

2013 Annual Report

BAOSHAN IRON & STEEL CO., LTD.



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In 2013, China's economic growth slowed down, the demand for steel declined and the "low profit era" of the steel industry continued. Faced with the complex economic environment and the severe industry situation, Baosteel has always adhered to the Premier development strategy and the path of innovation-oriented development, actively followed the market dynamics, and achieved sound results in production and management, with total annual revenue of 190 billion yuan and combined profit of 8 billion yuan. Net profit after deducting the non-recurring gains and losses attributable to the shareholders reached 6.3 billion yuan, year-on-year increased by 43% and maintaining optimum performance among domestic peers.

With serious excess capacity in the steel industry, Baosteel is still able to maintain its market position and profitability, the key of which lies in the differentiation competition strategy positioning the high-end "product+ service". The company's strategic product sales accounted for 54% of the total sales in 2013, and the exclusive leading product sales accounted for 64% of the total sales of the futures. As regard to the sales of core products, the cold-rolled automobile sheet continues to occupy 50% of the domestic market and the domestic market share of high-end silicon steel is 47%.

In the industry low profit era, Baosteel has paid more attention to the personalized needs of our customer, and achieved the transition from manufacturing to service. The company has actively promoted the expansion of the EVI early engagement service mode, implemented the key account manager system, established the three-level technical service system, continuously improved and enhanced the user experience and the overall service level.

The construction of Zhanjiang project was in full swing in 2013, and 5.02 billion yuan was invested in fixed assets. Currently, the construction is going on in an orderly manner, with "simple, highly efficient and low-cost" as the guiding ideology, learning Baosteel's successful experience in overall layout, process selection, and equipment configuration, etc., inheriting the soft power of Baosteel accumulated over the years, and supported Zhanjiang Steel to become the premier carbon flat steel base with "the highest efficiency in the world".

The company has implemented One Body and Two Wings strategy. Based on the steel industry, it has vigorously promoted the IT industry and e-commerce, and gradually implemented the strategic transformation.

In the information technology sector, the subsidiary-Baosight achieved incremental business breakthrough, achieved over 100% growth in market capitalization, and made significant progress in business development. In 2013, Baosight carried out strategic cooperation with China Telecom, Alibaba and other industry giants, formed business capacity in IDC field, and opened up new business growth points.

In e-commerce, the company's goal is to become the value chain e-service provider with the largest scale and the highest value in the steel and related manufacturing industries. With the completion and operation of Shanghai Steel Trading Center, the formal launch of the moveable pledge information platform, and incorporated implementation of financial services, the e-commerce business of Baosteel has been gradually formed. The company will fully combine the advantages of electronic trading, online payment, supply chain financing, logistics, terminal services and other fields for the progressive integration of the steel industry, e-commerce and modern finance.

Baosteel has always been concerned about the capital market and paid attention to the return to shareholders. Following the stock repurchase since September 2012, the company has completed the largest scale A-share repurchase with cumulative cost of 5 billion yuan to repurchase 1.04 billion shares for cancellation. This has not only improved the net assets per share, earnings per share and other financial indicators, but also enhanced the long-term shareholder value.

According to the dividend policy that "annual cash dividend distributed should be no less than 50% of the net profits in the annual audited consolidated financial statements as attributable to the shareholders of the parent company," the company's annual total cash dividends should not be less than 2.909 billion yuan in 2013. The company carried out share repurchase of 3.08 billion yuan in cash, more than this figure; however, the company has always attached importance to the return to shareholders, adhering to the long-term cash dividend policy, the distributed cash dividend is still 0.1 yuan / share for this year, with the repurchase and dividend amount accounting for 81.3% of the net profits attributable to shareholders of the listed company.

In the year 2014, given the uncertainty in the macro business environment and the predicament of the industry operating profits, the company will further strengthen transformation and innovation, committed to differentiated competition and cost reduction, making the steel business stronger, developing Two Wings, so as to maintain the best operation results in industry. Meanwhile, the company will also actively explore SOE reform and diversification incentives, make business management more dynamic and competitive, so as to integrate the interests of employees and enterprise development, promote the continuous improvement of the company performance, and offer a positive return to the majority of investors.

Important Notice

The Board of Directors and the Board of Supervisors of Baoshan Iron & Steel Co., Ltd. (hereinafter “the Company”), along with their directors, supervisors and senior executives, hereby guarantee that the *Annual Report* is free from false statement, misleading information or grave material omission, and assume relevant separate and joint responsibilities in regard to the truth, the accuracy and the integrity of the contents of the Report.

All members of the Board of Directors of the Company attended the board meeting.

Deloitte Touche Tohmatsu Certified Public Accountants LLP (special general partnership) gave standard unqualified audit report for the Company.

In January, the Company completed the registration for alteration of equity of Baosteel Zhanjiang Iron & Steel Co., Ltd. (hereinafter referred to as “Zhanjiang Steel”), incorporated Zhanjiang Steel into the scope of Consolidated Statements, and made the restatements for the closing amount of the Consolidated Balance Sheet, and the transaction amount of the Consolidated Income Statement and the Consolidated Statement of Cash Flow for 2011 and 2012 in accordance with the relevant regulations of the Accounting Standards for Business Enterprises. Unless otherwise noted herein, the opening amount of the year and the amount in the corresponding period last year involved will be considered as the restated data.

He Wenbo, Chairman of the Company, Zhu Keping, chief accountant, and Wang Juan, Director of the Finance Department in charge of the accounting affairs, attest to the truthfulness, correctness and completeness of the financial statements in this Report.

Here is the proposed profit appropriation plan for the reporting period reviewed by the Board of Directors: according to the Company's policy that the annual dividend distribution should not be lower than 50% of the net profit in the consolidated statements attributable to the shareholders of the parent company audited in the current year, with the total cash dividend not less than RMB 2,909,235,601.5 in 2013, and the amount of cash for repurchase by the Company has exceeded 50% of the profits in the consolidated statements attributable to the parent company. Whereas the Company always attaches importance to rewarding shareholders and adheres to the long-term cash dividends policies, the Company intends to allot the cash dividend at RMB 0.1 per share (incl. tax) amounting to RMB 1,647,172,492.4 (incl. tax) to all shareholders registered on the equity registration date recognized in the Dividend Payout Announcement. On the basis of the cash for buy-back of RMB 3,083,474,132.0 by the Company in that year, the total amount of dividend will be RMB 4,730,646,624.4 (incl. tax), accounting for 81.3% of the net profits in the consolidated statements attributable to the shareholders of the parent company.

The proactive future plans and developing strategies in this *Report* do not constitute actual promises to investors. Investors are kindly reminded that investment involves risks.

No capital was found in the Company to be occupied by the controlling shareholder and its related parties.

No guarantee was found in the Company to be provided in manner that is against the stipulated decision-making procedures.

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Definitions and Major Risks Warning

Definitions

| Abbreviation | Specific Meaning |
|---|---|
| EVI | Early Vendor Involvement. |
| High-grade non-oriented silicon steel | This usually refers to non-oriented silicon steel with a grade above B50A400 (B35A360). |
| Low-temperature high magnetic induction oriented silicon steel | This refers to the oriented silicon steel produced by low-temperature heating process. |
| QP980GI cold-rolled quenched ductile steel | This refers to the third generation of high-formability and super-strength hot-dip pure-zinc steel sheets, with tensile strength up to 980MPa. |
| Steel for vitreous enamelling | This refers to a kind of advanced composite material with inorganic vitreous materials coated on the matrix steel sheet by means of fusion and bonded tightly to the steel sheet. The difference between primary enamelling and secondary enamelling is that the former's cover coat is directly burnt on the surface of the steel sheet without application of base coat to make the finished product. |
| Metal packaging materials | This refers to tin plates, chrome plates, and etc. |
| Deloitte | Deloitte Touche Tohmatsu Certified Public Accountants LLP (special general partnership) |

Major risk warning

Due to the uncertainty in macro operation environment and the dilemma of overcapacity and merger profit in the steel industry, the Company suffers much pressure and challenges in terms of energy and environment, significant investment project control and internal production and operation in 2014. The Company is pushing ahead with the strategy transition from steel to materials, from manufacture to services, and from basing in China to going global, and making the strategic plan of building the most competitive and most valuable listed company with "one body and two wings" as the target. In the next three years, the Company will be confronted with relatively great challenges.

Section I Company Profile

I. Company Profile

| | |
|----------------------|--------------------------------|
| Chinese Name | 宝山钢铁股份有限公司 |
| Chinese Abbreviation | 宝钢股份 |
| English Name | Baoshan Iron & Steel Co., Ltd. |
| English Abbreviation | Baosteel |
| Legal Representative | He Wenbo |

II. Contact Information

| | Secretary to Board of Directors | Representative of Securities Affairs |
|---------|---|---|
| Name | Zhu Keping | Yu Hong |
| Address | Board of Directors' Office of Baoshan Iron & Steel Co., Ltd., Baosteel Administration Center, 885 Fujin Rd. Baoshan District, Shanghai | Board of Directors' Office of Baoshan Iron & Steel Co., Ltd., Baosteel Administration Center, 885 Fujin Rd. Baoshan District, Shanghai |
| Tel. | 86-21-26647000 | 86-21-26647000 |
| Fax | 86-21-26646999 | 86-21-26646999 |
| E-mail | ir@baosteel.com | ir@baosteel.com |

III. Basic Information

| | |
|--------------------------------|--|
| Registered Address | Baosteel Administration Center, 885 Fujin Road, Baoshan District, Shanghai |
| Zip Code of Registered Address | 201900 |
| Office Address | Baosteel Administration Center, 885 Fujin Road, Baoshan District, Shanghai |
| Zip Code of Office Address | 201900 |
| Internet website | http://www.baosteel.com/plc/ |
| E-mail | ir@baosteel.com |

IV. Company Announcements or Disclosures & Copies of the Report

| | |
|--|--|
| Company Announcements or Disclosures published in: | <i>China Securities News, Shanghai Securities News, and Securities Times</i> |
| Annual Report Website Designated by China Securities Regulatory Commission | www.sse.com.cn |
| Copies of the Annual Report of the Company available at: | Baosteel Administration Center, 885 Fujin Road, Baoshan District, Shanghai |

V. Profiles of Stocks of the Company

| Profile of Stocks of the Company | | | | |
|----------------------------------|-------------------------|-----------------------|------------|--|
| Types of stock | Stock listed at | Abbreviation of stock | Stock code | Abbreviation of stocks before alteration |
| A-share | Shanghai Stock Exchange | 宝钢股份 | 600019 | G宝钢 |

Section I Company Profile

VI. Changes in Registration of the Company During the Reporting Period

(i) Basic information

| | |
|---|-----------------|
| Date of registration | June 24, 2013 |
| Place of registration | Shanghai |
| Registration number of Business License | 310000000074519 |
| Tax registration number | 310113631696382 |
| Organization code | 63169638-2 |

(ii) Company's initial incorporation

Please refer to "IX. Other Information of the Company" in the Company's 2000 Annual Report for information of the Company's initial incorporation.

(iii) Changes of its major business since listing

The Company specializes in iron and steel industry. Starting from 2005, it has been involved in more sectors including trade, shipping, coal chemical industry and information service and so on.

(iv) Changes of controlling shareholders since listing

In 2000 when the Company was first listed, the controlling shareholder is "Shanghai Baosteel Group Corporation". In October 2005, it was changed to "Baosteel Group Corporation".

VII. Other Relevant Information

| | | |
|----------------------------------|---------------------|--|
| Accounting Firm (Mainland China) | Name | Deloitte Touche Tohmatsu Certified Public Accountants LLP |
| | Office address | 30th Floor, Bund Center, 222 Yan An Rd. East, Shanghai, China (200002) |
| | Signing Accountants | Zhu Xiaolan, Jiang Jian |

Section II Accounting and Financial Highlights

I. Highlights of the Company

- Net profit attributable to shareholders of the listed company less non-recurring gains and losses is RMB 6.32 billion, representing a year-on-year increase of 43.1%. The Company has maintained the best performance among domestic peers.
- The Company has completed the largest stock repurchase in A-share history, investing RMB 5 billion on buy-back accumulatively and writing off 1.04 billion shares which accounts for 5.9% of the original total capital stock. Among others, the Company paid in cash RMB 3.08 billion in 2013.
- According to the relevant policies of Shanghai Stock Exchange, the cash of RMB 3.08 billion paid by the Company for the purpose of buy-back in that year shall be deemed as cash dividends, which already accounts for up to 53% of the net profits (consolidated statements) attributable to shareholders of listed company. However, in consideration of rewarding the shareholders, the Company intends to allot cash dividends at RMB 0.1 per share. It is estimated that the percentage of buy-back and dividend is up to 81.3%.
- The Company has been awarded the highest credit rating in the global steel industry by Standard & Poor's, Moody's and Fitch Group, all with "stable" outlook; it has successfully issued USD 500 million bonds in the international capital market for the first time.
- The Company has maintained a competitive edge in product mix among the peers, with the sales volume of exclusive and leading products accounting for 63.6% of the total sales volume of futures; it has maintained a domestic market share of 50.0% for cold-rolled automotive sheets and possessed the "national key laboratory of automotive steel".
- With the share of export of double-high products up to 66%, the Company has become the global suppliers for many multinational companies including GM, Volkswagen, Siemens and etc.; it has expedited the overseas strategic layout with successive completion and commencement of the service centers in Korea and India.
- The Company's "*Development and Industrialization of Manufacturing Technology of Low-Temperature High Magnetic Induction Oriented Silicon Steel*" has won the first prize of National Award for Science and Technology Progress; 5 new products have made global debut; the application for 1093 patents have been made in the year; among which the invention patents account for 55%.
- The Company has enhanced the influence of green products, developing the two series of products (high-grade AV and high-efficiency AHV for automotive drive motors), and taking the lead in implementing the full-series layout of silicon steel products for electric vehicle, with the physical quality up to the international advanced level.
- The Company has completed the largest roof photovoltaic power generation project in the world, which is expected to generate 45 million KWh of power and reduce 30,000 tons of CO₂ emission; it accelerated the inputs in energy conservation technology, and overfulfilled the national energy conservation target for the year.
- The Company has positively promoted the construction of e-commerce and information industry. Shanghai Iron & Steel Trading Center has been put into operation, with an annual turnover of over 2 million tons and 26,000 registered customers, thus quickly forming the business capability in the field of Internet Data Center (IDC).
- The Company has pushed ahead with the qualification for chattel mortgage information service and platform construction, and is officially connected to 54 certificated warehouses in the first batch to lay a good foundation for the subsequent substantive operation of chattel mortgage financing business with the bank.
- The Company has set up the two-way RMB capital pool in the Free Trade Zone to effectively finance RMB capital of subsidiaries at home and abroad, and to complete the first cross-border RMB financing after the rules for RMB cross-border service in the Free Trade Zone is put into practice, with the interest rate over 30% lower than the domestic RMB benchmark loan rate in the corresponding period.

Section II Accounting and Financial Highlights

II. Major Accounting Data and Financial Indicators of the Company for the Latest Three Years

(i) Major accounting data

Unit: RMB million

| Main accounting data | 2013 | 2012 (After restatement) | 2012 (Before restatement) | Increase/ decrease from the previous year (%) | 2011 (After restatement) | 2011 (Before restatement) |
|---|---------|--------------------------------|---------------------------------|---|--------------------------------|---------------------------------|
| Operating revenues | 189,688 | 191,135 | 191,136 | -0.76 | 220,872 | 222,505 |
| Net profits attributable to shareholders of listed company | 5,818 | 10,090 | 10,386 | -42.33 | 7,030 | 7,362 |
| Net profit attributable to shareholders of the listed Company less non-recurring gains and losses | 6,321 | 4,416 | 4,720 | 43.13 | 6,657 | 7,009 |
| Net cash flow from operating activities | 12,090 | 22,186 | 22,202 | -45.50 | 11,987 | 12,142 |

| Major accounting data | End of 2013 | End of 2012 (After restatement) | 2012 (Before restatement) | Increase/ decrease from the previous year (%) | End of 2011 (After restatement) | 2011 (Before restatement) |
|---|-------------|---------------------------------------|---------------------------------|---|---------------------------------------|---------------------------------|
| Net assets attributable to shareholders of listed company | 110,512 | 110,766 | 111,387 | -0.23 | 112,660 | 106,495 |
| Total assets | 226,668 | 220,876 | 214,357 | 2.62 | 242,122 | 231,100 |

Note: The increase/decrease from the pervious year refers to the comparison between relevant indicators after restatements of 2013 and 2012 (same below)

(ii) Major financial data

| Major financial indicators | 2013 | 2012 (After restatement) | 2012 (Before restatement) | Increase/ decrease from the previous year (%) | 2011 (After restatement) | 2011 (Before restatement) |
|---|------|--------------------------------|---------------------------------|--|--------------------------------|---------------------------------|
| Basic earnings per share (RMB) | 0.35 | 0.58 | 0.60 | -39.74 | 0.40 | 0.42 |
| Diluted earnings per share (RMB) | 0.35 | 0.58 | 0.60 | -39.74 | 0.40 | 0.42 |
| Basic earnings per share less non-recurring gains and losses (RMB) | 0.38 | 0.25 | 0.27 | 49.55 | 0.38 | 0.40 |
| Weighted average return-on-equity (%) | 5.29 | 8.77 | 9.52 | Down by 3.48 ppts | 7.20 | 7.02 |
| Weighted average return-on-equity less non-recurring gains and losses (%) | 5.75 | 3.84 | 4.33 | Up by 1.91 ppts | 6.81 | 6.69 |

III. Non-recurring Gains and Losses

Unit: RMB million

| Items | 2013 | 2012 | 2011 |
|---|------|--------|------|
| Profits and losses arising from disposal of non-current assets | -108 | 9,577 | -121 |
| Returns on investment arising from available-for-sale financial assets and etc. | 12 | 19 | 42 |
| Assets impairment losses arising from assets disposal in the area of Luoqing | -976 | -2,645 | - |
| Other non-operating incomes and expenditures other than the above items | 438 | 644 | 602 |
| Effect of income taxes | 163 | -1,895 | -124 |
| Effect of minority interest | -32 | -27 | -34 |
| Total of non-recurring gains and losses | -502 | 5,673 | 365 |

Note: The non-recurring gains and losses data in 2012 and 2011 are considered as the restated data.

Section III Board of Directors' Report

I. Review of the Company's Operation in 2013

Affected by periodical and structural adjustment, the world economy showed the tendency of slow recovery, and the Chinese economy grew steadily at a continuous slow speed in 2013. China's annual crude steel output hit 780 million tons, up by 7.5% on a year-on-year basis; China's net export of steel had a year-on-year growth of 14.7%, and China's steel enterprises subject to the State's key statistics witnessed a year-on-year decrease rate of 14.8% in fixed assets investment. The downstream steel consuming industries differed in the demand tendency: the automobile industry maintained a rapid growth of demand for steel, while the appliance and engineering machinery still had a weak demand for steel, and shipbuilding industry had a recovery in demand for steel, but in general the steel industry still suffered from a serious overcapacity and the competition in homogeneity further aggravated.

Although China's steel industry turned losses into gains on year-on-year basis in 2013, the trend of steel industry has not been improved fundamentally. After soaring to the annual peak at the end of February, the domestic steel price slumped continually and bounced back after the end of June, but descended in the fourth quarter again. The annual average price was still lower than the price of 1994. The trend of upstream markets also saw ups and downs, Platts IODEX rose to the annual peak of USD 160 per ton in February, then dropped all the way, and bounced back after hitting the lowest point in June, and fluctuated around USD 134 per ton all the time in the second half of the year.

The Company overcome the adversities such as overcapacity of steel industry, drop of steel price, intensified competition, complicated internal production organization, positively planned the product mix and business adjustment and diverted the limited resources into the relatively profitable products, as a result of which, the sales of cold-rolled automotive sheets achieve the year-on-year growth of 10.8%. Thanks to the reasonable allocation of resources, the strengthening of cost benchmarking of the same process, and the solidification of improvement result of sales and administrative expenses, the Company has obtained favorable operating performance. In 2013, the Company sold 21,993,000 tons of steel and achieved a gross operating revenue of RMB 190.03 billion and a total profit of 8.01 billion, maintaining the best performance in the industry.

(i) Analysis of major business

1. Analysis of profit and cash flow

| Unit: RMB million | | | |
|---|---------|---------|---|
| Items | 2013 | 2012 | Changes compared with the previous period (%) |
| Operating revenue | 189,688 | 191,135 | -0.76 |
| Operating cost | 171,718 | 176,885 | -2.92 |
| Selling expenses | 1,963 | 1,928 | 1.83 |
| Administrative expenses | 6,881 | 7,444 | -7.56 |
| Financial expenses | -544 | 489 | -211.37 |
| Net cash flow from operating activities | 12,090 | 22,186 | -45.50 |
| Net cash flow from investing activities | -8,717 | 3,410 | -355.61 |
| Net cash flow from financing activities | 599 | -31,209 | -101.92 |
| R&D expenditures | 3,430 | 3,807 | -9.9 |

- (1) The financial expense decreased by RMB 1.03 billion from that of the previous year, mainly due to higher appreciation of RMB against USD than that of the previous year and the increase in exchange gains. In addition, the Company has further utilized the overseas capital platform to bring down the financial costs and the interest expenditures accordingly.
- (2) The net cash flow from operating activities decreased by RMB 10.10 billion, mainly attributable to the decrease in the occupation of operating funds of previous year; and the increase in the working capital due to the reason that the Company actively makes strategic preparation according to the needs of production and operation of 2014, and enhances the competitive position of products in the market and appropriately expands credit granting to ensure the market share of strategic users.
- (3) The net cash flow from investing activities decreased by RMB 12.13 billion, mainly attributable to sales of relevant assets of the stainless steel and special steel business units.
- (4) The net cash flow from financing activities increased by RMB 31.81 billion, mainly due to the decrease in debt size after acquisition of cash by sales of stainless steel and special steel business units, and the increase in debt size by appropriate increase of financial leverage according to the production and operation.

Section III Board of Directors' Report

2. Revenue analysis

(1) Sales of steel products

During the reporting period, the operating revenues decreased by RMB 1.45 billion, mainly due to the decrease in the sales volume and sales price of steel and the increase in trade incomes.

Unit: ten thousand tons

| Products | Sales volume in 2013 | Change from the previous year (%) |
|---|----------------------|-----------------------------------|
| Cold-rolled carbon steel sheets and coils | 944.47 | 0.2 |
| Hot-rolled carbon steel sheets and coils | 809.93 | 1.0 |
| Heavy plates | 116.94 | -36.8 |
| Steel tubes & pipes | 155.70 | 4.1 |
| Stainless steel | - | -100.0 |
| Special steel | - | -100.0 |
| Other steel products | 172.27 | -12.0 |
| Total | 2,199.31 | -6.7 |

Note: The sales volume of steel products in 2013 included the 1.644 million tons of carbon steel products sold to BNA, but did not include the 2.013 million tons of cold-rolled carbon steel products sold by BNA.

(2) Inventory of finished steel products

Unit: ten thousand tons

| Products | End of 2013 | End of 2012 | Difference | Rate of difference |
|---|-------------|-------------|------------|--------------------|
| Cold-rolled carbon steel sheets and coils | 132.9 | 117.6 | 15.3 | 13% |
| Hot-rolled carbon steel sheets and coils | 49.8 | 48.5 | 1.3 | 3% |
| Heavy plates | 10.2 | 15.6 | -5.4 | -35% |
| Steel tubes & pipes | 21.8 | 18.2 | 3.6 | 20% |
| Stainless steel | 8.0 | 6.9 | 1.1 | 15% |
| Special steel | 3.2 | 2.9 | 0.3 | 10% |
| Other steel products | 10.7 | 11 | -0.3 | -3% |
| Total | 236.5 | 220.7 | 15.8 | 7% |

Note: The work in process inventory existing in the channel was recovered as finished product inventory. Apart from selling its own products, the Company's sales channel also works as the sales agent for Baosteel Group's iron and steel products.

(3) Major customers

In 2013, the Company's sales revenue from the top five customers made up 11.0% of its total operating revenue.

Unit: RMB million

| No. | Name of customers | Sales amount |
|-----|-------------------|--------------|
| 1 | Unit I | 10,760 |
| 2 | Unit II | 2,873 |
| 3 | Unit III | 2,643 |
| 4 | Unit IV | 2,534 |
| 5 | Unit V | 2,410 |

3. Cost

(1) Cost analysis

Unit: RMB million

| Industry | Items | Amount in the period | Ratio in the overall cost (%) | Amount in the same period last year | Ratio in the overall cost (%) | Change of amount in this period from the previous period (%) |
|----------------------------|------------------------|----------------------|-------------------------------|-------------------------------------|-------------------------------|--|
| Iron & steel manufacturing | Fuel and raw materials | 76,432 | 72.9 | 91,939 | 74.9 | -12.6 |
| | Others | 28,347 | 27.1 | 30,833 | 25.1 | -2.0 |
| | Total | 104,779 | 100 | 122,772 | 100 | -14.7 |

Note: Only the cost of the iron & steel manufacturing was included. Costs of other sectors such as the processing and distribution, information technology, e-commerce, chemical industry and financial units were not included. In 2012, the cost includes the cost in the Luojing Area during January ~ September, the cost of stainless steel and special steel business units during January ~ March, and the cost of Ningbo Baoxin during January ~ August.

(2) Major suppliers

In 2013, the Company's procurement from the top five suppliers made up 36.3% of its annual procurement volume.

Unit: RMB million

| No. | Name of suppliers | Amount of purchase |
|-----|-------------------|--------------------|
| 1 | Unit I | 10,551 |
| 2 | Unit II | 7,978 |
| 3 | Unit III | 6,133 |
| 4 | Unit IV | 2,171 |
| 5 | Unit V | 1,613 |

4. Expenses

(1) Sales expenses and administrative expenses

Unit: RMB million

| Items | 2013 | 2012 | Difference | Rate of difference |
|-------------------------|-------|-------|------------|--------------------|
| Sales expenses | 1,963 | 1,928 | 35 | 1.83% |
| Administrative expenses | 6,881 | 7,444 | -563 | -7.56% |

In 2013, administrative expenses was RMB 560 million less, mainly due to the year-on-year decrease of administrative expenses and the decrease of R&D platform expenditures due to the sales of relevant assets of stainless steel and special steel business units.

(2) Financial expenses

Unit: RMB million

| Items | 2013 | 2012 | Difference | Rate of difference |
|---|--------|--------|------------|--------------------|
| Interest incomes | -1,205 | -1,403 | 198 | -14.11% |
| Interest expenditures | 1,568 | 1,953 | -385 | -19.71% |
| Gains and losses from currency exchange | -955 | -108 | -847 | 784.26% |
| Others | 48 | 46 | 2 | 4.35% |
| Total | -544 | 489 | -1,033 | -211.25% |

The financial expense decreased by RMB 1.03 billion from that of the previous year; mainly due to higher appreciation of RMB against USD than that of the previous year and the increase in exchange gains. In addition, the Company has further utilized the overseas capital platform to bring down the financial costs and the interest expenditures accordingly.

Section III Board of Directors' Report

(3) Income tax expenses

Unit: RMB million

| Items | 2013 | 2012 | Difference | Rate of difference |
|---------------------------------|--------|--------|---------------|--------------------|
| Total consolidated profit | 8,010 | 12,664 | -4,654 | -36.75% |
| Consolidated income tax expense | 1,969 | 2,708 | -739 | -27.28% |
| Actual tax rate | 24.59% | 21.39% | Up by 3.2 pts | |

In 2013, the consolidated income tax expenses decreased by RMB 739 million from the previous year, mainly due to the total profit down by RMB 4.654 billion, and relatively great loss of the subsidiaries (Baosteel Nantong Iron & Steel and Yantai Lubao Steel Tubes) of the Company. According to the principle of prudence, the deferred income tax assets of the said subsidiaries were not recognized and the income tax expenses increased correspondingly, which caused the actual income tax rate to be up by 3.2 percent points as compared with that of 2012.

5. R&D expenditures

Unit: RMB million

| | |
|--|-------|
| Expensing of R&D expenditures | 3,430 |
| Capitalizing of R&D expenditures | - |
| Total R&D expenditures | 3,430 |
| Ratio of total R&D expenditures to net assets (%) | 2.9 |
| Ratio of total R&D expenditures to operating revenue (%) | 1.8 |

In 2013, the Company launched the world debut of five new products such as cold-rolled quenched ductile steel, of which the world debut of QP980GI marked that Baosteel has become the first supplier able to supply the first/second/third generation of advanced high-strength steel in the world.

6. Cash flow

In 2013, the cash and cash equivalents increased by RMB 3.97 billion, among which, the net cash inflow arising from operating activities was RMB 12.09 billion, the net cash outflow arising from investing activities was RMB 8.72 billion, the net cash inflow arising from financing activities was RMB 600 million, and the net cash outflow arising from the effect of fluctuation in exchange rate was RMB 10 million. Without considering the impact of the Finance Co., the cash and cash equivalents increased by RMB 4.91 billion, among which, the net cash inflow arising from operating activities was RMB 13.10 billion, the net cash outflow arising from investing activities was RMB 8.64 billion, the net cash inflow arising from financing activities was RMB 460 million, and the net cash outflow arising from the effect of fluctuation in exchange rate was RMB 4 million.

Unit: RMB million

| Items | 2013 | | 2012 | | Variation year on year | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|------------------------|-----------------------|
| | Including Finance Co. | Excluding Finance Co. | Including Finance Co. | Excluding Finance Co. | Including Finance Co. | Excluding Finance Co. |
| Net cash flow arising from operating activities | 12,090.48 | 13,098.42 | 22,185.89 | 20,895.28 | -10,095.42 | -7,796.86 |
| Net cash flow arising from investing activities | -8,716.86 | -8,641.71 | 3,410.18 | 3,372.44 | -12,127.04 | -12,014.15 |
| Net cash flow arising from financing activities | 599.13 | 458.60 | -31,209.25 | -30,963.06 | 31,808.39 | 31,421.66 |
| Effect of fluctuation in exchange rate on cash | -6.01 | -3.59 | -59.02 | -58.72 | 53.01 | 55.13 |
| Net increase in cash and cash equivalents | 3,966.74 | 4,911.72 | -5,672.20 | -6,754.06 | 9,638.94 | 11,665.78 |

Without regard to the impact of Finance Co., the net cash inflow arising from operating activities was RMB 13.10 billion, RMB 7.8 billion less than the RMB 20.90 billion net cash inflow at the same period last year. This is mainly caused by the following factors:

- (1) The year-on-year decrease of RMB 3.98 billion in net profit and the decrease of flow;
- (2) The loss of RMB 110 million in disposal of fixed assets, intangible assets, other long-term assets and assets of subsidiaries. The earnings in disposal amounted to RMB 9.4 billion for the same period last year; the flow was up by RMB 9.51 billion year on year;
- (3) The depreciation and amortization decreased by RMB 1.25 billion year on year and the decrease of flow.
- (4) The other items including financial expenses had a year-on-year flow increase of RMB 70 million;
- (5) Inventories was RMB 2.82 billion more than that of the beginning of the year; while the inventory decrease was RMB 2.88 billion for the same period last year. As a result, the YoY inventory flow decreased by RMB 5.70 billion.
- (6) Cash flow from receivables and payables from operating activities decreased by RMB 1.73 billion, while that in the previous year was an increase of RMB 4.71 billion. As a result, the cash flow has a YoY decrease of RMB 6.44 billion.

Without regard to the impact of Finance Co., the net cash outflow arising from investing activities was RMB 8.64 billion, RMB 12.01 billion less than the RMB 3.37 billion net cash inflow arising from investing activities at the same period last year. This is mainly caused by the following factors:

| Unit: RMB million | | | |
|---|-----------|-----------|------------------------|
| Items (excluding Finance Co.) | 2013 | 2012 | Year-on-year variation |
| Cash inflow arising from investing activities | 9,482.95 | 29,125.71 | -19,642.75 |
| Cash outflow arising from investing activities | 18,124.67 | 25,753.26 | -7,628.60 |
| Net cash flow arising from investing activities | -8,641.71 | 3,372.44 | -12,014.16 |

The cash received by the Company from disposal of fixed assets, intangible assets and other long-term assets had a year-on-year decrease of RMB 18.55 billion, mainly due to the collection of payment for some assets transfers arising from the sales of relevant assets of stainless steel and special steel business units in the previous year. The cash received by the Company from disposal of subsidiaries and other units had a year-on-year decrease of RMB 1.97 billion, mainly due to the collection of payment for equity transfer arising from disposal of such subsidiaries as Ningbo Baoxin in the previous year.

The cash paid by the Company for investment decreased by RMB 6.79 billion year on year, mainly due to the payment (RMB 4.98 billion) for the equity acquisition of Zhanjiang Steel in the previous year; and the reason that the payment of RMB 3.2 billion for the third line of the west-east natural gas transmission project of CNPC deceased by RMB 1.6 billion as compared with the payment of RMB 4.8 billion in the previous year.

Without regard to the impact of Finance Co., the financing activities had a net cash inflow of RMB 460 million, representing a year-on-year increase of RMB 31.42 billion, as compared with the outflow of RMB 30.96 billion of corresponding period of previous year, with details set out as follows:

| Unit: RMB million | | | |
|--|-----------|------------|------------------------|
| Items (excluding Finance Co.) | 2013 | 2012 | Year-on-year variation |
| Impact of change in financing scale on flow | 7,196.73 | -21,142.16 | 28,338.89 |
| Cash paid for distribution of dividends and profits or repayment of interest | -3,819.64 | -5,608.36 | 1,788.72 |
| Cash paid for repurchase of stocks | -3,083.47 | -1,916.53 | -1,166.94 |
| Cash received from investors | 164.98 | 329.82 | -164.83 |
| Other cash related to financing activities | - | -2,625.83 | 2,625.83 |
| Net cash flow arising from financing activities | 458.60 | -30,963.06 | 31,421.67 |

(II) Analysis of business by industry, products or regions

1. Principal business by industry and products

(1) Principal business by segments

| Unit: RMB million | | | | | | |
|-----------------------------|--------------------|-----------------|--------------|-----------------------|--------------------|----------------------------|
| Segment | Operating revenues | Operating costs | Gross margin | YoY change in revenue | YoY change in cost | YoY Change in gross margin |
| Steel manufacturing | 128,274 | 116,145 | 9.46% | -13.31% | -16.48% | Up by 3.4 ppts |
| Processing and distribution | 178,707 | 174,756 | 2.21% | -1.26% | -1.14% | Basically flat |
| Information technology | 3,581 | 2,730 | 23.78% | -1.57% | -5.64% | Up by 3.3 ppts |
| E-commerce | 3,506 | 3,470 | 1.04% | N/A | N/A | N/A |
| Chemical industry | 10,931 | 9,896 | 9.47% | -5.26% | -6.58% | Up by 1.3 ppts |
| Finance | 584 | 271 | 53.64% | -6.15% | -4.99% | Down by 0.6 ppts |
| Offset between segments | -135,498 | -135,314 | 0.14% | -11.56% | -11.25% | Basically flat |
| Total | 190,085 | 171,952 | 9.54% | -0.79% | -2.94% | Up by 2.0 ppts |

Note: Based on the internal organizational structure, the Company is divided into the segments of steel manufacturing, processing and distribution, information technology, e-commerce, chemical industry and finance. The steel manufacturing segment includes all steel manufacturing units; the processing and distribution segment includes the trading units such as Baosteel international and overseas company; the information technology segment offers the business of Baosight Software; the e-commerce segment includes the Shanghai Steel Trading Center, Bsteel Online Co., Ltd. and etc.; the chemical industry segment offers the business of Chemical Company; the finance segment offers the business of Finance Co.

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(2) Operating revenues and costs of major steel products

Unit: RMB million

| Products | Operating revenue | Operating cost | Gross margin | YoY change in revenue (%) | YoY change in cost (%) | YoY change in gross margin |
|---|-------------------|----------------|--------------|---------------------------|------------------------|----------------------------|
| Cold-rolled carbon steel sheets and coils | 50,883 | 43,470 | 14.57% | -2.19% | -5.92% | Up by 3.4 pts |
| Hot-rolled carbon steel sheets and coils | 31,320 | 26,637 | 14.95% | -1.97% | -8.58% | Up by 6.2 pts |
| Heavy plates | 4,893 | 5,124 | -4.73% | -42.41% | -45.96% | Up by 6.9 pts |
| Steel tubes and pipes | 9,830 | 9,467 | 3.69% | -4.31% | 1.24% | Down by 5.3 pts |
| Other steel products | 7,111 | 7,037 | 1.04% | -60.28% | -61.86% | Up by 4.1 pts |
| Total | 104,036 | 91,736 | 11.82% | -13.77% | -18.56% | Up by 5.2 pts |

Note: Considerable drop in the operating revenue and cost of heavy plates and other steel products from that of the same period last year was mainly because of the sales of the related assets of the business units of Stainless Steel and Special Steel as well as the shutdown of the Luojing Area.

2. Principal business by regions

Unit: RMB million

| Region | Operating revenue | Operating cost | Gross margin | YoY change in revenue (%) | YoY change in cost (%) | YoY change in gross margin |
|-----------------|-------------------|----------------|--------------|---------------------------|------------------------|----------------------------|
| Domestic market | 170,877 | 153,642 | 10.09% | -0.74% | -3.11% | Up by 2.2 pts |
| Overseas market | 19,208 | 18,310 | 4.67% | -1.22% | -1.45% | Up by 0.2 pts |

The Company exported 2 million tons of steel products in 2013, representing a year-on-year decrease of 400,000 tons thereof, with export channel sales set out as follows:

| Region | 2013 | 2012 |
|-------------------------------|--------|--------|
| East Asia and Australia | 38.4% | 40.3% |
| Europe and Africa | 22.4% | 21.3% |
| America | 20.2% | 18.9% |
| Southeast Asia and South Asia | 19.0% | 19.5% |
| Total | 100.0% | 100.0% |

Sustained optimization of export structure: the Company signed the contracts for export of 1.68 million tons of flat carbon steel products in 2013, fulfilled 101% of the annual plan, and further optimized the structure of export products. The contract volume of double-high products such as high-strength automotive steel, high-efficiency and high-grade electrical steel, and tin plate represented 66% of the total, up by 10% from that of previous year.

