faced with the tightened financial market and credit, and in view of the situation that the US dollar financing interest rate is comparatively low and the RMB continues appreciating against US dollars, the Company has adopted the method of increasing US dollar financing to get prepared for the payments due at the end of the first half of 2012.
- (2) Affected by the tightening monetary policy, the fact that the clients' capital chain was under pressure, and the Company's increase in revenue, its receivables of bank acceptance bills and other receivables increased RMB 5.37 billion from that at the beginning of the year.
- (3) The inventory decreased by RMB 0.64 billion compared to that at the beginning of the year. This is mainly because the Company overcame the factors such as the soaring prices of raw materials and fuels, as well as the enlarged production and sales scales, enhanced the centralized inventory management, sped up the inventory flow, and thus effectively reduced the inventory capital in use.
- (4) Fixed assets were RMB 2.37 billion less than that at the beginning of the year; mainly because RMB 10.85 billion was transferred to fixed assets from purchase and construction-in-progress, while the depreciation of the year amounted to RMB 12.93 billion.
- (5) Assets of construction-in-progress were RMB 6.52 billion more than that at the beginning of the year. This is mainly because the construction-in-progress this year increased by RMB 17.11 billion, while the construction-in-progress transferred to fixed assets totaled RMB 10.59 billion.
- (6) Short-term-borrowings increased by RMB 15.27 billion from that at the beginning of the year; mainly because the increase of operational accounts receivables resulted in a larger shortfall of working capital. In the meantime, in view of the situation that the US dollar financing interest rate is comparatively low and the RMB continues appreciating against US dollars, the Company has adopted the method of increasing US dollar short-term financing to address the capital shortfall and to get prepared for the payments due at the end of the year.

- (7) Non-current liabilities due within one year increased by RMB 13.27 billion from that at the beginning of the year; mainly because the RMB 9.99 billion notes payables (medium-term notes) and RMB 3.4 billion US dollar loans held by the Company have been reclassified as non-current liabilities due within one year.
- (8) Long-term payables decreased by RMB 2.54 billion from that at the beginning of the year; mainly because the Company paid for the acquisition of Pudong Steel Luojing Project.

7. Measure of fair value and impact of its change upon profit

The financial assets and liabilities in the Company which are measured at their fair values include bonds, funds, stocks and derivative financial products. While the fair value of a bond, fund, or stock is measured on the basis of its market price, the fair value of a derivative financial product, which has no market price, is recognized by the value calculated and confirmed in the written form by the involved trading partner.

(RMB Million)				
Items	At the end of 2011	At the end of 2010	Changes	Impact upon profit of the period
Held-for-trading financial assets	353	297	56	-11
Available-for-sale financial assets	1,670	1,404	266	0
Held-for-trading financial liabilities	-	3	-3	3
Total	-	-	-	-7

8. Changes in expenditures and income tax expenses in the reporting period

(1) Sales and administrative expenses

(RMB Million)				
Items	2011	2010	Variance	Variance ratio
Sales expenses	1,950	1,785	165	9%
Administrative expenses	8,584	7,747	837	11%

In 2011, the sales expenses increased by RMB 0.17 billion because of the enlarged sales scale, and the increased transportation and storage fees, export expenses, and agent commissions. The administrative expenses increased by RMB 0.84 billion mainly due to the increase of expenses for R&D.

(2) Financial expenses

(RMB Million)				
Items	2011	2010	Variance	Variance ratio
Interest income	-179	-51	-128	253%
Interest expenses	1,805	1,598	207	13%
Gains and losses from currency exchange	-1,612	-788	-824	105%
Others	59	47	11	24%
Total	72	807	-734	-91%

Financial expenses reduced by RMB 0.73 billion from the previous year; due to a 4.86% year-on-year increase in RMB to US dollar exchange gains. The Company's exchange gains, from the US dollar debts it owned and added, increased by RMB 0.82 billion from that of the previous year.

(3) Income tax expense

(RMB Million)				
Items	2011	2010	Variance	Variance ratio
Total consolidated profit	9,260	17,056	-7,796	-45.7%
Consolidated income tax expense	1,524	3,715	-2,191	-59.0%
Effective tax rate	16.5%	21.8%	-5.3 pts	

Since the Company's total profit decreased compared to that of last year, although its tax preference was comparatively more favorable, the actual income tax rate of the Company was lower than that of 2010.

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9. Cash flow analysis

In 2011, the Company registered a total net profit of RMB 7.74 billion, a depreciation and amortization of fixed assets RMB 13.12 billion, a provision for asset impairment loss and other items RMB -0.09 billion, and a total cash receipt from operating activities RMB 20.77 billion. Due to the decrease of RMB 0.25 billion in inventory cost, the increase of RMB 5.08 billion in operating receivables, and the decrease of RMB 3.8 billion in operating payables, the net cash flow of the Company from operating activities totaled RMB 12.14 billion.

The increase of operating receivables was resulted from the considerable increase in Bank's Acceptance Bill compared to the beginning of the year:

The decrease of operating payables was resulted from the following factors: The tax payables reduced by RMB 2.13 billion due to the lower profit compared to that of the previous year; advances received reduced by RMB 1.01 billion because the Company sped up the client settlement, and the write-off of the advances received increased; and the deposits and deposits from other financial institutions in the Finance Co. reduced by RMB 0.48 billion.

The inventory decrease is because: overcoming the factors such as the rising price for raw materials and fuels, as well as the enlarged production and sales scales, the Company enhanced the centralized inventory management, sped up the inventory flow, and thus reduced the inventory capital in use.

Net cash inflow reduced by RMB 6.71 billion. Without considering the impact of the Finance Co., the net cash inflow arising from operating activities was RMB 11.98 billion, RMB 5.25 billion lower than the RMB 17.24 billion net cash inflow at the same period last year:

- (1) Net profit decreased from that of the previous year, and the net cash inflow from operating activities reduced by RMB 5.5 billion.
- (2) The depreciation and amortization amount decreased by RMB 0.15 billion over the same period last year and the net cash inflow from operating activities reduced.
- (3) Cash flows from financial expenses and other items reduced by RMB 0.22 billion as against an increase of RMB 0.28 billion in the same period last year, resulting in a y-o-y cash flow decrease of RMB 0.49 billion. This is mainly because the financial expenses was cut substantially by RMB 0.75 billion due to the impact of exchange gains and losses.
- (4) Inventories decreased by RMB 0.25 billion from the beginning of the year as against an increase of RMB 8.71 billion in the same period last year, resulting in a y-o-y cash flow increase of RMB 8.96 billion.
- (5) Cash flow from the operating receivables and payables reduced by RMB 9.00 billion as against a decrease of RMB 0.93 billion in the same period last year, resulting in a y-o-y cash flow decrease of RMB 8.08 billion.

The overall cash flow of the operating activities is at a normal level.

Net cash outflow from investment activities was RMB 16.13 billion, RMB 3.52 billion more than in the same period last year. Without considering the impact of The Finance Co., the net cash outflow from investment activities during 2011 was RMB 15.63 billion, a rise of RMB 2.78 billion from the net cash outflow from investment activities of RMB 12.85 billion in the same period last year. This is because 2011 was the construction peak year for the first step of the subsequent project for the silicon steel, and the second step of the silicon steel as well as the No. 4 coke oven project were newly started, resulting in an increase of cash payment for fixed asset purchase.

Net cash inflow from financing activities was RMB 9.29 billion, a rise of RMB 12.46 billion from the same period last year. Without considering the impact of the Finance Co., the net cash inflow from financing activities was RMB 8.51 billion, an increase of RMB 10.97 billion from the net outflow of RMB 2.46 billion in the same period last year. In 2011, in view of the continuously tightening capital, the Company's increase in occupancy of operating receivables, and the US dollar financing interest rate is lower than the risk-free RMB operation interest rate, and in order to get prepared for the payment of medium-term notes due in the first half of 2012, the Company increased its US dollar borrowings. As a result, the Company's net borrowings increased RMB 13.41 billion compared to the same period last year. Because the dividends paid by the Company in this period (0.3 RMB/share) was higher than the payment made in the previous year, and the average borrowing scale was larger than that of the previous year, the payment for dividends and interests increased by RMB 2.43 billion over that of the previous year.

10. Technology innovation and R&D investment

The Company's R&D investment rate in 2011 was 2.3%, the selling rate of new products was 20.6%. In addition, the Company had applied for 1220 patents, 42% of which were invention patents. In the selection of the 2011 national metallurgy science and technology award winners, 5 technology innovation achievements of the Company had won prizes, among which "Independent integration technology for the process and complete set of equipment for high speed pickling and rolling of ultra-thin steel strip" was awarded the only special prize, "R&D on integrated technology and equipment of advanced high strength (super high strength) steel strip" won the first prize of Shanghai Award for Science and Technology Progress.

The Company conducted research in the automotive sheet products and the user technologies. It took the lead in the world to realize the industrialized production of the third generation advanced high strength steel-QP Steel; grasped the core technology of total-process which can raise the NSGO magnet level and high-grade proportion. The 0.27mm top-grade product of B27R085 made a breakthrough of the existing silicon content system of the Baosteel oriented silicon steel, realizing batch production and reaching the world advanced level.

The Company successfully developed the $\varnothing 193.68 \times 12.7$ mm top-grade nickel-base alloy casing, the largest of its kind in China, completing the full range of nickel-base alloy oil casing in terms of steel grades and specifications. The corrosion resistant S450EVV for railway vehicles realized batch supply, making the Company the first one in China to successfully develop and produce the third-generation weathering steel for railway vehicles. The 0.220 \times 1050mm super low-carbon DI was successfully developed, leading to the success of batch can making.

The Company completed the primary LCA system for major products, and formed ten major capabilities such as the LCA technology quantified evaluation of environmental performance over the total process, and the LCA methodology for products and life cycle cost analysis methodology. In May 2011, the Company exclusively released "Green Declaration" and "Product Environment Statement" for key products in the steel industry.

The Company carried out systematic research on energy saving and environmental protection. Three demo projects—the recovery of waste heat and energy, mineral wool produced from blast furnace slag, waste heat recycle sintering and cold rolling steam residue pressure power generation—all achieved substantial progress, entering the phase of project design and implementation. Stage achievements were also made for the sintering dioxin treatment and the mercury removal in the power plant.

11. Performance of controlled subsidiaries and invested entities

(1) Shanghai Meishan Iron & Steel Co., Ltd.

As at the end of 2011, the Company had 77.04% shareholding of Shanghai Meishan Iron & Steel Co., Ltd. With a registered capital of RMB 7.081 billion, Meishan Steel specializes in the production and sales of black metal metallurgy, rolling processing and sales. By the end of 2011, Meishan had a total asset size of RMB 30.73 billion, a net asset of RMB 12.36 and a net yearly profit of RMB -0.26 billion.

(2) Ningbo Baoxin Stainless Steel Co., Ltd.

As at the end of 2011, the Company had 54% shareholding of Ningbo Baoxin Stainless Steel Co., Ltd. With a registered capital of RMB 3.19 billion, Ningbo Baoxin's business mainly covers the manufacturing and processing of stainless steel sheets and relevant technical guidance and consultation. By the end of 2011, Ningbo Baoxin had a total asset size of RMB 5.90 billion and a net asset of RMB 2.93 billion and reporting a net profit of RMB 0.18 billion in 2011.

(3) Baosteel-NSC/Arcelor Automotive Steel Sheets Co., Ltd.

As at the end of 2010, the Company owned 50% of Baosteel-NSC/Arcelor Automotive Steel Sheets Co., Ltd. (BNA). With a registered capital of RMB3 billion, BNA is mainly engaged in the manufacturing and sales of cold-rolled steel sheets and hot-dip and electrolytic galvanized steel sheets for automobile and automotive parts and other services related to its principal business. BNA had a total asset of RMB 4.97 billion and a net asset of RMB 3.41 billion and realized a net profit of RMB 0.27 billion at the end of 2011.

(4) Yantai Lubao Steel Tubes Co., Ltd.

As at the end of 2011, the Company owned 79.82% of Yantai Lubao Steel Tubes Co., Ltd. (Lubao Steel Tubes). With a registered capital of RMB 100 million, Lubao Steel Tubes is mainly engaged in the processing and sales of seamless steel tubes. Its major products include structural seamless steel tubes, low/medium pressure boiler seamless tubes, seamless pipelines for transportation of fluids, hydraulic seamless tubes, as well as high pressure boiler seamless tubes, seamless tubes for oil pipelines, geological drillings, oil pipelines and oxygen canisters. Lubao Steel Tubes had a total asset of RMB 1.03 billion and a net asset of RMB 0.80 billion and reporting a net profit of RMB 40 million at the end of the reporting period.

(5) Baosteel Huangshi Coated and Galvanized Sheet Co., Ltd.

In 2011, shareholders increased RMB 0.18 billion of investment in Baosteel Huangshi Coated and Galvanized Sheet Co., Ltd., including RMB 0.135 billion from the Company. As at the end of 2011, the Company had 58.45% shareholding of Baosteel Huangshi Coated and Galvanized. With a registered capital of RMB 0.145 billion, Huangshi specializes in the production and sales of cold-rolled sheets, aluminum coated steel sheets, color-coated steel sheets and related coated steel products. Huangshi had a total asset size of RMB 0.6 billion, with a net asset of RMB 0.33 billion and reporting a net profit of RMB 20 million as at the end of 2011.

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(II) OVERALL PERFORMANCE IN THE REPORTING PERIOD

(6) Shanghai Baosteel International Economic & Trading Co., Ltd.