Furthering overseas strategic layout: the Company has taken initiatives in deepening the cooperation with overseas strategic users and has become the global supplier for many multinational companies including GM, Volkswagen, Ford, Hyundai, Siemens, ABB, CROWN, and etc. by continuously pushing ahead with the supply for such multinational companies, effectively conducted risk management and control and enhanced work efficiency by means of the marketing model innovation, perfected the credit risk management and control system of overseas users by dint of the third-party professional strength like China Export & Credit Insurance Corporation, and promoted the construction of export credit management and control system and C/O paperless origin certificate application system.

Promoting the transformation from traders to service providers: the Company has deepened the overseas supply chain system construction from the perspective of global supply chain management, promoted the overseas processing center projects, set up the overseas project teams, optimized the localized functions of overseas company, and implemented the different marketing management depending on different progress of all projects according to the "sourcing, construction and operation" management idea. In 2013, the BGM Steel Processing Center was completed and put into production in Korea, and the ground breaking of the Steel Processing Center solely invested by Baosteel was commenced in India.

(iii) Analysis of assets and liabilities

1. Analysis of assets and liabilities

As at the end of this reporting period, the Company had a total consolidated asset of RMB 226.67 billion, RMB 5.79 billion more than that of the year beginning, a total debt of RMB 106.60 billion, RMB 5.69 billion more than that of the year beginning, a shareholders' equity of RMB 120.07 billion, RMB 110 million more than that of the year beginning. Its liability-asset ratio was 47.0%, up by 1.3% from that at the beginning of the year. For details, see the table below:

| Unit: RMB million | | | | | |
|---|--------------------|----------------------------|--------------------|----------------------------|------------------|
| Assets | At the end of 2013 | Ratio against total assets | At the end of 2012 | Ratio against total assets | YoY ratio change |
| Current assets | 78,056 | 34.44% | 69,741 | 31.57% | Up by 2.9 ppts |
| Including: Cash and cash equivalents | 12,881 | 5.68% | 8,851 | 4.01% | Up by 1.7 ppts |
| Inventory | 31,087 | 13.71% | 28,872 | 13.07% | Up by 0.6 ppts |
| Receivables | 23,422 | 10.33% | 20,962 | 9.49% | Up by 0.8 ppts |
| Non-current assets | 148,612 | 65.56% | 151,135 | 68.43% | Down by 2.9 ppts |
| Including: Fixed assets | 86,218 | 38.04% | 79,451 | 35.97% | Up by 2.1 ppts |
| Construction-in-progress | 15,173 | 6.69% | 15,384 | 6.96% | Down by 0.3 ppts |
| Total assets | 226,668 | 100.00% | 220,876 | 100.00% | |
| | At the end of 2013 | Ratio against total assets | At the end of 2012 | Ratio against total assets | YoY ratio change |
| Current liabilities | 94,634 | 41.75% | 84,388 | 38.21% | Up by 3.5 ppts |
| Including: Short-term borrowings | 34,471 | 15.21% | 31,647 | 14.33% | Up by 0.9 ppts |
| Non-current liabilities due within one year | 12,228 | 5.39% | 4,503 | 2.04% | Up by 3.4 ppts |
| Non-current liabilities | 11,968 | 5.28% | 16,528 | 7.48% | Down by 2.2 ppts |
| Including: Long-term borrowings | 4,702 | 2.07% | 2,732 | 1.24% | Up by 0.8 ppts |
| Notes payables | 3,503 | 1.55% | 9,836 | 4.45% | Down by 2.9 ppts |
| Long-term payables | | | 250 | 0.11% | Down by 0.1 ppts |
| Total liabilities | 106,602 | 47.03% | 100,916 | 45.69% | Up by 1.3 ppts |
| Shareholders' equity | 120,066 | 52.97% | 119,960 | 54.31% | Down by 1.3 ppts |
| Total Liabilities and shareholders' equity | 226,668 | 100.00% | 220,876 | 100.00% | |

2. Change of assets by fair value

| Unit: RMB million | | | | | |
|-------------------------------------|--------------------|--------------------|----------------------------------|-------------------------------|----------------------|
| Items | At the end of 2012 | At the end of 2013 | Purchase in the reporting period | Sales in the reporting period | Change of fair value |
| Held-for-trading financial assets | 90 | 29 | 762 | 830 | 7 |
| Available-for-sale financial assets | 1,468 | 1,009 | 388 | 348 | -498 |
| Total | 1,558 | 1,038 | 1,150 | 1,178 | -491 |

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(iv) Analysis of core competitiveness

Sticking to its "Premium Product" strategy, and bring to full play its leading advantage in technology, the Company has been committed to environment friendly operation and innovation. It has been continuously raising its capacity in the differentiated competition, and continued to maintain the best performance among its domestic peers.

1. Products and manufacturing

Sticking to the path of high-end products and differentiated development, the Company has, over the years, broke the homogeneous cutthroat competition and built the core competitiveness. The Company expanded the scope of strategic products, and added another three strategic products, i.e. steel for energy and pipeline, steel for high-grade ship plates and maritime work, and (other) high-end thin sheet materials which dominate the domestic market on the basis of the three strategic products, i.e. automotive sheets, electrical steel and metal packaging materials. Besides, the Company has achieved breakthrough in the research and development of premium materials urgently needed by downstream industries such as high-performance hot-rolled wear-resistant steel, 13Cr ultra-high anti-torsion air-tight seal drill pipes, and high-strength and high-tenacity casings, and further enhanced its differentiated competitiveness. In 2013, the sales volume of strategic products represented 54.2% of the total. The sales volume of exclusive leading products represented 63.60% of that of the futures.

Since 2010, the Company has successively launched the world debut for the first/second/third generation of the advanced high-strength steel series products and become the only enterprise capable of supplying the first/second/third generation of high-strength steel around the world. Meanwhile, the Company has been supported and recognized by the Ministry of Science and Technology for its research and development of automotive steel, and established the "National Key Laboratory of Automotive Steel". In the background that China has become the world's largest automobile producer with automobile production continually rising, the Company's cold-rolled automotive sheets has maintained a domestic market share of over 50% on a long-term basis.

Following the automotive sheets, oriented silicon steel has become the second engine of technical progress of the Company and is generally recognized as the "crafts in steel products" thanks to its long process routes, narrow process window, rigid control process and other characteristics. After more than ten years of concentrated research and development, the Company has mastered the latest low temperature process technology and is able to produce all grades of oriented silicon steel with high magnetic induction and low iron loss. The products have been supplied to more than 30 medium and large transformer users, and successfully applied to the EHV transformer at 500kV/840,000KVA or above of the Three Gorges Project. The domestic market share of high-end oriented silicon steel of the Company has hit 46.72%, thus making a big breakthrough in terms of the independent integration innovation of steel industry of China.

The "principle of consistency" for quality management is applied to every stage of production, including the early planning of product quality. The capacity of premium product manufacturing is an important part of the Company's competitive edge. Oriented by market demand, the Company has implemented the management reform and pushed ahead with the perfect application of the product quality planning method by means of production-marketing coordination to continuously strengthen the "consistent" management capability. In 2013, the Company unprecedentedly hit a record in terms of the output and comprehensive yield of the major products such as automotive sheets, OA products and ultra-high strength steel; and reached the world class in terms of the manufacturing capability and physical quality of silicon steel products.

2. Innovations in service

In the meager profit times, the Company pays more attention to the individualized needs of the users to ensure the transformation from material producer to comprehensive material service provider; improve every link of R&D, purchase, logistics, processing and distribution, user service, etc. in the industrial chain, win more market through services, and create higher added value.

Construction of EVI service mode with Baosteel characteristics: based on EVI concept, the service field of the Company extends from the steel supply to the supply of complete material solution to the users. The Company, focusing on the promotion and innovation of EVI service, has carried out over 200 EVI service projects of automotive sheets in 2013, implemented 10 EVI projects in non-automobile industry pilot sites, and carried out the EVI cooperation on relevant car models with many famous automobile factories. Through the three-layer solution composed of shearing and distribution, material cost reduction and new product R&D, the Company provides the "tailor-made" overall material selection and application solution for different users to improve the cooperation dependency and closeness of both parties and keep the market position of company products. The Company also established several associated laboratories with the downstream customers to further intensify the users' capability of application technology.

Deepen the customer value management: the Company redesigns the customer classification and formulates corresponding customer service strategies based on the customer value analysis. The Company profoundly implements the key account supervisor (manager) system, focuses on the comprehensive upgrade of the services levels for the core value customers, was the first company that set up the pilot key account supervisor work team for Shanghai Automotive Industry Corporation, and has formed the cross-functional matrix associated service team based on the business structure. The Company established the three-level technical service system in an integration mode to promote the construction of the zero-level service capacity and regional virtual team with the regional companies and overseas companies as the main body, accelerated the handling speed of customer claims, reduced the overall service cost and compact the technical service basis.

Implementation of green marketing: the Company classifies the green products into three types: BEST, BETTER and BASE for the first time to improve the green product promotion system and form the green marketing work business system through intensifying the technical marketing of green products, implementing the application of green leaf labels, publishing the third-party's test report, organizing the annual evaluation of commitment issues and other measures. The Company has completed the REACH regulations of carbon steel sheet products and the third-party compliance certification work of ROHS orders, has obtained the application authorization of eight major kinds of products including electric steel, cold-rolled products, hot-dip galvanized

products, and has developed the order identification function of green products.

Construction of supply chain system: in 2013, the Company set up 7 new processing and distribution centers in China, and accumulatively owned 6 regional companies, 6 special companies, 3 trade companies and 58 steel service centers and had the accumulative domestic processing scale of 8.16 million tons /year. The Company also set up 2 new overseas trade outlets, and owned 4 overseas regional companies, 15 overseas marketing outlets and 2 overseas processing center, and therefore the domestic and overseas marketing networks were further improved. The key account-based industrial supply chain system has covered the strategies and key customers in 7 industries including automobile, household appliance and petroleum, and the direct supply and middle and small-sized users-based on-line self-service has been completely achieved.

3. Innovations in mode

Focusing on the new development plan, the Company devotes itself to the construction of the service advantages in electronic trade, on-line payment, supply chain financing, logistics, terminal service and other fields, makes effort to become the electronic service provider of the domestic industry chain of iron and steel and relevant manufacture industries with the largest scale and highest value.

Construction of e-commerce system: The Company set up Shanghai Iron & Steel Trade Center in 2013 to provide the registration, bidding, group purchase and other various e-commerce trade modes of iron, and the services including settlement, material distribution, material guide of iron and steel materials, flexibly adjust the commercial mode, explore the combination of iron and steel products with the Internet of Things and the Internet, and the new field that combines the iron and steel products with information technology, communication technology and large data management. The Company has the annual turnover of over 2 million tons and 26,000 registered customers, and the turnover is predicted to be 50 million tons up to 2018. In the industrial product trade field, the Company begins with the building of the Purchase Pay, Circulation Pay and Chemical pay to expand the business.

The Company focuses on the socialization and industrialization of e-commerce, vigorously promotes the acquisition and platform construction of ownership information service qualification of chattel, integrates the warehouse, supervisors and other resources with the chattel mortgage information platform as the core, provides management control system of "strict management, controllable and easy-to-use" to the financial agencies and the owners to achieve the win-win of multiple parties. The Company has established the cooperation with 54 certificated databases, which laid a good foundation for the subsequent substantial chattel mortgage business with relevant banks.

The Company has constructed the three-level financing service platform to guide and derive the e-commerce financing through Eastern Pay, POLYCOM, Baorongtong, baofutong and other platforms to provide the capital value appreciation tools such as fund and bank financing, explore the financial appreciation functions, enrich supply chain financing system, innovate the financial products and services, explore the financing functions of the platform, construct the account system necessary for the basic financial functions of the future e-commerce platform and build the payment and settlement functions.

Through various spot transaction platform advantages and policy advantages in Shanghai Free Trade Zone and in combination with the characteristics of iron ore, the Company constructs the e-commerce transaction platform of iron ore to achieve the international standards on the design of products, functions, modes, system etc. and the international resource integration, provide the appreciation services and better serve the real economy based on the innovative spot transaction mode.

Making breakthrough in business increase in IT field: The Company develops the information industry rapidly and upgrades the marketing capacity of information industry. In 2013, the Company's main development entity of IT business - Baosight Software achieved the market value growth by 100%. At the same time, the Company carried out strategic cooperation with China Telecom, Alibaba and other industrial giants, and formed the business capacity rapidly in the IDC field and built the new business growth points. The Company established the joint ventures with Shanghai Shentong Metro Group, Shanghai Foreign Service Biz Center and other companies to complement each other's advantages and achieve the resource accumulation effect, and lay good foundation for the future "great-leap-forward" development.

Implementation of transformation strategy from iron and steel to material: the Company has compiled the industrialized plan of automotive aluminum sheets, and has communicated with the global leading international automotive aluminum material manufacture enterprises for several times to synchronously promote the independent R&D work of Baosteel automotive aluminum sheet products. The Company carries out the R&D of aluminum silicon plating and laminated steel and starts the production line renovation project of laminated steel, and the industrialization speed of new products is strikingly accelerated.

4. Innovation in technologies

For many years, the Company has been maintaining a high R&D investment. It has established the R&D system based on Research Institute while promoting the production-sales-research and the production-study-research cooperation. Based on the engineering projects, the Company has developed a four-in-one engineering integration system including manufacturing, R&D, design and equipment. It has also established a continuous improvement system focusing on the production site and featuring stable improvement and lean operation. These systems have been playing an important role in the technical advancement in product management, production operation and environmental management.

Based on the complete technology innovation system, open "production-university-research-application" innovation platform, and high-efficiency coordinate R&D management mechanism, the patent applications increased by 20% every year; including 1093 patent applications in 2013, with the proportion of invention patents as high as 55%. Through the "Golden Apple" Plan, the Company promotes the mode transformation of the R&D organization from the project-based to technical field-based mode with the goals of "developing the technologies that will leave track on the world metallurgical technology history, cultivating the technical leader talents on the world stage of metallurgical technology" to build a group of technical team with "stable technical field, core technical capacity and clear technical responsibilities" and accelerate the continuous innovation in all Baosteel technical fields.

Continuing the premium product development strategy characterized by the technological leadership: In 2013, the Company focused on the world debut

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of new products to seek for technological leadership and make quick breakthrough. The Company made the world debut of five new products including cold-rolled quenched ductile steel QP980GI products, wherein the success of the world debut of the cold-rolled quenched ductile steel QP980GI products marked that Baosteel has become the first manufacturer with the supply capacity of Generations I, II and III advanced high-strength steel in the world. The Company built the high-efficiency energy-saving green supply chain of ultrahigh-efficiency motors through the non-oriented silicon steel B50AE-2 jointly with the motor industry. The performance of the ultrahigh-high strength and high-roughness casing BGI 40V products has reached the international leading level, and the Company has the engineering application of ultra-deep wells. The Company has successfully developed the steel for the primary enamelling, secondary enamelling and high-strength enamelling, both the product and technology are the first in China.

5. Environmental management

The Company took the lead to implement the environmental management in China, and implemented the concept in the whole operation process of the Company, and therefore achieved the advantages for the technical research and application of low-carbon economics and green product manufacture, and has become the pioneer of domestic environmental-friendly enterprises.

Leading the energy management standard in iron and steel industry: the Company has tapped out potentials, promoted the process energy-saving, energy-saving technical renovation and contract energy management, and over-fulfilled the responsibility goals issued in the national ten-thousand-enterprise energy-saving low-carbon activity in 2013. The Implementation Guide of Energy Management System in Iron and Steel Industry that the Company summarized, refined and took the lead to draft passed the examination of the National Standardization Committee, became the national standard and played a leading role in the industry. The Company explored the carbon emission permits trade works of iron and steel enterprises and became the pilot enterprise for the carbon emission permits trade in Shanghai.

Industrial leading comprehensive resource utilization level: The Company researches and promotes the medium and low-temperature waste heat resource recovery, and the waste heat resource recovery rate of the subordinate plants and departments reaches the international advanced level of 48.7%. The Company utilizes the mobile heat supply technology as the low-temperature waste heat of energy for living purpose, and has the annual energy-saving cost of RMB 10 million. The Company set up the world's largest roof photovoltaic power generation project, improved the application proportion of cleaner energy, and has the annual power generation of 45 million kwh and the carbon dioxide emission reduction of 30,000 tons in 2013.

Making effort to become the environmental-friendly best practitioner: The Company promotes the construction of the environmental protection system and regional process management and control, implements the deep wastewater treatment, characteristics air pollutant treatment and other key technical researches and project promotion to upgrade the technical measures for environmental process monitoring and accelerate the monitoring of the factory environment. The Company disclosed the environmental monitoring information since November 19, 2013 to regularly and actively issue the environmental monitoring data of key monitoring emission sources in the plant area to the community and continue to upgrade the regional environmental level. The total pollutant emission in 2013 continued to decrease, and the emissions of 7 main pollutants including smoke and dust decreased dramatically on year-on-year basis.

Highlighting the influence of green products. The Company has expanded the influence and promoted the sales of green products through the environmental performance and green characteristics of the products. The Company has the engineering vehicle green steel scheme and top-class brand oriented silicon steel and series green air-conditioning steel scheme based on the application of wear-resistant steel and weathering steel, and has formed the two series products of high-grade AV and high-efficiency AHV products for automotive drive motors, and has taken the lead to achieve the full-series arrangement of silicon steel products for motors. The physical quality reaches the international advanced level. The non-oriented silicon steel for automotive drive motors has been successfully applied on the drive motors for electric and hybrid automobiles of domestic and foreign mainstream automobile manufacturers such as GM Volt, Roewe E50 and others. The Company has carried out the cooperative research with Ford, Honda, Daimler and other manufacturers on the silicon steel for driver motors of electric automobiles to achieve the key product arrangement for key users.

6. Advantages in brand, credit, employee and regions

High brand recognition and brand reputation: the Company has obtained the high recognition from the users and the society through the construction of connotation value and external image of company brand. The Company has successively been selected as the top hundred Chinese enterprises for social responsibility and the top five hundred Chinese enterprises in 2013 on the Chinese Fortune website, and has obtained the Prize for the most respected knowledge management enterprises in Asia for second time, becoming the only enterprise in Chinese manufacture industry that obtained this prize. The Company was selected as the top-hundred enterprise for corporate governance by the Board Magazine, and was evaluated as the top ten optimal liability enterprises for CCTV 50 indexes. The Company has outstanding credit rating and financing level. In 2013, the Company obtained the highest credit rating in the global iron and steel industry, and the long-term enterprise credit rates of A-, A3 and A- respectively evaluated by Standard & Poor's, Moody and Fitch, with "stable" outlook. The Company has successfully issued the debt of USD 500 million to the international capital market for the first time, and therefore has locked the low-cost long-term financing resources. The Company fully utilizes the foreign exchange policy support to construct the centralized management platform for global foreign exchange capital to achieve the free circulation of the capital within the verified limit range both at home and abroad. The Company constantly deepens and meets the centralized demands of RMB capital in the international development process, has successfully implemented the cross border two-way RMB capital pool business in Shanghai Free Trade Zone for the first time through the financial innovation platform in the Free Trade Zone, has built the new milestone for bank-enterprise cooperation, has completed the first cross border RMB financing business after the Rules for Free Trade Zone were implemented, and has opened a new channel to the field of RMB loan business.

The Company boasts a team of employees that are passionate, energetic, responsible and innovative. The labor productivity and employees' educational background are listed as the best among domestic peers, and the value concepts of credit, cooperation and innovation have been rooted in the enterprise culture. In 2013, the Company implemented the joint development plan, insisted on the market orientation and performance orientation, focused on the

salary perception and driving role exploration to optimize the current salary mode. The Company, focusing on the international strategies, has vigorously promoted the deep blue plan, selected various excellent backbone personnel to go to study, intern and learn in foreign countries, and has planned to implement the systematic training plan of overseas sales talents.

The main manufacture bases are located in the coastal areas with developed economics, centralized talents, accumulated information, convenient traffic and large market demand, have the talent, information, logistic and other regional advantages. The iron and steel demand is listed in the first in the whole country, which provides the excellent regional advantages for the development of the Company.

(V) Investment analysis

1. Equity investment outside Baosteel

In 2013, the Company spent RMB 10.64 billion in equity investment, which is basically equal to that in the last year. See the following table for the main investments:

Unit: RMB million

| Name of investee | Main business | Proportion of Baosteel's equity in the investee | Actual capital contribution from Baosteel |
|---|-------------------------------------|---|---|
| Baosteel Zhanjiang Iron & Steel Co., Ltd. | Iron and steel business | 85.7% | 6,907 |
| CNPC Northwest Joint Pipeline Co., Ltd. | Natural gas pipeline transportation | 12.8% | 3,200 |
| Total | | | 10,107 |

Note: statistics according to the capital contribution of the Company to the equity investment project in the year.

(1) Investment in securities

Unit: RMB million

| Type | Code | Name | Initial investment | Shareholding | Book value as at end of period | Ratio in total share of bond as at end of period (%) | Profit |
|------------------------------------|------|------|--------------------|--------------|--------------------------------|--|--------|
| Profit in bonds sold in the period | - | - | - | - | - | - | 0.43 |
| Total | - | - | - | - | - | - | 0.43 |

(2) Stocks held of other listed companies

Unit: RMB million

| Code | Stock name | Initial investment | Equity ratio in the company (%) | Book value as at end of period | Profit | Change in shareholders' equity in the period | Accounting type | Share source | Code |
|--------|-------------------------------|--------------------|---------------------------------|--------------------------------|--------|--|-----------------|-------------------------------------|--|
| 000983 | Xishan Coal Electricity Group | 941.66 | 1.35 | 1.35 | 302.87 | 1.54 | -217.88 | Available-for-sale financial assets | Purchase from the secondary market |
| 601699 | Lu'an Environmental Energy | 5.05 | 0.51 | 0.51 | 126.02 | 3.97 | -99.38 | Available-for-sale financial assets | Capital contribution when the company is established |
| 600508 | Shanghai Energy | 5.55 | 0.77 | 0.77 | 55.23 | 2.23 | -25.83 | Available-for-sale financial assets | Capital contribution when the company is established |
| 600997 | Kailuan Energy Chemical | 3.51 | 0.38 | 0.38 | 25.96 | 0.56 | -16.25 | Available-for-sale financial assets | Capital contribution when the company is established |
| 601001 | Datong Coal Industry | 2.57 | 0.22 | 0.22 | 20.81 | 0.04 | -9.34 | Available-for-sale financial assets | Capital contribution when the company is established |
| Total | | 958.33 | - | | 530.88 | 8.33 | -368.68 | - | - |

(3) Equities held of non-listing financial enterprises

None

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(4) Transactions of shares of other listed companies

| Name | Shareholding as at the beginning of the period (share) | Shares purchased in the period (share) | Capital used (RMB million) | Shares sold in the period (share) | Shareholding as at the end of the period (share) | Profit from investment (RMB million) |
|----------|--|--|----------------------------|-----------------------------------|--|--------------------------------------|
| SPD Bank | 4,690,370 | - | - | 4,690,370 | 0 | 0.47 |

2. Investment in entrust financial management products and the derivative products by non-financial companies

(1) Entrusted financial management

None

(2) Entrusted loans

None

(3) Other investing activities

Unit: RMB million

| Type | Capital source | Signing party | Shares of investment | Investment term | Product type | Anticipated gains | Profit | Involvement in lawsuits |
|---|----------------|-------------------|----------------------|--------------------|---------------------|-------------------|--------|-------------------------|
| I. Other investment financial products | | | | | | | | |
| Available-for-sale financial assets | | | | | | | | |
| Corporate bond | Equity fund | Inter bank market | 753.87 | Over one year | Bond | -13.00 | 22.54 | No |
| Subtotal | | | 753.87 | | | -13.00 | 22.54 | |
| Held-to-maturity investment | | | | | | | | |
| Trust plan | Equity fund | Trust company | 1,110.00 | Over one year | Trust | | 22.64 | No |
| Bank financial products | Equity fund | Bank | 200.00 | Less than one year | Financial products | | 0.03 | No |
| Entrusted national debt repurchase | Equity fund | Inter bank market | 19,925.00 | | | | 18.05 | No |
| Subtotal | | | 21,235.00 | | | | 40.72 | |
| Tradable financial assets | | | | | | | | |
| Money fund | Equity fund | Fund company | 155.00 | Less than one year | Fund | | 0.48 | No |
| Trust plan | Equity fund | Trust company | 420.00 | Less than one year | Trust | | 3.27 | No |
| Corporate bond | Equity fund | Inter bank market | 50.28 | Less than one year | Bond | -5.84 | 2.14 | No |
| Subtotal | | | 625.28 | | | -5.84 | 5.89 | No |
| Others | Equity fund | Trust company | 480.00 | Less than one year | Trust | | 7.03 | No |
| Total | | | 23,094.15 | | | -18.84 | 76.18 | |
| II. Investment in derivative products | | | | | | | | |
| Forward and swap | Equity fund | Bank | 4,080.85 | Less than one year | Derivative products | 2.87 | -14.77 | No |

Note:

- All of the above financial management businesses were carried out by the Company's subsidiary, the Finance Co., a financial subsidiary controlled by the Company. The financial management is within its business scope.
- The "Shares of investment" listed above consisted of the book value as at the end of the previous year and the capital investment in this reporting year, other than the shares of investment corresponding to the products held at the end of the period.
- The derivative investment is the forward business carried out by the Company and its subsidiary, Baosteel Singapore PTE Ltd., to avoid the exchange risk of asset liabilities calculated by foreign currencies, and the swap transaction carried out to evade the risk from fluctuation in iron ore prices.

3. Use of funds raised

The Company was not involved in the use of funds raised in the reporting period.

4. Performance of its controlled subsidiaries and joint stock companies

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

As at the end of 2013, the Company owned 77.04% of the equity. With a registered capital of RMB 7.081 billion, Meishan Steel specializes in the production and sales of black metal metallurgy, and rolling processing and sales. By the end of 2013, Meishan Steel had a total asset size of RMB 36.71 billion, a net asset of RMB 11.15 billion, and a net yearly profit of RMB -40 million.

(2) Baosteel Zhanjiang Iron & Steel Co., Ltd.

As at the end of 2013, the Company owned 85.7% of the equity. With a registered capital of RMB 20 billion, the paid-up capital of RMB 14 billion, Zhanjiang Steel's main business includes black metal metallurgy, and rolling processing and sales. The company is under construction at present. By the end of 2013, Zhanjiang Steel had a total asset size of RMB 22.93 billion, a net asset of RMB 14.51 billion, and a net yearly profit of RMB 5 million.

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

As at the end of 2013, the Company owned 50% of the equity. With a registered capital of RMB 3 billion, BNA's main business includes manufacturing and sales of cold-rolled steel sheets and hot-dip galvanized steel sheets for automobile and automotive parts and other services related to its principal business. By the end of 2013, BNA had a total asset size of RMB 4.391 billion, a net asset of RMB 3.313 billion, and a net yearly profit of RMB 120 million.

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

As at the end of 2013, the Company owned 79.82% of the equity. With a registered capital of RMB 100 million, Lubao Steel Tubes's main business includes 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 cylinder tube. By the end of 2013, Lubao Steel Tubes had a total asset of RMB 690 million and a net asset of RMB 540 million and reporting a net yearly profit of RMB -200 million.

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

As at the end of 2013, the Company owned 58.45% of the equity. With a registered capital of RMB 145 million, Huangshi's main business includes production and sales of cold-rolled sheets, aluminium coated steel sheets, color-coated steel sheets and related coated steel products. By the end of 2013, Huangshi had a total asset of RMB 1 billion, a net asset of RMB 340 million, and reporting a net yearly profit of RMB 20 million.

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

As at the end of 2013, the Company owned 100% of the equity. With a registered capital of RMB 2.25 billion, Baosteel International's main business includes 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. By the end of 2013, Baosteel International had a total asset of RMB 38.04 billion, a net asset of RMB 12.83 billion, and reporting a net yearly profit of RMB 1.49 billion.

(7) Shanghai Baosight Software Co., Ltd.

As at the end of 2013, the Company owned 55.5% of the equity. With a registered capital of RMB 340 million, Baosight's main business includes computer, automation, network communication and the research, design, development, manufacturing and integration of software and hardware. By the end of 2013, Baosight had a total asset of RMB 4.08 billion, a net asset of RMB 1.74 billion, and reporting a net yearly profit of RMB 300 million.

(8) Shanghai Baosteel Chemical Co., Ltd.

As at the end of 2013, the Company owned 100% of the equity. With a registered capital of RMB 2.11 billion, Baosteel Chemical's main business includes production and sales of raw chemical materials and products, "four techniques" services in chemical industry, and import and export activities of its own products. By the end of 2013, Baosteel Chemical had a total asset of RMB 5.87 billion, a net asset of RMB 4.22 billion, and reporting a net yearly profit of RMB 570 million.

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

As at the end of 2013, the Company owned 95.82% of the equity. With a registered capital of RMB 620 million, Nantong Baosteel's main business includes 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. By the end of 2013, Nantong Baosteel had a total asset of RMB 2.26 billion, a net asset of RMB 110 million, and reporting a net yearly profit of RMB -520 million.

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(10) Baosteel Group Finance Co., Ltd.

As at the end of 2013, the Company owned 62.1% of the equity. With a registered capital of RMB 1.1 billion, Finance Co.'s main business includes 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 2013, Finance Co. Had a total asset of RMB 12.56 billion, a net asset of RMB 1.76 billion, and reporting a net yearly profit of RMB 200 million.

(11) Yantai Baosteel Tubes Co., Ltd.

As at the end of 2013, the Company owned 80% of Yantai Baosteel Tubes Co., Ltd., with the rest 20% 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. Yantai Baosteel Tubes had a total asset of RMB 4.14 billion and a net asset of RMB 320 million, and reporting a net yearly profit of RMB -1.03 billion at the end of 2013.

(12) Overseas subsidiaries

As at the end of 2013, the Company had overseas subsidiary companies in 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.

5. Major non-fund raising programs

In 2013, the Company invested RMB 12.48 billion in fixed assets, among which, RMB 5.02 billion was invested in Zhanjiang Iron & Steel project.

(1) Completed projects having been put into operation

The construction of the oriented silicon steel follow-up project: it built 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 200,000 tons of low temperature process high magnetic induction oriented silicon steel annually. The first phase of the project was completed in October 2011, and the second phase was completed by in May 2013.

Product mix optimization project for the precision steel tube plant affiliated to the business unit of steel tubes, pipes and bars. In response to the demand of the civil engineering of Shanghai municipality, the Company moved the Zhanghuabang Section of the precision steel tube plant into the site of the directly affiliated plants and departments, with a designed annual production capacity of 56,000 tons of seamless steel tubes for automobile, aviation, military industry, and high pressure boilers. The project was completed and put into use in March 2013.

The relocation and product mix adjustment project of Lubao Steel Tube Co., Ltd.: it built 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 500,000 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 was completed in January 2013.

The project of new leveler added to the heavy plate plant of directly affiliated plants and departments: it is to add a leveler to the existing 5000mm heavy plate mill with a view to improve the yield and develop 10,000 t/y high-end TMCP and DQ products. The project was completed in January 2013.

The project of adding the 6#RH refining equipment to the No.2 steel-making work shop of directly affiliated plants and departments: in order to enhance the productivity of such products as oriented steel, high grade non-oriented silicon steel and GA high grade automotive sheets, the Company added a new set of RH refining equipment for the No.2 steel-making workshop with an annual production capacity of 1.80 million tons, which was completed and put into operation in October 2013.

Comprehensive revamping of No. 5 continuous caster of the steel-making plant of directly affiliated plants and departments: to meet the production needs of high-grade non-oriented silicon steel and oriented silicon steel products, No. 5 continuous caster was updated and revamped, and the production capacity after the renovation was basically the same with that before the revamping. The project was completed and put into operation in December, 2013.

(2) Newly-started projects

Phase I coke oven overhaul revamping project of directly affiliated plants and departments: to achieve the technical upgrade of the coke oven and improve the energy-saving and environmental-protection level of the coke oven, the existing 4×50-hole 6M coke oven was removed and the 4×50-hole 7M coke oven was constructed. The designed annual output is 2.47 million tons of cokes. The 1A1B of the coke oven is scheduled to be put into operation in July, 2015 and 2A2B of the coke oven is scheduled to be put into operation in November, 2015. The Phase II 4×50-hole 6M coke oven will be synchronously removed after the project is completed, and the total batteries of coke oven will be reduced from 12 to 10. The total production capacity of the coke oven is 5.53 million tons/year.

Zhanjiang Iron & Steel project: to implement the national Plan for *Adjustment and Revitalization of Iron & Steel Industry* and achieve the strategic adjustment of the steel industry in Guangdong and Shanghai, the production lines for iron-making, steel-making, hot rolling, cold rolling and others will be constructed in Donghai Island, Zhanjiang, Guangdong. The designed annual output of Phase I is 8.23 million tons of hot metal, 8.928 million tons of molten steel, 8.749 million tons of continuously cast billets and 6.89 million tons of steel products. At present, the main projects have been comprehensively started and is scheduled to be completed and put into operation by September, 2016.

(VI) Special purpose entities controlled by the Company

None.

II. Discussion and Analysis of the Company's Future Development

(I) Industrial competition pattern and development trend

1. Industrial competition faced by the Company

The overcapacity in steel industry is serious, the capacity utilization ratio is low, and it is hard to turn around the situation in a short time.

As the steel enterprises pay more attention to adjustment of product mix and technological progress, the increasingly aggravating homogeneous competition of products is rapidly diffusing to the high-end products such as oriented silicon steel and automotive sheet. The cost pressure of enterprises is increasing day after day, especially the environmental-protection cost, labor cost and capital cost accelerate the operational difficulty of industrial meager profit. The steel enterprises have commonly accelerated the developments of overseas resources, and therefore, the reduction of the resource acquisition cost and strengthening of the resource supply guarantee become the important strategic measures for the enterprises. The steel enterprises pay more attention to the integration and competition on technology, cost, service and e-commerce, and the competition in steel products is diverted to the competition in the industrial chain and service capability.

2. Trend of the steel industry development

In 2014, there still exists many variables while the global economy is extending the tendency of slow recovery, and the new power source for growth is still unclear. The developed economies have shown signs of recovery, while the economic growth speed of emerging economies and the developing countries will continue to fall after a rise due to inadequate external demand and lack of endogenous power.

The Chinese economy has transformed from the high-speed growth stage to medium-speed growth stage, and will gradually release the growth potential and breed new growth drive in the transformation of growth mode and structural adjustment. 2014 is the first year for China to comprehensively implement the spirits of the Third Plenary Session of 18th National Congress of CPC and comprehensively deepen the reform. Under the general trend of seeking improvement in stability, the foundation for the economic development in stability is unstable, and the risk pressure of economic downturn still exists and the economic growth is predicted to be the weakening in stability.

In 2014, Chinese steel industry will continue the status of meager profit operation, and no major change will happen in the industrial environment. The promotion of industrialization and urbanization will continue to support the small growth of domestic steel demand, but it's hard to change the oversupply situation caused by overcapacity of steel industry, and slowing down growth of downstream demand in the short time. At the same time, the high cost and financing tendency will jointly restrain the efficiency improvement of the steel industry.

(II) Company's strategy

1. Opportunities for the Company

- (1) As the industry is at a critical stage of adjustment and transformation, it poses more favorable conditions for leaders in the industry.
- (2) Urbanization and industrialization, as the theme in the current stage of development in China, are not changed, and will promote the increase of the domestic steel demand and provide development opportunities for Chinese industry.
- (3) China is going through an industry structure upgrading, attaches more importance to the expansion of internal demands and energy saving and environmental protection. In the meantime, the downstream industries pose high requirements for steel products which force the steel industry to step up its product structure upgrading. These changes are favorable for the Company to further bring its current competitive advantages to full play.
- (4) Relevant deployments made in the Third Plenary Session of 18th National Congress of CPC on comprehensive deepening of the reform will provide the opportunities for the long-term development of the Company.
- (5) The national economic growth mode with heavy industries and chemical industries as the main industry starts to comprehensively transfer to the modern industry development mode composed of science and technology innovation, financial trade, information technologies, innovative service and others, which brings the opportunities for the development in the professional fields such as corporate e-commerce platform, green product R&D, plant technology innovation, etc.
- (6) The State will focus on creating the development environment for new energy automobiles, including hopefully further improvement of market access and financial subsidies, which will provide the development opportunities for the Company in the steel for new energy automobiles.

2. Major Challenges faced by the Company

- (1) The domestic steel industry is featured by an overcapacity, low centralization and a spreading of competition from the low-end products to the high-end products, from simple product level to a comprehensive level involving the product, services and even the supply chains.
- (2) Domestic steel industry is faced with a severe challenge in terms of sustainable development due to the impacts of resources, energy and environmental protection.
- (3) The world economy remains gloomy, while there is a rising tide of international trade protection in various forms, posing a grim challenge to the international operation of the steel industry.

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3. Company's strategy for the future

To adapt to the rapid change in economic environment both at home and abroad, and to the development environment of the steel industry, with "becoming world-class steel producer and service provider; creating better life for people" as its mission, the Company will stick to its core value of "integrity, cooperation, innovation, and pursuit of maximum corporate value". The new round of development planning explicitly states the three visions of the Company: "To be the leader of steel technology, the best practitioner of environmental friendship, and the example of common development of enterprise and employees". It has put forward a strategic goal of "becoming the world's most competitive steel company and the most valuable listed company".