As at the end of 2011, the Company had a full shareholding of Shanghai Baosteel International Economic & Trading Co., Ltd. With a registered capital of RMB 2.25 billion, Shanghai Baosteel International Economic & Trading is mainly engaged in the imports and exports of goods and technology approved by the government, the imports of steel and scrap steel, processing with imported materials and compensation trade. Shanghai Baosteel International had a total asset size of RMB 36.42 billion, and a net asset of RMB 11.48 billion, reporting RMB 155.90 billion revenue from principal business, RMB 3.08 billion profit from principal business and a net profit of RMB 1.64 billion in 2011.

(7) Shanghai Baosight Software Co., Ltd.

In 2011, Shanghai Baosight Software Co., Ltd. ("Baosight") gave 3 complimentary shares for each 10 shares to all shareholders. After the dividend distribution, the stock capital of Baosight increased by RMB 80 million, including RMB 43.67 million from the Company. As at the end of 2011, the Company had 55.5% of shareholding of Baosight. With a registered capital of RMB 0.34 billion, Baosight is mainly engaged in computer, automation, network communication and the research, design, development, manufacturing and integration of software and hardware. Baosight had a total asset size of RMB 2.83 billion, with a net asset of RMB 1.31 billion, and reporting a net profit of RMB 0.25 billion as at the end of 2011.

(8) Shanghai Baosteel Chemical Co., Ltd.

As at the end of 2011, the Company had 100% of shareholding of Shanghai Baosteel Chemical Co., Ltd. (Baosteel Chemical) which has a registered capital of RMB 2.1 billion and is mainly engaged in the production and sales of raw chemical materials and products, "four techniques" services in chemical industry, and import and export activities of its own products. Baosteel Chemical had a total asset size of RMB 5.23 billion, with a net asset of RMB 4.01 billion, and reporting a net profit of RMB 0.61 billion as at the end of 2011.

(9) Baosteel Nantong Iron & Steel Co., Ltd.

As at the end of 2011, the Company had 95.82% of shareholding of Nantong Iron & Steel. With a registered capital of RMB 0.621 billion, Nantong Iron & Steel is mainly engaged in production and sales of deformed steel bars, round steel bars, steel sections, and re-rolled steel (billet steel and steel ingots) as well as other steel products and by-products. Nantong Iron & Steel had a total asset size of RMB 2.62 billion, with a net asset of RMB 0.82 billion and reporting a net profit of RMB 217 thousand as at the end of 2011.

(10) Baosteel Group Finance Co., Ltd.

In 2011, shareholders increased a RMB 0.6 billion capital investment in Baosteel Group Finance Co., Ltd., including RMB 0.3726 billion from the Company. As at the end of 2011, the Company had 62.1% of shareholding of Baosteel Group Finance Co., Ltd. With a registered capital of RMB 1.1 billion, Finance Co. is mainly engaged in absorbing deposits from member companies, providing loans to them, conducting internal financial transfers between them, helping them in terms of borrowing and investment, and engaging in financial institution deposits and deposits from or to other financial institutions. By the end of 2011, the assets scale of the company reached RMB 10.74 billion, with a total net asset of RMB 1.49 billion and a reporting net profit of RMB 0.18 billion.

(11) Yantai Baosteel Tubes Co., Ltd.

As at the end of 2011, the Company owned 80% of Yantai Baosteel Tubes Co., Ltd., with the rest owned by Lubao Steel Tubes. With a registered capital of RMB 2 billion, Yantai Baosteel Tubes is mainly engaged in manufacturing, processing and sales of steel tubes, their matching products and by-products. It also provides technical consultation services on steel tube rolling technology, storage, shipping and exporting services. The project at present is still under construction. Yantai Baosteel Tubes had a total asset of RMB 4.36 billion and a net asset of RMB 1.59 billion and reporting a net loss of RMB -0.17 billion at the end of 2011.

(12) Overseas subsidiaries

By the end of 2011, the Company had overseas subsidiary companies in the U.S.A., Japan, Germany, Singapore, and Hong Kong. These overseas subsidiaries extended the Company's sales and purchase networks, and played a critical role in enhancing the Company's international competitiveness.

12. Special purpose entities controlled

None.

(III) Company's Development in Prospect

1. Trend of development of the steel industry and the competitive market the Company faces

(1) Trend of development of the steel industry

In 2012, the world economy is expected to experience many uncertainties, and the economy recovery prospect remains unknown. China is still in the important strategic period of development. With the deepening of various governmental macro-control policies, especially the effect of control over real estate starts to emerge gradually, the growth of domestic economy has already started an active and stable slowdown, providing favorable conditions for China's economic structural adjustment, the change of growth mode and further development in future. With the great potential of internal demand, the accelerated industrialization and urbanization, and the accelerated development in the middle and western regions of China, there is still space for the growth of steel industry in the medium-long term. The huge steel industry in China remained in the plight of over-capacity, irrational structure, competition in homogeneity, and slow growth for enterprises due to the meager profit operation. The steel industry needs to take the initiatives to adapt itself to the changes, adjust the operation strategies, and pursue new competitive advantages.

(2) The competitive market the Company faces

China's steel industry is currently characterized by industrial structural upgrading and adjustment. The merging and consolidation of the steel industry has gradually spread from state-owned enterprises to private enterprises, resulting in a pattern of trans-regional enterprises co-existing with local enterprise group.

Along with the upgrading of product mix, competition in homogeneity of high-end products became fiercer. High-quality steel sheets, and seamless steel tubes are faced with grim homogeneity competition, and this kind of competition is spreading to the silicon steel products as well.

The domestic steel industry is experiencing more and more cost pressure. "Meager profit operation" will be the basic feature of the operation of steel enterprises in future.

Domestic steel enterprises are increasing the efforts to develop resources, especially foreign resources. It is of strategic importance for the enterprises to reduce the resource procurement cost, and secure the safe resource supply.

Chinese steel enterprises will lay more emphasis on the organic combination of scale, technology, costs, and services, conduct careful analysis of their competitiveness, pursue the differentiated operation, and try to lower the operating cost as much as they can. It becomes vital for them to pursue sustainable competitive advantages.

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(III) COMPANY'S DEVELOPMENT IN PROSPECT

2. Future opportunities and challenges

(1) Opportunities

The state's economic policies of maintaining stability while pursuing progress, the implementation of "12th 5-year" planning and the accelerated construction of relevant projects will help to maintain and promote the orderly growth of domestic steel consumption and demand, safeguarding the stability of demands in steel market and the further development of steel industry in China.

The theme for the development of this period of—industrialization and urbanization—remains unchanged, which will still provide opportunity for the growth of Chinese steel industry. Driven by the world financial crisis, the manufacturing industry is shifting to the developing countries, which is also conducive to the further development of steel industry.

While sticking to the product management and premium product production, the steel industry will further upgrade its service. With improved capability in customer service, the industry will transit from manufacturing to service, build up the differentiated competitive advantage, and realize the sustainable growth of enterprise value.

The low-carbon economy and environmental operation pose serious challenge on the steel industry, but provide new opportunities for the environmental operation and sustainable development of Chinese steel industry as we.

(2) Future challenges

Along with China's industrial structure upgrading, its expanding internal demand and higher requirements for energy saving and environmental protection, the downstream steel consumption poses higher requirements for optimization and upgrading of the product mix of steel enterprises, and the steel enterprises are confronted with new challenges in R&D, manufacturing, operation and service, etc.

Cost competitiveness is the decisive factor of the market competitiveness of the products of Chinese steel enterprises, and the domestic steel enterprises are faced with severe challenge and pressure on cost.

As the world economic recovery has a long way to go, and the international trade protectionism is stepping up, the international competition is becoming fiercer. In the meantime, the domestic steel industry expands the opening for foreign capitals, while the growth in market demand is slowing down, therefore Chinese steel enterprises are faced with severe challenge in exploration of internationalized operation.

(3) Strategy for future development

To adapt itself to the rapid changes in domestic and overseas environment for economic development and the development of steel industry, the Company will continue to take as its mission "becoming a world-class steelmaker and committing itself to providing extra-value products and service to the society", "integrity, cooperation, innovation, and the pursuit of the maximized value of the enterprise" as its core value, and "becoming the world's most competitive steelmaker" as its strategic goal. In addition, it will adhere to the principle of steadfast management and stable development and follow a road of sustainable development. The Company will take the scientific outlook on development and environmental management as the guide, implement the intensional development strategy that takes the enhancement and redevelopment of its core competitiveness, product development, technological innovation, management innovation, system capacity, and social responsibility as its strategic focus, and the mode of management and control, technological innovation, ability cultivation, environmental management, cost control, talent development, and risk management as its major measures.

The Company will combine such methods as product development, the enhancement of product service and the expansion of production mix to constitute product differentiation mix and integration step by step.

3. Plan for capital needs and use and sources of capital

(1) Plan for capital needs and use

The Company is expected to make RMB12.74 billion fixed assets investment in 2012, which will be mainly used for a batch of projects to be continued, such as the project of product mix and process equipment upgrading and technical revamping project of Meishan Steel, the construction of step 2 of the oriented silicon steel follow-up project and new 6#RH refining equipment added to No.2 steel-making workshop of steel-making plant. It will also invest in projects of technical revamping.

(2) Sources of capital

The above investment capitals come from the Company's own capital and financing.

4. Risks and counter-measures

(1) Major risks

The risk of slowing down growth in Chinese steel demand resulting from the tightening macro-economic policy and the decelerating economic growth is emerging. There is still a long and difficult way to go for China's economic structural adjustment, industrial upgrading and the transformation of development mode, which will pose many uncertainties for the steel enterprises.

The domestic steel market continues to be burdened by the imbalance between demand and supply. On the one hand, prices of the upstream resources have been increased, putting the steel enterprises under more pressure of high cost; on the other hand, the price bargaining ability of the downstream industries has been improved, squeezing the domestic steel industry from both ends. Consequently, domestic steel enterprises suffer more constraint in maintaining stable operation and increasing economic efficiency.

The pressure and risk of energy saving and environmental-friendly operation remains high. During the "12th 5-year Planning" period, China will implement stricter policies regarding energy saving and emission reduction for companies. This will be reflected by the higher requirements imposed by the central government and local governments on the steel industry in environmental operation. In the meantime, the communities of residential areas are raising higher requirement for a clean environment. These factors are posing more restrictions for the development of the Company.

(2) Counter-measures

In 2012, confronted with the complicated and changeful environment for competition at home and abroad, in the spirit of "seeking progress despite the crisis", the Company will prepare for the long-term laborious struggle in "era of meager profit". In the meantime, with firm confidence, the Company will stick to the differentiated operation strategy, strengthen the cost management, seize the opportunities, and secure the sustainable competitive advantages of the Company, so as to realize new leap forward in the adversity.

The Company will continue to pay attention to the gains and losses, the efficiency of asset usage and the cash flow. It will carry out the major tasks centering on such themes as the product management, cost improvement, packaged solution, premium product development, and environmental operation. By optimizing the product mix, enhancing the cost competitiveness, sticking to quality service, and exploring the differentiated competitive advantages, the Company will maintain its "best performance" in domestic steel industry.

The Company will optimize the asset allocation, solidify the Company's leading position in the quality carbon steel flat products, and achieve better performance. The Company intends to sell to its controlling shareholder Baosteel Group the related assets of the Stainless Steel unit, and the Special Steel unit. After selling these assets, it will focus on the development of carbon steel, and further cement its competitive advantages. The Company will continue to distinguish itself as "the most competitive steel enterprise, and the most valuable listed company".

The Company will enforce the strategic management, perfect the operation management, and solidify the management on the grass-root level. Adhering to the road of development focusing on the connotation, the Company will put the new round of strategic measures into practice. The long-acting mechanism of reversed transmission of market pressure will be perfected so as to continuously strengthen the competitiveness of the steel sector. Through further improving the Company's system, procedure and its sustainable innovation capability, the Company's core competitiveness will be further enhanced.

Continue to improve the risk management and enhance the comprehensive risk resistance capacity. Focusing on the major risks such as working capital risks, credit risks, risks from the fluctuation of fuel and raw material prices, investment risks, subcontracting risks, foreign exchange and interest rate risks, and trading conflict risks and so on, the Company will further improve the risk management strategies and risk solutions. In the meantime, the audit for internal control will function well in supervision and evaluation for those areas with great risks.

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(IV) Operational Plan for 2012

1. Target and plan

Guided by the general operating policy of "employing product management and cost improvement to adapt to new competitions, and enhancing ability and conducting environmental operation to forge new competitive advantages", the Company will promote the product management, solidify the product differentiated competitive advantages, further tap the potential of cost reduction, and continuously improve the system capacity. It aims to realize a total operating revenue of RMB 216 billion, keep its best performance among domestic peers, complete a sales volume of 11.64 million tons for exclusive and leading products, and reduce its production energy consumption by 40 thousand tons of standard coal.

In 2012, the iron and steel production is planned to reach 23.25 and 25.25 million tons respectively; the sale of steel is planned to reach 24.25 million tons; the total operating revenue and operating cost are planned to reach RMB 216 and 196 billion respectively. The managerial staff of the Company will implement all major plans in great detail, so as to strive to maintain the best performance in China against a fiercely competitive market environment.