- (1) Based upon iron and steel business, in order to achieve the goal of "becoming the world's most competitive steel company," the Company will continue to be committed to leading technology and complete the construction of three production bases for premium steel products: the Shanghai base is aimed at the global market, featuring the production of high technology content, high value added and high market share products, and serving as the base for premium products of high-end sheets and steel tubes and bars. The Meishan Steel base stations itself in the East China market, coordinates with the Shanghai base, and acts as the base for hot-rolled, pickled, tin plate premium products. The Zhanjiang Steel base radiates to the Southeast Asia market with its center in the South China, and will be built into the world's most efficient carbon steel flat product factory.
- (2) With a proactive view into the future, and to become "the most valuable listed company", the Company will actively explore three major strategies for transformation and upgrading featuring a focus expansion "from steel to material, from manufacturing to service, and from China to the world", through efforts in the following three aspects: extending its service scope, innovating business patterns, and expanding development space. The Company will develop the e-commerce application, actively explore the joint development with the physical network service, and continue to expand the transaction scale and number of customers of Shanghai Iron and Steel Trade Center Platform and Industrial Product Trade Center. The Company has constructed and operated the chattel registration service platform to build the "vitality and reality combining" e-commerce ecosystem, focuses on the marketing mode innovation, customer value management and others to integrate the information channel, expand the marketing e-commerce and promote the commercial mode innovation, upgrade the marketing capacity of the information industry fast and further cultivate the Internet financial industry. The Company devotes itself to the construction of the service advantages in electronic trade, on-line payment, supply chain financing, logistics, terminal service and other fields, and makes effort to become the electronic service provider of the domestic industry chain of iron and steel and relevant manufacture industries with the largest scale and highest value. The Company will strive to achieve the target of the income from e-commerce accounting for over 20% in the sales income of the Company by 2018.
- (3) The Company will make strategic and selective investments in upstream and downstream sectors. It will get hold of appropriate opportunities to further stabilize the resource supply channel, reduce the resource price and supply risk, upgrade the core competitiveness of the Company, enlarge the strength of overseas resource development and exploration strength, and try to make great breakthrough in the field of the overseas resource investment, and seek for the active breakthrough on the aspect of strategic partner according to the demands of the downstream automotive users.
- (4) Focus on key field and accelerate the breakthrough in the new material industry: In the new material field, the Company continues to vigorously promote the high-efficiency R&D and green manufacturing of advanced iron and steel materials, constantly expands the market shares, focuses on the demand on the steel for drive motors for electric vehicles and develops the new generation low iron loss and ultra-high magnetic strength non-oriented silicon steel series products for drive motors to consolidate the development advantages of technologies and products in relevant fields. At the same time, the Company accelerates the R&D of new materials to construct the future competitiveness. The Company adopts opener mode and cooperates with the advanced users and enterprises in the industry to accelerate the industrialization process.
- (5) Focus on overseas objective regions and arrange iron and steel manufacture base. Aimed at continuously meeting the demands of overseas strategic customers, the Company focuses on the gradual construction of the localized supply capacity to promote the overseas iron and steel production deployment works and strive to achieve breakthroughs in the key overseas regions in 2014. The Company carries out the operation management works of the existing processing centers in Italy, Korea and other countries and regions to improve the supply chain construction according to the trinity management mode of "sourcing, construction and operation".

(III) Operational plan

1. Company's operational goal and plan

In 2014, the Company will stick to the general guiding principle of "one body with two wings, three-place coordination, seeking development through innovation and reform, differentiated competition, cost improvement, and creating good performance through lean operation" to promote the product operation, upgrade the differentiated competitiveness of the company's products, further explore the cost improvement potential and achieve the continuous upgrade of the system capacity. The Company has determined the general operation objectives of "generating a gross operating revenue of RMB 195 billion, completing 12 million tons of sales of exclusive and leading products, saving the energy of 100,000 tons of standard coal comprehensively, maintaining its best performance among domestic peers and ensuring the scheduled progress of Zhanjiang project".

In 2014, the Company plans to produce 21.49 and 22.07 million tons of iron and steel respectively; sell 21.79 million tons of steel, achieve a gross operating revenue of RMB 195 billion and an operation cost of RMB 176.8 billion. The managements of the Company will detail and implement the measures of various key work, and strive to continue the best performance among domestic peers in a intensively competitive market.

2. Work of priority

Guided by the Company's overall operational principle and goal in 2014, and in line with the requirements of the planning as well as the implementation of three plans implemented by the Group Corporation, that is, the leaders plan, the drivers plan and the common growth plan, the Company will promote the following work:

- (1) Practise the strategy of technology leadership: continue to vigorously promote the high-efficiency R&D and green manufacturing of advanced iron and steel materials, organize the debut of high-end iron and steel materials represented by the new generation higher-strength automotive steel, speed up the application transformation and market expanding of the world debut products, increase the R&D and input in the fields of new energy, electric vehicle and the like, and achieve the transformation from the following strategy to the leading strategy.
- (2) Consolidate the market status of core products: promote the R&D and manufacturing of six types of key products including advanced high-strength automotive sheet, high-grade electric steel, high-performance steel for petroleum and pipeline, accelerate the transformation speed from manufacturing to service with the customer as the center; and promote the deep cooperation on EVI project and the application expansion in non-automotive field.
- (3) Promote the drivers plan: improve the energy utilization efficiency, promote the meticulous and dominant energy management of the total process, and continue to promote the power-saving, gas-saving and water-saving works, aiming at the target of saving 100,000 tons of standard coal comprehensively in 2014.
- (4) Continue to deepen the construction of global supply chain and promote the globalization process: take greater steps on the global services for strategies users and construction arrangement of supply chain, make efforts to implement 2-3 overseas shearing center projects when India Shearing Center is completed, with the export proportion of steel continuously above 10%.
- (5) Concentrate on Zhanjiang project, ensure the progress, quality and cost of Zhanjiang project under control, and make the production preparation, market preparation and capability transplantation.
- (6) Accelerate the disposal of low-efficiency and ineffective assets, ensure the assets quality, and continue to upgrade the assets operation efficiency and value creation level.
- (7) Build the "vitality and reality combining: e-commerce ecosystem": Utilize the modern industrial advantage to consolidate more resources rapidly, make efforts to achieve the turnover of Shanghai Iron & Steel Trade Center as high as 3.2 million tons, accelerate the implementation of substantial chattel ownership pledge financing business with banks, and provide the full-process warehouse financing, auxiliary material monitoring and other value-added services. Deepen the "integration of IT application with industrialization", promote the implementation of the plans of Baozhiyun and Luo Jingyun Computer Industrial Parks, and popularize the e-commerce mode such as "supermarket of industrial products".
- (8) Promote the joint development plan: improve the management efficiency and labor efficiency to embody the humanistic care. Actively explore the diversified incentive mechanism, implement the assets management plan of key employees and the equity incentive plan of core employees at suitable time, and promote the consistency between the administrator equity and shareholder equity.
- (9) Optimize the equity structure through multiple channels and improve the corporate governance. Take the opportunity of the state-owned enterprise reform, continue to deepen the reform of the three systems, actively promote the mixed ownership and structural optimization of equity, and comprehensively upgrade the corporate vitality and competitiveness, further improve the corporate governance system and structure, promote the diversification of the property subjects of the subsidiaries through issuing exchangeable bonds, introducing strategic investors and other methods to achieve the market-oriented reform and revaluation under the long-term equity investment of the Company. Focus on the domestic and foreign market dynamics and be fully prepared to choose appropriate opportunity to list in the overseas market in future.

(IV) Capital needs

1. Plan for capital needs and use

The Company's 2014 budget includes RMB 21.48 billion in fixed asset investment, mainly for the construction of Zhanjiang Iron & Steel Project, Phase I coke oven overhaul project of the directly affiliated plants and department, hot-dip galvanizing project revamping of Cold Rolling Plant 2030 Unit, etc. Also, a certain amount of capital will be invested in technical revamping.

2. Source of capital

The capital for the investment above consists of the Company's equity funds and raised funds.

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(V) Risks and counter-measures

1. Major risks

In 2014, China's steel export environment is still not optimistic. Firstly, in the context of global overcapacity in steel industry, the steel industry faces fiercer market competition, and the trade protectionism of all countries becomes more and more serious to protect the profits of each country. Secondly, with the constant development of the technical level of the steel industry in each country, trade friction will appear on some high value-added products. With the fierce competition of the steel enterprises of different countries in the steel trade field, international trade dispute cases on iron & steel products become more and more frequent.

In 2014, the Company will adjust the general operational policy in combination with the new development plan formulated last year. The general operational policy and the general objectives focus more on the new development plan and new tasks, further emphasize the reform deepening and mechanism innovation to implement the strategic transformation and upgrade. The construction of Zhanjiang project has entered the fortifications stage, and it's necessary to intensify the synergy and coordination of Shanghai Base, Meishan Base and Zhanjiang Base, accelerate the improvement of the performance of the subsidiaries and the Business Units to lay a solid foundation for the Company to keep the industrial leadership.

On September 10, 2013, the State Council issued the *Action Plan for Air Pollution Control* (hereinafter referred to as *Action Plan*) which concretely specifies the industry and other "high-consumption and high-pollution" industries. The key industries including the steel industry will face the clean production audit, and the pollution discharge intensity by 2017 shall be reduced by over 30% compared with that in 2012. Most iron and steel manufacturing units of the Company are located in Shanghai, Nanjing and other large and medium cities, while for the urban steel enterprises, the environmental protection laws, regulations, standards and specifications become stricter and stricter, and the governmental monitoring and social monitoring also become stricter and stricter. Therefore, the enterprises will face new challenges.

2. Counter-measures

In 2013, the Company participated in the response to many suits of trade friction, covering almost all iron and steel products of the Company including electric steel, galvanized sheets, seamless tubes, tin plates, medium and heavy plates, color-coated sheets and others. The normalized trade frictions have become one of the trials that the Company must face. In light of the frequent trade friction cases in the international market, the Company considers the response to trade frictions as one of the approaches to improve the competitiveness in the international market, therefore reasonably formulates the strategies and solutions of response to trade friction cases, improves the response capability and efficiency of trade friction cases, actively tracks the trade policy tendency, strengthens the analysis, research and judgment of policies and proposes the risk adjustment response strategy at proper time.

In 2014, the construction of Zhanjiang's iron-making, steel-making, hot rolling and cold rolling projects will advance side by side, and the project will enter the peak of equipment foundation and steel structure erection. The Company shall focus on the implementation of all key nodes in the engineering construction process according to the company's management strategies and overall plan to ensure the construction quality and safety. The Company shall make overall plans and take all factors into consideration to ensure the construction capital is adequate, improve the total process capital management and achieve the "safe, high-efficiency and controllable" capital payment, at the same time, carry out the system connection and business support, product optimization and development scheme and all other preparation works.

Further promote the refined, dominant and process energy management, intensify the special inspection and daily supervision of production and living energy, improve the energy utilization efficiency and upgrade the stability and economic operation capacity of the energy system. Improve the environmental-protection risk monitoring and early warning mechanism through establishing the comprehensive regional environmental-protection performance evaluation index system, comprehensively consider the environmental-protection supervision and plant appearance greening supervision in all areas, implementation of regional responsibility system, construction of environmental-protection "three simultaneities" of projects, environmental monitoring compliance and other works, comprehensively evaluate and trace the comprehensive environmental-protection state in all responsible areas and fully upgrade the environmental-protection management performance of the Company.

Centering on enhancing the manufacturing capability, marketing capability, product differentiation capability, risk control capability and other capability and promote all works, make efforts to achieve the total system support and assistance, carry out special researches to plan and seek for effective methods to solve the operation difficulty for the subsidiaries, enlarge the proportion of exclusive and leading products to expand the overseas market and achieve the variety differentiation, and further explore new growth points to optimize the product mix of mutual supply.

Improve the key risk monitoring system, regularly disclose the risk monitoring information, intensify the risk prevention awareness and constantly improve the risk management system. Carry out the key risk maturity model research to form the risk maturity test management standard, and carry out the maturity test of key risk projects to promote the daily risk monitoring and result solidification of the response mechanism. Collect the risk events that cause the missing of the finance, reputation, compliance, customers and employees of the Company, operation loss or other loss due to the reasons of raw material inventory, environmental protection, production, social trade, safety, equipment, HR Department and other aspects, expose the objective rules through case analysis to improve the employees' ability of systematic risk evaluation. Organize the occupational qualification training on the risk management of the Company and strengthen the construction of the talent teams for the internal control and risk management of the Company.

III. Board of Director's Explanation on "Non-standard Audit Report" by the Accounting Firm

Not applicable.

IV. Proposed Profit Appropriation or Capitalizing of Capital Reserves

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.

In 2013, the Company recorded a profit of RMB 7,663,206,530.4 and a net profit of RMB 6,492,433,849.4, plus the undistributed profit of RMB 27,655,734,885.0 at the beginning of 2013 and minus the cash dividend of RMB 2,278,368,991.5 distributed in 2012, it is predicted that the Company's distributable profit would amount to RMB 31,869,799,742.9 at the end of 2013. In order to realize the long-term sustainable development, and better repay the investors, the Board of Directors proposes the following profit appropriation scheme for the year:

1. Ten per cent of the net profit, or RMB 649,243,384.9, shall be allocated as statutory earnings reserves for the year 2013;
2. Ten per cent of the net profit, or RMB 649,243,384.9, shall be allocated as discretionary earnings reserves for the year 2013;
3. Until December 31, 2013, the Company has made a cash repurchase of RMB 3,083,474,132.0, and made a write-off of 650,323,164 shares. According to the "Guide of Cash Dividend distribution for Listed Companies by Shanghai Stock Exchange," the cash paid for stock repurchase of the same year should be regarded as cash dividends;
4. According to the *Proposal of Baoshan Iron & Steel Co., Ltd. on Modification of Articles of Association* approved by the General Meeting of Shareholders in 2012, the annual cash dividend to be distributed should not be less than 50% of the net profit attributable to the parent company in the consolidated statements audited in that year; the total cash dividend that should be distributed shall not be less than RMB 2,909,235,601.5. The cash paid for repurchase by the Company has exceeded 50% of the net profit attributable to the parent company in the consolidated statements. However, in view that the Company always attaches importance to rewarding shareholders and adheres to the long-term cash dividends policies, the Company intends to allot the cash dividend at RMB 0.1 per share (incl. tax) with a total amount of RMB 1.65 billion (incl. tax) to all shareholders registered on the equity registration date recognized in the Dividend Payout Announcement. On the basis of the allotted cash dividend plus the cash buy-back amount, the total dividend amount to RMB 4.73 billion, accounting for 81.3% of the net profit attributable to the parent company in the audited consolidated statements;
5. Other models of distribution, such as capitalizing of capital reserves, would not be adopted.
6. Cash dividend-net profit ratios from 2010 to 2013:

| Items | 2013 | 2012 | 2011 | 2010 |
|--|--------|--------|--------|--------|
| 1 Cash dividend per share (incl. tax) (RMB) ^(Note 1) | 0.10 | 0.138 | 0.2 | 0.3 |
| 2 Total amount of cash for repurchase (RMB 100 million) | 30.83 | 19.17 | - | - |
| 3 Total amount of cash dividend (incl. cash for repurchase) (RMB 100 million) | 47.31 | 41.95 | 35.02 | 52.54 |
| 4 Net profit for legal person presented in the statements according to corporation (RMB 100 million) | 64.92 | 104.87 | 50.60 | 114.83 |
| 5 Net profit attributable to parent company in consolidated statements (RMB 100 million) ^(Note 2) | 58.18 | 103.86 | 73.62 | 128.89 |
| 6 Cash dividend against net profit for legal person | 72.87% | 40.00% | 69.22% | 45.75% |
| 7 Cash dividend against net profit attributable to parent company in consolidated statements | 81.30% | 40.39% | 47.57% | 40.76% |

Note 1: The cash dividend for 2013 is the proposed profit appropriation by the Board of Directors, which is subject to approval at the 2013 Shareholders' Meeting.

Note 2: The impact of business merger of enterprises under common control on the restatement of income statement of the previous is not taken into account in the net profit attributable to the shareholders of the parent company.

V. Active Performance of Social Responsibilities

(i) Performance of social responsibility

Please refer to the sustainability report of the Company disclosed at <http://www.sse.com.cn> for details.

(ii) Regarding the environmental protection

Please refer to the sustainability report of the Company disclosed at <http://www.sse.com.cn> for details.

Section IV Significant Events

I. Legal Proceedings and Wide Criticism from the Media

The Company was not involved in any material litigation, arbitration proceedings, or wide criticism from the media in the reporting period.

II. Non-operation Capital Occupancy and Debt Settlement

The Company was not involved in any non-operation capital occupancy in the reporting period.

III. Bankruptcies and Restructuring

No bankruptcies and restructuring were experienced in the reporting period.

IV. Asset Transaction and Corporate Merger

(i) Acquisition of Zhanjiang Steel

On October 27, 2012, the Company held the third meeting of the 5th board of directors, in which the *Proposal on Acquisition of the Equity of Zhanjiang Steel* was reviewed and approved. According to such Proposal, the Company agreed to acquire 71.8032% of equity of Zhanjiang Steel held by the State-owned Assets Supervision and Administration Commission of Guangzhou Municipal Government. On October 31, 2012, the Company paid RMB 4.98 billion for the equity acquisition to the State-owned Assets Supervision and Administration Commission of Guangzhou Municipal Government, and completed the procedures of equity change of Zhanjiang Steel in January 2013.

(ii) Sales of the integral assets of Luoqing CCPP

On June 14, 2013, the Company held the eighth meeting of the 5th board of directors, in which the *Proposal on Transfer of the Integral Assets and Relevant land use Right of CCPP Generator Sets in Luoqing Area* was reviewed and approved. In October 2013, the Company completed the transfer of the integral assets and relevant land use right of CCPP generator sets in Luoqing Area with a transfer amount of RMB 2.752 billion and recorded a transfer gains of RMB 288 million. The procedures related to land warrant is under way.

(iii) Acquisition of the equity of Wuhan Baohan Welding Equipment Co., Ltd.

In October 2013, Shanghai Baosight Software Co., Ltd. under the Company contributed the fund of RMB 2.8 million by means of the public delisting for the acquisition of 51% of the equity of Wuhan Baohan Welding Equipment Co., Ltd. held by Baosteel Engineering & Technology Group Co., Ltd.

V. Progress of “Share Incentive Scheme” and Its Impact

None

VI. Major Related Party Transactions

(i) Day-to-day related party transactions

The major related parties of the Company are legal persons controlled by Baosteel group. The transactions conducted between the Company and its major related parties in the reporting period included:

1. Procurement and sales of products and acceptance of services

| Unit: RMB million | | | |
|---|--|-------------------|-----------|
| Related parties | Transactions | Pricing principle | Amount |
| Baosteel Stainless Co., Ltd. | Sales of steel products, raw materials, auxiliary materials and etc. | Market price | 2,847.94 |
| Baosteel Group Shanghai Meishan Co., Ltd. | Sales of steel products | Market price | 2,566.31 |
| Baosteel Development Co., Ltd. | Sales of steel products | Market price | 2,140.13 |
| Baosteel Special Steel Co., Ltd. | Sales of steel products, raw materials, auxiliary materials and etc. | Market price | 2,110.14 |
| Baosteel Resources (International) Co., Ltd. | Sales of raw materials and fuel | Market price | 1,806.09 |
| Baosteel Metal Co., Ltd. | Sales of steel products and energy media | Market price | 1,460.81 |
| Ningbo Iron & Steel Co., Ltd. | Sales of steel products | Market price | 5,903.20 |
| Subtotal of sales | | | 18,834.62 |
| Baosteel Stainless Co., Ltd. | Procurement of steel products and etc. | Market price | 13,595.82 |
| Baosteel Special Steel Co., Ltd. | Procurement of steel products and etc. | Market price | 6,339.44 |
| Ningbo Baoxin Stainless Steel Co., Ltd. | Procurement of steel products and etc. | Market price | 6,336.60 |
| Baosteel Resource Co., Ltd. | Procurement of raw materials and fuel | Market price | 5,492.48 |
| Ningbo Iron & Steel Co., Ltd. | Procurement of steel products | Market price | 1,845.01 |
| Baosteel Group Shanghai Meishan Co., Ltd. | Procurement of raw materials, auxiliary materials and etc. | Market price | 1,407.42 |
| Baosteel Development Co., Ltd. | Procurement of raw materials and fuel and auxiliary materials | Market price | 1,259.27 |
| Baosteel Group Xinjiang Bayi Iron & Steel Co., Ltd. | Procurement of steel products | Market price | 1,033.82 |
| Baosteel Engineering & Technology Group Co., Ltd. | Procurement of auxiliary materials and equipment | Market price | 948.33 |
| Subtotal of procurement | | | 38,258.19 |
| Baosteel Development Co., Ltd. | Acceptance of comprehensive services such as logistics, engineering, maintenance, warehousing and transportation | Negotiated price | 2,036.52 |
| Baosteel Group Shanghai Meishan Co., Ltd. | Acceptance of comprehensive services such as logistics, engineering, maintenance and transportation | Negotiated price | 1,152.93 |
| Baosteel Engineering & Technology Group Co., Ltd. | Acceptance of services such as detection, maintenance and engineering | Negotiated price | 1,022.20 |
| Subtotal of service acceptance | | | 4,211.66 |

Note: all of the companies mentioned above include their subsidiaries.

The sales above accounted for 9.9% of the Company's revenue from its principal businesses in the reporting period; purchases and services received took up 22.3% and 2.5%, respectively, of the Company's cost for its principal businesses in the reporting period.

All transactions were settled either by cash or by note.

Section IV Significant Events

2. Financial services

Baosteel Group Finance Co., Ltd. (hereafter referred to as Finance Co.), a national non-bank financial company with Baosteel Group (with 35.18% of the shares) and the Company (with 62.1% of the shares), was established for central management of the funds of the Company so as to raise the efficiency of fund use. It provides a comprehensive service of internal accounting settlement, fund deposited and loan, short term capital financing, investment and fund-raising for members within the group.

In the reporting period, Finance Co. provided, at the RMB interest rate as set by the People's Bank of China, a total of RMB 6.99 billion loans to Baosteel Group's controlled subsidiaries, with outstanding loan of RMB 2.00 billion and a total interest income of RMB 120 million. At the same time, it absorbed a total deposit of RMB 7.08 billion of the balance funds at the end of the period from Baosteel Group and its controlled subsidiaries, paying a total of interest of RMB 210 million.

In the reporting period, Finance Co. discounted a total of RMB 0.57 billion to controlled subsidiaries of Baosteel Group at the discount rate set by the People's Bank of China, with the closing balance of RMB 0.43 billion and a total sum of interest of RMB 30 million.

During the reporting period, Baosteel Desheng Stainless Steel Co., Ltd., the subsidiary of Baosteel Group, entrusted the Finance Co. to conduct fund management activities such as buyback of the national debt. The Finance Co. received the entrusted fund of RMB 6.0 billion for management, for which the Finance Co. charged a service fee of RMB 26,000.

Based on the mutual maximum profits and operation efficiency, the Company and the related parties choose each other so that both can make the best of each other's advantages in professional collaboration, each becoming more competitive. The related transactions mentioned in the above item (1) and (2) between the Company and the related parties are expected to continue.

(ii) Related party transaction of assets acquisition and sales

Please refer to "Part IV Significant Events: IV. Asset Transaction and Corporate Merging".

(iii) Related external investments with related parties

The Company and Hwabao Investment Co., Ltd., a wholly owned subsidiary of Baosteel Group, both hold stocks for the PetroChina West-East Gas Pipeline III project. The joint venture is PetroChina Northwest United Oil Pipeline Co., Ltd., with a registered capital of RMB 62.5 billion. The company and Hwabao Investment have contributed RMB 8 billion and RMB 2 billion, with 12.8% and 3.2% shareholding of the joint venture respectively. The Company made its initial contribution of RMB 4.8 billion in December 2012 and the second contribution of RMB 3.2 billion in June 2013. So far, the Company has completed the total contribution of RMB 8 billion.

(iv) Claims and liabilities between the Company and related parties

Claims and liabilities arise from day-to-day related party operations and transactions that result in trade receivables and payables, as well as from long-term dues to the holding company for acquisition of assets from Baosteel Group.

On April 1, 2012, the Company completed the assets transfer of the business units of Stainless Steel and Special Steel affiliated to the Company. The RMB 22.5 billion of the settlement will be collected at in 5 equal installments on April 1 each year from 2013 to 2017. This asset transfer was approved by the Shareholders' Meeting. At the end of 2013, the long-term receivable was RMB 18.0 billion, including the long-term receivable of RMB 10.4 billion and RMB 7.6 billion from Baosteel Stainless Steel Co., Ltd., and Baosteel Special Steel Co., Ltd. respectively, reporting an interest income of RMB 0.42 billion and RMB 0.31 billion separately.

VII. Major Contracts and Performance

(i) Major trusteeships, contracts or leases

The Company was not involved in any major trusteeships, contracts or leases in the reporting period.

(ii) Major guarantees

In face of the more and more fierce competition in the domestic and foreign steel markets, and in order to encourage all sales branches at home and abroad to take an active part in the supply and bidding under the guidance and instruction of the Company, the Company offers the joint liability performance guarantee for HOWA Trading Corporation Limited, a wholly-owned subsidiary of the Company. The first performance guarantee was USD 0.257 billion. It started from 19 March 19, 2010, and the duration will not be more than 50 months. The second performance guarantee was USD 0.036 billion, with a duration from September 30, 2011 to January 5, 2015. The Company offers the joint liability performance guarantee of RMB 0.25 billion for Baosteel Europe GmbH, a wholly owned subsidiary of the Company, with a duration from August 30, 2012 to August 30, 2017. The above guarantee totaled RMB 0.543 billion, or 2.8% of the Company's net asset as at the end of the reporting period of the Company. The above performance guarantees were approved by the Shareholders' Meeting in accordance with relevant rules.

As far as the Company is concerned, the above guarantee doesn't pose any substantial increase of risks. Therefore, it is fundamentally different from ordinary guarantees.

(iii) Other major contracts

None

VIII. Commitments and Performance

(i) Commitments of companies or shareholders with over 5% stake in and to the reporting period

1. Commitments related with the initial public offering (IPO)

Baosteel Group undertook the following two commitments as at the establishment of the Company:

- (1) All related party transactions with the Company will be carried out in compliance with relevant laws, regulations and rules set by the authorities and will not damage the legitimate interest of the Company nor its minority shareholders.
- (2) Baosteel Group will not directly participate in any business activity or directly own an interest in any business activity or entity that might pose competition to the Company's current operating business. However, Baosteel Group can maintain its existing shares in the Company, as well as manage and develop the existing business which may or may not be in competition with the Company. Should Baosteel Group (including its wholly-owned and holding subsidiaries or other associates) engage in any new business, investment or research that might be in competition with the principal products or services of the Company in the future, Baosteel Group has agreed to grant the Company pre-emptive rights to develop or acquire the said business.

These commitments will stay in force under two conditions: A. the Company is listed on the Hong Kong Stock Exchange and domestic stock exchange of China; and, B. Baosteel Group owns no less than 30% of the Company's issued shares.

In addition, on June 13, 2001, and September 6, 2002, Baosteel Group further pledged to uphold these two commitments after the Company's acquisition of the assets related to construction of its phase three project and all remaining assets thereof.

These commitments were published on *China Securities News*, *Shanghai Securities News* and *Securities Times* dated 21st June 2001 and 12th September 2002 and the official website of Shanghai Stock Exchange (<http://www.sse.com.cn>) as well.

2. Commitments related with re-financing

Commitments made in the Prospectus of additional public offering by Baosteel Group:

- (1) The Company has the right to acquire, at any time it thinks appropriate, Baosteel Group's assets and businesses which 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.
- (3) Baosteel Group is committed to helping dealing with the relevant property certificates for buildings and lands after the Company completed the mergers and acquisitions.

These commitments were publicly posted on official website of the Shanghai Stock Exchange (<http://www.sse.com.cn>) in April 2005.

Section IV Significant Events

3. Other commitments

Commitments Baosteel Group undertook about Luojing Land:

Baosteel Group Shanghai Pudong Iron and Steel Co., Ltd. (hereafter, Pudong Steel), a wholly owned subsidiary of Baosteel Group, was offering its construction-in-progress and related fixed assets in Luojing (hereafter, Luojing Assets), which the Company intended to purchase. Luojing Assets cover an area of 3.228 million m², for which Pudong Steel has paid some initial expenses, but not the land transfer expense. When the assets are to be purchased, the unpaid land transfer expense and the Pudong Steel's initial expenses as on the asset-assessing day (30 September 2007), RMB 2.8 billion as preliminarily estimated, shall be paid by the Company. Baosteel Group promises:

- (1) If the Company intends to purchase the Luojing assets, Baosteel Group and/or Pudong Steel would help the Company to go through the transfer procedures and other matters as required by the Company.
- (2) In the event of the total actual expense exceeding RMB 2.8 billion for the procedures, Baosteel Group and/or Pudong Steel shall fully cover the exceeding amount in time, by means of paying the Company and/or the government (as is required). The aforementioned commitments were published on China Securities News, Shanghai Securities News and Securities Times and the official website of Shanghai Stock Exchange (<http://www.sse.com.cn>) of 12 December 2007.

The aforementioned commitments were published on *China Securities News*, *Shanghai Securities News* and *Securities Times* and the official website of Shanghai Stock Exchange (<http://www.sse.com.cn>) of December 12, 2007.

Commitments Baosteel Group undertook about Desheng Nickel Project:

Baosteel Group sought the Company's opinion of investment in the Desheng Nickel Project on December 16, 2010 in written form of "Solicit Letter about Investment on Desheng Nickel Project", "Commitments about Desheng Nickel Project". The Company agreed that Baosteel Group could invest in the project, but retained the right to purchase the equity of the project. Baosteel Group promises: When the Company wants to acquire the equity of the project, it would transfer its share of equity of the project at a fair price in line with relative laws, regulations, and other documents and on basis of asset evaluation results as conducted by an individual assets evaluation agency.

These commitments stay in force under two conditions: (a) the company is listed at a stock exchange and (b) Baosteel Group owns no less than 30% of the Company's issued shares.

The aforementioned commitments were published on *China Securities News*, *Shanghai Securities News* and *Securities Times* and the official website of Shanghai Stock Exchange (<http://www.sse.com.cn>) of December 23, 2010.

During the reporting period, Baosteel Group and the Company did not breach any of the aforementioned commitments.

IX. Engagement and/or Termination of Auditor's Service

The Company continued to use the services of Deloitte Touche Tohmatsu (Deloitte) in 2013. The compensation paid to the accounting firm is detailed below:

1. The approach to and amount of the compensation payable to the accounting firm for services rendered to the Company is determined and subject to approval at the Shareholders' Meeting. Meanwhile, compensation for auditing services rendered to the Board of Directors is determined by the Board. Independent directors gave their unanimous consent to the compensation for the accounting firm.
2. As approved by 2012 Annual Shareholders' Meeting, the auditing fees payable to Deloitte in 2012 was RMB 2.88 million. In addition, the Company paid Deloitte RMB 1.1 million for its service in the internal control auditing work in 2013, which does not influence the independence of the auditors in their work for the Company, as the Board of Directors believes.
3. Until the year 2013, Deloitte has been providing auditing service to the Company for four years continuously. Signatory auditors to the Company's 2013 Financial Statements are Zhu Xiaolan and Jiang Jian, the former, Zhu Xiaolan, has been providing auditing service to the Company for four consecutive years, and the latter, Jiang Jian, has provided auditing service to the Company for the first time.

X. Punishment and Rectification of the Listed Company and Its Director, Supervisor, Senior Management, Shareholders and Actual Controller

Neither the Company, nor the Board of Directors and any of its director, senior manager, shareholder or actual controller was the subject of an investigation by the China Securities Regulatory Commission in the reporting year; neither were they punished or penalized or cited by the commission, or openly denounced by any administrative department or Shanghai Stock Exchange for any wrongdoing.

XI. Other Significant Events

None.

Section V Change of Shares and Shareholders

I. Changes in Share Capital

(I) Table of changes in share capital

1. Table of changes in share capital

| Unit: share | | | | | | | | | |
|---|-------------------|-----|------------------------------|-------------|--------------------------------|--------------|--------------|------------------|-----|
| | Before the change | | Changes in the period (+, -) | | | | | After the change | |
| | Shares | % | Shares issued | Bonus share | Share transferred from reserve | Others | Sub-total | Shares | % |
| I. Shares subject to conditional sales | | | | | | | | | |
| II. Shares not subject to conditional sales | | | | | | | | | |
| 1.RMB ordinary shares | 17,122,048,088 | 100 | | | | -650,323,164 | -650,323,164 | 16,471,724,924 | 100 |
| 2.Domestic listed international investment shares | | | | | | | | | |
| 3.Overseas listed international investment shares | | | | | | | | | |
| 4. Others | | | | | | | | | |
| III.Total | 17,122,048,088 | 100 | | | | -650,323,164 | -650,323,164 | 16,471,724,924 | 100 |

2. Explanation of Changes in shares

The Company held the second interim shareholders meeting on September 17, 2012, in which the *Proposal on Repurchase of Shares of the Company in the Mode of Centralized Competitive Price Transaction* was approved. The Company disclosed the *Repurchase Report of Baoshan Iron & Steel Co., Ltd.* (hereinafter referred to as *Repurchase Report*) on September 21, 2012. According to the *Repurchase Report*, the Company will buy back the corporate shares at the price no higher than RMB 5.00 /share, and the total repurchase amount shall be no more than RMB 5 billion. The repurchase deadline will be 12 months after the Share Repurchase Proposal is approved by the Shareholders' general meeting.

The Company has made the first repurchase on September 21, 2012, wrote off 390,000,000 repurchased shares on December 20, 2012 and completed the change of business registration on December 31, 2012 to reduce the total share capital of the Company to 17,122,048,088 shares.

By May 21, 2013, the Company had completed the implementation of the repurchase proposal, and bought back 1,040,323,164 shares. The number of repurchased shares is 650,323,164 shares after write-off of 390,000,000. The Company wrote off 650,323,164 shares on May 23, 2013, and completed the industry and commerce the change of business registration on June 24, 2013 to reduce the total share capital of the Company to 16,471,724,924 shares.

(II) Changes in shares subject to conditional sales

The Company has no shares subject to conditional sales in the reporting period.

(III) Convertible corporate bonds

1. Issuance of convertible bonds

Approved by China Securities Regulatory Commission (CSRC) in the document [2008] 739, the Company issued, on June 20, 2008, RMB 10 billion convertible bonds with attached warrants with par value of RMB 100 per bond and a duration of six years. The coupon rate was 0.80%. On June 30, 2008, the convertible bond with warrants was separated into 100,000,000 corporate bonds (a worth of RMB 10 billion) and 1,600,000,000 stock warrants.

Approved by Shanghai Stock Exchange in the document [2008] 81, a total of RMB 10 billion of corporate bonds after separation were listed in Shanghai Stock Exchange on July 4, 2008. The bond was abbreviated as "08 Baosteel Bond" with the code of "126016". The duration is from July 4, 2008 to June 19, 2014 and they will be repaid in the five trading days after the maturity date (June 19, 2014).

Approved by Shanghai Stock Exchange in the document [2008] 11, a total of 1,600,000,000 stock warrants after separation were listed in Shanghai Stock Exchange on July 4, 2008. The stock warrant was abbreviated as "Baosteel CWBI" with the code "580024". The duration was from July 4, 2008 to July 3, 2010 and the exercising period was the trading days from June 28, 2010 to July 3, 2010, during which the warrants were to cease trading.

As at the market close on July 2, 2010, the exercise schedule for "Baosteel CWBI" was ended with 113,785 stock warrants exercised, resulting in an increase of 48,088 shares of the Company, and a total capital of RMB 567,438.40 raised. The raised capital has been used as stated in the prospectus. On July 7, 2010, the "Baosteel CWBI" stock warrants were delisted in Shanghai Stock Exchange.

Section V Change of Shares and Shareholders

2. Holders and underwriter of the convertible bonds during the reporting period

| Number of holders of convertible bonds at the end of the reporting period | | 7,683 |
|--|---|----------------------------|
| Underwriter of the Company's Convertible Bonds | | Baosteel Group Corporation |
| Top ten holders of Baosteel Convertible Bond: | | |
| Holders | Bonds held at the end of the reporting period (RMB) | Percentage (%) |
| China Pacific Life Insurance Co., Ltd. | 1,690,577,000 | 16.9 |
| New China Insurance Co., Ltd. | 1,449,378,000 | 14.5 |
| Guolian Securities Co., Ltd. | 618,189,000 | 6.2 |
| National Council for Social Security Fund—305 Combo | 499,158,000 | 5.0 |
| New China Life Insurance Co., Ltd.—Wanneng-Deyi financial bond, fund account | 384,108,000 | 3.8 |
| China Petroleum Finance Co., Ltd. | 383,936,000 | 3.8 |
| China Petroleum Finance Co., Ltd. | 377,073,000 | 3.8 |
| China Securities Co., Ltd. | 331,468,000 | 3.3 |
| China Pacific Insurance Co., Ltd. | 250,961,000 | 2.5 |
| China Reinsurance (group) Corporation | 200,958,000 | 2.0 |

3. Changes of the Convertible Bond Price

Unit: RMB

| Date of Adjustment | Price after Adjustment | Disclosure Date | Disclosure Media | Notes |
|--|------------------------|--|--|-----------------------|
| June 15, 2009 | 12.16 | June 15, 2009 | China Securities News, Shanghai Securities News and Securities Times and the official website of Shanghai Stock Exchange (http://www.sse.com.cn) | Dividend distribution |
| May 24, 2010 | 11.80 | May 24, 2010 | China Securities News, Shanghai Securities News and Securities Times and the official website of Shanghai Stock Exchange (http://www.sse.com.cn) | Dividend distribution |
| Closing price for the convertible bond of the period | | The exercise for "Baosteel CWB1" was ended | | |

II. Issuance of Securities and Listing

(I) Issuance of securities in the previous three years

On December 5, 2013, the wholly-owned overseas subsidiary of the Company- Bao-Trans Enterprises Ltd., successfully issued USD 500 million overseas bonds in the overseas market by means of the innovative trading structure of liquidity support commitment and keepwell agreement issued by the Company in parallel. For this issuance, the three major international credit rating agencies; Standard & Poor's, Moody and Fitch respectively gave Baoshan Iron & Steel Co., Ltd. the long-term corporate credit rating of A-, A3 and A- with "stable" outlook, and rated the USD bonds issued by Bao-Trans Enterprises Ltd. as A-, Baa1 and A- respectively.

The total amount of the USD loans issued this time is USD 500 million, and the bond is issued under par at the price that is 99.199% of the total issuance amount, with a nominal interest rate of 3.75%, a duration of 5 years and interest paid every half a year. The issuance started from December 12, 2013 until December 12, 2018, and the bonds will be listed in the market in the Stock Exchange of Hong Kong Ltd..

(II) Changes of the Company's total shares and share structure

On September 21, 2012, the Company performed the first repurchase. By May 21, 2013, the Company had completed the repurchase program, repurchasing and writing off 1,040,323,164 shares totally. The total capital stock of the Company is 16,471,724,924 shares at the end of this reporting period, and the ratio of the equity of the Company held by Baosteel Group Corporation increased from 76.68% at the end of 2012 to 79.71% at the end of this reporting period.

The asset-liability ratio of the Company at the end of 2013 is 47%, up by 1.3% compared with that in the beginning of the year.

(III) Status of existing employee stocks

During the reporting period, no shares for employees of the Company were in issue.

III. Shareholders

(I) Shareholders and their shares

Unit: share

| | | | |
|---|---------|---|---------|
| Total number of shareholders at the end of the reporting period | 485,002 | Total number of shareholders at the end of t 5th trading days before the disclosure date of the annual report | 484,877 |
|---|---------|---|---------|

Top 10 shareholders

| Name | Shareholder nature | Shareholding proportion (%) | Total shares | Increase or decrease during the period | Shares subject to conditional sales | Shares pledged or frozen |
|--|--------------------|-----------------------------|----------------|--|-------------------------------------|--------------------------|
| Baosteel Group Corporation | State-owned | 79.71 | 13,128,825,267 | 0 | 0 | None |
| China Merchants Bank Co., Ltd.-Everbright Premedical advantage allocation shares securities investment funds | N/A | 0.30 | 50,119,409 | 50,119,409 | 0 | None |
| Huaxin Trust Co., Ltd. | N/A | 0.30 | 49,351,100 | 49,351,100 | 0 | None |
| CSOP Asset Management Limited - CSOP Source A50ETF | N/A | 0.22 | 36,850,393 | 2,111,529 | 0 | None |
| Morgan Stanley Investment Management Co., Ltd. - Morgan Stanley China A Share Fund | N/A | 0.17 | 28,440,196 | 16,301,096 | 0 | None |
| Bank of China Limited - Harvest Hushen 300 trading and open index securities investment funds | N/A | 0.16 | 26,586,542 | -14,124,108 | 0 | None |
| China Life Insurance Co., Ltd.- dividend - individual dividend - 005L - fh002 Hu | N/A | 0.16 | 25,675,561 | 19,503,261 | 0 | None |
| Fidelity Investments Management (HK) Ltd. - customer funds | N/A | 0.15 | 23,885,583 | 21,936,083 | 0 | None |
| UBS AG (United Bank of Switzerland) | N/A | 0.14 | 23,883,051 | -11,562,104 | 0 | None |
| ICBC - UBS SDIC core enterprise share securities investment funds | N/A | 0.14 | 23,590,000 | 23,590,000 | 0 | None |

Top 10 holders of shares not subject to conditional sales

| Name | Number of shares not subject to conditional sales | Type and number of shares |
|---|---|---------------------------|
| Shanghai Baosteel Group Corporation | 13,128,825,267 | RMB ordinary share |
| China Merchants Bank Co., Ltd. - Ever bright Premedical advantage allocation shares securities investment funds | 50,119,409 | RMB ordinary share |
| Huaxin Trust Co., Ltd. | 49,351,100 | RMB ordinary share |
| CSOP Asset Management Limited - CSOP Source A50ETF | 36,850,393 | RMB ordinary share |
| Morgan Stanley Investment Management Co., Ltd. - Morgan Stanley China A Share Fund | 28,440,196 | RMB ordinary share |
| Bank of China Limited - Harvest Hushen 300 trading and open index securities investment funds | 26,586,542 | RMB ordinary share |
| China Life Insurance Co., Ltd.- dividend - individual dividend - 005L - fh002 Hu | 25,675,561 | RMB ordinary share |
| Fidelity Investments Management (HK) Ltd. - customer funds | 23,885,583 | RMB ordinary share |
| UBS AG (United Bank of Switzerland) | 23,883,051 | RMB ordinary share |
| ICBC - UBS SDIC core enterprise share securities investment funds | 23,590,000 | RMB ordinary share |

Remarks on affiliation, alliance or collusion among the aforementioned shareholders

The fund manager of ICBC - UBS SDIC core enterprise share securities investment funds is the UBS SDIC Fund Management Co., Ltd., and UBS AG holds 49% of the equity of UBS SDIC Fund Management Co., Ltd.

The Company is not aware of any connected relationship among other shareholders mentioned above or any parties acting in concert specified in *Measures for the Administration of Acquisitions by Listed Companies*.

Section V Change of Shares and Shareholders

IV. Status of Controlling Shareholders and Actual Controllers

(I) Controlling shareholders

| | |
|--|--|
| Name | Baosteel Group Corporation |
| Legal representative | Xu Lejiang |
| Date of incorporation | November 17, 1998 |
| Organization code | 132200821 |
| Registered capital | RMB 52.791 billion |
| Principal businesses and operations | As a governmental authorized investment vehicle and a state-owned holding company, Baosteel Group Corporation mainly deals with state-owned assets within the authorized scope set by the State Council. The Corporation has also been involved in investments in areas of iron & steel manufacturing, metallurgy and mineral products, non-toxic chemicals, electricity, piers, warehousing, transportation, and steel-related business, technological development, technology transfer; technical supporting, and technical management consulting, as well as in areas of import and export businesses approved by the Ministry of Foreign Trade & Economic Cooperation (MOFTEC), domestic and international trading where allowed, and import and export services of products and technology. |
| Operating results | The total operating revenue of RMB 303.6 billion in 2013 (not audited). |
| Financial status | The total assets at the end of 2013 is RMB 517.9 billion, with the asset-liability ratio of 47.1% (not audited). |
| Cash flow and future development strategy | The cash flow is in good conditions. The corporate vision of Baosteel Group Corporation is: to become the leader of iron & steel technology, the driver of green industrial chain and the model for common development of employees and enterprise. Industrial development strategy: Excellence in one industry, with coordinated development in related diversified industries" |
| Shareholdings of other listed companies at home and abroad in the period | According to the 2013 Third Quarter Report of the listed companies, direct or indirect holdings of over 5% equities by Baosteel Group Corp. were as follows: 53.12% A stock of Bayi Iron & Steel Co., Ltd., 56.02% A stock of *ST Shaoguan Steel Co., Ltd., 14.93% A stock of China Pacific Insurance Co., Ltd, and 15.11% A stock of New China Insurance Co., Ltd. |

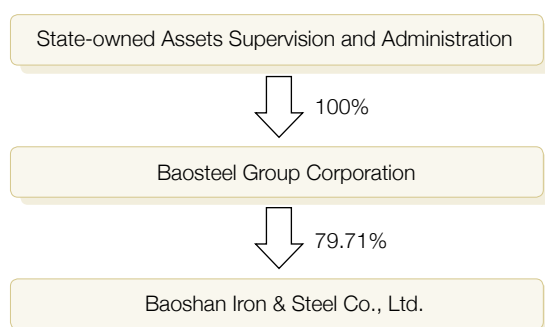
(II) Actual controller

Baosteel's actual controller is the State-owned Assets Supervision and Administration Commission of the State Council (SASAC).

(III) Change in controlling shareholders and actual controllers

The controlling shareholders and actual controller of the Company remained unchanged in the reporting period.

(IV) The enterprise property rights and controlling relationship between the Company and its actual controller



V. Other Corporate Shareholders Holding Over 10% Shares

As at the end of the reporting period, the Company has no other corporate shareholders holding over 10% shares.

Section VI Directors, Supervisors, Senior Executives and Employees

I. Shareholding and Remuneration

(I) Shareholding and remuneration of directors, supervisors, and senior executives in service or leaving the Company during the period:

| Name | Position | Gender | Age | Beginning of office | End of office | Shares held at beginning of the year | Shares held at end of the year | Share change (Note 1) | Remuneration from the Company in reporting period (pre-tax) (RMB ten thousand) | Incl. deferred payment (pre-tax) (RMB ten thousand) | Note about the payment length for Non-yearly remuneration from the Company | Compensation from shareholders (pre-tax) (RMB ten thousand) |
|----------------------|--------------------------------------|--------|-----|---|-------------------|--------------------------------------|--------------------------------|-----------------------|--|---|--|---|
| He Wenbo | Chairman | Male | 58 | April 27, 2012 | April 30, 2015 | 80,000 | 80,000 | | - | - | | Note 3 |
| Dai Zhihao | Director, President | Male | 50 | President: July 22, 2013 Director: August 08, 2013 | April 30, 2015 | | | | 150.27 | 36.0 | August to December, 2013 | 38.73 |
| Zhao Zhouli | Director | Male | 57 | April 27, 2012 | April 30, 2015 | | | | - | - | | Note 3 |
| Zhu Junsheng | Director | Male | 53 | April 27, 2012 | April 30, 2015 | 70,800 | 100,800 | 30,000 | 170.1 | 32.0 | | |
| Wang Li | Director | Male | 57 | April 27, 2012 | April 30, 2015 | | | | - | - | | Note 3 |
| Buck Pei | Director | Male | 56 | April 27, 2012 | April 30, 2015 | | | | 35.0 | - | | |
| Wong Pik Kuen Helen | Independent director | Female | 52 | April 27, 2012 | April 30, 2015 | | | | 35.0 | - | | |
| Yuh-chang Hwang | Independent director | Male | 58 | April 27, 2012 | April 30, 2015 | | | | 35.0 | - | | |
| Liu Wenbo | Independent director | Male | 45 | April 27, 2012 | April 30, 2015 | | | | 35.0 | - | | |
| Xia Dawei | Independent director | Male | 60 | April 26, 2013 | April 30, 2015 | | | | 23.3 | - | May to December, 2013 | |
| Liu Zhanying | Chairperson of board of supervisors | Female | 58 | April 27, 2012 | April 30, 2015 | | | | - | - | | Note 3 |
| Guo Bin | Supervisor | Male | 42 | April 27, 2012 | April 30, 2015 | | | | - | - | | Note 3 |
| Wu Kunzong | Supervisor | Male | 42 | April 27, 2012 | April 30, 2015 | | | | - | - | | Note 3 |
| Lin An | Supervisor | Male | 57 | April 27, 2012 | April 30, 2015 | 35,800 | 97,400 | 61,600 | - | - | | Note 3 |
| He Meifen | Supervisor | Female | 49 | March 19, 2013 | April 30, 2015 | | | | 97.1 | - | | |
| Li Yongxiang | Vice president | Male | 53 | April 27, 2012 | April 30, 2015 | 66,500 | 96,500 | 30,000 | 170.1 | 32.0 | | |
| Zhou Jianfeng | Vice president | Male | 50 | April 27, 2012 | April 30, 2015 | 60,000 | 85,000 | 25,000 | 170.1 | 32.0 | | |
| Wang Jing | Vice president | Female | 50 | April 27, 2012 | April 30, 2015 | 76,000 | 101,000 | 25,000 | 170.1 | 32.0 | | |
| Feng Taiguo (Note 2) | Vice president | Male | 50 | August 27, 2012 | February 10, 2014 | 51,000 | 69,300 | 18,300 | 162.0 | 28.0 | | |
| Chu Shuangjie | Vice president | Male | 49 | August 27, 2012 | April 30, 2015 | 70,000 | 90,000 | 20,000 | 178.2 | 32.0 | | |
| Hou Angui | Vice president | Male | 41 | July 22, 2013 | April 30, 2015 | | 6,600 | 6,600 | 140.0 | 15.0 | | |
| Zhu Kebing | CFO, Secretary to Board of Directors | Male | 39 | August 27, 2012 | April 30, 2015 | | 10,000 | 10,000 | 151.2 | 28.0 | | |
| Ma Guoqiang | Resigned Director and president | Male | 50 | April 27, 2012 | July 22, 2013 | 150,000 | 174,000 | 24,000 | - | - | January to September, 2013 | Note 3 |
| Zhang Pijun | Resigned supervisor | Male | 54 | April 27, 2012 | March 19, 2013 | | | | - | - | | Note 3 |
| Total | - | - | - | - | - | 660,100 | 910,600 | 250,500 | 1,722.47 | 267.0 | | |

Note 1: The above shareholding changes were all due to purchase at the secondary market. The stock purchase by Mr. Hou Angui took place before being elected Vice President.

Note 2: Mr. Feng Taiguo resigned the position as Vice President of the Company in February, 2014 to take other office.

Note 3: It is not available yet since the Company, shareholding company or its superior units have not completed its annual performance evaluation and remuneration calculation of 2013.

Section VI Directors, Supervisors, Senior Executives and Employees

(II) Profile of Directors, Supervisors, and Senior Executives in Last Five Years

Board of Directors



He Wenbo (born in June 1955), Chinese, Senior Engineer; Director and President of Baosteel Group Corporation, and Chairman of the Board of Directors of Baoshan Iron & Steel Co., Ltd.

Mr. He has extensive experience in manufacturing technology, marketing, operation and human resource management of steel industry. Mr. He joined Baosteel in February 1982 and has successively held positions of Head of Blooming Plant, Head of Hot-rolling plant, Director of Technology Department. He has worked as Assistant to President of Baosteel in September 1994, Vice President of Baosteel in April 1996, Vice President of Baosteel International Trading in August 1996, Director and Vice President of Baosteel Group Corporation in November 1998, Director of Baoshan Iron & Steel Co., Ltd. in February 2000, President of Baosteel International Trading from October 2001 to June 2003, Chairman of Baosteel International Trading from October 2001 to May 2006, Vice President of Baosteel Group Corporation, Director of Baoshan Iron & Steel Co., Ltd. in October 2005, Mr. He has been elected as Director and President of Baosteel Group Corporation, Director of Baoshan Iron & Steel Co., Ltd. in April 2008, Vice Chairman of Baoshan Iron & Steel Co., Ltd. in April 2009, Chairman of Baoshan Iron & Steel Co., Ltd. since April 2010.

Mr. He graduated from Northeastern University of Technology in 1982, and received an EMBA degree from China Europe International Business School in March 2000.

Dai Zhihao (born in June, 1963), Chinese, Senior Engineer; is currently a member of the board of directors and president of the Company.

Mr. Dai has rich experiences in the production and marketing management of iron and steel enterprises, resource trade and financial management. Mr. Dai joined Baosteel in August, 1983, and has worked as the Manager of the Steel Rolling Branch of Baosteel Cold Rolling Plant, Deputy Director of the Planning Department of Baosteel International Economic & Trading Corporation, team leader of the Preparatory Group of Pudong Company, Director of No. 1 Steel Trade Department, the Manager of Steel Trade Company, Vice President of Baosteel International Economic & Trading Corporation, Assistant to President of Shanghai Baosteel Group Corporation and Director of Sales Section of the Market Department, Assistant to President of Baoshan Iron & Steel Co., Ltd., President of Baosteel International Economic & Trading Corporation, Vice President of Baoshan Iron & Steel Co., Ltd. etc. Mr. Dai worked as Vice President of Baosteel Group Corporation from November, 2007 to July, 2013 (concurrently held the position of Chairman of Hwabao Investment Co., Ltd. during this period, and also concurrently held the position of the director of the Company from April, 2009 to April, 2011). Mr. Dai has worked as the Chairman of Baosteel Resources Co., Ltd. and Baosteel Resources (International) Co., Ltd. since March, 2008, the President of Baoshan Iron & Steel Co., Ltd. since July, 2013, and the Director of Baoshan Iron & Steel Co., Ltd. since August, 2013.

Mr. Dai graduated from Shanghai Jiaotong University in July, 1983, and received the Master's degree in economics from West Virginia University in August, 1996.

Zhao Zhouli (born in April 1956), Chinese, senior engineer at professor level, is currently vice president of Baosteel Group Corporation, and a member of the BOD of the Company.

Mr. Zhao is highly experienced in enterprise production and operation, production and equipment management in the steel industry, as well as human resource management. Since he started to work for Baosteel in 1982, Mr. Zhao held various positions with the company, including vice director and, later, director of the department of equipment, and assistant to President of Baosteel Corporation since April 1996. Since May 2000, he became vice president of Baoshan Iron & Steel (during the period, he worked concurrently as the general manager, and Party Secretary of Baosteel Branch from May 2007 to March 2008), vice president of Baosteel Group since July 2010 (concurrently chairman of Baosteel Engineering & Technology Group Co., Ltd. from January 2010 to December 2010), and president of Baosteel Zhanjiang Iron & Steel Co., Ltd. since December 2010. Since April 2011, he worked concurrently as director of the Company, and in July 2012, he became chairman of Baosteel Zhanjiang Steel.

Mr. Zhao graduated from Northeastern University of Technology in 1982, and obtained his PhD in Machinery Manufacturing and Automation from Northeastern University in 2002.

Zhu Junsheng (born in November 1960), Chinese, Senior Engineer; is currently a member of the BOD of the Company.

Mr. Zhu is highly experienced in management of human resources, the supply chain, and safe production management. Since he joined Baosteel in 1983, Mr. Zhu held various positions with the company, including vice director of the department of production planning, vice director and later director of the department of cost management, vice director of the personnel department, and director of the personnel department of Baoshan Iron & Steel. Since May 2001, he was director of the personnel department and worked concurrently as assistant to the president of the Company. Since June 2003, he was vice president and deputy secretary of CPC committee of the Company (during the period, he was only vice president of Baoshan Iron & Steel from August 2006 to March 2010). In September 2010, he assumed the position of deputy secretary of CPC committee of the Company. Since April 2011, he was director and deputy secretary of CPC committee of the Company. Since February 2014, he became the secretary of CPC committee of the Company.

Mr. Zhu graduated from Maanshan Institute of Iron and Steel in July 1983 and he obtained his EMBA from China Europe International Business School in 2007.

Wang Li (born in June 1956), Chinese, Senior Engineer; is currently assistant to the president of Baosteel Group Corporation, a member of the BOD of the Company.

Mr. Wang is highly experienced in information management, system innovation management, and operation management. Since joining Baosteel in February 1982, he held various positions with the company including vice director of the department of Baosteel Enterprise Management, director of the department of systematical development, head of the institution of automation, general manager of Baosteel Computer Co., Ltd., as well as deputy party secretary and concurrently secretary for the Commission of Discipline, vice president, senior vice president and president of Baosight Software Co., Ltd. Since October 2006, he was the assistant to the president of Baoshan Iron & Steel, as well as director of the system innovation department. He was the business supervisor of Baosteel Group Corporation since April 2008, and secretary to BOD of Baosteel Group Corporation since January 2009. He retired from the position of business supervisor for Baosteel Group Corporation in May 2009. From May 2009 to March 2011, he worked concurrently as the general manager of the operation improvement department. Since May 2011, he was secretary to BOD, and assistant to president of Baosteel Group Corporation. In September 2012, he stopped to be the secretary to BOD of Baosteel Group Corporation. In April 2013, he started to take the office as the Chairman of Shanghai Baosight Software Co., Ltd., and no longer was the assistant to President of Baosteel Group Corporation. He assumed the position of director of the Company since April, 2012.

Mr. Wang graduated from Northeastern University of Technology in 1982.

Buck Pei (born in March 1957), American, professor of accounting, PhD supervisor; is currently executive dean (China region) of WP Carey School of Business, Arizona State University, and an independent director of the Company.

Mr. Pei is an influential member in American Accounting Association. From 1996 to 1997, he was chairman of the global committee of American Accounting Association. In the same year, he helped to establish the Accounting Society of China. He worked as the chairman of the Chinese Accounting Professors Association of North America in 1993, 1994 and 2004. From 2006 to 2011, he served as an independent director of Baoshan Iron & Steel Co., Ltd.. He became director of the Fifth BOD of Baoshan Iron & Steel Co., Ltd. in April 2012.

Mr. Pei graduated from National Taipei University in 1979 and obtained his MBA from Southern Illinois University in 1981 and his PhD in accounting from the University of North Texas in 1986.

Wong Pik Kuen Helen (born in June 1961), Hong Kong China, vice chairperson, President and SEP of HSBC Bank (China), an independent director of the Company.

Ms. Wong is highly experienced in capital operation and financial management. Since joining HSBC Bank in 1992, she held various positions with the company, including manager of syndicated loan, senior manager of capital market department, dean of the debt issuance department of Greater China, and standing director of global bank department (Hong Kong). She became the vice senior executive president of HSBC Bank China in September 2009, and assumed the position of president and SEP of HSBC Bank China in July 2010. She assumed the position of vice chairman of HSBC Bank (China) since January 2013. She became an independent director of the Fifth BOD of the Company since April 2012.

Ms. Wong graduated from Hong Kong University in 1983.

Yuh-chang Hwang (born in January 1955), American, Associate Professor of the Accounting department of Arizona State University WP Carey School of Business, Professor of China Europe International Business School, and an independent director of the Company.

Mr. Hwang specializes in such areas as management accounting, strategic cost management, incentive mechanism and performance evaluation. During the 16 years of teaching in Carey School of Business, he taught various MBA courses, EMBA courses designed for senior managers, and supervised the doctoral research in management accounting. Mr. Hwang is currently coordinator of the PhD studies of the Accounting Department. He has supervised over 20 PhD candidates. Before joining Arizona State University WP Carey School of Business, he taught in Katz Business School, the University of Pittsburgh of Pennsylvania. He was elected chief secretary of the Management Accounting Association of America Accounting Association for the period from 2007-2009. Since April 2012, he became an independent director of the Fifth BOD of the Company.

Mr. Hwang graduated from National Chengchi University in Taiwan with a Master's degree in 1979, and gained PhD degree from University of California-Berkeley in 1987.

Liu Wenbo (born in August 1968), Chinese, Global Senior Partner and Vice President of Greater China of Roland Berger Strategy Consultants, and an independent director of the Company.

Mr. Liu is highly experienced in enterprise management consultant business. Before joining the consultant industry, Mr. Liu spent 7 years in Siemens and DHL. He acted as the external special consultant for P&G (UK) since February 2002, the external special consultant for Smartbead Technology Corp. since November 2002, a senior consultant in A.T. Kearney since September 2003, director of North Asia district for Accenture since September 2005, and a Global Senior Partner and Vice President of Greater China of Roland Berger Strategy Consultants since June 2007. He became an independent director of the Company since April 2012.

Mr. Liu graduated from North China University of Technology in 1991, gained his Master's degree from Cranfield University in the UK in September 2002, and his MBA degree from Cambridge University in September 2003. He took courses on global energy in Harvard University in November 2011.

Section VI Directors, Supervisors, Senior Executives and Employees

Xia Dawei (born in February, 1953), Chinese, chairman of the Academic Committee of Shanghai National Accounting Institute, professor; PhD supervisor; and independent director of the Company.

Mr. Xia worked as a teacher in Shanghai University of Finance and Economics from 1985 and the guest researcher in Osaka City University from 1988 to 1990. He was promoted to be the professor in 1994. Since 1993 Mr. Xia successively worked as the dean of School of International Business Administration, Principal Assistant, Deputy Principal and Executive Deputy Principal of Shanghai University of Finance and Economics, and the President, Party Secretary and other duties of Shanghai National Accounting Institute.

Mr. Xia is the chairman of the Academic Committee of Shanghai National Accounting Institute, professor and PhD supervisor at present, and enjoys the special government allowance from the State Council. Mr. Xia also holds the concurrent positions of Deputy President of Chinese Industrial Economic Association, President of Shanghai Society of Accountancy, consultant expert in China Accounting Standards Committee, member of China Enterprise Internal Control Committee, honorary professor of Chinese University of Hong Kong, part-time professor in the School of Management, Fudan University, member of Shanghai Stock Exchange Listing Committee etc. Mr. Xia worked as the Outside Director of Baosteel Group Corporation from October, 2005 to February, 2012, and the independent director of the 5th Board of Directors of Baoshan Iron & Steel Co., Ltd. from April, 2013.

Mr. Xia graduated from Changchun University of Technology and received the Bachelor's degree in engineering in 1982, and graduated from Shanghai University of Finance and Economics and received the Master's degree in Economics in 1985.

Board of Supervisors



He Meifen Lin An Liu Zhanying Guo Bin Wu Kunzong

Liu Zhanying (born in October 1955), Chinese, Senior Political Engineer; is currently Secretary of CPC Committee for Disciplinary Inspection of Baosteel Group Corporation, and Chairperson of Board of Supervisors of Baoshan Iron & Steel Co., Ltd.

Ms. Liu has extensive experience in discipline inspection and supervision. Ms. Liu has successively held positions of Deputy Director of Division 1 in No.1 Supervision Office of Ministry of Supervision of P.R.C., Director of Division 1 and 2 in No.1 Supervision Office of Central Commission for Discipline Inspection, Deputy Bureau Director level Inspector and Supervisor of No.1 Supervision Office, Deputy Bureau level Director of No.2 Discipline Inspection and Supervision Office of Central Enterprise Discipline and Work Commission, Deputy CPC Committee Secretary and Inspection Commission Secretary of Central Enterprise Work Commission, Deputy Party Secretary and Inspection Commission Secretary of SASAC. Ms. Liu joined Baosteel in October 2005 and has worked as Discipline Inspection Commission Secretary and member of the CPC Committee of Baosteel Group Corporation, she has held positions of Discipline Inspection Commission Secretary, member of the CPC Committee of Baosteel Group Corporation and Discipline Inspection Commission Secretary of Baoshan Iron & Steel Co., Ltd. in June 2006, Discipline Inspection Commission Secretary, member of the CPC Committee of Baosteel Group Corporation and Baoshan Iron & Steel Co., Ltd. in August 2006, Discipline Inspection Commission Secretary, member of the CPC Committee of Baosteel Group Corporation and Baoshan Iron & Steel Co., Ltd. and Chairwoman of Board of Supervisors of Guangdong Steel Group Co. Ltd. in June 2008, Discipline Inspection Commission Secretary, member of the CPC Committee of Baosteel Group Corporation and Baoshan Iron & Steel Co., Ltd., Discipline Inspection Commission Secretary and Chairwoman of Board of Supervisors of Guangdong Steel Group Co. Ltd. in September 2008, Discipline Inspection Commission Secretary, member of the CPC Committee of Baosteel Group Corporation and Discipline Inspection Commission Secretary and Chairwoman of the Board of Supervisors of Guangdong Steel Group Co. Ltd. in March 2010, Discipline Inspection Commission Secretary, member of the CPC Committee of Baosteel Group Corporation in January 2012, Director of the Board of Directors of Baoshan Iron & Steel Co., Ltd. from 2010 to 2012, Chairperson of the Fifth Board of Supervisors of the Company since April 2012.

Ms. Liu graduated from Shandong College of Oceanography in 1979, and received a postgraduate degree in Sociology from the Party School of the Central Committee CPC in January 2004.

Lin An (born in April 1956), Chinese, Senior Engineer; member of board of supervisors of the Company, and Chairman of the Labor Union.

Mr. Lin is experienced in iron and steel manufacturing, energy and environmental protection, and management of the Labor Union. Since he started to work for Baosteel in August 1982, Mr. Lin held various positions with the Company, including Assistant to factory director of Baosteel Blooming Mill, vice factory director of Cold Rolling Mill, vice group leader of the cold rolling team of Baosteel Project Command, vice factory director; and then director of Baosteel Blooming Mill, director of the Bar Steel Department, director of the Steelmaking Department, factory director of the Steelmaking plant, Assistant to the president of Baoshan

Iron & Steel Co., Ltd., vice general manager of Baosteel branch, the person in charge of the Labor Union of Baoshan Iron & Steel Co., Ltd., and chairperson of the Labor Union. He has been the member of board of supervisors of the Company and Chairman of the Labor Union since April 2010.

Mr. Lin graduated from Wuhan Institute of Iron & Steel in July 1982.

Guo Bin (born in August 1971), Chinese, Assistant to president of Baosteel Group Corporation, and concurrently general manager of the HR department, Engineer, member of board of supervisors of the Company.

Mr. Guo has rich experience in HR management, and enterprise operation. Since joining Baosteel in July 1994, he took various positions, including vice director, director of the HR department of Baoshan Iron & Steel, and director of the HR department of Baosteel Group corporation. From March 2011, he served as Assistant to president, and concurrently general manager of the HR department of Baosteel Group. He has been a member of the Fifth Board of Supervisors of the Company since April 2012.

Mr. Guo graduated from Northeastern University in 1994, and gained MBA degree from Fudan University in September 2002.

Wu Kunzong (born in February 1971), Chinese, general manager of the Operation Finance Department of Baosteel Group Corporation, Senior Accountant, is currently on the board of supervisors of the Company.

Mr. Wu has rich experience in auditing management and financial management. Since joining Baosteel in July 1993, he served in various positions, including team leader for the audit check team of Baoshan Iron & Steel, deputy head of the auditing office, vice director, and director of the auditing department, and director of the financial affairs department. He has been the director for the auditing department of Baosteel Group Corporation since March 2011. He took the office as the general manager of the Operation Finance Department and assets management supervisor of Baosteel Group Corporation since August 2013. He has been a member of the Fifth Board of Supervisors of the Company since April 2012.

Mr. Wu graduated from East China College of Metallurgy in 1993, gained his Master's degree in economics from Shanghai University of Finance and Economics in February 2004, and his MBA degree from China Europe International Business School in September 2008.

He Meifen (born in May, 1964), Chinese, senior engineer, director of the Auditing Department of the Company, is currently on the board of supervisors of the Company.

Ms. He has rich experiences in the planning management of iron and steel products, financial management and internal audit. Ms. He joined Baosteel in 1984, and successively worked as the section member in the Planning Department of Baoshan Iron & Steel Co., Ltd., office Secretary of Baosteel Group Corporation, chief of the Budget Section of the Business Management Department, Director of the Budget Section of the Cost Management Department, Deputy Director of the Cost Management Department and Deputy Director of the Finance Department of Baoshan Iron & Steel Co., Ltd., Director of the Administration Department of Baosteel-NSC/Arcelor Automotive Steel Sheets Co., Ltd., and Deputy Director of the Auditing Department of Baoshan Iron & Steel Co., Ltd., and has taken the office of the Director of the Auditing Department of Baoshan Iron & Steel Co., Ltd. from May, 2009, and the staff supervisor of the 5th board of supervisors of the Company from March, 2013.

Ms. He graduated from Northeastern University of Technology in the major of Metal Working in 1984, received the MBA degree from Shanghai University of Finance and Economics in 1998 and the Master's degree in Accountancy from Chinese University of Hong Kong in December, 2005.

Senior Management



Up from left: Hou Angui, Feng Taiguo, Chu Shuangjie, Zhu Kebing
Down from left: Zhou Jianfeng, Zhu Junsheng, Dai Zhihao, Li Yongxiang, Wang Jing

Li Yongxiang (born in October 1960), Chinese, Senior Engineer, is currently vice president of the Company.

Mr. Li is highly experienced in steel production, marketing and management. Since he started to work for Meishan Company of Metallurgy in 1982, Mr. Li held various positions with the Company, including vice manager and, later, manager of Meishan Company of Metallurgy, member of board of directors and vice president of Shanghai Meishan (Group) Co., Ltd.; member of board of directors, vice president, chairman of the board of directors, and president of Shanghai Meishan Iron & Steel Co., Ltd. as well as member of board of directors and vice president and president of Baosteel Group Shanghai Meishan Co., Ltd., Ltd.; member of board of

Section VI Directors, Supervisors, Senior Executives and Employees

directors and vice president of Baosteel Group Shanghai Meishan Co., Ltd. He worked as assistant to president of Baoshan Iron & Steel Co., Ltd. He became the vice president of Baoshan Iron & Steel Co., Ltd. since March 2008.

Mr. Li graduated from Northeastern University of Technology in 1982, obtained his EMBA from China Europe International Business School in 2001, and his Master's degree in metallurgy engineering from Northeastern University in 2003.

Zhou Jianfeng (born in September 1963), Chinese, Senior Engineer, is currently Vice President of the Company.

Mr. Zhou is highly experienced in production and business management in the field of iron and steel industry. Since he started to work for Baosteel in August 1984, Mr. Zhou held various positions with the company, including vice manager and, later, manager of Baosteel hot rolling plant; assistant to president of the Group, assistant to president of the Company, vice president of Baosteel Branch; business supervisor of the Group and vice president of Han-Bao Iron & Steel Company. He has been vice president of the Company since April 2009.

Mr. Zhou graduated from Beijing Institute of Iron and Steel in July 1984 and obtained his EMBA from China Europe International Business School in April 2002.

Wang Jing (born in October 1963), Chinese, Senior Economist, is currently Vice President of the Company.

Ms. Wang has rich experience in marketing and business management. She joined Baosteel in 1985 and has successively held positions of Vice President and President of Tianjin Baosteel Northern Trading Co., Ltd., Assistant to President of Baosteel International Economic & Trading Co., Ltd., President of Bsteel Online Co., Ltd., CIO of Baosteel International Economic & Trading Co., Ltd., President and Chief Representative of Baosteel America Inc, President of Baosteel International Economic & Trading Co., Ltd. She has been working as Vice President of the Company since August 2010.

Ms. Wang graduated from Wuhan Institute of Iron and Steel in 1985. She received her EMBA degree from Guanghua School of Management, Beijing University in 2000, her PhD degree in engineering from Northeastern University in 2009, and her EMPAcc degree from the Chinese University of Hong Kong in 2011.

Feng Taiguo (born in March 1963), Chinese, Senior Engineer, is currently Vice President of the Company.

Mr. Feng has rich experience in iron and steel manufacturing and quality management. Since joining Baosteel in 1987, he took various positions with the company, including member of the steel sheet section of Baosteel production unit, deputy head, and head of the steel sheet section, deputy director, and acting director of the steel sheet office of Baosteel production unit, acting director of the production control center of the manufacturing management department, vice director of the production department, vice director of the manufacturing management department, manager of the bar steel plant, manager of the manufacturing management department, vice president and president of the sales center and the marketing department respectively, assistant to president of Baosteel Branch, executive vice president of Special Steel Branch, assistant to the president of the Company and director of the manufacturing management department of Baoshan Iron & Steel, assistant to the president and general manager of the business unit of steel tubes, pipes and bars. He has been working as Vice President of the Company since August 2012.

Mr. Feng graduated from the East China University of Metallurgy with a major in metal pressure processing in 1987, and gained his MBA degree from Fudan University in 2003.

Chu Shuangjie (born in December 1964), Chinese, Senior Engineer of professor level, is currently Vice President of the Company.

Mr. Chu has rich experience in iron and steel manufacturing and technical management. He joined Baosteel in 1996 and took various positions with the company, including engineer of Baosteel cold-rolling plant, vice manager and manager of the silicon steel sub-plant of the cold-rolling section, vice manager and manager of the cold-rolling plant, director of the silicon steel department, assistant to the president of the Baosteel Branch and director of the silicon steel department, assistant to the president of Baoshan Iron & Steel Co., Ltd. and director of the silicon steel department, manager of the follow-up project team of oriented silicon steel, assistant to president of Baoshan Iron & Steel Co., Ltd. and manager of the cold-rolling plant, team manager of the newly-built continuous coating & annealing project, team manager of the fifth cold-rolling project, assistant to president and vice president of the Company. Since December 2013, he has been vice president of the Company and general manager of the business unit of steel tubes, pipes and bars.

Mr. Chu graduated from the hot processing major of the machinery department of Anhui Polytechnic University in 1987, gained his Master's degree from the Northwestern Polytechnical University with a major in material science and engineering in 1990, a PhD degree in composite materials from Shanghai Jiaotong University in 1996 and EMBA degree from China Europe International Business School in 2009.

Hou Angui (born in February, 1972), Chinese, senior engineer, is currently vice president of the Company.

Mr. Hou has rich experience in iron and steel production and technical management. Mr. Hou joined Baosteel in July, 1994, and worked as the Manager of No. 1 Continuous Casting Branch of Baosteel Steel-making Plant, Manager Assistant, Deputy Manager and Manager of the Steel-making Plant, Vice President of Shanghai Meishan Steel Co., Ltd. and other positions. Mr. Hou took the office of assistant to president of the Company and director of its Manufacture Management Department in July, 2012. In June, 2013, he no longer took the concurrent office of director of Manufacture Management Department. He has taken the office of Vice President of the Company since July, 2013.

Mr. Hou graduated from the Northeast University in July, 1994 and received the Master's degree in metallurgical engineering science from Shanghai University in April, 2008.

Zhu Kebing (born in October 1974), Chinese, Senior Accountant, Certified Public Accountant, is currently chief accountant and secretary to the Board of Directors of the Company.

Mr. Zhu is experienced in enterprise finance and investment management. Since he joined Baosteel in July 1997, he held various positions with the company, including vice director of the department of finance and accounting of the Company as well as the Group, and general manager of Operation Finance Department of Baosteel Group Corporation. He was on the Fourth Board of supervisors of the Company from April 2009 to March 2012. He became chief accountant and secretary to the Board of Directors of the Company in August 2012.

Mr. Zhu graduated from Northeastern University in 1997, and gained the EMPAcc degree from the Chinese University of Hong Kong in 2011.