2. Priority work to be done

The Company will promote 14 key programs in 3 aspects centering on product management, cost improvement, management reform and system capacity in 2012. It will strive to maintain and enhance its comprehensive competitive advantages. The programs are as follows:

- Furthering the coordination of production and sales and strengthen the competitiveness of key major products.
- Optimizing the inventory management of iron and steel products, and enhancing the inventory turnover efficiency.
- Enhancing the production capacity of key products to meet the needs of the market.
- Promoting the construction and implementation of the customer technical service system, and raising the customer's satisfaction level.
- Carrying out cost control with the aim of lowest system cost for iron and steel production.
- Maintaining the consistency of best design, optimizing production organization and reducing the cost of
- Intensifying the cost reduction by conducting product design with low cost, and developing manufacturing technologies to lower the cost.
- Improving the efficiency of examination and maintenance, reducing the load of examination and maintenance, and promoting reasonable input in examination and maintenance expenses.
- Enforcing the centralized management of sales expenses and administration expenses, optimizing liability structure, and implementing strict control expenses.
- Enhancing the overall capacity of the supply chain by designing a customer-oriented sales operation.
- Raising the capacity of the Company's R&D system by reorganizing and optimizing the R&D operation.
- Implementing environmental operation to improve its control over energy saving and emission reduction.
- Promoting the upgrading of the 9672 system for a better information management.
- Improving the management at the grass-root level and enhancing the site management

(V) Investment

1. Investment in fixed assets

In 2011, the Company invested RMB 16.57 billion in fixed assets.

(1) Fund-raising programs

None.

(2) Non-fund raising programs

Completed projects having been put into operation

Luoqing Step 2 project of directly affiliated plants and departments was completed and put into operation in March 2011.

The new batch annealing furnace project of Stainless Steel Business Unit was completed in September 2011 ahead of schedule, with a designed annual capacity of 170,000 tons. The project enhanced the productivity of the ferritic stainless steel.

The production line of Meishan Steel hot-rolled and pickled high strength steel was completed and put into use in October 2011, with a designed annual capacity of 1 million of hot-rolled and pickled sheets for automobile and home appliance.

The stainless steel leading strip project newly added to the cold rolling plant of Stainless Steel Business Unit started hot load test at the end of December 2011 ahead of schedule, which is expected to improve the comprehensive yield of cold-rolled stainless steel products.

Continued projects

The construction of the oriented silicon steel follow-up project: it aims to build the single stand reversing mill, the decarburizing annealing line, the high temperature rotary hearth furnace, and the flattening & coating line. The project is planned to produce 200 thousand tons of oriented silicon steel annually. The step 1 of the project was completed in October 2011, and the step 2 is planned to be completed by July 2013.

The relocation and product mix adjustment project of Lubao Steel Tube Co., Ltd.: it aims to build a production line for hot continuous rolling tubes and for tube processing, and a temper recoiling line for high-pressure boiler tubes, which will produce 500 thousand tons of high-end seamless steel tube products, including high-grade steel, corrosion resistant pipes for oil use only, high-pressure boiler tubes. The first phase of the project, the production line for tube processing, was completed in December, 2009 and the second phase, the production line for continuous tube rolling is planned to be completed by second half of 2012.

The product mix and process equipment upgrading and technical revamping project of Meishan Steel: it aims to build a sintering machine, coke oven, blast furnace, converter, continuous casting, hot strip mill and the corresponding utilities. The project is planned to be completed by June, 2012.

Newly-started projects

The project of new pre-leveller added to Luoqing of directly affiliated plants and departments is to add a pre-leveller to the existing 4200mm heavy plate mill with a view to improve the yield and develop 10,000t/y high-end TMCP and DQ products. The project is planned to be completed by March 2012.

The project of new leveller added to heavy plate plant of directly affiliated plants and departments is to add a leveller to the existing 5000mm heavy plate mill with a view to improve the yield and develop 10,000t/y high-end TMCP and DQ products, 10,000t/y super high-strength plate and wearing plate. The project is planned to be completed by May 2012.

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(V) INVESTMENT

2. Entrusted fund management and entrusted loans

(1) Entrusted asset management

(RMB Million)

No.	Entrustee	Amount of entrusted fund management	Starting date	Ending date	Principal amount actually taken back	Actual gains
1	Baosteel Group Finance Co., Ltd.	100.00	2011-8-9	2011-8-15	100.00	0.06
2	Baosteel Group Finance Co., Ltd.	30.00	2011-8-17	2011-8-30	30.00	0.04
3	Baosteel Group Finance Co., Ltd.	50.00	2011-8-18	2011-8-24	50.00	0.03
4	Baosteel Group Finance Co., Ltd.	70.00	2011-9-19	2011-9-25	70.00	0.05
5	Baosteel Group Finance Co., Ltd.	40.00	2011-12-7	2011-12-13	40.00	0.02
6	Baosteel Group Finance Co., Ltd.	30.00	2011-12-15	2011-12-21	30.00	0.02
7	Baosteel Group Finance Co., Ltd.	40.00	2011-12-15	2011-12-26	40.00	0.04
8	Baosteel Group Finance Co., Ltd.	400.00	2011-4-1	2011-4-6	400.00	0.15
9	Baosteel Group Finance Co., Ltd.	300.00	2011-4-22	2011-6-5	300.00	1.98
10	Baosteel Group Finance Co., Ltd.	1,200.00	2011-4-25	2011-6-7	1,200.00	6.71
11	Baosteel Group Finance Co., Ltd.	300.00	2011-5-19	2011-5-26	300.00	0.70
12	Baosteel Group Finance Co., Ltd.	300.00	2011-5-19	2011-6-7	300.00	0.21
13	Baosteel Group Finance Co., Ltd.	300.00	2011-5-20	2011-5-23	300.00	0.10
14	Baosteel Group Finance Co., Ltd.	300.00	2011-5-24	2011-6-9	300.00	0.16
15	Baosteel Group Finance Co., Ltd.	200.00	2011-5-24	2011-5-30	200.00	0.69
16	Baosteel Group Finance Co., Ltd.	400.00	2011-6-9	2011-6-10	400.00	0.04
17	Baosteel Group Finance Co., Ltd.	160.00	2011-7-5	2011-7-7	160.00	0.06
18	Baosteel Group Finance Co., Ltd.	500.00	2011-7-20	2011-7-27	500.00	0.50
19	Baosteel Group Finance Co., Ltd.	600.00	2011-9-16	2011-10-17	600.00	2.61
20	Baosteel Group Finance Co., Ltd.	300.00	2011-9-20	2011-11-21	300.00	2.84
Total		5,620.00	-	-	5,620.00	16.99

Note: 1. All of the above business followed legal procedures, no provision for value decrease was made, and the capital source was non-raised fund.

2. All of the above business was the national debt buying back operation entrusted by the Company and the Company's subsidiary Huangshi Coated and Galvanized Sheet to the Company's subsidiary the Finance Co.

(2) Entrusted loans

There were no entrusted loans in the reporting period.

(3) Other investing activities

(Million Shares, RMB Million)

Type	Signing party	Shares of investment	Investment term	Type of product	Anticipated gains	Gains and losses
AVAILABLE-FOR-SALE FINANCIAL ASSETS						
Trust Plan	Hwabao Trust	30.00	Over one year	Hwabao Trust Plan (999 Gold)	0.00	1.74
Trust Plan	Shanghai International Trust	44.00	Over one year	Shanghai International Trust-GM-9003-I	0.00	2.28
Trust Plan	Zhongrong International Trust	100.00	Less than one year	Zhongrong Chuangying Development No. 2	0.00	0.82
Convertible bond	Member unit of the exchange market	5.89	Less than one year	Sichuan Investment CB	0.00	0.01
Convertible bond	Member unit of the exchange market	13.76	Less than one year	Bank of China CB	0.00	-0.37
Financial bond	Inter bank market	99.97	Less than one year	11 Nongfa 14	0.00	1.67
Open end fund	Fund company	10.14	Less than one year	Harvest Credit A	0.00	0.21
Open end fund	Fund company	30.00	Less than one year	Invesco Great Wall Stable Profit A	0.00	-0.09
Close end fund	Securities trader	15.87	Over one year	Bank of Communications More Profit	-1.14	-0.86
Stock	Securities trader	62.97	Over one year	Shanghai Pudong Development Bank	-5.39	0.64
Corporate bond	Inter bank market	50.27	Less than one year	11 China Guodian CP004	0.00	0.60
Corporate bond	Inter bank market	30.07	Less than one year	11 China CNR CP003	0.00	0.14
Corporate bond	Inter bank market	49.85	Less than one year	10 Dafang CP01	0.00	1.95
Corporate bond	Inter bank market	30.02	Less than one year	10 Hongdou CP01	0.00	1.14
Corporate bond	Inter bank market	40.00	Less than one year	10 Yunnan Power CP01	0.00	1.97
Corporate bond	Inter bank market	30.00	Less than one year	10 Xiwang CP02	0.00	0.33
Corporate bond	Inter bank market	41.25	Over one year	10 Xia Road&Bridge MTN1	1.02	0.11
Corporate bond	Inter bank market	60.49	Over one year	10 New Water Power MTN1	-0.98	2.97
Corporate bond	Inter bank market	40.14	Less than one year	11 Hengyi CP01	1.76	0.00
Corporate bond	Inter bank market	30.07	Less than one year	11 Orient CP01	0.76	0.68
Corporate bond	Inter bank market	20.01	Less than one year	11 Sangde CP01	0.58	0.45
Corporate bond	Inter bank market	20.05	Less than one year	11 Hongtu CP01	0.85	0.00
Corporate bond	Inter bank market	30.00	Less than one year	11 HNA Retailing CP01	0.00	0.16
Corporate bond	Inter bank market	40.01	Less than one year	11 HNA Retailing CP01	0.00	0.21
Corporate bond	Inter bank market	100.33	Less than one year	11 Huaneng CP01	0.00	0.05
Corporate bond	Inter bank market	50.09	Less than one year	11 CGN CP02	0.00	0.29
Corporate bond	Inter bank market	150.29	Less than one year	11 CHINALCO CP01	0.00	2.39
Corporate bond	Inter bank market	50.07	Less than one year	11 Tianjing port CP01	0.00	1.06
Corporate bond	Inter bank market	50.14	Less than one year	11 Feng media CP01	1.13	0.00
Corporate bond	Inter bank market	40.63	Over one year	11 Fengfeng MTN1	0.79	0.00
Corporate bond	Inter bank market	79.99	Over one year	11 Jinguang MTN1	1.77	0.00
Corporate bond	Inter bank market	20.05	Less than one year	11 Kaidi MTN1	0.00	0.09
Corporate bond	Inter bank market	49.80	Over one year	11 Huahong MTN2	1.93	0.00
Corporate bond	Inter bank market	51.68	Over one year	11 Ynagmei MTN3	1.08	0.00
Corporate bond	Inter bank market	51.36	Over one year	11 Pingmeihua MTN2	1.20	0.00

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(V) INVESTMENT

Type	Signing party	Shares of investment	Investment term	Type of product	Anticipated gains	Gains and losses
Corporate bond	Member unit of the exchange market	20.00	Less than one year	11 Kangmei bond	0.00	0.11
HELD-TO-MATURITY INVESTMENT						
Trust Plan	Exchange International Trust	200.00	Less than one year	Bank of Communications Guosen Jufu No. 101	0.00	0.27
Trust Plan	Exchange International Trust	225.00	Less than one year	Bank of Communications Guosen Jufu No. 101	0.00	0.06
Trust Plan	Shanghai International Trust	118.47	Less than one year	Shanghai International Trust JN03-I	0.00	0.00
Bank financial product	ICBC	200.00	Less than one year	ICBC Financing Win-Win No.3 109 Issue	0.00	0.94
Bank financial product	ICBC	100.00	Less than one year	ICBC Financing Win-Win No.3 109 Issue	0.00	1.21
Bank financial product	Industrial Bank	100.00	Less than one year	Industrial Bank financial product XYXT	0.00	0.00
Bank financial product	Bank of Communications	100.00	Less than one year	Bank of Communications Jutong Financial Product	0.00	0.00
TRADABLE FINANCIAL ASSETS						
Money market fund	Fund company	50.00	Less than one year	Guotai Money	0.00	0.01
Money market fund	Fund company	190.00	Less than one year	Hua'an Cash Full Money B	0.00	0.52
Money market fund	Fund company	100.00	Less than one year	Bosera Money	0.00	0.11
Money market fund	Fund company	300.00	Less than one year	Harvest Money	0.00	0.47
Money market fund	Fund company	100.00	Less than one year	Dacheng Money B	0.00	0.04
Money market fund	Fund company	350.00	Less than one year	E-fund Money B	0.00	1.18
Money market fund	Fund company	100.00	Less than one year	Yinghe Yingfu Money	0.00	0.29
Money market fund	Fund company	100.00	Less than one year	Penghua Money B	0.00	0.10
Money market fund	Fund company	100.00	Less than one year	Nanfeng Cash More Profit B	0.00	0.30
Money market fund	Fund company	300.00	Less than one year	China Merchants Cash Value-Added	0.00	0.36
Money market fund	Fund company	150.00	Less than one year	Hwabao Fund	0.00	0.42
Money market fund	Fund company	300.00	Less than one year	CGB Money B	0.00	0.99
Money market fund	ICBC	30.00	Less than one year	ICBC Ruixin Money	0.00	0.02
Money market fund	Fund company	90.00	Less than one year	Haifutong Money B	0.00	0.11
Money market fund	Fund company	100.00	Less than one year	Wanjia Money	0.00	0.10
Money market fund	Fund company	10.00	Less than one year	SPD Bank Ansheng Money B	0.00	0.01
Money market fund	Fund company	250.00	Less than one year	Huitianfu Money B	0.00	0.58
Money market fund	Fund company	300.00	Less than one year	Changxin Interest Income B	0.00	0.93
Money market fund	Fund company	100.00	Less than one year	Dongwu Money B	0.00	0.39
Convertible bond	Member unit of the exchange market	0.76	Less than one year	Marine SHIPP bond	0.00	0.17
Convertible bond	Member unit of the exchange market	56.77	Less than one year	Sinopec bond	0.00	0.89
Convertible bond	Member unit of the exchange market	6.47	Less than one year	CNshipping bond	0.00	0.22
Stock	Trust transfer securities trader	30.08	Less than one year	Huafang Co., Ltd.	0.00	-3.04
Corporate bond	Inter bank market	72.32	Less than one year	10Zhonggu CP01	0.00	0.14
Corporate bond	Inter bank market	102.85	Less than one year	10 Xia MACH. & ELEC. CP01	0.00	0.75