II. Employment of Directors, Supervisors, and Senior Executives in Service or Leaving the Company During the Period

(I) Posts in the shareholding company

| Name | Shareholding company | Post held | Start of term | End of term |
|--------------|----------------------------|--|---------------|-------------|
| He Wenbo | Baosteel Group Corporation | Director; President | | |
| Liu Zhanying | Baosteel Group Corporation | Secretary of Committee for Disciplinary Inspection | | |
| Zhao Zhouli | Baosteel Group Corporation | Vice President | | |
| Buck Pei | Baosteel Group Corporation | Outside Director | | |
| Guo Bin | Baosteel Group Corporation | Assistant to President | | |
| Wu Kunzong | Baosteel Group Corporation | Director of Operation Finance Department | | |
| Zhang Pijun | Baosteel Group Corporation | President of the Central Research Institute | | |

(II) Posts in other entities

| Name | Name of other entities | Post held | Start of term | End of term |
|---------------------|--|---|--|-------------|
| He Wenbo | The Chinese Society For Metals | Standing council member | | |
| | Second Board of Trustees, Tongji University | Member of the Board | | |
| Dai Zhihao | Baosteel Resources Co., Ltd. | Chairman | | |
| | Bao-Island Enterprises Limited | Chairman | | |
| | China Pacific Insurance (Group) co., Ltd. | Chairman of the board of supervisors | | |
| | The Listed Companies Association of Shanghai | Chief Supervisor | | |
| | Baosteel Zhanjiang Iron & Steel Co., Ltd. | Chairman | July 2012 | |
| Zhao Zhouli | Zhanjiang Iron & Steel Engineering Headquarters | Command-in-chief | March 2011 | |
| | Northeastern University | Doctoral Supervisor | | |
| | Factory Construction Committee of China Metallurgical Construction Association | Vice Chairman | | |
| | The Chinese Society For Metals | Council member | | |
| | Baosteel Engineering & Technology Group Co., Ltd. | Director | November 2010 | |
| Wang Li | Shanghai Baosight Software Co., Ltd. | Chairman | April 2013 | |
| | Shanghai Baosteel Chemical Co., Ltd. | Chairman | December 2009 | |
| Buck Pei | W.P. Carey School of Business, Arizona State University | Executive dean (China region) | January, 2013 | |
| Wong Pik Kuen Helen | HSBC Bank (China) | Vice Chairwoman, President and CEO | Vice Chairwoman since Jan. 15, 2013, and President and CEO since Jul. 26, 2010 | |
| | Hubei Suizhou Zengdu HSBC Rural Bank Company Limited | Chairman | May 10, 2011 | |
| | HSBC Jintrust Fund Management Co., Ltd. | Supervisor | Jun. 24, 2011 | |
| | HSBC Bank Canada | Director | November 2013 | |
| Yuh-chang Hwang | W.P. Carey School of Business, Arizona State University | Associate professor of the Accounting Department | August 1995 | |
| | China Europe International Business School | Professor | April 2013 | |
| Liu Wenbo | Roland Berger Strategy Consultants | Member of the Global Strategy Committee, Global Senior Partner and Vice President of Greater China Area | June 2007 | |
| Xia Dawei | China United Network Communications Limited | Independent Director | November 2009 | |
| | Shanghai Electric Power Co., Ltd. | Independent Director | November 2009 | |
| | Lianhua Supermarket Co., Ltd. | Independent Director | September 2004 | |
| | China Rongsheng Heavy Industry Group Holdings Co., Ltd. | Independent Director | December 2012 | |
| Guo Bin | Baosteel Resources Co., Ltd. | Director | August 2008 | |
| | Baosteel Resources (International) Co., Ltd. | Director | December 2010 | |
| | Hwabao Investment Co., Ltd. | Director | August 2008 | |

Section VI Directors, Supervisors, Senior Executives and Employees

| Name | Name of other entities | Post held | Start of term | End of term |
|---------------|---|---|---------------|-------------|
| Wu Kunzong | Baosteel Special Steel Co., Ltd. | Supervisor | April 2012 | |
| | Baosteel Stainless Steel Co., Ltd., Shanghai Baosteel Stainless Steel Co., Ltd. | Supervisor | April 2012 | |
| | Baosteel Group Xinjiang Bayi Iron & Steel Co., Ltd. | Supervisor | May 2011 | |
| | Baosteel Group Guangdong Shaoguan Iron & Steel Co., Ltd. | Chairman of the Board of Supervisors | December 2012 | |
| | Baosteel Metals Co., Ltd. | Chairman of the Board of Supervisors | March 2013 | |
| He Meifen | Shanghai Baosight Software Co., Ltd. | Supervisor | April 2010 | |
| | Baosteel-NSC/Arcelor Automotive Steel Sheets Co., Ltd. | Director | August 2011 | |
| | Baosteel Zhanjiang Iron & Steel Co., Ltd. | Supervisor | November 2012 | |
| Zhou Jianfeng | Shanghai Society for Advanced Materials | Vice Chairman of the Third Session | 2012 | |
| | The Ninth Council of the Chinese Society For Metals | Council member | 2012 | |
| | The ninth committee of Shanghai Association for Science & Technology | Committee member | 2012 | |
| | The Ninth Council of Shanghai Society For Metals | Vice Chairman | 2012 | |
| Wang Jing | Shanghai Jiangnan-Changxing Shipbuilding Co., Ltd. | Vice Chairwoman | 2011 | |
| | Shanghai Jiangnan-Changxing Heavy Industry Co., Ltd. | Vice Chairwoman | 2011 | |
| Feng Taiguo | Shanghai Baosteel Chemical Co., Ltd. | Director | December 2009 | |
| Chu Shuangjie | Baosteel Zhanjiang Iron & Steel Co., Ltd. | Director | 2012 | |
| | Baosteel-NSC/Arcelor Automotive Steel Sheets Co., Ltd. | Director | 2011 | |
| | Bayi Iron & Steel Group | Director | 2012 | |
| | Branch Society for Metals electrical steel of China (SMEB) | Committee Vice Chairman | 2011 | |
| | Shanghai Jiaotong University | Part-time professor, MA student adviser | 2006 | |
| Zhu Kebing | Baosteel Development Co., Ltd. | Director | | |
| | Baosteel Zhanjiang Iron & Steel Co., Ltd. | Director | 2012 | |
| | Bsteel E-commerce Co., Ltd. | Director | | |
| | Hwabao Trust Co., Ltd. | Chairman of the Board of Supervisors | | |
| | Shanghai Baosight Software Co., Ltd. | Director | April 2013 | |

III. Annual Remunerations of the Directors, Supervisors, and Senior Executives

The annual remunerations of directors and supervisors will be set and approved by Board of Directors in accordance with their annual performance and with the "Performance Evaluation Method for Senior Executives", "Remuneration Management Method for Senior Executives", and the "Rules for Rewarding the Special Contributions by Senior Executives". The annual remunerations of those to be paid by shareholding companies and other related companies would be defined by these companies. The remunerations of the Directors, Supervisors and Senior Executives for the year 2013 totaled RMB 17,224,700 (pre-tax) (the payment of some quota of which is deferred).

IV. Change in Directors, Superiors and Senior Executives

| Name | Position | Change | Reason |
|-------------|----------------------|--------------|----------------------|
| Ma Guoqiang | Director; President | Leave office | Resign from the post |
| Dai Zhihao | Director; President | Hired | Newly hired in 2013 |
| Xia Dawei | Independent Director | Hired | Newly hired in 2013 |
| Zhang Pijun | Supervisor | Leave office | Resign from the post |
| He Meifen | Supervisor | Hired | Newly hired in 2013 |
| Hou Angui | Vice President | Hired | Newly hired in 2013 |

V. Personnel Change of the Team of Core Technology or Key Technical Employees

No change occurred in this reporting period.

Section VI Directors, Supervisors, Senior Executives and Employees

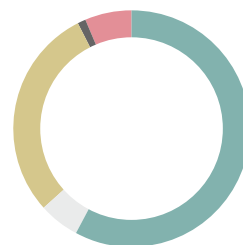
VI. Profile of Employees of the Parent Company and Major Subsidiaries

(I) Employees

| | Unit: person |
|---|--------------|
| Number of employees on active duty in the parent company | 17995 |
| Number of employees on active duty in the main subsidiaries | 19492 |
| Total number of employees on active duty | 37487 |
| Number of retired employees to be covered by the parent company and main subsidiaries | 0 |

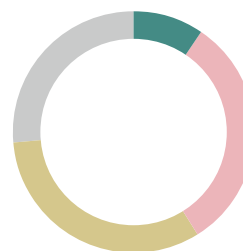
Professional composition

| Category of professional composition | Number of professionals |
|--------------------------------------|-------------------------|
| Production personnel | 21694 |
| Sales personnel | 2098 |
| Technical personnel | 10904 |
| Financial personnel | 473 |
| Administrative personnel | 2318 |
| Total | 37487 |



Educational background

| Category of educational background | Number (persons) |
|--|------------------|
| Master's degree or above | 3557 |
| Bachelor's degree | 11863 |
| College degree | 12188 |
| Secondary vocational school education or lower | 9879 |
| Total | 37487 |



(II) Compensation policy

With a compensation budget mechanism oriented toward efficiency and profitability enhancement for the subordinate units, the Company sticks to the concept of "Compensation in line with the post value, performance, and contribution," and continues to perfect the compensation management system. It carries out varied incentive policies for employees according to the features of their posts.

(III) Training scheme

Aimed at building a professional team, and centering on the competence cultivation including "leadership, technical skills, and on-site capability," the Company will study and summarize the successful experiences in talent cultivation, continuously perfect the cultivation system, and carry out the differentiated training plans for employees to enhance the comprehensive quality of employees.

Section VII Corporate Governance

I. Progress in Corporate Governance & Registration and Administration for Persons with Insider Information

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.

On the 2012 Shareholders' Meeting held on April 26, 2013, an independent director was elected additionally. There are 10 directors on the fifth Board of Directors, including 4 independent directors which account for 40% of the directors. Mr. Buck Pei, who has been trusted by SASAC as the outside director of Baosteel Group corporation, is concurrently one of the directors of the Company. He assumes a comparatively independent position in terms of his relationship with in 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. Yuh-chang Hwang, professor in accounting, acts as the director of the Auditing Committee consisting of four directors, whose independent directors take up three fourths of its members. Ms. Wong Pik Kuen Helen is the director of the Compensation and Performance Evaluation Committee, whose members are all outside directors, with four fifths of its members are independent directors. With independent directors serving as the directors of Auditing Committee and Compensation and Performance Evaluation Committee, it is ensured that the auditing and evaluation work is independent and impartial.

In 2013, the Company was honored as one of the "Top Ten Companies with Best Social Responsibility Performance" on the occasion of CCTV Summit of Listed Companies and the "Top Hundred Enterprises for Corporate Governance" sponsored by the *Board of Directors Magazine*.

The Company has established a registration and administration system for persons with insider information. After self-exams, the Company has not found any situation where the persons with insider information are involved in company stock trading by taking advantage of the insider information before the disclosure of any significant information.

II. Profile of Shareholders' General Meeting

| Session | Date of the meeting | Proposals | Resolution | Designated web disclosure of the resolutions | Disclosure date |
|--|---------------------|---|------------|--|-----------------|
| Shareholders' general meeting 2012 | April 26, 2013 | 1. 2012 Board of Director's Report 2. 2012 Board of Supervisor's Report 3. 2012 Annual Report 4. 2012 Report on Remuneration of Directors, Superiors and Senior Executives 5. 2012 Financial Statement Report 6. 2012 Profit Distribution Plan 7. Proposal on 2013 Budget 8. Proposal on 2013 Day-to-day Related Party Transaction 9. Proposal on Implementation of Direct Financing 10. Proposal on Renewal of the Service of Deloitte Touche Tohmatsu as the Independent Accountant for 2013. 11. Proposal on Revision of Articles of Association 12. Proposal on Additional Election of Independent Directo | Passed | www.sse.com.cn | April 27, 2013 |
| 2013 first interim shareholders' meeting | August 08, 2013 | 1. Proposal on Additional Election of Director of the Company | Passed | www.sse.com.cn | August 09, 2013 |

Section VII Corporate Governance

III. Directors' Duty Fulfillment

(I) Attendance of the board meetings and the shareholders' meetings by directors

| Director Name | Independent Director or not | Attendance of the board meetings | | | | | | Attendance of the shareholders' meetings |
|--|-----------------------------|--|----------------------|------------------------------|-----------------------------|---------|------------------------|--|
| | | Required number of board meetings for the year | Attendance in person | Attendance by correspondence | Entrusting a representative | Absence | Two successive absence | Times of attendance of the meetings |
| He Wenbo | No | 7 | 7 | 2 | | | No | 2 |
| Ma Guoqiang | No | 5 | 5 | 2 | | | No | 1 |
| Dai Zhihao | No | 2 | 2 | | | | No | |
| Zhao Zhouli | No | 7 | 6 | 2 | 1 | | No | 1 |
| Zhu Junsheng | No | 7 | 6 | 2 | 1 | | No | |
| Wang Li | No | 7 | 7 | 2 | | | No | 1 |
| Buck Pei | No | 7 | 7 | 2 | | | No | |
| Wong Pik Kuen Helen | Yes | 7 | 7 | 2 | | | No | |
| Yuh-chang Hwang | Yes | 7 | 7 | 2 | | | No | 2 |
| Liu Wenbo | Yes | 7 | 7 | 2 | | | No | 1 |
| Xia Dawei | Yes | 4 | 4 | 2 | | | No | |
| Number of Board Meetings held in the year | | | | | | | 7 | |
| Including: number of on-site meetings | | | | | | | 5 | |
| number of meetings in communication mode | | | | | | | 2 | |
| number of on-site meetings combined with other ways of communication | | | | | | | 0 | |

(II) Dissents from independent directors to relevant matters of the Company

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

IV. Important Opinions and Suggestion Put Forward by the Special Committees Attached to the Board of Directors During the Reporting Period

In the opinion of the Committee for Strategic Development and Risk Management, the intensified competition leads to strategic adjustment, while the organizational structure supports the implementation of strategies. Therefore, the design of the organizational structure including the distribution of decision-making right, management and control mechanism, accountability mechanism and incentive mechanism must be adjusted and innovated. Instead of being managed as the traditional subsidiaries, Zhanjiang and Meishan shall be assessed as the independent profit centers, and pursue synergy in the principle of maximized overall interests of the listed company.

In the opinion of the Compensation and Performance Evaluation Committee, it's necessary to continue to optimize the compensation management of the Company, and carry out research to promote the equity incentive mechanism of senior executives.

In the opinion of the Auditing Committee, it's necessary to pay attention to the internal control management of Zhanjiang Project, strengthen the process control and carry out key inspection on the key procedures of Zhanjiang Project.

V. Explanation by the Board of Supervisors on Risks for the Company

The Board of Supervisors held no objection to all aspects under the supervision during the reporting period.

VI. Establishment and Implementation of the Examination Mechanisms and the Incentive Mechanism for 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 Compensation and Performance Evaluation 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.

Section VIII Internal Control

I. Statements Regarding the Internal Control and Its Construction

It's the responsibility of the Board of Directors to establish, perfect and effectively implement the internal control system, evaluate its effectiveness, and truthfully disclose the internal control evaluation report.

The Company ensures the completeness and accuracy of the accounting information and keeps the normalized and transparent image of listed company through constant improvement of various financial management systems, normalization of the financial accounting and constant compaction of the basic accounting works.

In terms of the construction of internal control system, the Company continued to perfect the internal control system and promoted the fusion between this system and the management system in accordance with the *Basic Standard for Enterprise Internal Control* and other pertinent regulations. In 2013, the Company newly added 21 management rules involving marketing, import business, confidentiality, safety management and other aspects and revised 64 rules to meet the compliance requirement, the Company's business management demands and the organizational structure adjustment needs.

The Company carried out the internal control evaluation work according to the *Basic Standard for Enterprise Internal Control and Guide for Enterprise Internal Control Evaluation* and formed the internal control evaluation report. No major flaw was found for the internal control of the Company in the reporting period, and the Evaluation Report has been approved by the 13th meeting of the 5th Board Meeting of the Company and disclosed to the public, with information disclosure available at: www.sse.com.cn.

II. Audit Report for the Company's Internal Control

Deloitte Touche Tohmatsu Certified Public Accountants LLP (special general partnership) conducted the internal control audit and gave its audit report for the Company, and the content of the report was disclosed at www.sse.com.cn.

III. The Accountability System for Major Mistakes in the Disclosure of Information of the Company's Annual Report and Its Implementation

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 mistakes in information disclosure of annual reports was added.

According to the accountability system for major mistakes in information disclosure of 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 mistakes, no statement of major information omission, and no correction of advance notice of annual performance occurred in the reporting period.

Section IX Financial Statements

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AUDITOR'S REPORT

De Shi Bao (Shen) Zi (14) No.P0618

To the Shareholders of Baoshan Iron & Steel Co., Ltd.

We have audited the accompanying financial statements of Baoshan Iron & Steel Co., Ltd. (the "Company"), which comprise the Company's and consolidated balance sheets as at 31 December 2013, and the Company's and consolidated income statements, the Company's and consolidated statements of changes in shareholders' equity, and the Company's and consolidated cash flow statements for the year then ended, and the notes to the financial statements.

1. Management's responsibility for the financial statements

Management of the Company is responsible for the preparation and fair presentation of these financial statements. This responsibility includes: (1) preparing the financial statements in accordance with Accounting Standards for Business Enterprises to achieve fair presentation of the financial statements; (2) designing, implementing and maintaining internal control which is necessary to enable that the financial statements are free from material misstatement, whether due to fraud or error.

2. Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with China Standards on Auditing. China Standards on Auditing require that we comply with the Code of Ethics for Chinese Certified Public Accountants, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, Certified Public Accountants consider the internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

3. Opinion

In our opinion, the financial statements of the Company present fairly, in all material respects, the Company's and consolidated financial position as of 31 December 2013, and the Company's and consolidated results of operations and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises.

Deloitte Touche Tohmatsu CPA LLP

Shanghai, China

Chinese Certified Public Accountant:

Zhu Xiaolan

Jiang Jian

28 March 2014

The auditor's report and the accompanying financial statements are English translations of the Chinese auditor's report and statutory financial statements prepared under accounting principles and practices generally accepted in the People's Republic of China. These financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in other countries and jurisdictions. Where the English version does not conform to the Chinese version, the Chinese version prevails.

Consolidated Balance Sheet

AT 31 DECEMBER 2013

RMB

| Item | Notes | Closing Balance | Opening Balance | |
|--|-----------|--------------------|--|---|
| | | | Restated amount after business combination involving entities under common control | Restated amount before business combination involving entities under common control |
| Current Assets: | | | | |
| Cash and bank balances | (V)1 | 12,881,234,298.49 | 8,851,124,979.28 | 8,840,469,097.21 |
| Held-for-trading financial assets | (V)2 | 28,738,843.94 | 89,577,809.31 | 89,577,809.31 |
| Notes receivable | (V)3 | 12,147,274,807.14 | 12,411,303,185.31 | 12,411,303,185.31 |
| Accounts receivable | (V)4 | 11,274,903,876.09 | 8,551,131,045.38 | 8,542,193,127.62 |
| Prepayments | (V)5 | 3,063,667,270.70 | 3,716,337,443.68 | 3,716,337,443.68 |
| Interest receivable | (V)6 | 740,275,608.57 | 948,484,949.13 | 948,484,949.13 |
| Dividends receivable | (V)7 | 60,887,153.28 | 33,639,886.82 | 33,639,886.82 |
| Other receivables | (V)8 | 1,644,745,236.41 | 1,387,110,820.63 | 1,127,915,016.72 |
| Financial assets purchased under resale agreements | | 91,000,000.00 | - | - |
| Inventories | (V)9 | 31,086,740,188.46 | 28,872,423,689.21 | 28,790,882,932.79 |
| Non-current assets due within one year | (V)10 | 4,760,000,000.00 | 4,880,000,000.00 | 4,880,000,000.00 |
| Other current assets | (V)11 | 277,031,463.05 | - | - |
| Total Current Assets | | 78,056,498,746.13 | 69,741,133,808.75 | 69,380,803,448.59 |
| Non-current Assets: | | | | |
| Loans and advances to customers | (V)12 | 3,071,913,823.54 | 2,763,019,609.19 | 2,763,019,609.19 |
| Available-for-sale financial assets | (V)13 | 1,009,142,907.29 | 1,467,832,301.93 | 1,467,832,301.93 |
| Long-term receivables | (V)14 | 13,514,754,636.88 | 18,035,939,000.00 | 18,035,939,000.00 |
| Long-term equity investments | (V)15, 16 | 13,681,009,703.67 | 10,539,022,615.18 | 9,118,968,766.28 |
| Investment properties | (V)17 | 475,625,029.59 | 477,471,234.63 | 477,471,234.63 |
| Fixed assets | (V)18 | 86,218,213,718.97 | 79,451,375,744.49 | 79,440,015,016.44 |
| Construction in progress | (V)19 | 15,173,486,763.50 | 15,383,749,970.37 | 9,966,930,139.34 |
| Materials for construction of fixed assets | (V)20 | 232,296,401.98 | 111,190,366.94 | 111,190,366.94 |
| Intangible assets | (V)21 | 6,878,417,865.39 | 6,759,050,173.46 | 6,152,529,015.20 |
| Long-term prepaid expenses | (V)22 | 886,044,247.32 | 906,159,533.22 | 906,159,533.22 |
| Deferred tax assets | (V)23 | 2,052,778,079.55 | 2,035,286,047.54 | 2,026,536,047.54 |
| Other non-current assets | (V)25 | 5,418,157,904.40 | 13,204,612,832.56 | 14,509,906,520.94 |
| Total Non-current Assets | | 148,611,841,082.08 | 151,134,709,429.51 | 144,976,497,551.65 |
| TOTAL ASSETS | | 226,668,339,828.21 | 220,875,843,238.26 | 214,357,301,000.24 |

Consolidated Balance Sheet (continued)

AT 31 DECEMBER 2013

RMB

| Item | Notes | Closing Balance | Opening Balance | |
|--|-------|--------------------|--|---|
| | | | Restated amount after business combination involving entities under common control | Restated amount before business combination involving entities under common control |
| Current Liabilities: | | | | |
| Short-term borrowings | (V)26 | 34,470,625,308.28 | 31,647,325,209.64 | 28,964,525,209.64 |
| Customer deposits and deposits from banks and other financial institutions | (V)27 | 7,598,875,519.12 | 8,071,462,806.92 | 8,071,462,806.92 |
| Taking from banks and other financial institutions | (V)28 | 300,000,000.00 | 600,000,000.00 | 600,000,000.00 |
| Held-for-trading financial liabilities | (V)29 | - | 20,789,685.96 | 20,789,685.96 |
| Notes payable | (V)30 | 2,429,960,640.68 | 3,494,680,215.46 | 3,255,540,509.18 |
| Accounts payable | (V)31 | 18,175,471,239.50 | 18,658,642,474.67 | 18,655,403,230.17 |
| Receipts in advance | (V)32 | 11,971,576,846.67 | 11,194,906,638.62 | 11,194,900,927.62 |
| Financial assets sold under repurchase agreements | | 666,961,287.43 | 437,705,880.63 | 437,705,880.63 |
| Employee benefits payable | (V)33 | 1,696,560,100.99 | 1,567,218,556.73 | 1,565,024,385.52 |
| Taxes payable | (V)34 | 1,781,381,390.45 | 1,093,465,271.31 | 1,238,213,835.07 |
| Interest payable | (V)35 | 226,797,561.21 | 179,700,527.43 | 177,928,027.43 |
| Dividends payable | (V)36 | 14,070,461.91 | 22,155,313.83 | 22,155,313.83 |
| Other payables | (V)37 | 1,225,243,921.84 | 1,879,933,167.71 | 681,525,421.62 |
| Non-current liabilities due within one year | (V)38 | 12,227,658,084.57 | 4,502,840,000.00 | 4,402,850,000.00 |
| Other current liabilities | (V)39 | 1,848,866,666.64 | 1,017,012,500.06 | 2,938,659,947.30 |
| Total Current Liabilities | | 94,634,049,029.29 | 84,387,838,248.97 | 82,226,685,180.89 |
| Non-current Liabilities: | | | | |
| Long-term borrowings | (V)40 | 4,702,446,502.87 | 2,731,689,992.42 | 2,731,689,992.42 |
| Bonds payable | (V)41 | 3,502,708,347.20 | 9,835,739,000.07 | 9,835,739,000.07 |
| Long-term payables | (V)42 | - | 250,000,000.00 | 250,000,000.00 |
| Special payables | (V)43 | 739,598,541.24 | 688,993,701.54 | 688,993,701.54 |
| Deferred tax liabilities | (V)23 | 304,859,283.39 | 320,632,524.32 | 320,632,524.32 |
| Other non-current liabilities | (V)44 | 2,718,747,282.41 | 2,701,329,376.35 | 961,802,609.24 |
| Total Non-current Liabilities | | 11,968,359,957.11 | 16,528,384,594.70 | 14,788,857,827.59 |
| TOTAL LIABILITIES | | 106,602,408,986.40 | 100,916,222,843.67 | 97,015,543,008.48 |
| Shareholders' Equity: | | | | |
| Share capital | (V)45 | 16,471,724,924.00 | 17,122,048,088.00 | 17,122,048,088.00 |
| Capital reserve | (V)46 | 32,966,712,988.03 | 36,008,969,346.05 | 35,892,221,131.19 |
| Less: Treasury shares | (V)47 | - | 115,785,165.80 | 115,785,165.80 |
| Special reserve | (V)48 | 22,160,961.06 | 17,894,916.86 | 17,894,916.86 |
| Surplus reserve | (V)49 | 24,528,201,377.92 | 23,229,714,608.04 | 23,229,714,608.04 |
| Retained earnings | (V)50 | 37,044,549,468.11 | 34,802,934,026.47 | 35,540,808,913.80 |
| Translation differences arising on translation of financial statements denominated in foreign currencies | | (521,151,950.22) | (299,633,775.37) | (299,633,775.37) |
| Total shareholders' equity attributable to owners of the Company | | 110,512,197,768.90 | 110,766,142,044.25 | 111,387,268,716.72 |
| Minority interests | | 9,553,733,072.91 | 9,193,478,350.34 | 5,954,489,275.04 |
| TOTAL SHAREHOLDERS' EQUITY | | 120,065,930,841.81 | 119,959,620,394.59 | 117,341,757,991.76 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | 226,668,339,828.21 | 220,875,843,238.26 | 214,357,301,000.24 |

The accompanying notes form part of the financial statements.

The financial statements on pages 50 to 157 were signed by the following:

Legal Representative: He Wenbo

Person in Charge of the Accounting Body: Zhu Kebing

Chief Accountant: Wang Juan

Balance Sheet of the Company

AT 31 DECEMBER 2013

RMB

| Item | Notes | Closing Balance | Opening Balance |
|--|---------|---------------------------|---------------------------|
| Current Assets: | | | |
| Cash and bank balances | | 6,290,586,489.64 | 2,036,143,946.73 |
| Notes receivable | | 12,214,208,950.73 | 13,473,619,237.43 |
| Accounts receivable | (XI)1 | 10,715,045,629.19 | 8,987,172,230.07 |
| Prepayments | | 1,079,542,213.71 | 1,557,782,054.86 |
| Interest receivable | | 729,665,753.38 | 938,024,383.57 |
| Other receivables | (XI)2 | 327,858,990.20 | 315,767,588.48 |
| Inventories | | 17,033,352,986.60 | 15,942,719,003.25 |
| Non-current assets due within one year | | 4,730,392,547.84 | 4,500,000,000.00 |
| Other current assets | | - | 1,565,650,761.38 |
| Total Current Assets | | 53,120,653,561.29 | 49,316,879,205.77 |
| Non-current Assets: | | | |
| Long-term receivables | | 15,573,532,930.56 | 18,000,000,000.00 |
| Long-term equity investments | (XI)3,4 | 44,907,172,562.46 | 30,281,311,482.70 |
| Fixed assets | | 51,969,984,620.58 | 46,760,734,784.44 |
| Construction in progress | | 2,798,593,355.74 | 4,260,158,720.45 |
| Materials for construction of fixed assets | | 25,174,314.02 | 22,874,297.42 |
| Intangible assets | | 1,505,904,482.93 | 1,531,135,771.95 |
| Long-term prepaid expenses | | 1,511,118.40 | 1,624,452.28 |
| Deferred tax assets | | 658,474,261.06 | 885,652,585.80 |
| Other non-current assets | | 1,096,036,325.53 | 14,442,110,959.05 |
| Total Non-current Assets | | 118,536,383,971.28 | 116,185,603,054.09 |
| TOTAL ASSETS | | 171,657,037,532.57 | 165,502,482,259.86 |

Balance Sheet of the Company (continued)

AT 31 DECEMBER 2013

RMB

| Item | Notes | Closing Balance | Opening Balance |
|---|-------|---------------------------|---------------------------|
| Current Liabilities: | | | |
| Short-term borrowings | | 8,496,748,388.00 | 9,851,212,641.66 |
| Held-for-trading financial liabilities | | - | 20,789,685.96 |
| Notes payable | | 223,523,900.29 | 40,124,006.24 |
| Accounts payable | | 27,193,534,207.87 | 19,832,191,712.82 |
| Receipts in advance | | 9,032,674,462.93 | 10,553,642,205.32 |
| Employee benefits payable | | 1,191,134,290.92 | 1,067,189,892.33 |
| Taxes payable | | 2,111,635,461.99 | 2,322,523,438.08 |
| Interest payable | | 69,588,411.99 | 66,764,924.11 |
| Other payables | | 467,707,218.89 | 159,471,119.07 |
| Non-current liabilities due within one year | | 11,003,934,462.35 | 4,399,850,000.00 |
| Other current liabilities | | 1,690,778,800.40 | 1,921,647,447.24 |
| Total Current Liabilities | | 61,481,259,605.63 | 50,235,407,072.83 |
| Non-current Liabilities: | | | |
| Long-term borrowings | | 4,267,830,000.00 | 628,550,000.00 |
| Bonds payable | | - | 9,339,778,162.83 |
| Special payables | | 710,710,498.45 | 627,409,321.54 |
| Deferred tax liabilities | | 302,407,284.28 | 298,006,027.57 |
| Other non-current liabilities | | 592,406,805.09 | 586,978,435.75 |
| Total Non-current Liabilities | | 5,873,354,587.82 | 11,480,721,947.69 |
| TOTAL LIABILITIES | | 67,354,614,193.45 | 61,716,129,020.52 |
| Shareholders' Equity: | | | |
| Share capital | | 16,471,724,924.00 | 17,122,048,088.00 |
| Capital reserve | | 32,731,184,064.17 | 35,894,640,824.12 |
| Less: Treasury shares | | - | 115,785,165.80 |
| Surplus reserve | | 24,528,201,377.92 | 23,229,714,608.04 |
| Retained earnings | | 30,571,312,973.03 | 27,655,734,884.98 |
| TOTAL SHAREHOLDERS' EQUITY | | 104,302,423,339.12 | 103,786,353,239.34 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | 171,657,037,532.57 | 165,502,482,259.86 |

Consolidated Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2013

RMB

| Item | Notes | Amount for the current period | Amount for the previous period | |
|--|-------|-------------------------------|--|---|
| | | | After business combination involving entities under common control | Before business combination involving entities under common control |
| I. Total operating income | | 190,025,966,573.58 | 191,511,796,586.65 | 191,512,137,670.60 |
| Including: Operating income | (V)51 | 189,688,379,683.22 | 191,135,195,744.15 | 191,135,536,828.10 |
| Interest income | | 334,537,837.59 | 371,630,234.13 | 371,630,234.13 |
| Fee and commission income | | 3,049,052.77 | 4,970,608.37 | 4,970,608.37 |
| Less: Operating costs | (V)51 | 171,718,199,823.29 | 176,885,151,589.78 | 176,879,358,812.58 |
| Interest expenses | | 233,629,976.26 | 266,450,869.57 | 266,450,869.57 |
| Fee and commission expenses | | 604,451.35 | 575,355.99 | 575,355.99 |
| Business taxes and levies | (V)52 | 413,666,506.19 | 308,442,627.61 | 307,987,349.04 |
| Selling expenses | | 1,963,040,971.61 | 1,927,678,166.80 | 1,925,622,030.62 |
| Administrative expenses | | 6,880,731,290.07 | 7,443,611,637.26 | 7,237,559,690.08 |
| Financial expenses | (V)53 | (544,131,554.59) | 488,576,834.85 | 415,679,745.91 |
| Impairment losses of assets | (V)54 | 2,388,317,269.25 | 2,146,523,788.27 | 2,084,099,983.65 |
| Add: Gains from changes in fair values (Losses are indicated by "-") | (V)55 | 27,585,736.16 | (12,975,596.11) | (12,975,596.11) |
| Investment income | (V)56 | 684,054,175.06 | 1,076,524,027.40 | 1,214,690,828.50 |
| Including: Income from investments in associates and joint ventures | | 174,802,410.63 | 68,859,832.09 | 207,026,633.19 |
| II. Operating profit | | 7,683,547,751.37 | 3,108,334,147.81 | 3,596,519,065.55 |
| Add: Non-operating income | (V)57 | 882,372,341.19 | 10,519,986,674.00 | 10,502,489,013.27 |
| Less: Non-operating expenses | (V)58 | 556,158,742.00 | 964,650,123.74 | 959,355,275.97 |
| Including: Losses from disposal of non-current assets | | 472,234,905.84 | 779,567,721.43 | 779,567,721.43 |
| III. Total profit | | 8,009,761,350.56 | 12,663,670,698.07 | 13,139,652,802.85 |
| Less: Income tax expenses | (V)59 | 1,969,426,727.34 | 2,708,378,748.65 | 2,706,697,134.02 |
| IV. Net profit | | 6,040,334,623.22 | 9,955,291,949.42 | 10,432,955,668.83 |
| Net profit attributable to owners of the Company | | 5,818,471,202.97 | 10,089,628,467.77 | 10,386,372,522.05 |
| Profit or loss attributable to minority interests | | 221,863,420.25 | (134,336,518.35) | 46,583,146.78 |
| V. Earnings per share | | | | |
| (I) Basic earnings per share | (V)60 | 0.35 | 0.58 | 0.60 |
| VI. Other comprehensive income | (V)61 | (651,599,826.28) | (66,884,221.34) | (66,884,221.34) |
| VII. Total comprehensive income | | 5,388,734,796.94 | 9,888,407,728.08 | 10,366,071,447.49 |
| Total comprehensive income attributable to owners of the Company | | 5,196,194,824.77 | 10,019,085,048.73 | 10,315,829,103.01 |
| Total comprehensive income attributable to minority interests | | 192,539,972.17 | (130,677,320.65) | 50,242,344.48 |

For business combination involving entities under common control occurred during the period, net profit of the acquiree generated before the business combination is nil. (The net profit in 2012 was reduced by RMB 477,663,719.41 due to the business combination involving entities under common control)

Income Statement of the Company

FOR THE YEAR ENDED 31 DECEMBER 2013

RMB

| Item | Notes | Amount for the current period | Amount for the previous period |
|--|-------|-------------------------------|--------------------------------|
| I. Operating income | (XI)5 | 114,822,648.81 | 129,732,149,355.48 |
| Less: Operating costs | (XI)5 | 103,299,412,868.12 | 120,018,114,042.54 |
| Business taxes and levies | | 227,193,200.29 | 132,933,823.08 |
| Selling expenses | | 633,150,695.94 | 676,603,354.78 |
| Administrative expenses | | 4,829,208,781.20 | 5,248,065,665.68 |
| Financial expenses | | (1,504,010,301.21) | (471,572,978.05) |
| Impairment losses of assets | | 113,905,152.00 | 2,338,457,245.04 |
| Add: Gains from changes in fair values (Losses are indicated by "-") | | 20,789,685.96 | (20,789,685.96) |
| Investment income | (XI)6 | 1,154,332,320.86 | 1,844,283,206.76 |
| Including: Income from investments in associates and joint ventures | | 73,461,094.80 | 107,617,111.14 |
| II. Operating profit | | 8,398,910,423.31 | 3,613,041,723.21 |
| Add: Non-operating income | | 494,367,912.92 | 10,182,582,848.03 |
| Less: Non-operating expenses | | 1,230,071,805.87 | 861,751,399.07 |
| Including: Losses from disposal of non-current assets | | 1,191,296,479.38 | 717,969,530.11 |
| III. Total profit | | 7,663,206,530.36 | 12,933,873,172.17 |
| Less: Income tax expenses | | 1,170,772,680.98 | 2,446,575,992.84 |
| IV. Net profit | | 6,492,433,849.38 | 10,487,297,179.33 |
| V. Other comprehensive income | | (13,870,928.84) | (92,180.29) |
| VI. Total comprehensive income | | 6,478,562,920.54 | 10,487,204,999.04 |