Type	Signing party	Shares of investment	Investment term	Type of product	Anticipated gains	Gains and losses
Corporate bond	Inter bank market	31.04	Less than one year	10 Yue Material CP01	0.00	0.07
Corporate bond	Inter bank market	30.98	Less than one year	10 Zhong Public CP01	0.00	0.07
Corporate bond	Inter bank market	82.01	Less than one year	10 Jushi CP01	0.00	0.73
Corporate bond	Inter bank market	30.97	Less than one year	10 YunnL CP01	0.00	0.02
Corporate bond	Inter bank market	51.63	Less than one year	10 Meibang CP01	0.00	0.04
Corporate bond	Inter bank market	51.27	Less than one year	10 China Minerals P01	0.00	0.09
Corporate bond	Inter bank market	10.25	Less than one year	10 Transfer CP01	0.00	0.09
Corporate bond	Inter bank market	30.00	Less than one year	11 China Metallurgical CP01	0.00	0.03
Corporate bond	Inter bank market	40.28	Over one year	11 Founder MTN3	0.06	0.00
Corporate bond	Member unit of the exchange market	30.27	Over one year	11 Tianwei bond	1.42	0.00
Corporate bond	Inter bank market	50.00	Less than one year	10 Qian Tyre CP01	0.00	2.49
Central bank bill	Inter bank market	52.09	Less than one year	08 Central bank bill23	0.00	0.01
Central bank bill	Inter bank market	51.88	Less than one year	08 Central bank bill41	0.00	0.00
Central bank bill	Inter bank market	96.82	Less than one year	11 Central bank bill20	0.00	0.32

Note: All of the above were low-risk financing by the Company's subsidiary the Finance Co. with its own capital. No complaints occurred during the reporting period.

3. Other investment

In 2011, the Company completed a RMB 2.16 billion investment on equity investment projects.

4. Management and use of funds raised

None.

VII. Board of Directors' Report

(VI) Explanatory Notes from Auditing Firm

None.

(VII) Significant Change in Policies or Accounting Estimation

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

(VIII) Routine Work of Board of Directors

1. Meetings and resolutions in the reporting period

Name of the meeting	Date	Disclosure media	Disclosure date
The eleventh meeting of the Fourth Board of Directors	29-30 March 2011	<i>China Securities News, Shanghai Securities News and Securities Times</i>	31 March 2011
The twelfth meeting of the Fourth Board of Directors	7 April 2010	<i>China Securities News, Shanghai Securities News and Securities Times</i>	13 April 2011
The thirteenth meeting of the Fourth Board of Directors	29 April 2011	<i>China Securities News, Shanghai Securities News and Securities Times</i>	30 April 2011
The fourteenth meeting of the Fourth Board of Directors	20 July 2011	<i>China Securities News, Shanghai Securities News and Securities Times</i>	30 July 2011
The fifteenth meeting of the Fourth Board of Directors	30 August 2011	<i>China Securities News, Shanghai Securities News and Securities Times</i>	31 August 2011
The sixteenth meeting of the Fourth Board of Directors	28 October 2011	<i>China Securities News, Shanghai Securities News and Securities Times</i>	29 October 2011

Notes: 1. Refer to relevant resolution announcement for the content of the resolution approved at the meetings.

2. These meetings adopted the form of written voting; the twelfth meeting of the Fourth Board of Directors, and the fourteenth meeting of the Fourth Board of Directors.

2. Board of Directors' implementation of resolutions of General Shareholders' Meeting

According to the resolutions approved at the 2010 shareholders' General Meeting held on 29 April 2011, the proposed profit appropriation for 2010 was as follows: In view of the Company's anticipated operating results and the demand for capital, all shareholders, as registered on the equity registration date, were entitled to a cash dividend of RMB 3.00 per 10 shares (taxes included), for a total dividend payout of RMB 5,253,614,426.40. Details of the dividend distribution were published in the *China Securities News, Shanghai Securities News and Securities Times* of 31 May 2011. The final share registration date for the dividend entitlement was 8 June 2011, with the ex-dividend date set at 9 June 2011 and dividend payout date on 15 June 2011. All shareholders, as registered with the China Securities Depository and Clearing Co., Ltd.'s Shanghai Branch after the market closed on 8 June 2011, were entitled to such cash dividends.

3. Performance of Auditing Committee under Board of Directors

The "Procedure Rules of Auditing Committee of the Board of Directors" was drafted and revised, in which the structure of the committee, the term of office, duties, and procedures are specified. The first edition of the document was approved by the ninth meeting of the First Board of Directors on 1 August 2002, and it was later revised and improved on the second meeting of the Third Board on 28 August 2006 and the eleventh meeting of the Third Board on 26 March 2008.

The "Procedure Rules of Auditing Committee of the Board of Directors" was approved by the eleventh meeting of the Third Board on 26 March 2008.

Constructive suggestions and opinions about the finance and internal control were put forward on the four meetings held by the Auditing Committee of the Board of Directors.

The "Procedure Rules of Auditing Committee of the Board of Directors" was strictly followed by the Committee in reviewing the 2011 Annual Report, acting as an inspector to the Company's financial information, internal control and other performances.

The Auditing Committee had examined the 2010 auditing plan and the financial statements compiled by the Company and issued its written suggestions for the documents before Deloitte Touche Tohmatsu Certified Public Accountants Limited, the accounting firm, started the auditing work.

Later, the auditing members issued a letter to Deloitte Touche Tohmatsu, urging the firm to complete the auditing according to the time limit stipulated in the 2011 annual auditing plan; the committee examined the accounting report again and offered their opinions in written form, after Deloitte Touche Tohmatsu's initial auditing suggestions. Meanwhile, the committee evaluated the auditors' performance and the quality of their auditing work. The auditors formed a book of suggestions for the problems found in the auditing, which helps the Company to standardize its operation.

The auditing members reviewed the proposal to hire Deloitte Touche Tohmatsu CPA Ltd. as the independent auditor for the period of 2012 and agreed to submit it to the Board of Directors.

VII. Board of Directors' Report

(VIII) ROUTINE WORK OF BOARD OF DIRECTORS

4. Performance of Compensation Evaluation Committee under Board of Directors

The Committee met two times in the period, discussing about the "Methods of Performance Evaluation and Payment Settlement of Senior Management for 2010," and provided constructive opinions and suggestions.

The Committee met on 22 March 2012, reviewed the "Methods of Performance Evaluation and Payment Settlement of Senior Management for 2011," "Report on Annual Remunerations of Directors, Supervisors, and Other Senior Executives in 2011," and "Evaluation Indicators and Operation Target for the President In 2012," and agreed to submit these proposals to the Board of Directors.

5. Regulations on report and submitting information to the outside

In accordance with the "Issues Concerning Preparation of 2009 Annual Reports and Related Work" (2009)34 by China Securities Regulatory Commission, the fourth meeting of the Fourth Board of Directors approved the revised edition of "Management of Information Publication", in which regulations on report and submitting information to outside were added.

According to the regulations on report and submitting information to outside, great effort should be made to strengthen the management of reporting and submitting information to the outside by emphasizing the procedures of the whole process.

No information from any unit of the Company shall be submitted, following relevant legal procedures, to outsiders earlier than the date on which the Company publishes the brief of its performance. The brief shall not contain less information than that for outside users.

In case that information should be submitted to the outside in accordance of related regulations, an earlier remainder shall be submitted regarding the filing of the knower and the obligation to maintain secrecy about the information.

6. Statement by the Board of Directors regarding the internal control responsibilities

The Company's Board of Directors is responsible for establishing and maintaining an adequate internal control system.

7. Insider Information management

According to the Company's self-examination, no inside trading of the Company's shares occurred before major sensitive information disclosure occurred in the period.

8. Serious environmental problems or other significant social security issues

During the reporting period, the Company was not involved in serious environmental problems or other significant social security issues.

9. Punishment and rectification in the reporting period

In 2011, Nanjing Meishan Energy Co., Ltd. under Meishan Steel was fined RMB 60,000 by the administrative department of Nanjing Environment Bureau because its SO₂ emission concentration from the boiler was higher than the national standard. According to the "Book of Objective Responsibility for Reducing Total Amount of Major Pollutants During the 'Twelfth Five Year'", the No. 1 and No.3 coal-fired boiler flue gas desulfurization project of Nanjing Meishan Energy Co., Ltd. will be completed and put into use before 31 May 2012. The project is now in orderly progress in accordance to the plan. It is expected to provide a thorough solution to the issue of SO₂ out-of-standard emission.

(IX) Proposed Profit Appropriation

The Company's dividend distribution plans in previous years were all in line with the Company's constitution and were approved by the shareholders' meeting. The cash dividend stipulated by the Company followed clear standard and percentage requirement, and the related decision-making procedure and mechanism were self-contained. The independent directors have fulfilled their obligations and played active roles in the dividend distribution planning. It was also ensured that the medium and small shareholders could fully air their views and concerns. Measures were taken to protect the legal rights of the medium and small shareholders.

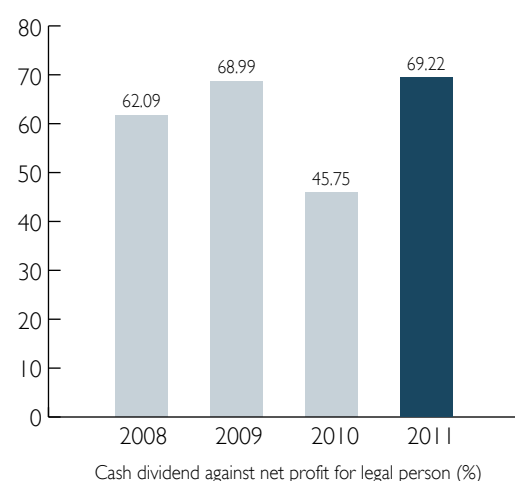
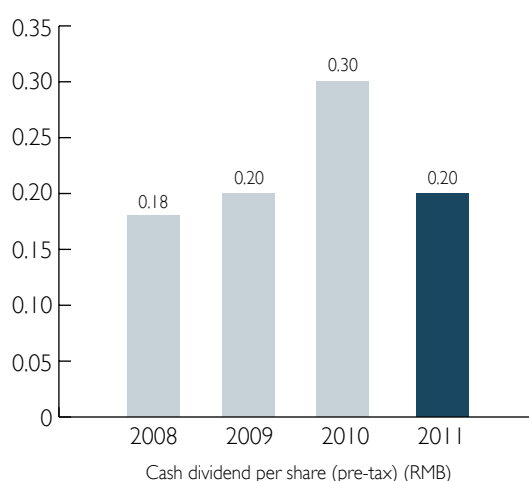
The net profit of the Company in 2011 totaled RMB 5,059,503,387.83. With the addition of the RMB 23,974,318,475.24 of undistributed profit at the beginning of the period and deduction of the RMB 5,253,614,426.40 of cash dividend payment for 2010, the distributable profit at the end of 2011 was RMB 23,780,207,436.67.

In order to realize the sustainable develop, and better practice the operating ideal of "Maximizing shareholders' value", the Board of Directors proposes the following profit appropriating scheme for the year of 2011:

1. Ten per cent of the net profit, or RMB 505,950,338.78, shall be allocated as statutory earnings reserves;
2. Ten per cent of the net profit, or RMB 505,950,338.78, shall be allocated as discretionary earnings reserves;
3. In accordance with the demand for fund of the Company in 2012, the Board of Directors has proposed a cash dividend payout of RMB 2.0 per 10 shares (pre-tax), with total of dividend payable of RMB 3,502,409,617.60.
4. Other models of distribution, such as capitalizing of earning reserves, would not be adopted.
5. Dividend-net profit ratios from 2008 to 2011:

Item	2011	2010	2009	2008
Cash dividend per share (pre-tax) (RMB)	0.20	0.30	0.20	0.18
Total cash dividend (RMB 100 million)	35.02	52.54	35.02	31.52
Net profit for legal person presented in financial statements (RMB 100 million)	50.60	114.83	50.77	50.77
Net profit attributable to parent company in consolidated statements (RMB 100 million)	73.62	128.89	58.16	68.49
Cash dividend against net profit for legal person	69.22%	45.75%	68.99%	62.09%
Cash dividend against net profit attributable to parent company in consolidated statements	47.57%	40.76%	60.22%	46.02%

Note: The cash dividend for 2011 is the proposed profit appropriation by the Board of Directors, which is subject to approval at the 2011 Shareholders' Meeting.



(X) Others

None.