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER 2013

RMB

| Item | Notes | Amount for the current period | Amount for the previous period | |
|---|----------|-------------------------------|--|---|
| | | | After business combination involving entities under common control | Before business combination involving entities under common control |
| I. Cash Flows from Operating Activities: | | | | |
| Cash receipts from the sale of goods and the rendering of services | | 217,407,004,289.63 | 219,992,131,035.47 | 220,057,231,706.70 |
| Net decrease in loans and advances to customers | | - | 622,349,829.08 | 622,349,829.08 |
| Net decrease in balance with the central bank and due from banks and other financial institutions | | - | 261,004,073.03 | 261,004,073.03 |
| Cash receipts from interest, fees and commissions | | 358,269,102.70 | 380,236,620.78 | 380,236,620.78 |
| Net increase in taking from banks and other financial institutions | | - | 300,000,000.00 | 300,000,000.00 |
| Net increase in financial assets sold under repurchase agreements | | 229,255,406.80 | 437,705,880.63 | 437,705,880.63 |
| Receipts of tax refunds | | 238,846,824.18 | 236,335,694.24 | 236,335,694.24 |
| Other cash receipts relating to operating activities | (V)62(1) | 1,194,948,436.94 | 1,738,689,643.93 | 1,733,758,724.11 |
| Sub-total of cash inflows from operating activities | | 219,428,324,060.25 | 223,968,452,777.16 | 224,028,622,528.57 |
| Cash payments for goods purchased and services received | | 188,006,203,558.61 | 184,043,656,028.89 | 184,147,619,778.19 |
| Net increase in loans and advances to customers | | 309,733,952.49 | - | - |
| Net decrease in customer deposits and deposits from banks and other financial institutions | | 467,641,524.40 | 362,122,225.29 | 362,122,225.29 |
| Net decrease in taking from banks and other financial institutions | | 300,000,000.00 | - | - |
| Net increase in balance with the central bank and due from banks and other financial institutions | | 154,364,544.15 | - | - |
| Cash payments for interest, fees and commissions | | 207,481,007.69 | 234,476,212.22 | 234,476,212.22 |
| Cash payments to and on behalf of employees | | 9,058,768,740.54 | 8,810,189,234.70 | 8,780,477,553.29 |
| Payments of various types of taxes | | 6,241,284,298.55 | 4,438,796,851.04 | 4,431,758,211.64 |
| Other cash payments relating to operating activities | (V)62(2) | 2,592,369,799.77 | 3,893,320,169.07 | 3,869,994,679.06 |
| Sub-total of cash outflows from operating activities | | 207,337,847,426.20 | 201,782,560,721.21 | 201,826,448,659.69 |
| Net Cash Flows from Operating Activities | | 12,090,476,634.05 | 22,185,892,055.95 | 22,202,173,868.88 |
| II. Cash Flows from Investing Activities: | | | | |
| Cash receipts from disposals and recovery of investments | | 2,473,460,325.78 | 3,449,444,471.54 | 3,449,444,471.54 |
| Cash receipts from investment income | | 714,204,553.22 | 602,985,116.92 | 602,985,116.92 |
| Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets | | 2,776,539,201.27 | 21,328,973,756.85 | 21,328,973,756.85 |
| Net cash receipts from disposals of subsidiaries and other business units | | - | 1,973,043,650.38 | 1,973,043,650.38 |
| Other cash receipts relating to investing activities | (V)62(3) | 5,913,508,465.43 | 4,535,068,378.16 | 413,889,215.27 |
| Sub-total of cash inflows from investing activities | | 11,877,712,545.70 | 31,889,515,373.85 | 27,768,336,210.96 |
| Cash payments to acquire and construct fixed assets, intangible assets and other long-term assets | | 13,957,701,194.53 | 14,163,533,757.01 | 12,343,614,165.20 |
| Cash payments to acquire investments | | 5,715,168,122.63 | 12,760,475,730.40 | 12,760,475,730.40 |
| Net cash payments for acquisitions of subsidiaries and other business units | | (2,491,785.46) | (1,422,513.09) | (1,422,513.09) |
| Other cash payments relating to investing activities | (V)62(4) | 924,191,732.71 | 1,556,744,745.37 | 16,864,017.29 |
| Sub-total of cash outflows from investing activities | | 20,594,569,264.41 | 28,479,331,719.69 | 25,119,531,399.80 |
| Net Cash Flows from Investing Activities | | (8,716,856,718.71) | 3,410,183,654.16 | 2,648,804,811.16 |
| III. Cash Flows from Financing Activities: | | | | |

Consolidated Cash Flow Statement (continued)

FOR THE YEAR ENDED 31 DECEMBER 2013

RMB

| Item | Notes | Amount for the current period | Amount for the previous period | |
|--|-----------------|-------------------------------|--|---|
| | | | After business combination involving entities under common control | Before business combination involving entities under common control |
| Cash receipts from capital contributions | | 164,984,323.04 | 329,817,398.08 | 329,817,398.08 |
| Including: cash receipts from capital contributions from minority owners of subsidiaries | | 164,984,323.04 | 329,817,398.08 | 329,817,398.08 |
| Cash receipts from borrowings | | 80,804,142,620.92 | 65,234,898,535.16 | 62,422,098,535.16 |
| Cash receipts from issue of bonds | (V)39(2), (V)41 | 4,809,160,790.50 | 1,491,500,000.00 | 1,491,500,000.00 |
| Other cash receipts relating to financing activities | (V)62(5) | - | 1,500,000,000.00 | 1,921,647,447.24 |
| Sub-total of cash inflows from financing activities | | 85,778,287,734.46 | 68,556,215,933.24 | 66,165,063,380.48 |
| Cash repayments of borrowings | | 78,436,733,066.28 | 88,236,420,725.23 | 86,374,410,725.23 |
| Cash payments for distribution of dividends or profits or settlement of interest expenses | | 3,658,946,834.30 | 5,486,687,440.35 | 5,356,022,090.67 |
| Including: payments for distribution of dividends or profits to minority owner of subsidiaries | | 150,236,147.39 | 151,372,940.28 | 151,372,940.28 |
| Cash paid for Luojing assets | | - | 2,868,833,680.10 | 2,868,833,680.10 |
| Cash payments for repurchase of shares | (V)47 | 3,083,474,132.00 | 1,916,525,868.00 | 1,916,525,868.00 |
| Other cash payments relating to financing activities | | - | 1,257,000,000.00 | - |
| Sub-total of cash outflow from financing activities | | 85,179,154,032.58 | 99,765,467,713.68 | 96,515,792,364.00 |
| Net Cash Flows from Financing Activities | | 599,133,701.88 | (31,209,251,780.44) | (30,350,728,983.52) |
| IV. Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents | | (6,008,842.15) | (59,021,345.38) | (59,021,345.38) |
| V. Net Increase (decrease) in Cash and Cash Equivalents | | 3,966,744,775.07 | (5,672,197,415.71) | (5,558,771,648.86) |
| Add: Opening balance of Cash and Cash Equivalents | (V)63(3) | 7,632,107,621.86 | 13,304,305,037.57 | 13,180,223,388.65 |
| VI. Closing Balance of Cash and Cash Equivalents | (V)63(3) | 11,598,852,396.93 | 7,632,107,621.86 | 7,621,451,739.79 |

(No text on this page)

Cash Flow Statement of the Company

FOR THE YEAR ENDED 31 DECEMBER 2013

RMB

| Item | Notes | Amount for the current period | Amount for the previous period |
|--|-------|----------------------------------|-----------------------------------|
| I. Cash Flows from Operating Activities: | | | |
| Cash receipts from the sale of goods and the rendering of services | | 130,706,073,436.18 | 145,643,919,653.85 |
| Receipts of tax refunds | | 69,155,367.20 | - |
| Other cash receipts relating to operating activities | | 528,432,025.11 | 1,236,526,157.06 |
| Sub-total of cash inflows from operating activities | | 131,303,660,828.49 | 146,880,445,810.91 |
| Cash payments for goods purchased and services received | | 105,961,945,144.58 | 128,995,455,330.45 |
| Cash payments to and on behalf of employees | | 5,345,728,618.80 | 5,306,606,006.46 |
| Payments of various types of taxes | | 3,731,356,966.39 | 1,921,163,987.75 |
| Other cash payments relating to operating activities | | 804,513,506.28 | 630,217,540.98 |
| Sub-total of cash outflows from operating activities | | 115,843,544,236.05 | 136,853,442,865.64 |
| Net Cash Flows from Operating Activities | (XI)8 | 15,460,116,592.44 | 10,027,002,945.27 |
| II. Cash Flows from Investing Activities: | | | |
| Cash receipts from disposals and recovery of investments | | 19,400,000,000.00 | 5,472,750,841.49 |
| Cash receipts from investment income | | 1,289,632,510.94 | 1,088,733,793.46 |
| Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets | | 2,736,686,670.05 | 21,272,625,973.16 |
| Other cash receipts relating to investing activities | | 5,920,194,837.32 | 382,824,054.94 |
| Sub-total of cash inflows from investing activities | | 29,346,514,018.31 | 28,216,934,663.05 |
| Cash payments to acquire or construct fixed assets, intangible assets and other long-term assets | | 6,498,521,066.74 | 6,014,729,057.22 |
| Cash payments to acquire investments | | 29,564,836,958.00 | 12,511,016,506.88 |
| Other cash payments relating to investing activities | | 24,191,732.71 | 16,864,017.29 |
| Sub-total of cash outflows from investing activities | | 36,087,549,757.45 | 18,542,609,581.39 |
| Net Cash Flows from Investing Activities | | (6,741,035,739.14) | 9,674,325,081.66 |
| III. Cash Flows from Financing Activities: | | | |
| Cash receipts from borrowings | | 32,798,920,983.11 | 19,938,015,021.93 |
| Other cash receipts relating to financing activities | | 1,544,303,933.67 | 6,545,148,228.87 |
| Sub-total of cash inflows from financing activities | | 34,343,224,916.78 | 26,483,163,250.80 |
| Cash repayments of borrowings | | 33,181,101,000.27 | 43,759,459,500.20 |
| Cash payments for distribution of dividends or profits or interest expenses | | 2,666,059,591.23 | 4,397,828,962.53 |
| Cash paid for Luojing assets | | - | 2,868,833,680.10 |
| Cash payments for repurchase of shares | | 3,083,474,132.00 | 1,916,525,868.00 |
| Sub-total of cash outflow from financing activities | | 38,930,634,723.50 | 52,942,648,010.83 |
| Net Cash Flows from Financing Activities | | (4,587,409,806.72) | (26,459,484,760.03) |
| IV. Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents | | 122,771,496.33 | (31,701,817.41) |
| V. Net Increase(decrease) in Cash and Cash Equivalents | | 4,254,442,542.91 | (6,789,858,550.51) |
| Add: Opening balance of Cash and Cash Equivalents | | 2,036,143,946.73 | 8,826,002,497.24 |
| VI. Closing Balance of Cash and Cash Equivalents | | 6,290,586,489.64 | 2,036,143,946.73 |

Consolidated Statement of Changes in Owners' Equity

FOR THE YEAR ENDED 31 DECEMBER 2013

| Item | Amount for the current year | | | |
|--|---------------------------------------|--------------------|--------------------------|------------------|
| | Attributable to owners of the Company | | | |
| | Share capital | Capital reserve | Less: Treasury shares | Special reserve |
| I. Opening balance of the current year | 17,122,048,088.00 | 35,892,221,131.19 | (115,785,165.80) | 17,894,916.86 |
| I. Influence of business combination involving entities under common control | - | 116,748,214.86 | - | - |
| II. Balance on 2013.01.01 | 17,122,048,088.00 | 36,008,969,346.05 | (115,785,165.80) | 17,894,916.86 |
| III. Changes for the year | (650,323,164.00) | (3,042,256,358.02) | 115,785,165.80 | 4,266,044.20 |
| (I) Net profit | - | - | - | - |
| (II) Other comprehensive income | - | (400,758,203.35) | - | - |
| Subtotal of (I) and (II) | - | (400,758,203.35) | - | - |
| (III) Owner's contributions and reduction in capital | - | (92,562,020.87) | (3,083,474,132.00) | - |
| 1. Capital contribution from minority interests | - | - | - | - |
| 2. Purchase of shares from minority interests | - | (142,903,834.26) | - | - |
| 3. Others | - | 50,341,813.39 | (3,083,474,132.00) | - |
| (IV) Profit distribution | - | - | - | - |
| 1. Transfer to surplus reserve | - | - | - | - |
| 2. Distribution to owners of the company | - | - | - | - |
| 3. Distribution to minority interests | - | - | - | - |
| (V) Transfers within owners' equity | (650,323,164.00) | (2,548,936,133.80) | 3,199,259,297.80 | - |
| 1. Others | (650,323,164.00) | (2,548,936,133.80) | 3,199,259,297.80 | - |
| (VI) Special reserve | - | - | - | 4,266,044.20 |
| 1. Transfer to special reserve in the year | - | - | - | 336,082,904.52 |
| 2. Amount utilized in the year | - | - | - | (331,816,860.32) |
| IV. Closing balance of the current year | 16,471,724,924.00 | 32,966,712,988.03 | - | 22,160,961.06 |

| Item | Amount for the same period of last year | | | |
|--|---|--------------------|--------------------------|------------------|
| | Attributable to owners of the Company | | | |
| | Share capital | Capital reserve | Less: Treasury shares | Special reserve |
| I. Opening balance of the current year | 17,512,048,088.00 | 37,330,639,029.54 | - | 11,788,986.69 |
| I. influence of business combination involving entities under common control | - | 6,569,992,800.00 | - | - |
| II. Balance on 2012.01.01 | 17,512,048,088.00 | 43,900,631,829.54 | - | 11,788,986.69 |
| III. Changes for the year | (390,000,000.00) | (7,891,662,483.49) | (115,785,165.80) | 6,105,930.17 |
| (I) Net profit | - | - | - | - |
| (II) Other comprehensive income | - | (16,455,482.36) | - | - |
| Subtotal of (I) and (II) | - | (16,455,482.36) | - | - |
| (III) Owner's contributions and reduction in capital | - | (6,464,466,298.93) | (1,916,525,868.00) | - |
| 1. Capital contribution from minority interests | - | - | - | - |
| 2. Influence of business combination involving entities under common control | - | (6,453,244,585.14) | - | - |
| 3. Others | - | (11,221,713.79) | (1,916,525,868.00) | - |
| (IV) Profit distribution | - | - | - | - |
| 1. Transfer to surplus reserve | - | - | - | - |
| 2. Distribution to owners of the company | - | - | - | - |
| 3. Distribution to minority interests | - | - | - | - |
| (V) Transfers within owners' equity | (390,000,000.00) | (1,410,740,702.20) | 1,800,740,702.20 | - |
| 1. Others | (390,000,000.00) | (1,410,740,702.20) | 1,800,740,702.20 | - |
| (VI) Special reserve | - | - | - | 6,105,930.17 |
| 1. Transfer to special reserve in the period | - | - | - | 166,742,174.93 |
| 2. Amount utilized in the period | - | - | - | (160,636,244.76) |
| IV. Closing balance of the current year | 17,122,048,088.00 | 36,008,969,346.05 | (115,785,165.80) | 17,894,916.86 |

RMB

| Amount for the current year | | | | | | |
|---------------------------------------|-----------------|--------------------|--|--------------------|-------------------|----------------------|
| Attributable to owners of the Company | | | | | Minority interest | Total owners' equity |
| Surplus reserves | General reserve | Retained earnings | Translation differences arising on translation of financial statements denominated in foreign currencies | Subtotal | | |
| 23,229,714,608.04 | - | 35,540,808,913.80 | (299,633,775.37) | 111,387,268,716.72 | 5,954,489,275.04 | 117,341,757,991.76 |
| - | - | (737,874,887.33) | - | (621,126,672.47) | 3,238,989,075.30 | 2,617,862,402.83 |
| 23,229,714,608.04 | - | 34,802,934,026.47 | (299,633,775.37) | 110,766,142,044.25 | 9,193,478,350.34 | 119,959,620,394.59 |
| 1,298,486,769.88 | - | 2,241,615,441.64 | (221,518,174.85) | (253,944,275.35) | 360,254,722.57 | 106,310,447.22 |
| - | - | 5,818,471,202.97 | - | 5,818,471,202.97 | 221,863,420.25 | 6,040,334,623.22 |
| - | - | - | (221,518,174.85) | (622,276,378.20) | (29,323,448.08) | (651,599,826.28) |
| - | - | 5,818,471,202.97 | (221,518,174.85) | 5,196,194,824.77 | 192,539,972.17 | 5,388,734,796.94 |
| - | - | - | - | (3,176,036,152.87) | 310,045,796.73 | (2,865,990,356.14) |
| - | - | - | - | - | 343,232,523.21 | 343,232,523.21 |
| - | - | - | - | (142,903,834.26) | (33,186,726.48) | (176,090,560.74) |
| - | - | - | - | (3,033,132,318.61) | - | (3,033,132,318.61) |
| 1,298,486,769.88 | - | (3,576,855,761.33) | - | (2,278,368,991.45) | (143,887,860.22) | (2,422,256,851.67) |
| 1,298,486,769.88 | - | (1,298,486,769.88) | - | - | - | - |
| - | - | (2,278,368,991.45) | - | (2,278,368,991.45) | - | (2,278,368,991.45) |
| - | - | - | - | - | (143,887,860.22) | (143,887,860.22) |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | 4,266,044.20 | 1,556,813.89 | 5,822,858.09 |
| - | - | - | - | 336,082,904.52 | 9,421,821.58 | 345,504,726.10 |
| - | - | - | - | (331,816,860.32) | (7,865,007.69) | (339,681,868.01) |
| 24,528,201,377.92 | - | 37,044,549,468.11 | (521,151,950.22) | 110,512,197,768.90 | 9,553,733,072.91 | 120,065,930,841.81 |

| Amount for the same period of last year | | | | | | |
|---|-----------------|--------------------|--|--------------------|--------------------|----------------------|
| Attributable to owners of the Company | | | | | Minority interest | Total owners' equity |
| Surplus reserves | General reserve | Retained earnings | Translation differences arising on translation of financial statements denominated in foreign currencies | Subtotal | | |
| 21,132,255,172.18 | - | 30,754,305,445.21 | (245,545,838.69) | 106,495,490,882.93 | 6,974,505,417.34 | 113,469,996,300.27 |
| - | - | (405,891,494.19) | - | 6,164,101,305.81 | 2,471,537,728.31 | 8,635,639,034.12 |
| 21,132,255,172.18 | - | 30,348,413,951.02 | (245,545,838.69) | 112,659,592,188.74 | 9,446,043,145.65 | 122,105,635,334.39 |
| 2,097,459,435.86 | - | 4,454,520,075.45 | (54,087,936.68) | (1,893,450,144.49) | (252,564,795.31) | (2,146,014,939.80) |
| - | - | 10,089,628,467.77 | - | 10,089,628,467.77 | (134,336,518.35) | 9,955,291,949.42 |
| - | - | - | (54,087,936.68) | (70,543,419.04) | 3,659,197.70 | (66,884,221.34) |
| - | - | 10,089,628,467.77 | (54,087,936.68) | 10,019,085,048.73 | (130,677,320.65) | 9,888,407,728.08 |
| - | - | (35,239,338.86) | - | (8,416,231,505.79) | 73,110,085.16 | (8,343,121,420.63) |
| - | - | - | - | - | 359,470,173.87 | 359,470,173.87 |
| - | - | (35,239,338.86) | - | (6,488,483,924.00) | 948,371,012.12 | (5,540,112,911.88) |
| - | - | - | - | (1,927,747,581.79) | (1,234,731,100.83) | (3,162,478,682.62) |
| 2,097,459,435.86 | - | (5,599,869,053.46) | - | (3,502,409,617.60) | (195,106,029.81) | (3,697,515,647.41) |
| 2,097,459,435.86 | - | (2,097,459,435.86) | - | - | - | - |
| - | - | (3,502,409,617.60) | - | (3,502,409,617.60) | - | (3,502,409,617.60) |
| - | - | - | - | - | (195,106,029.81) | (195,106,029.81) |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| - | - | - | - | 6,105,930.17 | 108,469.99 | 6,214,400.16 |
| - | - | - | - | 166,742,174.93 | 8,134,643.93 | 174,876,818.86 |
| - | - | - | - | (160,636,244.76) | (8,026,173.94) | (168,662,418.70) |
| 23,229,714,608.04 | - | 34,802,934,026.47 | (299,633,775.37) | 110,766,142,044.25 | 9,193,478,350.34 | 119,959,620,394.59 |

Statement of Changes in Owners' Equity of the Company

FOR THE YEAR ENDED 31 DECEMBER 2013

| Item | Amount for the current year | | | |
|--|-----------------------------|--------------------|--------------------------|------------------|
| | Share capital | Capital reserve | Less: Treasury shares | Special reserve |
| I. Opening balance of the current year | 17,122,048,088.00 | 35,894,640,824.12 | (115,785,165.80) | - |
| II. Changes for the year | (650,323,164.00) | (3,163,456,759.95) | 115,785,165.80 | - |
| (I) Net profit | - | - | - | - |
| (II) Other comprehensive income | - | (13,870,928.84) | - | - |
| Subtotal of (I) and (II) | - | (13,870,928.84) | - | - |
| (III) Owner's contributions and reduction in capital | - | (600,649,697.31) | (3,083,474,132.00) | - |
| 1. Influence of business combination involving entities under common control | - | (621,126,672.47) | - | - |
| 2. Others | - | 20,476,975.16 | (3,083,474,132.00) | - |
| (IV) Profit distribution | - | - | - | - |
| 1. Transfer to surplus reserve | - | - | - | - |
| 2. Distribution to owners | - | - | - | - |
| (V) Transfers within owners' equity | (650,323,164.00) | (2,548,936,133.80) | 3,199,259,297.80 | - |
| 1. Others | (650,323,164.00) | (2,548,936,133.80) | 3,199,259,297.80 | - |
| (VI) Special reserve | - | - | - | - |
| 1. Transfer to special reserve in the year | - | - | - | 248,583,387.38 |
| 2. Amount utilized in the year | - | - | - | (248,583,387.38) |
| III. Closing balance of the current year | 16,471,724,924.00 | 32,731,184,064.17 | - | - |

| Item | Amount for the same period of last year | | | |
|--|---|--------------------|--------------------------|------------------|
| | Share capital | Capital reserve | Less: Treasury shares | Special reserve |
| I. Opening balance of the current period | 17,512,048,088.00 | 37,207,402,138.54 | - | - |
| II. Changes for the year | (390,000,000.00) | (1,312,761,314.42) | (115,785,165.80) | - |
| (I) Net profit | - | - | - | - |
| (II) Other comprehensive income | - | (92,180.29) | - | - |
| Subtotal of (I) and (II) | - | (92,180.29) | - | - |
| (III) Owner's contributions and reduction in capital | - | 98,071,568.07 | (1,916,525,868.00) | - |
| 1. Others | - | 98,071,568.07 | (1,916,525,868.00) | - |
| (IV) Profit distribution | - | - | - | - |
| 1. Transfer to surplus reserve | - | - | - | - |
| 2. Distribution to owners | - | - | - | - |
| (V) Transfers within owners' equity | (390,000,000.00) | (1,410,740,702.20) | 1,800,740,702.20 | - |
| 1. Others | (390,000,000.00) | (1,410,740,702.20) | 1,800,740,702.20 | - |
| (VI) Special reserve | - | - | - | - |
| 1. Transfer to special reserve in the year | - | - | - | 105,699,301.51 |
| 2. Amount utilized in the year | - | - | - | (105,699,301.51) |
| III. Closing balance of the current year | 17,122,048,088.00 | 35,894,640,824.12 | (115,785,165.80) | - |

RMB

| Amount for the current year | | | |
|-----------------------------|-----------------|--------------------|----------------------|
| Surplus reserves | General reserve | Retained earnings | Total owners' equity |
| 23,229,714,608.04 | - | 27,655,734,884.98 | 103,786,353,239.34 |
| 1,298,486,769.88 | - | 2,915,578,088.05 | 516,070,099.78 |
| - | - | 6,492,433,849.38 | 6,492,433,849.38 |
| - | - | - | (13,870,928.84) |
| - | - | 6,492,433,849.38 | 6,478,562,920.54 |
| - | - | - | (3,684,123,829.31) |
| - | - | - | (621,126,672.47) |
| - | - | - | (3,062,997,156.84) |
| 1,298,486,769.88 | - | (3,576,855,761.33) | (2,278,368,991.45) |
| 1,298,486,769.88 | - | (1,298,486,769.88) | - |
| - | - | (2,278,368,991.45) | (2,278,368,991.45) |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | 248,583,387.38 |
| - | - | - | (248,583,387.38) |
| 24,528,201,377.92 | - | 30,571,312,973.03 | 104,302,423,339.12 |

| Amount for the same period of last year | | | |
|---|-----------------|--------------------|----------------------|
| Surplus reserves | General reserve | Retained earnings | Total owners' equity |
| 21,132,255,172.18 | - | 22,768,306,759.11 | 98,620,012,157.83 |
| 2,097,459,435.86 | - | 4,887,428,125.87 | 5,166,341,081.51 |
| - | - | 10,487,297,179.33 | 10,487,297,179.33 |
| - | - | - | (92,180.29) |
| - | - | 10,487,297,179.33 | 10,487,204,999.04 |
| - | - | - | (1,818,454,299.93) |
| - | - | - | (1,818,454,299.93) |
| 2,097,459,435.86 | - | (5,599,869,053.46) | (3,502,409,617.60) |
| 2,097,459,435.86 | - | (2,097,459,435.86) | - |
| - | - | (3,502,409,617.60) | (3,502,409,617.60) |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| - | - | - | 105,699,301.51 |
| - | - | - | (105,699,301.51) |
| 23,229,714,608.04 | - | 27,655,734,884.98 | 103,786,353,239.34 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

(I) COMPANY PROFILE

Baoshan Iron & Steel Company Limited (the "Company") was incorporated and registered on 3 February 2000 in Shanghai, the People's Republic of China ("PRC"), as a limited company, with the registration number of 310000000074519, under the law of the PRC. The Company was established by Shanghai Baosteel Group Corporation Ltd. (formerly "Shanghai Baosteel Group Corporation"; hereinafter "Baosteel Group") as the sole investor, under the official approval document No. [1999] 1266, as issued by the State Economic & Trade Commission of China.

The Company took over related businesses, assets and liabilities from Baosteel Group by means of issuing 10,635,000,000 ordinary shares to Baosteel Group with a par value of RMB 1.00 each on the date of establishment.

The Company issued 1,877,000,000 ordinary shares (A shares) to the general public with a par value of RMB1 each and an offer price of RMB4.18 by means of on-line stock exchange listing coupled with off-line rationed subscription, from 6 to 24 November 2000, in compliance with the approval document No. [2000] 140, issued by the China Securities Regulatory Commission (the "CSRC").

Following the approval by the CSRC, as provided in the approval document No. [2005]15, during 21 to 26 of April 2005, the Company issued five billion shares with a par value of RMB1.00 each and an offer price of RMB5.12 per share, including three billion state-owned shares to Shanghai Baosteel Group Corporation and two billion to the general public, with the latter on a combinatory basis of preferential claiming, pro-rata and online and off-line bidding inquiry.

Approved by the CSRC (No. 739 document in 2008), the Company issued RMB10 billion convertible loan notes featuring the separation between liability and conversion option components on 20 June 2008. In this issuance, the original circulating shareholders for unlimited sale (of shares) conditions were given the priority for placing, and the rest of the notes were sold to institutional investors through price inquiry and to online applicants. The notes were issued based on the face value, which was RMB100.00 per stock. The dividend was paid once a year and the principal was returned once and for all when the time expired. The annual contract interest rate was 0.8%. The purchaser of the note was able to obtain 16 copies of stock purchase components issued by the issuer; the duration of the component was 24 months from the day when it was listed, and the exercising period was the last 5 trading days of the duration. The exercise proportion was 2:1 and the initial exercise price was RMB12.50 per stock. The liability and conversion option components were listed and traded on Shanghai Stock Exchange on 4 July 2008. The exercise price was then adjusted to RMB11.80 per stock due to dividend. The exercising period was from 28 June to 3 July 2010. A total of 113,785 components were successfully exercised before the stock market closed on 2 July 2010, the last effective exercise date for "Baosteel CWB1", increasing 48,088 shares of the Company.

According to "The Board's Resolution on the motion of repurchase shares of the company by centralized bidding", "The creditors' notice about repurchase shares of Baoshan Iron & Steel Co., Ltd.", "The 2012 second Resolution of extraordinary shareholders meeting of Baoshan Iron & Steel Co., Ltd." and the Company's revised articles of association, the Company repurchased A-shares on Shanghai Stock Exchange by centralized bidding with price no more than RMB5 per share and amount no more than RMB5 billion in total. The first repurchase began on 21 September 2012, and the Company has repurchased 414,055,508 shares by the end of 2012. According to the resolution and the Company's revised articles of association, the Company applied for reduction of share capital RMB0.39 billion and finished all procedures with China Securities Depository and Clearing Corporation Limited., Shanghai Branch on 20 December 2012. The Company renewed all commercial registration in December 2012, and the updated registered share capital is RMB17,122,048,088 as at 31 December 2012.

During the reporting period, the Company has repurchased 626,267,656 shares and completed the implementation of the repurchase scheme. In accordance with the resolution of the general shareholders' meeting of the Company and the regulations of the revised articles of association, the Company has applied for the decrease of the capital of RMB 650,323,164 and completed the cancellation of 650,323,164 shares with the Shanghai Branch of China Securities Depository and Clearing Corporation Limited (CSDC) on 23 May, 2013. The Company completed procedures on industrial and commercial registration on 24 June, 2013, and the updated registered share capital is RMB 16,471,724,924.

By the end of the reporting period, out of the RMB 16,471,724,924 ordinary shares without sales restriction of the Company, Baosteel Group has held 13,128,825,267 shares with an equity interest of 79.71%.

The business scope of the Company covers iron and steel production and its related processing, power generation, coal, industrial-gas generation, port terminals, warehouse storage and transport. It is also engaged in technology development and transfer, technology services and consulting, automobile maintenance, exports of steel products and technology, imports of related materials, machinery, equipment, parts and components, as well as technology(except for restricted items, i.e. where imports and exports prohibited by the Government).

The Company is also engaged in import processing as well as a subsidized trading business. In summary, the principal activities of the Company are the manufacture and sales of iron and steel products as well as the sales and services of the by-products generated during the process of steel production and sales.

The controlling shareholder of the Company is Baosteel Group, while its actual controller is the State-owned Assets Supervision and Administration Commission of the State Council (SASAC).

The Company and its subsidiaries hereinafter refer to as the Group.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(II) THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREVIOUS PERIOD ADJUSTMENTS

1. Basis of Preparation of Financial Statements

The Group adopts the Accounting Standards for Business Enterprises ("ASBE") issued by the Ministry of Finance ("MOF") on 15 February 2006. In addition, the Group has disclosed relevant financial information in accordance with Information Disclosure and Presentation Rules for Companies Offering Securities to the Public No. 15-General Provisions on Financial Reporting (Revised in 2010).

Basis of accounting and principle of measurement

The Group adopts the accrual basis of accounting. Except for certain financial instruments which are measured at fair value, the Group adopts the historical cost as the principle of measurement in the financial statements. Where assets are impaired, provisions for asset impairment are made in accordance with relevant requirements.

2. Statement of compliance with the ASBE

The financial statements of the Company have been prepared in accordance with ASBE, and present truly and completely, the Company's and consolidated financial position as of 31 December 2013, and the Company's and consolidated results of operations and cash flows for the year then ended.

3. Accounting year

The Group adopts the calendar year as its accounting year, i.e. from 1 January to 31 December.

4. Functional currency

Renminbi ("RMB") is the currency of the primary economic environment in which the Company and its domestic subsidiaries operate. Therefore, the Company and its domestic subsidiaries choose RMB as their functional currency. The Company's foreign subsidiaries choose their functional currencies on the basis of the primary economic environment in which they operate. The Group adopts RMB to prepare its financial statements.

5. The accounting treatment of business combinations involving enterprises under common control and business combinations not involving enterprises under common control

5.1 Business combinations involving enterprises under common control

A business combination involving enterprises under common control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or parties both before and after the combination, and that control is not transitory.

Assets and liabilities obtained shall be measured at their respective carrying amounts as recorded by the combining entities at the date of the combination. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination (or the aggregate face value of shares issued as consideration) is adjusted to the capital premium in capital reserve. If the capital premium is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings.

Costs that are directly attributable to the combination are charged to profit or loss in the period in which they are incurred.

5.2 Business combinations involving enterprises not under common control

A business combination not involving enterprises under common control is a business combination in which all of the combining enterprises are not ultimately controlled by the same party or parties before and after the combination.

The cost of combination is the aggregate of the fair values, at the acquisition date, of the assets given, liabilities incurred or assumed, and equity securities issued by the acquirer in exchange for control of the acquiree. The intermediary expenses incurred by the acquirer in respect of auditing, legal services, valuation and consultancy services, etc. and other associated administrative expenses attributable to the business combination are recognized in profit or loss when they are incurred. Where a business combination not involving enterprises under common control is achieved in stages that involve multiple transactions, the cost of combination is the sum of the consideration paid at the acquisition date and the fair value at the acquisition date of the acquirer's previously held interest in the acquiree. The equity interest in the acquiree held before the acquisition date is remeasured at its fair value at the acquisition date, with any difference between its fair value and its carrying amount being recognized as investment income. The other comprehensive income of the acquiree before the acquisition date relating to the previously held interest in the acquiree is transferred to investment income.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(II) THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREVIOUS PERIOD ADJUSTMENTS (Continued)

The acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria, which are acquired in a business combination not involving enterprises under common control, are measured at their fair value at the acquisition date. Where the cost of combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognized as goodwill as an asset and measured at cost. Where the cost of combination is less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is accounted for as follows: firstly, the acquirer reassesses the measurement of the fair values of the acquiree's identifiable assets, liabilities and contingent liabilities and measurement of the cost of combination; then, if after that reassessment, the cost of combination is still less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the acquirer recognizes the remaining difference immediately in profit or loss for the current period.

6. Preparation of consolidated financial statements

The scope of consolidated financial statements is determined on the basis of control. Control is the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its operating activities.

For a subsidiary disposed of by the Group, the operating results and cash flows before the date of disposal (the date when control is lost) are included in the consolidated income statement and consolidated statement of cash flows, as appropriate.

For a subsidiary acquired through a business combination not involving enterprises under common control, the operating results and cash flows from the acquisition date (the date when control is obtained) are included in the consolidated income statement and consolidated statement of cash flows, as appropriate, and no adjustment is made to the opening balances and comparative figures in the consolidated financial statements.

No matter when the business combination occurs in the reporting period, subsidiaries acquired through a business combination involving enterprises under common control are included in the Group's scope of consolidation as if they had been included in the scope of consolidation from the date when they first came under the common control of the ultimate controlling party. Their operating results and cash flows from the beginning of the earliest reporting period are included in the consolidated income statement and consolidated statement of cash flows, as appropriate.

The significant accounting policies and accounting periods adopted by the subsidiaries are determined based on the uniform accounting policies and accounting periods set out by the Company.

All significant intra-group balances and transactions are eliminated on consolidation.

The portion of subsidiaries' equity that is not attributable to the Company is treated as minority interests and presented as "minority interests" in the consolidated balance sheet within shareholders' equity. The portion of net profits or losses of subsidiaries for the period attributable to minority interests is presented as "minority interests" in the consolidated income statement below the "net profit" line item.

When the amount of loss for the period attributable to the minority shareholders of a subsidiary exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary, the excess amount are still allocated against minority interests.

Acquisition of minority interests or disposal of interest in a subsidiary that does not result in the loss of control over the subsidiary is accounted for as equity transactions. The carrying amounts of the Company's interests and minority interests are adjusted to reflect the changes in their relative interests in the subsidiary. The difference between the amount by which the minority interests are adjusted and the fair value of the consideration paid or received is adjusted to capital reserve under owners' equity. If the capital reserve is not sufficient to absorb the difference, the excess is adjusted against retained earnings.

When the Group loses control over a subsidiary due to disposal of certain equity interest or other reasons, any retained interest is re-measured at its fair value at the date when control is lost. The difference between (i) the aggregate of the consideration received on disposal and the fair value of any retained interest and (ii) the share of the former subsidiary's net assets cumulatively calculated from the acquisition date according to the original proportion of equity interest is recognized as investment income in the period in which control is lost. Other comprehensive income associated with investment in the former subsidiary is reclassified to investment income in the period in which control is lost.

7. Recognition criteria of cash and cash equivalents

Cash comprises cash on hand and deposits that can be readily withdrawn on demand. Cash equivalents are the Group's short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

8. Translation of transactions and financial statements denominated in foreign currencies

8.1 Transactions denominated in foreign currencies

A foreign currency transaction is recorded, on initial recognition, by applying the spot exchange rate on the date of the transaction.

At the balance sheet date, foreign currency monetary items are translated into RMB using the spot exchange rates at the balance sheet date. Exchange differences arising from the differences between the spot exchange rates prevailing at the balance sheet date and those on initial recognition or at the previous balance sheet date are recognized in profit or loss for the period, except that (1) exchange differences related to a

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(II) THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREVIOUS PERIOD ADJUSTMENTS (Continued)

specific-purpose borrowing denominated in foreign currency that qualify for capitalization are capitalized as part of the cost of the qualifying asset during the capitalization period; (2) exchange differences related to hedging instruments for the purpose of hedging against foreign currency risks are accounted for using hedge accounting; (3) exchange differences arising from available-for-sale non-monetary items (such as shares) denominated in foreign currencies and changes in the carrying amounts (other than the amortized cost) of available-for-sale monetary items are recognized as other comprehensive income and included in capital reserve.

When the consolidated financial statements include foreign operations, if there is foreign currency monetary item constituting a net investment in a foreign operation, exchange difference arising from changes in exchange rates are recognized as "exchange differences arising on translation of financial statements denominated in foreign currencies" in owners' equity, and in profit and loss for the period upon disposal of the foreign operation.

Foreign currency non-monetary items measured at historical cost are translated to the amounts in functional currency at the spot exchange rates on the dates of the transactions and the amounts in functional currency remain unchanged. Foreign currency non-monetary items measured at fair value are re-translated at the spot exchange rate on the date the fair value is determined. Difference between the re-translated functional currency amount and the original functional currency amount is treated as changes in fair value (including changes of exchange rate) and is recognized in profit and loss or as other comprehensive income included in capital reserve.

8.2 Translation of financial statements denominated in foreign currencies

For the purpose of preparing the consolidated financial statements, financial statements of a foreign operation are translated from the foreign currency into RMB using the following method: assets and liabilities on the balance sheet are translated at the spot exchange rate prevailing at the balance sheet date; shareholders' equity items except for retained earnings are translated at the spot exchange rates at the dates on which such items arose; all items in the income statement as well as items reflecting the distribution of profits are translated at the average exchange rate of the transaction period; the opening balance of retained earnings is the translated closing balance of the previous year's retained earnings; the closing balance of retained earnings is calculated and presented on the basis of each translated income statement and profit distribution item. The difference between the translated assets and the aggregate of liabilities and shareholders' equity items is separately presented as the exchange differences arising on translation of financial statements denominated in foreign currencies under the shareholders' equity in the balance sheet.

Cash flows arising from a transaction in foreign currency and the cash flows of a foreign subsidiary are translated at the average exchange rate in the period of the cash flows. The effect of exchange rate changes on cash and cash equivalents is regarded as a reconciling item and presented separately in the cash flow statement as "effect of exchange rate changes on cash and cash equivalents".

The opening balances and the comparative figures of previous year are presented at the translated amounts in the previous year's financial statements.

9. Financial instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual.

Provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. For financial assets and financial liabilities at fair value through profit or loss, transaction costs are immediately recognized in profit or loss. For other financial assets and financial liabilities, transaction costs are included in their initial recognized amounts.

9.1 Determination of fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. For a financial instrument which has an active market, the Group uses the quoted price in the active market to establish its fair value. For a financial instrument which has no active market, the Group establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

9.2 Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or a group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period, using the effective interest rate. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or financial liability or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial asset or financial liability (without considering future credit losses), and also considers all fees paid or received between the parties to the contract giving rise to the financial asset and financial liability that are an integral part of the effective interest rate, transaction costs, and premiums or discounts, etc.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(II) THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREVIOUS PERIOD ADJUSTMENTS (Continued)

9.3 Classification, recognition and measurement of financial assets

On initial recognition, financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

9.3.1 Financial Assets at Fair Value through Profit or Loss ("FVTPL")

Financial assets at FVTPL include financial assets held for trading and those designated as at fair value through profit or loss.

A financial asset is classified as held for trading if one of the following conditions is satisfied: (1) It has been acquired principally for the purpose of selling in the near term; or (2) On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and there is objective evidence that the Group has a recent actual pattern of short-term profit-taking; or (3) It is a derivative that is not designated and effective as a hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured.

A financial asset may be designated as at FVTPL upon initial recognition only when one of the following conditions is satisfied: (1) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise result from measuring assets or recognizing the gains or losses on them on different bases; or (2) The financial asset forms part of a group of financial assets or a group of financial assets and financial liabilities, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is reported to key management personnel on that basis; or (3) Financial assets that are designated at fair value through profit or loss and hybrid instruments related to embedded derivatives allowed under Accounting Standard for Business Enterprises NO. 22.

Financial assets at FVTPL are subsequently measured at fair value. Any gains or losses arising from changes in the fair value and any dividend or interest income earned on the financial assets are recognized in profit or loss.

9.3.2 Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group's management has the positive intention and ability to hold to maturity.

Held-to-maturity investments are subsequently measured at amortized cost using the effective interest method. Gain or loss arising from derecognition, impairment or amortization is recognized in profit or loss.

9.3.3 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified as loans and receivables by the Group include notes receivable, accounts receivable, interest receivable, dividends receivable, other receivables and loans and advances to customers.

Loans and receivables are subsequently measured at amortized cost using the effective interest method. Gains or losses arising from derecognition, impairment or amortization are recognized in profit or loss for the current period.

9.3.4 Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are designated on initial recognition as available for sale and financial assets that are not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are subsequently measured at fair value, and gains or losses arising from changes in the fair value are recognized as other comprehensive income and included in the capital reserve, except that impairment losses and exchange differences related to amortized cost of monetary financial assets denominated in foreign currencies are recognized in profit or loss, until the financial assets are derecognized, at which time the gains or losses are released and recognized in profit or loss.

Interests obtained and the dividends declared by the investee during the period in which the available-for-sale financial assets are held, are recognized in investment gains.

For investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, and derivative financial assets that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(II) THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREVIOUS PERIOD ADJUSTMENTS (Continued)

9.4 Impairment of financial assets

The Group assesses at each balance sheet date the carrying amounts of financial assets other than those at fair value through profit or loss. If there is objective evidence that a financial asset is impaired, the Group determines the amount of any impairment loss. Objective evidence that a financial asset is impaired is evidence that, arising from one or more events that occurred after the initial recognition of the asset, the estimated future cash flows of the financial asset, which can be reliably measured, have been affected.

Objective evidence that a financial asset is impaired includes the following observable events:

- (1) Significant financial difficulty of the issuers or the debtors;
- (2) A breach of contract by the debtors, such as a default or delay in interest or principal payments;
- (3) The Group, for economic or legal reasons relating to the debtors' financial difficulty, grants a concession to debtors;
- (4) It becoming probable that the borrower will enter bankruptcy or other financial reorganizations;
- (5) The disappearance of an active market for that financial asset because of financial difficulties of the issuer;
- (6) Upon an overall assessment of a group of financial assets, observable data indicates that there is a measurable decrease in the estimated future cash flows from the group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group. Such observable data includes:
 - Adverse changes in the payment status of borrower in the group of assets;
 - Economic conditions in the country or region of the borrower which may lead to a failure to pay the group of assets;
- (7) Significant adverse changes in the technological, market, economic or legal environment in which the issuer operates, indicating that the cost of the investment in the equity instrument may not be recovered by the investor;
- (8) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost;
- (9) Other objective evidence indicates that there is an impairment of a financial asset.

- Impairment of financial assets measured at amortized cost

If financial assets carried at amortized cost are impaired, the carrying amounts of the financial assets are reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of reduction is recognized as an impairment loss in profit or loss. If, subsequent to the recognition of an impairment loss on financial assets carried at amortized cost, there is objective evidence of a recovery in value of the financial assets which can be related objectively to an event occurring after the impairment is recognized, the previously recognized impairment loss is reversed. However, the reversal is made to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For a financial asset that is individually significant, the Group assesses the asset individually for impairment. For a financial asset that is not individually significant, the Group assesses the asset individually for impairment or includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset (whether significant or not), it includes the asset in a group of financial assets with similar credit risk characteristics and collectively reassesses them for impairment. Assets for which an impairment loss is individually recognised are not included in a collective assessment of impairment.

- Impairment of available-for-sale financial assets

The objective evidence of impairment of available-for-sale equity instruments includes the continuous or significant drop of their fair value. Impairment of available-for-sale equity instruments should be determined by the analysis of relevant information. The Fair value of available-for-sale equity instruments falling below their cost does not constitute the indication of impairment.

Impairment of available-for-sale equity instruments which are hold for strategic purpose and will not be sold based on the fluctuation of the stock price should be determined by the analysis of the investees' operation. If the investee was suffering from a serious deteriorated situation, such as the minimum 10% annual decreases of revenue or minimum 20% decrease of EBITDA for three consecutive years, impairment of available-for-sale equity instrument in such investee should be considered.

Impairment of available-for-sale equity instruments which are hold for trading should be considered when the fair value of such instruments fall below 50% of their original investment or the fair value of such instruments fall below their original investment longer than 24 months.

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value previously recognized directly in capital reserve is reclassified from the capital reserve to profit or loss. The amount of the cumulative loss that is reclassified from capital reserve to profit or loss is the difference between the acquisition cost (net of any principal repayment and amortization) and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(II) THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREVIOUS PERIOD ADJUSTMENTS (Continued)

If, subsequent to the recognition of an impairment loss on available-for-sale financial assets, there is objective evidence of a recovery in value of the financial assets which can be related objectively to an event occurring after the impairment is recognized, the previously recognized impairment loss is reversed. The amount of reversal of impairment loss on available-for-sale equity instruments is recognized as other comprehensive income and included in the capital reserve, while the amount of reversal of impairment loss on available-for-sale debt instruments is recognized in profit or loss.

- Impairment of financial assets measure at cost

If an impairment loss has been incurred on an investment in unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured, or on a derivative financial asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the carrying amount of the financial asset is reduced to the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The amount of reduction is recognized as an impairment loss in profit or loss. The impairment loss on such financial asset is not reversed once it is recognized.

9.5 Transfer of financial assets

The Group derecognizes a financial asset if one of the following conditions is satisfied: (1) the contractual rights to the cash flows from the financial asset expire; or (2) the financial asset has been transferred and substantially all the risks and rewards of ownership of the financial asset are transferred to the transferee; or (3) although the financial asset has been transferred, the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but has not retained control of the financial asset.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, and it retains control of the financial asset, it recognizes the financial asset to the extent of its continuing involvement in the transferred financial asset and recognizes an associated liability. The extent of the Group's continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset.

For a transfer of a financial asset in its entirety that satisfies the derecognition criteria, the difference between (1) the carrying amount of the financial asset transferred; and (2) the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognized in other comprehensive income, is recognized in profit or loss.

If a part of the transferred financial asset qualifies for derecognition, the carrying amount of the transferred financial asset is allocated between the part that continues to be recognized and the part that is derecognized, based on the respective fair values of those parts. The difference between (1) the carrying amount allocated to the part derecognized; and (2) the sum of the consideration received for the part derecognized and any cumulative gain or loss allocated to the part derecognized which has been previously recognized in other comprehensive income, is recognized in profit or loss.

9.6 Classification, recognition and measurement of financial liabilities

Debt and equity instruments issued by the Group are classified into financial liabilities or equity on the basis of the substance of the contractual arrangements and definitions of financial liability and equity instrument.

On initial recognition, financial liabilities are classified into financial liabilities at fair value through profit or loss and other financial liabilities.

9.6.1 Financial liabilities at fair value through profit or loss

Financial liabilities at FVTPL consist of financial liabilities held for trading and those designated as at FVTPL on initial recognition.

A financial liability is classified as held for trading if one of the following conditions is satisfied: (1) It has been acquired principally for the purpose of repurchasing in the near term; or (2) On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and there is objective evidence that the Group has a recent actual pattern of short-term profit-taking; or (3) It is a derivative, except for a derivative that is a designated and effective hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured.

A financial liability may be designated as at FVTPL upon initial recognition only when one of the following conditions is satisfied: (1) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise result from measuring liabilities or recognizing the gains or losses on them on different bases; or (2) The financial liability forms part of a group of financial liabilities or a group of financial assets and financial liabilities, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is reported to key management personnel on that basis; or (3) Financial assets that are designated at fair value through profit or loss and hybrid instruments related to embedded derivatives allowed under Accounting Standard for Business Enterprises NO. 22.

Financial liabilities at FVTPL are subsequently measured at fair value. Any gains or losses arising from changes in the fair value or any dividend or interest expenses related to the financial liabilities are recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(II) THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREVIOUS PERIOD ADJUSTMENTS (Continued)

9.6.2 Other financial liabilities

For a derivative liability that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured, it is subsequently measured at cost. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with gain or loss arising from derecognition or amortization recognized in profit or loss.

9.7 Derecognition of Financial Liabilities

The Group derecognizes a financial liability (or part of it) only when the underlying present obligation (or part of it) is discharged. An agreement between the Group (an existing borrower) and an existing lender to replace the original financial liability with a new financial liability with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

When the Group derecognizes a financial liability or a part of it, it recognizes the difference between the carrying amount of the financial liability (or part of the financial liability) derecognized and the consideration paid (including any non-cash assets transferred or new financial liabilities assumed) in profit or loss.

9.8 Derivatives and embedded derivatives

Derivative financial instruments include forward contracts, interest rate swaps, etc. Derivatives are initially measured at fair value at the date when the derivative contracts are entered into and are subsequently re-measured at fair value. The resulting gain or loss is recognized in profit or loss.

An embedded derivative is separated from the hybrid instrument, where the hybrid instrument is not designated as a financial asset or financial liability at fair value through profit or loss, and treated as a standalone derivative if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative. If the Group is unable to measure the embedded derivative separately either at acquisition or at a subsequent balance sheet date, it designates the entire hybrid instrument as a financial asset or financial liability at fair value through profit or loss.

9.9 Offsetting financial assets and a financial liabilities

Where the Group has a legal right that is currently enforceable to set off the recognized financial assets and financial liabilities, and intends either to settle on a net basis, or to realize the financial asset and settle the financial liability simultaneously, a financial asset and a financial liability shall be offset and the net amount is presented in the balance sheet. Except for the above circumstances, financial assets and financial liabilities shall be presented separately in the balance sheet and shall not be offset.

9.10 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The consideration received from issuing equity instruments, net of transaction costs, are added to shareholders' equity.

All types of distributions (excluding stock dividends) made by the Group to holders of equity instruments are deducted from shareholders' equity. The Group does not recognize any changes in the fair value of equity instruments.

9.10.1 Repurchase of share capital

The consideration and transaction costs paid to repurchase share capital are deducted from shareholders' equity. No gain or loss is recognized in profit or loss on the repurchase, sale or cancellation of the Company's share capital. Repurchased share capital is presented as treasury share before cancellation or sale, and all the expenditure occurred in repurchase is accounted for at cost of treasury shares. Treasury shares are not counted in profit appropriation. The Company presents treasury shares as the reserve item of shareholders' equity in the balance sheet. When the Company reduces the capital by means of repurchasing ordinary shares in accordance with statutory procedure, it reduces the share capital in the face value of cancelled shares. The Company recognizes the difference between the consideration paid (including transaction costs) and face value of shares in equity. When the amount of consideration paid exceeds total face value, the difference is offset against capital reserve (capital premium), surplus reserve and retained earnings in consequence, when the amount of consideration paid is less than total face value, the difference is recognized in the capital reserve (capital premium).

9.11 Convertible loan notes

The Group confirms whether the issued convertible loan notes contain both liability and conversion option components. Convertible loan notes issued by the Group that contain both the liability and conversion option components are classified separately into respective items on initial recognition.

On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible loan notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the loan notes into equity instrument, is included in capital reserve (other capital reserve - share conversion option). In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method. The conversion option classified as equity remains in equity. Transaction costs incurred for the issue of convertible loan notes are allocated to the liability component and equity component in proportion to their respective fair values. In subsequent periods, the

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(II) THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREVIOUS PERIOD ADJUSTMENTS (Continued)

liability component of the convertible loan notes is carried as liability at amortized cost. The conversion option classified as equity remains in equity and does not need subsequent measurement.

Where the conversion option components remain unexercised at the maturity date of the convertible loan notes issued by the Group, the balance recognized in capital reserve (other capital reserve) will be transferred to capital reserve (capital premium). Once the conversion option components are exercised, the equity component recognized in capital reserve (other capital reserve) will be transferred to capital reserve (capital premium); the aggregate nominal amount of shares are credited to share capital at par value of the stock multiplied by the number of shares; the difference between the total funds raised by conversion option components and share capital is credited to capital reserve (capital premium).

10. Accounts receivable

10.1 Receivables that are individually significant and for which bad debt provision is individually assessed

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| Basis for determining an individually significant receivable | A receivable that ranks top five largest is deemed as an individually significant receivable by the Group. |
| Method of determining provision for receivables that are individually significant and for which bad debt provision is individually assessed | The Group assessing the receivables individually on third party companies who are individually significant and receivables from Baosteel Group in the scope of consolidated statements, assesses the receivables individually on third party companies without impairment, is included in doing impairment assessment on the financial assets with similar credit risk characteristics; Assessing the receivables from Baosteel Group in the scope of consolidated statements without impairment is no longer included in a collective assessment by aging analysis method. Assessing the receivables which had confirmed impairment is no longer included in doing impairment assessment on the financial assets with similar credit risk characteristics. |

10.2 Receivables for which bad debt provision is collectively assessed on a portfolio basis

| | |
|--|--|
| Method of determining provision for receivables that are not individually significant and receivables that are individually significant but are not impaired individually | The Group regards age of accounts receivable as credit risk characteristics and divide the balance of accounts receivables into several aging groups according to the same or similar credit risk characteristics of aging group of accounts receivable of previous year; determines the bad debts rate for each aging group on the basis of the actual loss rate combined with the current situation of the aging group, and makes bad debts provision on the basis of calculation. Individual significant or insignificant accounts receivable with no credit risk and that can be collected within short term is not assessed. |
|--|--|

Portfolios that aging analysis is used for bad debt provision:

| Aging | Provision as a proportion of accounts receivable (%) | Provision as a proportion of other receivables (%) |
|---|--|--|
| Within 1 year (inclusive) | 5% | 5% |
| More than 1 year but not exceeding 2 years | 30% | 30% |
| More than 2 years but not exceeding 3 years | 60% | 60% |
| More than 3 years | 100% | 100% |

10.3 Receivables that are individually not significant but for which bad debt provision is individually assessed

| | |
|---|---|
| Reasons for determining individual provision for receivables | There is objective evidence of impairment. |
| Method of determining provision for receivables | The difference between the estimated recoverable amount and the book value is recognized as bad debt. |

11. Inventories

11.1 Categories of inventories

The Group's inventories mainly include raw materials, work in progress, finished goods, spare parts and others, etc. Inventories are initially measured at cost. Cost of inventories comprises all costs of purchase, costs of conversion and other expenditures incurred in bringing the inventories to their present location and condition.

11.2 Valuation method of inventories upon delivery

The actual cost of inventories upon delivery is calculated using the weighted average method.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(II) THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREVIOUS PERIOD ADJUSTMENTS (Continued)

11.3 Basis for determining net realizable value of inventories and provision methods for decline in value of inventories

At the balance sheet date, inventories are measured at the lower of cost and net realizable value. If the net realizable value is below the cost of inventories, a provision for decline in value of inventories is made. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion, the estimated costs necessary to make the sale and relevant taxes. Net realizable value is determined on the basis of clear evidence obtained, and takes into consideration of the purposes of holding inventories and effect of post balance sheet events.

Provision for decline in value of other inventories is made based on the excess of cost of inventory over its net realizable value on an item-by-item basis.

After the provision for decline in value of inventories is made, if the circumstances that previously caused inventories to be written down below cost no longer exist so that the net realizable value of inventories is higher than their cost, the original provision for decline in value is reversed and the reversal is included in profit or loss for the period.

11.4 Stock count system

The perpetual inventory system is maintained for stock system.

11.5 Amortization method for low cost and short-lived consumable items and packaging materials

Packaging materials and low cost and short-lived consumable items are amortized using the immediate write-off method.

12. Long-term equity investments

12.1 Determination of investment cost

For a long-term equity investment acquired through a business combination involving enterprises under common control, the investment cost of the long-term equity investment is the attributable share of the carrying amount of the shareholders' equity of the acquiree at the date of combination. For a long-term equity investment acquired through business combination not involving enterprises under common control, the investment cost of the long-term equity investment is the cost of acquisition. For a long-term equity investment acquired through business combination not involving enterprises under common control and achieved in stages, the investment cost of the long-term equity investment is the aggregate of the carrying amount of the equity interest held in the acquiree prior to the acquisition date and the cost of the additional investment at the acquisition date. The long-term equity investment acquired otherwise than through a business combination is initially measured at its cost.

12.2 Subsequent measurement and recognition of profit or loss

12.2.1 Long-term equity investment accounted for using the cost method

For long-term equity investments over which the Group does not have joint control or significant influence and without quoted prices in an active market and that fair values cannot be reliably measured, the Group accounts for such long-term equity investments using the cost method. Besides, long-term equity investments in subsidiaries are accounted for using the cost method in the Company's separate financial statements. A subsidiary is an investee that is controlled by the Group.

Under the cost method, a long-term equity investment is measured at initial investment cost. Except for cash dividends or profits already declared but not yet paid that are included in the price or consideration actually paid upon acquisition of the long-term equity investment, investment income is recognized in the period in accordance with the attributable share of cash dividends or profit distributions declared by the investee.

12.2.2 Long-term equity investment accounted for using the equity method

The Group accounts for investment in associates and joint ventures using the equity method. An associate is an entity over which the Group has significant influence and a joint venture is an entity over which the Group exercises joint control along with other investors.

Under the equity method, where the initial investment cost of a long-term equity investment exceeds the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, no adjustment is made to the initial investment cost. Where the initial investment cost is less than the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the difference is recognized in profit or loss for the period, and the cost of the long-term equity investment is adjusted accordingly.

Under the equity method, the Group recognizes its share of the net profit or loss of the investee for the period as investment income or loss for the period. The Group recognizes its share of the investee's net profit or loss based on the fair value of the investee's individual separately identifiable assets at the acquisition date after making appropriate adjustments to conform with the Group's accounting policies and accounting period. Unrealized profits or losses resulting from the Group's transactions with its associates and joint ventures are recognized as investment income or loss to the extent that those attributable to the Group's equity interest are eliminated. However, unrealized losses resulting from the Group's transactions with its associates and joint ventures which represent impairment losses on the transferred assets are not eliminated. Changes in owners' equity of the investee other than net profit or loss are correspondingly adjusted to the carrying amount of the long-term equity investment, and recognized as other comprehensive income which is included in the capital reserve.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(II) THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREVIOUS PERIOD ADJUSTMENTS (Continued)

The Group discontinues recognizing its share of net losses of the investee after the carrying amount of the long-term equity investment together with any long-term interests that in substance form part of its net investment in the investee is reduced to zero. If the Group has incurred obligations to assume additional losses of the investee, a provision is recognized according to the expected obligation, and recorded as investment loss for the period. Where net profits are subsequently made by the investee, the Group resumes recognizing its share of those profits only after its share of the profits exceeds the share of losses previously not recognized.

For long-term equity investments in associates and joint ventures which had been held by the Group before its first-time adoption of Accounting Standards for Business Enterprises on 1 January 2007, where the initial investment cost of a long-term equity investment exceeds the Group's interest in the investee's net assets at the time of acquisition, the excess is amortized and is recognized in profit or loss on a straight line basis over the original remaining life.

12.2.3 Disposal of long-term equity investments

On disposal of a long term equity investment, the difference between the proceeds actually received and receivable and the carrying amount is recognized in profit or loss for the period. For a long-term equity investment accounted for using the equity method, the amount included in the shareholders' equity attributable to the percentage interest disposed is transferred to profit or loss for the period.

12.3 Basis for determining joint control and significant influence over investee

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating policy decisions relating to the activity require the unanimous consent of the parties sharing control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. When determining whether an investing enterprise is able to exercise control or significant influence over an investee, the effect of potential voting rights of the investee such as convertible loan notes and conversion option components held by the investing enterprises or other parties that are currently exercisable or convertible shall be considered.

12.4 Methods of impairment assessment and determining the provision for impairment loss

The Group reviews the long-term equity investments at each balance sheet date to determine whether there is any indication that they have suffered an impairment loss. If an impairment indication exists, the recoverable amount is estimated. If such recoverable amount is less than its carrying amount, a provision for impairment losses in respect of the deficit is recognized in profit or loss for the period.

Once an impairment loss is recognized for a long-term equity investment, it will not be reversed in any subsequent period.

13. Investment properties

Investment property is property held to earn rentals or for capital appreciation or both. It includes a land use right that is leased out and a building that is leased out.

An investment property is measured initially at cost. Subsequent expenditures incurred for such investment property are included in the cost of the investment property if it is probable that economic benefits associated with an investment property will flow to the Group and the subsequent expenditures can be measured reliably. Other subsequent expenditures are recognized in profit or loss in the period in which they are incurred.

The Group uses the cost model for subsequent measurement of investment property, and adopts a depreciation or amortization policy for the investment property which is consistent with that for buildings or land use rights.

The Group reviews the investment properties at each balance sheet date to determine whether there is any indication that they have suffered an impairment loss. If there is any indication that such assets may be impaired, the recoverable amounts are estimated for such assets. Recoverable amount is estimated on individual basis. If it is not practical to estimate the recoverable amount of an individual asset, the recoverable amount of the asset group to which the asset belongs will be estimated. If the recoverable amount of an asset or an asset group is less than its carrying amount, the deficit is accounted for as an impairment loss and is recognized in profit or loss for the period.

Once an impairment loss is recognized for an investment property, it will not be reversed in any subsequent period.

When an investment property is sold, transferred, retired or damaged, the Group recognizes the amount of any proceeds on disposal net of the carrying amount and related taxes in profit or loss for the period.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(II) THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREVIOUS PERIOD ADJUSTMENTS (Continued)

14. Fixed assets

14.1 Recognition criteria for fixed assets

Fixed assets are tangible assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and have useful lives of more than one accounting year. A fixed asset is recognized only when it is probable that economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. Fixed assets are initially measured at cost.

Subsequent expenditures incurred for the fixed asset are included in the cost of the fixed asset and if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditures can be measured reliably. Meanwhile the carrying amount of the replaced part is derecognized. Other subsequent expenditures are recognized in profit or loss in the period in which they are incurred.

14.2 Depreciation of each category of fixed assets

A fixed asset is depreciated over its useful life using the straight-line method since the month subsequent to the one in which it is ready for intended use. The useful life, estimated net residual value rate and annual depreciation rate of each category of fixed assets are as follows:

| Category of fixed assets | Depreciation period (years) | Residual value (%) | Annual depreciation rate (%) |
|----------------------------|-----------------------------|--------------------|------------------------------|
| Buildings | 15-35 | 4 | 2.7-6.4 |
| Machinery and equipment | 7-15 | 4 | 6.4-13.7 |
| Transportation vehicles | 5-10 | 4 | 9.6-19.2 |
| Office and other equipment | 4-9 | 4 | 10.7-24.0 |

Estimated net residual value of a fixed asset is the estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

14.3 Methods of impairment assessment and determining the provision for impairment losses of fixed assets

The Group assesses at each balance sheet date whether there is any indication that the fixed assets may be impaired. If there is any indication that such assets may be impaired, recoverable amounts are estimated for such assets. Recoverable amount is estimated on individual basis. If it is not practical to estimate the recoverable amount of an individual asset, the recoverable amount of the asset group to which the asset belongs will be estimated. If the recoverable amount of an asset or an asset group is less than its carrying amount, the deficit is accounted for as an impairment loss and is recognized in profit or loss for the period.

Once the impairment loss of such assets is recognized, it is not be reversed in any subsequent period.

14.4 Other explanations

The Group reviews the useful life and estimated net residual value of a fixed asset and the depreciation method applied at least once at each financial year end, and accounts for any change as a change in an accounting estimate.

If a fixed asset is upon disposal or no future economic benefits are expected to be generated from its use or disposal, the fixed asset is derecognized. When a fixed asset is sold, transferred, retired or damaged, the amount of any proceeds on disposal of the asset net of the carrying amount and related taxes is recognized in profit or loss for the period.

15. Construction in progress

Construction in progress is measured at its actual costs. The actual costs include various construction expenditures during the construction period, borrowing costs capitalized before it is ready for intended use and other relevant costs. Construction in progress is not depreciated. Construction in progress is transferred to a fixed asset when it is ready for intended use.

The Group assesses at each balance sheet date whether there is any indication that construction in progress may be impaired. If there is any indication that such assets may be impaired, recoverable amounts are estimated for such assets. Recoverable amount is estimated on individual basis. If it is not practical to estimate the recoverable amount of an individual asset, the recoverable amount of the asset group to which the asset belongs will be estimated. If the recoverable amount of an asset or an asset group is less than its carrying amount, the deficit is accounted for as an impairment loss and is recognized in profit or loss for the period.

Once the impairment loss of construction in progress is recognized, it is not be reversed in any subsequent period.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(II) THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREVIOUS PERIOD ADJUSTMENTS (Continued)

16. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying asset are capitalized when expenditures for such asset and borrowing costs are incurred and activities relating to the acquisition, construction or production of the asset that are necessary to prepare the asset for its intended use or sale have commenced. Capitalization of borrowing costs ceases when the qualifying asset being acquired, constructed or produced becomes ready for its intended use or sale. Capitalization of borrowing costs is suspended during periods in which the acquisition, construction or production of a qualifying asset is suspended abnormally and when the suspension is for a continuous period of more than 3 months. Capitalization is suspended until the acquisition, construction or production of the asset is resumed. Other borrowing costs are recognized as an expense in the period in which they are incurred.

Where funds are borrowed under a specific-purpose borrowing, the amount of interest to be capitalized is the actual interest expense incurred on that borrowing for the period less any bank interest earned from depositing the borrowed funds before being used on the asset or any investment income on the temporary investment of those funds. Where funds are borrowed under general-purpose borrowings, the Group determines the amount of interest to be capitalized on such borrowings by applying a capitalization rate to the weighted average of the excess of cumulative expenditures on the asset over the amounts of specific-purpose borrowings. The capitalization rate is the weighted average of the interest rates applicable to the general-purpose borrowings.

During the capitalization period, exchange differences related to a specific-purpose borrowing denominated in foreign currency are all capitalized. Exchange differences in connection with general-purpose borrowings are recognized in profit or loss in the period in which they are incurred.

Assets eligible for capitalization refers to the fixed assets, investment properties, inventories and other assets, of which the acquisition, construction and production takes a substantial period of time to get ready for its intended use or for sale.

17. Intangible assets

17.1 Intangible assets

Intangible asset includes land use rights, software, and etc.

An intangible asset is measured initially at cost. When an intangible asset with a finite useful life is available for use, its original cost less net residual value and any accumulated impairment losses is amortized over its estimated useful life using the straight-line method. An intangible asset with an indefinite useful life is not amortized.

For an intangible asset with a finite useful life, the Group reviews the useful life and amortization method at the end of the period, and makes adjustments when necessary.

17.2 Research and development expenditure

Expenditure during the research phase is recognized as an expense in the period in which it is incurred.

Expenditure during the development phase that meets all of the following conditions at the same time is recognized as intangible asset. Expenditure during development phase that does not meet the following conditions is recognized in profit or loss for the period.

- (1) it is technically feasible to complete the intangible asset so that it will be available for use or sale;
- (2) the Group has the intention to complete the intangible asset and use or sell it;
- (3) the Group can demonstrate the ways in which the intangible asset will generate economic benefits, including the evidence of the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- (4) the availability of adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset; and
- (5) the expenditure attributable to the intangible asset during its development phase can be reliably measured.

If the expenditures cannot be distinguished between the research phase and development phase, the Group recognizes all of them in profit or loss for the period.

17.3 Methods of impairment assessment and determining the provision for impairment losses of intangible assets

The Group assesses at each balance sheet date whether there is any indication that the intangible assets with a finite useful life may be impaired. If there is any indication that such assets may be impaired, recoverable amounts are estimated for such assets. Recoverable amount is estimated on individual basis. If it is not practical to estimate the recoverable amount of an individual asset, the recoverable amount of the asset group to which the asset belongs will be estimated. If the recoverable amount of an asset or an asset group is less than its carrying amount, the deficit is accounted for as an impairment loss and is recognized in profit or loss for the period.

Intangible assets with indefinite useful life and intangible assets not yet available for use are tested for impairment annually, irrespective of

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(II) THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREVIOUS PERIOD ADJUSTMENTS (Continued)

whether there is any indication that the assets may be impaired.

Once the impairment loss of such assets is recognized, it is not be reversed in any subsequent period.

18. Long-term prepaid expenses

Long-term prepaid expenses represent expenses incurred that should be borne and amortized over the current and subsequent periods of more than one year. Long-term prepaid expenses are amortized using the straight-line method over the expected periods in which benefits are derived.

19. Assets transferred under repurchase agreements

19.1 Financial assets purchased under resale agreements

Financial assets that have been purchased under agreements with a commitment to resell at a specific future date are not recognized in the balance sheet. The cost of purchasing such assets is presented under "financial assets purchased under resale agreements" in the balance sheet. The difference between the purchasing price and reselling price is recognized as interest income during the term of the agreement using the effective interest method.

19.2 Financial assets sold under repurchase agreements

Financial assets sold subject to agreements with a commitment to repurchase at a specific future date are not derecognized in the balance sheet. The proceeds from selling such assets are presented under "financial assets sold under repurchase agreements" in the balance sheet. The difference between the selling price and repurchasing price is recognized as interest expense during the term of the agreement using the effective interest method.

20. Shares repurchase

Cost and transaction fee associated with the shares repurchase are recognized as the decreases of shareholder's equity. Cost and transaction fee of repurchase, transfer or cancellation of the Company shares are not recognized as profit or loss.

21. Revenue

21.1 Revenue from sales of goods

Revenue from sale of goods is recognized when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods; the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; the amount of revenue can be measured reliably; it is probable that the associated economic benefits will flow to the Group; and the associated costs incurred or to be incurred can be measured reliably.

21.2 Revenue arising from the rendering of services

Revenue from rendering of services is recognized when (1) the amount of revenue can be measured reliably; (2) it is probable that the associated economic benefits will flow to the enterprise; (3) the stage of completion of the transaction can be determined reliably; and (4) the associated costs incurred or to be incurred can be measured reliably. Revenue from rendering of services is recognized using the percentage of completion method at the balance sheet date. The stage of completion of a transaction for rendering for services is determined based on the proportion that costs incurred to date bear to the estimated total costs of the transaction.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognized only to the extent of the costs incurred that will be recoverable, and the costs incurred are recognised as expenses for the period. When it is not probable that the costs incurred will be recovered, revenue is not recognized.

When a contract or agreement signed between the Group and another enterprise contains both sales of goods and rendering of services, the sales of goods and the rendering of services are distinguished from each other and measured separately. If the sales of goods and the rendering of services cannot be distinguished from each other, or when the two can be distinguished from each other but cannot be measured respectively, they are treated as the sales of goods.

21.3 Royalty Revenue

The amount of royalty revenue is measured and confirmed in accordance with the period and method of charging as stipulated in the relevant contract or agreement.

21.4 Interest Revenue

The amount of interest revenue is measured and confirmed in accordance with the length of time for which the Group's monetary funds is used by others and the effective interest rates.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(II) THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREVIOUS PERIOD ADJUSTMENTS (Continued)

22. Government grants

Government grants are transfer of monetary assets and non-monetary assets from the government to the Group at no consideration. A government grant is recognized only when the Group can comply with the conditions attaching to the grant and the Group will receive the grant.

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable.

A government grant related to an asset is recognized as deferred income, and evenly amortized to profit or loss over the useful life of the related asset. For a government grant related to income, if the grant is a compensation for related expenses or losses to be incurred in subsequent periods, the grant is recognized as deferred income, and recognized in profit or loss over the periods in which the related costs are recognized. If the grant is a compensation for related expenses or losses already incurred, the grant is recognized immediately in profit or loss for the period.

For repayment of a government grant already recognized, if there is related deferred income, the repayment is offset against the carrying amount of the deferred income, and any excess is recognized in profit or loss for the period. If there is no related deferred income, the repayment is recognized immediately in profit or loss for the period.

Relocation compensation received for relocation in public interests

If the Group relocates for the benefits of the public interests such as overall planning of urban and rural areas and receives relocation compensation appropriated by the government directly from its fiscal budget, it recognizes such income as special payable. The income attributable to compensation for losses of fixed assets and intangible assets, related expenses, losses from suspension of production incurred during the relocation and reconstruction period, and purchases of assets after the relocation is transferred from special payable to deferred income and is accounted for as either a government grant related to an asset or a government grant related to income based on its nature. Any surplus of relocation compensation after deducting the amount transferred to deferred income is recognized as capital reserve.

23. Deferred tax assets / deferred tax liabilities

The income tax expenses include current income tax and deferred income tax.

23.1 Current income tax

At the balance sheet date, current income tax liabilities (or assets) for the current and previous periods are measured at the amount expected to be paid (or recovered) according to the requirements of tax laws.

23.2 Deferred tax assets and deferred tax liabilities

For temporary differences between the carrying amounts of certain assets or liabilities and their tax base, or between the nil carrying amount of those items that are not recognized as assets or liabilities and their tax base that can be determined according to tax laws, deferred tax assets and liabilities are recognized using the balance sheet liability method.

Deferred tax is generally recognized for all temporary differences. Deferred tax assets for deductible temporary differences are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilized. However, for temporary differences associated with the initial recognition of goodwill and the initial recognition of an asset or liability arising from a transaction (not a business combination) that affects neither the accounting profit nor taxable profits (or deductible losses) at the time of transaction, no deferred tax asset or liability is recognized.

For deductible losses and tax credits that can be carried forward, deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the deductible losses and tax credits can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future. At the balance sheet date, deferred tax assets and liabilities are measured at the tax rates, according to tax laws, that are expected to apply in the period in which the asset is realized or the liability is settled.

Current and deferred tax expenses or income are recognized in profit or loss for the period, except when they arise from transactions or events that are directly recognized in other comprehensive income or in shareholders' equity, in which case they are recognized in other comprehensive income or in shareholders' equity; and when they arise from business combinations, in which case they adjust the carrying amount of goodwill.

At the balance sheet date, the carrying amount of deferred tax assets is reviewed and reduced if it is no longer probable that sufficient taxable profits will be available in the future to allow the benefit of deferred tax assets to be utilized. Such reduction in amount is reversed when it becomes probable that sufficient taxable profits will be available.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(II) THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREVIOUS PERIOD ADJUSTMENTS (Continued)

When the Group has a legal right to settle on a net basis and intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously, current tax assets and current tax liabilities are offset and presented on a net basis.

When the Group has a legal right to settle current tax assets and liabilities on a net basis, and deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax assets and liabilities on a net basis or to realize the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be reversed, deferred tax assets and deferred tax liabilities are offset and presented on a net basis.

24. Operating leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

24.1 The Group as lessee under operating leases

Operating lease payments are recognized on a straight-line basis over the term of the relevant lease, and are either included in the cost of related asset or charged to profit or loss for the period. Initial direct costs incurred are charged to profit or loss for the period. Contingent rents are charged to profit or loss in the period in which they are actually incurred.

24.2 The Group as lessor under operating leases

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs with more than an insignificant amount are capitalized when incurred, and are recognized in profit or loss on the same basis as rental income over the lease term. Other initial direct costs with an insignificant amount are charged to profit or loss in the period in which they are incurred. Contingent rents are charged to profit or loss in the period in which they actually arise.

24.3 The Group as lessor under finance leases

At the commencement of the lease term, the aggregate of the minimum lease receivable at the inception of the lease and the initial direct costs is recognized as a finance lease receivable, and the unguaranteed residual value is recorded at the same time. The difference between the aggregate of the minimum lease receivable, the initial direct costs and the unguaranteed residual value, and the aggregate of their present values is recognized as unearned finance income.

Unearned finance income is recognized as finance income for the period using the effective interest method over the lease term. Contingent rents are credited to profit or loss in the period in which they are actually incurred.

The net amount of financial lease receivables less unearned finance income is separated into long-term debts receivable and the portion of long-term debts receivable due within one year for presentation.

25. Changes in accounting estimates

| Changes in accounting estimates and reasons | Approval procedures | Financial statements items affected | Amount affected |
|--|--|-------------------------------------|-------------------------------|
| Whereas it is less likely that the bad debt loss on the accounts receivable from Baosteel Group in the scope of consolidated statements, with approval of the sixth meeting of the fifth board of directors of the Company, the Group shall, since 2013, perform independent impairment test for all accounts receivable from Baosteel Group in the scope of consolidated statement and make bad-debt provisions using the specific identification method, and shall not make the bad-debt provision for the risk-free receivables, nor incorporate such accounts receivable in combination to make bad-debt provisions using the aging analysis method. This accounting estimate change involves the accounting treatment related to the bad-debt provisions for the unit accounts receivable by the Group and its subsidiaries from Baosteel Group in the scope of consolidated statement. This change employs prospective application, having an influence on the Group and the Company as follows. | The sixth meeting of the fifth board of directors of the Company | Accounts receivable | Increased by RMB 9.19 million |
| | | Other receivables | Increased by RMB 3.44 million |
| | | Deferred tax assets | Deceased by RMB 3.16 million |
| | | Income tax expenses | Increased by RMB 3.16 million |
| | | Retained earnings | Increased by RMB 9.47 million |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(II) THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PREVIOUS PERIOD ADJUSTMENTS (Continued)

26. Other significant accounting policies, accounting estimates and preparation of consolidated financial statements

Employee benefit

In an accounting period in which an employee has rendered service to the Group, the Group recognizes the employee benefits for that service as a liability, except for compensation for termination of employment relationship with the employees.

The Group participates in the employee social security systems, such as basic pensions, medical insurance, unemployment insurance, housing funds and other social securities established by the government in accordance with relevant requirements. The related expenditures are either included in cost of related assets or charged to profit or loss in the period when they are incurred.

When the Group terminates the employment relationship with employees before the expiry of the employment contracts or provides compensation as an offer to encourage employees to accept voluntary redundancy, if the Group has a formal plan for termination of employment relationship or has made an offer for voluntary redundancy which will be implemented immediately, and the Group cannot unilaterally withdraw from the termination plan or the redundancy offer, a provision for the compensation payable arising from the termination of employment relationship with employees is recognized with a corresponding charge to the profit or loss for the period.

An internal retirement plan is accounted for using the same principles as described above. Salaries and social insurance contributions to be paid to the internally retired employees by the Group during the period from the date when the employee ceases to provide services to the normal retirement date are recognized in profit or loss for the period when the recognition criteria for provisions are met with termination benefits.

27. Basis of determining significant accounting policies and key assumptions and uncertainties in accounting estimates

In the application of the Group's accounting policies, which are described in Note II, the Group is required to make judgments, estimates and assumptions about the carrying amounts of items in the financial statements that cannot be measured accurately, due to the internal uncertainty of the operating activities. These judgments, estimates and assumptions are based on historical experiences of the Group's management as well as other factors that are considered to be relevant. Actual results may differ from these estimates.

The aforementioned judgments, estimates and assumptions are reviewed regularly on a going concern basis. The effect of a change in accounting estimate is recognized in the period of the change, if the change affects that period only; or recognized in the period of the change and future periods, if the change affects both.

Key assumptions and uncertainties in accounting estimates

The followings are the key assumptions and uncertainties in accounting estimates at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in future periods.

27.1 Inventory Provision

Note II (II) describes that inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price for inventories, less all the estimated costs of completion and costs necessary to make the sales.

Operational procedures have been in place to monitor this risk as a significant proportion of the Group's working capital is devoted to inventories. Physical counts on all inventories are carried out by the management on a periodical basis in order to determine whether it is necessary to make provision in respect of any obsolete and defective inventories identified. This involves comparison of carrying amount of the aged inventory items with the respective net realizable value. The purpose is to ascertain whether provision is required to be made in the financial statements for any obsolete and slow-moving items. In this regard, the management is satisfied that adequate inventory provision has been made for obsolete and slow-moving inventories.

27.2 Bad debt provision

The Company makes bad debt provision for receivables when there is clear evidence that the recovery of receivables is uncertain. As the Company's management needs to judge historical record of debt recovery, debt aging, financial status of debtors and overall economic environment when evaluating the provision, the measurement of bad debt provision is uncertain. Although there is no reason to believe significant change will take place on the assumption on which the measurement of receivables is based, the carrying amount and provision of receivables will change when actual results are different from previous assumptions.

27.3 Deferred tax assets

The recognition of deferred tax assets is primarily subject to actual profit and actual tax rate employed by deductible temporary differences in the future. The recognized deferred tax assets will be reversed and recognized in profit or loss, when the actual profit is less than the expectation, or the actual tax rate is lower than the expectation. Furthermore, due to the uncertainty of whether there is enough taxable profit in the future, carrying forward losses of future years and deductible temporary differences are not fully recognized as deferred tax assets.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

27.4 Fixed assets provision

The Group reviews whether there is any indication of impairment for the fixed assets at the balance sheet date. Impairment tests will be carried out when any indications of the book value may not be recoverable. If book value of assets or asset group is higher than the recoverable amount, there is impairment. An asset's fair value less costs to sell, is referenced to the price in a binding sale agreement in an arm's length transaction, adjusted for incremental costs that would be directly attributable to the disposal of the asset. When the current value of the expected future cash flow is forecasted, the management estimates the expected future cash flow of the asset or asset group, and selects the appropriate discount rate to determine the present value of future cash flow. Based on procedures mentioned above, the management of the Group considered that the provision has been sufficiently recognized.

27.5 Impairment of available-for-sale financial assets

On the financial statement date, the Group investigates the impairment risk of its available-for-sale financial assets. Those assets are held by the Group for the purpose of strategic investment, and the Group will not decide to sell them due to temporary fluctuation on the stock price. The Group accrues the impairment of the asset when the asset meets the quantified impairment standard (Notes (2), 9) set out by the Group. After considering all the complications, the management of the group believes that it is not necessary to accrual the impairment of the available-for-sale financial asset on the financial statement date.

(III) TAXES

Major categories of taxes and tax rates

| Category of tax | Basis of tax computation | Tax rate |
|---------------------------------------|--|--|
| Value-added tax | Taxable revenue of goods sales | 6%, 11%, 13% or 17% |
| Business tax | Taxable revenue | 3% or 5% |
| City maintenance and construction tax | Actual turnover tax | 1%~7% |
| Educational surtax and surcharge | Actual turnover tax | 1%~5% |
| Enterprise income tax | Taxable income | Note |
| Levies | Actual turnover tax | Applicable rates set by the government |
| Property tax | Residual value of the taxable buildings or rental income | Applicable rates set by the government |
| Individual income tax | Taxable individual income | Applicable rates set by the government |

Note: The Company is subjected to 25% income tax rate on its taxable income. Subsidiaries of the Group are subjected to respective applicable income tax rates on taxable income. The income taxes of overseas subsidiaries of the Group are based on the relevant local laws and regulations on taxation.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(IV) BUSINESS COMBINATIONS AND CONSOLIDATED FINANCIAL STATEMENTS

1. Information of primary subsidiaries

(1) Subsidiaries acquired through business combinations involving enterprises under common control

| Full name of subsidiaries | Type | Place of incorporation | Nature of business | Registered capital ('000) |
|--|------|------------------------|--------------------|---------------------------|
| Yantai Lubao Steel Tubes Co., Ltd. (Lubao Steel Tubes) | LLC | Yantai | Manufacturing | RMB 100,000 |
| Baosteel Huangshi Coating & Galvanizing Co., Ltd. (Huangshi Coating & Galvanizing) | LLC | Huangshi | Manufacturing | RMB 144,647 |
| Shanghai Baosteel International Economic & Trading Co., Ltd. (Baosteel International) | LLC | Shanghai | Steel trading | RMB 2,248,879 |
| Shanghai Meishan Iron & Steel Co., Ltd. (Meishan Steel) | LLC | Nanjing | Manufacturing | RMB 7,081,426 |
| Shanghai Baosight Software Co., Ltd. (Baosight Software) | LLC | Shanghai | IT | RMB 340,917 |
| Baosteel America Inc. (Baosteel America) | LLC | Texas, USA | Steel trading | USD 980 |
| Howa Trading Co., Ltd. (Howa Trading) | LLC | Tokyo, Japan | Steel trading | JPY 876,000 |
| Baosteel Europe GmbH (Baosteel Europe) | LLC | Hamburg, Germany | Steel trading | EUR 2,050 |
| Baosteel Singapore PTE Ltd. (Baosteel Singapore) | LLC | Singapore | Steel trading | SGD 1,500 |
| Bao-Trans Enterprises Ltd. (Bao-Trans Enterprises) | LLC | Hong Kong | Steel trading | HKD 360,190 |
| Baosteel Do Brazil Ltd. (Baosteel Brazil Trading) | LLC | Rio de Janeiro, Brazil | Steel trading | BRL 1,253 |
| Shanghai Baosteel Chemical Co., Ltd. (Baosteel Chemical) | LLC | Shanghai | Manufacturing | RMB 2,110,047 |
| Baosteel Group Finance Co. Ltd. (Finance Co.) | LLC | Shanghai | Finance | RMB 1,100,000 |
| Nantong Baosteel Iron & Steel Co., Ltd. (Baotong Steel) | LLC | Nantong | Manufacturing | RMB 620,532 |
| Baosteel Zhanjiang Iron & Steel Co., Ltd. ("Zhanjiang Iron & Steel") ^(Note 1) | LLC | Zhanjiang | Manufacturing | RMB20,000,000 |

(2) Subsidiaries acquired through establishment, investment and etc.

| Full name of subsidiaries | Type | Place of incorporation | Nature of business | Registered capital ('000) |
|---|------|--------------------------|--------------------|---------------------------|
| Yantai Baosteel Steel Tubes Co., Ltd. (Yantai Baosteel) | LLC | Yantai | Manufacturing | RMB 2,000,000 |
| Shanghai Bao Chemical E-commerce Co., Ltd. (Bao Chemical) | LLC | Shanghai | E-commerce | RMB 5,000 |
| Xinjiang Karamay Steel Pipe Ltd. (Baoma Tube) | LLC | Karamay | Manufacturing | RMB 48,898 |
| Poly Pipe (Thailand) Co., Ltd. (Poly Pipe) | LLC | Thailand | Manufacturing | THB 2,800,000 |
| BGM Co., Ltd. (BGM) | LLC | Gyeonggi-do, South Korea | Manufacturing | KRW10,000,000 |

Note 1: Zhanjiang Iron & Steel is a subsidiary newly incorporated into the scope of consolidation during this reporting period. In accordance with the *Proposal on Acquisition of Zhanjiang Iron & Steel Equity* approved at the third meeting of the fifth board of directors of the Company, and the *Equity Transfer Agreement of Baosteel Zhanjiang Iron & Steel Co., Ltd.*, the Company acquired 71.8032 % equity of Zhanjiang Iron & Steel Co., Ltd. held by Baosteel Group. Although the Company made the above payment on October 31, 2012, however, the Company took over the control on Zhanjiang Iron & Steel Co., Ltd. in January 2013. Therefore, the Company incorporated Zhanjiang Iron & Steel Co., Ltd. into the scope of consolidation since January 1, 2013. Since the establishment date, Zhanjiang Iron & Steel Co., Ltd. has been controlled by Baosteel Group, the equity acquired was identified as the business combination under common control. According to Accounting standard for business enterprises, the opening balance of the consolidated balance sheet, consolidated income statement, consolidated cash flow statement and consolidated statement of changes in shareholders' equity have been restated. Unless otherwise stated, the opening amount of the year involved in this Report has been restated. During this reporting period, the Company increased a capital of RMB 6.907 billion for Zhanjiang Iron & Steel Co., Ltd., after which the Company holds 85.71% equity interests of Zhanjiang Iron & Steel Co., Ltd. and the actual capital contribution to Zhanjiang Iron & Steel Co., Ltd. increased to RMB 14 billion.

Note 2: The equity interest in BGM is 50% at the balance sheet date. However, the Group has more than half of voting power in the board of directors of BGM. Therefore, the Group includes BGM in the scope of consolidation.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(IV) BUSINESS COMBINATIONS AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

| Business scope | Actual capital contribution at the end of the period ('000) | Balance of other items, that in substance, constitutes net investment in the subsidiary | Proportion of equity interest (%) | Proportion of voting power (%) | Consolidated or not consolidated | Minority interest (RMB'000) | Amount of the minority interests used to absorb profits or losses attributable to minority interests |
|---|---|---|-----------------------------------|--------------------------------|----------------------------------|-----------------------------|--|
| Production & sales of steel tubes | RMB 79,820 | - | 79.82% | 79.82% | Y | 109,478 | - |
| Production & sales of galvanized sheets | RMB 84,542 | - | 58.45% | More than half of voting power | Y | 141,153 | - |
| Steel trading | RMB 2,248,879 | - | 100% | 100% | Y | 1,254,433 | - |
| Steel processing & sales | RMB 5,455,836 | - | 77.04% | 77.04% | Y | 2,565,011 | - |
| Software development | RMB 145,545 | - | 55.5% | 55.5% | Y | 809,872 | - |
| Steel trading | USD 980 | - | 100% | 100% | Y | - | - |
| Steel trading | JPY 876,000 | - | 100% | 100% | Y | - | - |
| Steel trading | EUR 2,050 | - | 100% | 100% | Y | 63,511 | - |
| Steel trading | SGD 1,500 | - | 100% | 100% | Y | - | - |
| Steel trading | HKD 360,190 | - | 100% | 100% | Y | - | - |
| Steel trading | USD 980 | - | 100% | 100% | Y | - | - |
| Production and sales of chemical products | RMB 2,110,047 | - | 100% | 100% | Y | 292,047 | - |
| Financial & foreign exchange | RMB 310,500 | - | 62.1% | 62.1% | Y | 667,316 | - |
| Steel processing & sales | RMB 594,582 | - | 95.82% | 95.82% | Y | 4,755 | - |
| Steel melting and processing | RMB 12,000,000 | - | 85.71% | 85.71% | Y | 3,391,703 | - |

| Business scope | Actual capital contribution at the end of the period ('000) | Balance of other items, that in substance, constitutes net investment in the subsidiary | Proportion of equity interest (%) | Proportion of voting power (%) | Consolidated or not consolidated | Minority interest (RMB'000) | Amount of the minority interests used to absorb profits or losses attributable to minority interests |
|----------------------------------|---|---|-----------------------------------|--------------------------------|----------------------------------|-----------------------------|--|
| Steel tube production & sales | RMB 2,000,000 | - | 100% | 100% | Y | - | - |
| E-commerce | RMB 3,500 | - | 70% | 70% | Y | 1,271 | - |
| Steel tube production & sales | RMB 36,674 | - | 75% | 75% | Y | 11,491 | - |
| Steel tube processing | USD 46,252 | - | 51% | 51% | Y | 216,664 | - |
| Steel product processing & sales | KRW 5,000,000 | - | 50% | Over half (Note2) | Y | 25,028 | - |

2. Business combination involving entity under common control

RMB

| Combined party | Criterion for business combination under common control | Actual controller of the common control | Net income from the beginning of the period to the combination date | Net profit from the beginning of the period to the combination date | Net cash flow from operating activities from the beginning of the period to the combination date |
|------------------------|---|---|---|---|--|
| Zhanjiang Iron & Steel | Under common control before and after combination | Baosteel Group | - | - | - |

Note: Details of subsidiary newly incorporated into the scope of consolidation during this reporting period refer to Note(X).4.

3. Exchange rates for translating major financial statement items of oversea entities.

RMB

| Currency | Average exchange rate | | Exchange rate at end of period | |
|----------|-----------------------|----------|--------------------------------|----------|
| | 2013 | 2012 | 2013 | 2012 |
| USD | 6.1912 | 6.2932 | 6.0969 | 6.2855 |
| EUR | 8.36825 | 8.2401 | 8.4189 | 8.3176 |
| JPY | 0.0654 | 0.0771 | 0.0578 | 0.0730 |
| BRL | 2.82597 | 3.22436 | 2.581354 | 3.07059 |
| THB | 0.1957 | 0.2023 | 0.1849 | 0.2054 |
| KRW | 0.005804 | 0.005672 | 0.005740 | 0.005868 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

1. Cash and bank balances

| Item | Closing balance | | | Restated opening balance after business combination involving entities under common control | | |
|--|------------------|---------------|--------------------------|---|---------------|-------------------------|
| | Foreign Currency | Exchange Rate | Amount in RMB | Foreign Currency | Exchange Rate | Amount in RMB |
| Cash: | | | | | | |
| RMB | | | 862,784.89 | | | 894,131.30 |
| Bank: | | | | | | |
| RMB | | | 8,712,911,595.21 | | | 5,085,022,468.29 |
| USD | 309,946,263.41 | 6.0969 | 1,889,711,373.41 | 252,487,143.37 | 6.2855 | 1,587,007,939.68 |
| JPY | 6,522,202,259.93 | 0.0578 | 376,794,424.53 | 5,387,440,116.00 | 0.0730 | 393,547,113.06 |
| EUR | 42,397,306.39 | 8.4189 | 356,937,436.23 | 37,014,591.59 | 8.3176 | 307,872,567.02 |
| HKD | 1,345,837.74 | 0.7862 | 1,051,979.25 | 2,573,170.14 | 0.8109 | 2,086,455.01 |
| THB | - | 0.1849 | - | 406,286,396.84 | 0.2054 | 83,451,225.91 |
| Other currencies | | | 98,392,763.62 | | | 78,908,329.11 |
| Other currency funds: | | | | | | |
| RMB | | | 71,190,039.79 | | | 93,317,392.48 |
| Deposit reserve in central bank by Finance Co. | | | 1,373,381,901.56 | | | 1,219,017,357.42 |
| Total | | | 12,881,234,298.49 | | | 8,851,124,979.28 |

Details of restricted bank balance are shown as follows:

| Item | Closing balance | | Restated opening balance after business combination involving entities under common control | |
|--|-----------------|------------------|---|------------------|
| | | | | |
| Deposit reserve in central bank by Finance Co. | | 1,373,381,901.56 | | 1,219,017,357.42 |

At 31 December 2013, RMB 2,018,653,824.16 (at 31 December 2012: RMB1,714,803,262.36) was deposited in overseas banks. At 31 December 2013, other currency funds of the Group mainly consist of cash for investment of RMB4,406,913.56 (at 31 December 2012: RMB4,217,506.91), bank acceptance bill's guarantee deposit of RMB56,178,621.04 (at 31 December 2012: RMB85,282,497.06), letter of credit's deposit of RMB9,301,224.54 (at 31 December 2012: RMB1,605,092.40) and credit card deposit of RMB443,801.80 (at 31 December 2012: RMB148,573.77), and etc.

2. Held-for-trading financial assets

Details of held-for-trading financial assets are as follows:

| Item | Closing fair value | | Restated opening fair value after business combination involving entities under common control | |
|----------------------------------|--------------------|----------------------|--|----------------------|
| | | | | |
| Held-for-trading bond investment | | 25,870,987.96 | | 51,729,760.16 |
| Held-for-trading fund investment | | - | | 30,000,000.00 |
| Derivative financial assets | | 2,867,855.98 | | 7,848,049.15 |
| Total | | 28,738,843.94 | | 89,577,809.31 |

The management of the Company believes that there exists no significant obstacle in realizing the held-for-trading financial assets.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Notes receivable

(1) Categories of notes receivable

| Category | Closing balance | RMB |
|-----------------------|-------------------|---|
| | | Restated opening balance after business combination involving entities under common control |
| Bank acceptance | 11,761,459,876.16 | 11,852,905,308.99 |
| Commercial acceptance | 385,814,930.98 | 558,397,876.32 |
| Total | 12,147,274,807.14 | 12,411,303,185.31 |

As at 31 December 2013, a carrying amount of RMB 127,874,776.03 of the bank acceptance is being discounted. According to relevant acceptance discount contract, no short term borrowing is recognized due to lacking of recourse right. (at 31 December 2012: RMB746,165,373.27 of the bank acceptance is being discounted for a short term borrowing of RMB746,165,373.27 due to the recourse right)

- (2) At the opening and closing of the year, no notes receivables were reclassified to accounts receivable due to the drawers' inability to settle the notes on maturity.
- (3) At the opening and closing of the year, there are no notes receivables due to any shareholders holding at least 5% of the Company's shares with voting power.
- (4) Notes receivable due from related parties refer to Note (VI). 6 (1).
- (5) As at 31 December 2013, no notes receivable discounted was reclassified as short-term borrowings.

| Name of drawer | Date of issue | Maturity Date | RMB |
|---|-------------------|------------------|----------------|
| | | | Amount |
| Jinxi Jinlan Cold-rolled Sheets Co., Ltd. | 14 August 2012 | 14 February 2013 | 40,000,000.00 |
| Jinxi Jinlan Cold-rolled Sheets Co., Ltd. | 14 August 2012 | 14 February 2013 | 39,461,493.00 |
| Shanghai Gutai Metal Materials Co., Ltd. | 17 September 2012 | 17 March 2013 | 24,000,000.00 |
| Jiangsu Yulong Steel Pipe Co., Ltd. | 20 September 2012 | 20 March 2013 | 21,332,000.00 |
| China Railway Materials Company Limited | 6 August 2012 | 6 February 2013 | 20,586,011.00 |
| Total | | | 145,379,504.00 |

4. Accounts receivable

(1) Disclosure of accounts receivable by categories:

| | | | | | | | | | RMB |
|---|-------------------|----------------|--------------------|----------------|---|----------------|--------------------|----------------|-----|
| Category | Closing balance | | | | Restated opening balance after business combination involving entities under common control | | | | |
| | Carrying amount | | Bad debt provision | | Carrying amount | | Bad debt provision | | |
| | Amount | Proportion (%) | Amount | Proportion (%) | Amount | Proportion (%) | Amount | Proportion (%) | |
| Accounts receivable that are individually significant and for which bad debt provision has been assessed individually | 3,044,601,900.92 | 26 | 25,008,593.45 | 5 | 2,092,051,700.36 | 23 | 104,602,585.02 | 28 | |
| Accounts receivables with provision accrued collectively on a portfolio basis | 8,618,747,809.20 | 73 | 363,437,240.58 | 79 | 6,766,491,715.40 | 76 | 202,809,785.36 | 55 | |
| Accounts receivable that are not individually significant but for which bad debt provision has been assessed individually | 71,750,227.37 | 1 | 71,750,227.37 | 16 | 59,812,102.36 | 1 | 59,812,102.36 | 17 | |
| Total | 11,735,099,937.49 | 100 | 460,196,061.40 | 100 | 8,918,355,518.12 | 100 | 367,224,472.74 | 100 | |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The aging analysis of accounts receivable is as follows:

| Aging | Closing balance | | | | Restated opening balance after business combination involving entities under common control | | | |
|---|-------------------|----------------|--------------------|-------------------|--|----------------|--------------------|------------------|
| | Amount | Proportion (%) | Bad debt provision | Carrying amount | Amount | Proportion (%) | Bad debt provision | Carrying amount |
| Within 1 year | 11,219,773,991.28 | 95 | 302,399,229.99 | 10,917,374,761.29 | 8,444,404,488.72 | 94 | 267,537,990.34 | 8,176,866,498.38 |
| More than 1 year but not exceeding 2 years | 314,018,773.51 | 3 | 25,531,020.75 | 288,487,752.76 | 323,807,678.02 | 4 | 21,664,769.93 | 302,142,908.09 |
| More than 2 years but not exceeding 3 years | 101,846,406.72 | 1 | 60,515,583.29 | 41,330,823.43 | 71,624,990.42 | 1 | 18,209,610.11 | 53,415,380.31 |
| More than 3 years | 99,460,765.98 | 1 | 71,750,227.37 | 27,710,538.61 | 78,518,360.96 | 1 | 59,812,102.36 | 18,706,258.60 |
| Total | 11,735,099,937.49 | 100 | 460,196,061.40 | 11,274,903,876.09 | 8,918,355,518.12 | 100 | 367,224,472.74 | 8,551,131,045.38 |

- (2) Accounts receivable that are individually significant or not individually significant but for which bad debts has been assessed individually as at 31 December 2013:

| Content of accounts receivable | Amount | Bad debt provision | Proportion of provision (%) | Reasons for provision |
|---|------------------|--------------------|-----------------------------|-----------------------|
| Accounts receivable that are individually significant | 3,044,601,900.92 | 25,008,593.45 | 0.82 | Note 1 |
| Accounts receivable with long aging | 71,750,227.37 | 71,750,227.37 | 100 | Note 2 |
| Total | 3,116,352,128.29 | 96,758,820.82 | | |

Accounts receivable that are individually significant or not individually significant but for which bad debts have been assessed individually as at 31 December 2012:

| Content of accounts receivable | Amount | Bad debt provision | Proportion of provision (%) | Reasons for provision |
|---|------------------|--------------------|-----------------------------|-----------------------|
| Accounts receivable that are individually significant | 2,092,051,700.36 | 104,602,585.02 | 5 | Note 1 |
| Accounts receivable with long aging | 59,812,102.36 | 59,812,102.36 | 100 | Note 2 |
| Total | 2,151,863,802.72 | 164,414,687.38 | | |

Note 1: The Group assessed the bad debt provision of accounts receivable which are individually significant separately. As at 31 December 2013, nil of bad debt provision is accrued for accounts receivable that are individually significant (as at 31 December 2012: Nil). By reference to the Note (II).10 (2), receivables for which bad debt provision is collectively assessed on a portfolio basis, as at 31 December 2013, an amount of RMB 25,008,593.45 is accrued as bad debt provision (at 31 December 2012: RMB104,602,585.02).

Note 2: Bad debt provision is fully made due to long aging and a slim chance of recollection.

- (3) Accounts receivable due from shareholders holding at least 5% of the Company's shares with voting power in the current period refer to Note (VI). 6 (2).
- (4) Top five customers with the largest balances are set out below:

| Name of customer | Relationship with the Company | Amount | Age | Proportion to the total accounts receivable (%) |
|------------------|-------------------------------|------------------|---------------|---|
| Entity one | Related party | 775,168,436.49 | Within 1 year | 7 |
| Entity two | Related party | 720,130,592.04 | Within 1 year | 6 |
| Entity three | Related party | 631,605,490.56 | Within 1 year | 5 |
| Entity four | Third party | 500,171,869.00 | Within 1 year | 4 |
| Entity five | Related party | 417,525,512.83 | Within 1 year | 4 |
| Total | | 3,044,601,900.92 | | 26 |

- (5) As at 31 December 2013, a total carrying amount of RMB1,370,000,000.00 (31 December 2012: RMB1,370,000,000.00) of accounts receivable is mortgaged for a short-term borrowing of RMB1,370,000,000.00 by means of bank guarantee (31 December 2012: RMB1,370,000,000.00).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Prepayments

(1) Aging analysis of prepayments is as follows:

| Aging | Closing balance | | Restated opening balance after business combination involving entities under common control | |
|---|------------------|----------------|---|----------------|
| | Amount | Proportion (%) | Amount | Proportion (%) |
| Within 1 year | 2,904,024,382.90 | 95 | 3,612,030,958.89 | 97 |
| More than 1 year but not exceeding 2 years | 75,644,388.11 | 2 | 93,434,794.28 | 3 |
| More than 2 years but not exceeding 3 years | 62,844,831.81 | 2 | 10,385,058.49 | - |
| More than 3 years | 21,153,667.88 | 1 | 486,632.02 | - |
| Total | 3,063,667,270.70 | 100 | 3,716,337,443.68 | 100 |

As at 31 December 2013, prepayments with more than one year are mainly intended for purchase of large equipment used for projects under construction.

(2) Top five suppliers with the largest balances are set out below:

| Name of supplier | Relationship with the Company | Amount | Aging |
|------------------|-------------------------------|------------------|---------------|
| Entity one | Related party | 366,690,275.56 | Within 1 year |
| Entity two | Related party | 354,039,702.56 | Within 1 year |
| Entity three | Related party | 209,331,981.56 | Within 1 year |
| Entity four | Related party | 172,817,093.94 | Within 1 year |
| Entity five | Third party | 140,111,398.99 | Within 1 year |
| Total | | 1,242,990,452.61 | |

(3) At the opening and closing of the year, there is no prepayment to any shareholder holding at least 5% of the Company's shares with voting power.

(4) Disclosure of prepayments by supplier categories is as follows:

| Category | Closing balance | Restated opening balance after business combination involving entities under common control |
|--------------------------------------|------------------|---|
| Individually significant prepayments | 1,242,990,452.61 | 1,491,789,693.40 |
| Other insignificant prepayments | 1,820,676,818.09 | 2,224,547,750.28 |
| Total | 3,063,667,270.70 | 3,716,337,443.68 |

(5) Prepayments due to related parties refer to Note (VI). 6 (3).

6. Interest receivable

(1) Interest receivable

| Item | Restated opening balance after business combination involving entities under common control | Increase for the year | Decrease for the year | Closing balance |
|---------------------|---|-----------------------|-----------------------|-----------------|
| Interest receivable | 948,484,949.13 | 1,297,497,190.55 | 1,505,706,531.11 | 740,275,608.57 |

(2) Explanations for interest receivable:

At the balance sheet date, the aging of interest receivable is within one year.

(3) Interest receivable due to related parties refer to note (VI), 6(4).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Dividends receivable

RMB

| Item | Restated opening balance after business combination involving entities under common control | Increase in the current period | Decrease in the current period | Closing balance | Reasons for uncollected amounts | Whether the amount is impaired |
|--|---|--------------------------------|--------------------------------|-----------------|---------------------------------|--------------------------------|
| Dividends receivable aged within 1 year | 5,649,323.48 | 60,887,153.28 | 5,649,323.48 | 60,887,153.28 | - | No |
| Dividends receivable aged More than 1 year | 27,990,563.34 | - | 27,990,563.34 | - | - | No |
| Total | 33,639,886.82 | 60,887,153.28 | 33,639,886.82 | 60,887,153.28 | - | |

8. Other receivables

(1) Disclosure of other receivables by categories:

RMB

| Category | Closing balance | | | | Restated opening balance after business combination involving entities under common control | | | |
|---|------------------|----------------|--------------------|----------------|---|----------------|--------------------|----------------|
| | Carrying amount | | Bad debt provision | | Carrying amount | | Bad debt provision | |
| | Amount | Proportion (%) | Amount | Proportion (%) | Amount | Proportion (%) | Amount | Proportion (%) |
| Other receivables that are individually significant and for which bad debt provision has been assessed individually | 435,869,833.04 | 26 | - | - | 466,624,437.44 | 32 | 2,330,038.88 | 6 |
| Other receivables with provision accrued collectively on a portfolio basis | 1,265,502,592.79 | 73 | 56,627,189.42 | 69 | 932,340,306.65 | 66 | 9,523,884.58 | 27 |
| Other receivables that are not individually significant but for which bad debt provision has been assessed individually | 25,031,256.94 | 1 | 25,031,256.94 | 31 | 24,220,931.54 | 2 | 24,220,931.54 | 67 |
| Total | 1,726,403,682.77 | 100 | 81,658,446.36 | 100 | 1,423,185,675.63 | 100 | 36,074,855.00 | 100 |

Aging analysis of other receivables is as follows:

RMB

| Aging | Closing balance | | | | Restated opening balance after business combination involving entities under common control | | | |
|---|------------------|----------------|--------------------|------------------|---|----------------|--------------------|------------------|
| | Amount | Proportion (%) | Bad debt provision | Carrying amount | Amount | Proportion (%) | Bad debt provision | Carrying amount |
| Within 1 year | 1,299,454,657.38 | 75 | 9,352,699.87 | 1,290,101,957.51 | 1,069,443,372.69 | 75 | 7,211,357.38 | 1,062,232,015.31 |
| More than 1 year but not exceeding 2 years | 110,083,127.79 | 6 | 45,848,624.96 | 64,234,502.83 | 24,793,620.57 | 2 | 2,614,178.68 | 22,179,441.89 |
| More than 2 years but not exceeding 3 years | 4,964,522.61 | - | 1,425,864.59 | 3,538,658.02 | 8,979,361.67 | 1 | 2,028,387.40 | 6,950,974.27 |
| More than 3 years | 311,901,374.99 | 19 | 25,031,256.94 | 286,870,118.05 | 319,969,320.70 | 22 | 24,220,931.54 | 295,748,389.16 |
| Total | 1,726,403,682.77 | 100 | 81,658,446.36 | 1,644,745,236.41 | 1,423,185,675.63 | 100 | 36,074,855.00 | 1,387,110,820.63 |

(2) Other receivables that are individually significant or not individually significant but for which bad debt provision has been assessed individually as at 31 December 2013:

RMB

| Content of other receivables | Amount | Bad debt provision | Proportion of provision (%) | Reasons |
|---|----------------|--------------------|-----------------------------|---------|
| Other receivables with significant balances | 435,869,833.04 | - | - | Note 1 |
| Other receivables with long aging | 25,031,256.94 | 25,031,256.94 | 100 | Note 2 |
| Total | 460,901,089.98 | 25,031,256.94 | | |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other receivables that are individually significant or not individually significant but for which bad debt provision has been assessed individually as at 31 December 2012:

| RMB | | | | |
|---|----------------|--------------------|-----------------------------|---------|
| Content of other receivables | Amount | Bad debt provision | Proportion of provision (%) | Reasons |
| Other receivables with significant balances | 466,624,437.44 | 2,330,038.88 | 0.5 | Note 1 |
| Other receivables with long aging | 24,220,931.54 | 24,220,931.54 | 100 | Note 2 |
| Total | 490,845,368.98 | 26,550,970.42 | | |

Note 1: Other receivables with significant balances mainly consist of R&D expense receivable from Baosteel Group, custom's deposit, advances of project expense and government compensation for relocation. The Company did not make bad debt provision on custom's deposit, advances of project expense and government compensation for relocation in view of the low risk of collection, of which the book balance is RMB435,869,833.04 (RMB420,023,659.92 on 31 December 2012).

Note 2: The possibility of collecting the other receivables with long aging is very small. Therefore, the Company made full bad debt provision on the above other receivables.

(3) Other receivables due to shareholders holding at least 5% of the Company's shares with voting power in the current period refer to Note (VI). 6(5)

(4) Top five entities with the largest balances are set out below:

| RMB | | | | |
|----------------|-------------------------------|----------------|---------------|---|
| Name of Entity | Relationship with the Company | Amount | Age | Proportion to the total other receivables (%) |
| Entity one | Third party | 198,911,326.43 | Note | 12 |
| Entity two | Third party | 112,050,640.10 | Within 1 year | 7 |
| Entity three | Third party | 52,810,650.00 | Within 1 year | 3 |
| Entity four | Third party | 37,110,397.88 | Within 1 year | 2 |
| Entity five | Related party | 34,986,818.63 | Within 1 year | 2 |
| Total | | 435,869,833.04 | | 26 |

Note: The amount aged more than 3 years is RMB198,911,326.43.

9. Inventories

(1) Categories of inventories

| RMB | | | | | | |
|------------------------|-----------------------|---|---------------------|---|---|---------------------|
| Item | Closing balance | | | Restated opening balance after business combination involving entities under common control | | |
| | Gross carrying amount | Provision for decline in value of inventories | Net carrying amount | Gross carrying amount | Provision for decline in value of inventories | Net carrying amount |
| Raw materials | 7,653,352,540.31 | 167,249,239.32 | 7,486,103,300.99 | 7,310,245,911.40 | 22,419,384.55 | 7,287,826,526.85 |
| Work-in-progress | 9,207,303,898.78 | 393,120,379.69 | 8,814,183,519.09 | 7,771,738,033.33 | 180,588,026.30 | 7,591,150,007.03 |
| Finished goods | 11,798,045,628.55 | 590,592,927.36 | 11,207,452,701.19 | 10,534,004,003.87 | 348,474,943.23 | 10,185,529,060.64 |
| Spare parts and others | 3,640,280,331.31 | 61,279,664.12 | 3,579,000,667.19 | 3,870,142,701.45 | 62,224,606.76 | 3,807,918,094.69 |
| Total | 32,298,982,398.95 | 1,212,242,210.49 | 31,086,740,188.46 | 29,486,130,650.05 | 613,706,960.84 | 28,872,423,689.21 |

(2) Provision for decline in value of inventories

| RMB | | | | | |
|-------------------------|---|--------------------------------|--------------------------------|--------------|-------------------------|
| Category of inventories | Restated opening carrying amount after business combination involving entities under common control | Increase in the current period | Decrease in the current period | | Closing carrying amount |
| | | | Reversals | Write-off | |
| Raw materials | 22,419,384.55 | 264,820,062.47 | 119,990,207.70 | - | 167,249,239.32 |
| Work-in-progress | 180,588,026.30 | 286,771,345.56 | 74,238,992.17 | - | 393,120,379.69 |
| Finished goods | 348,474,943.23 | 456,886,107.65 | 213,522,056.33 | 1,027,450.08 | 590,592,927.36 |
| Spare parts and others | 62,224,606.76 | 1,878,146.48 | 895,480.03 | 1,927,609.09 | 61,279,664.12 |
| Total | 613,706,960.84 | 1,010,355,662.16 | 408,646,736.23 | 2,955,059.17 | 1,212,242,210.49 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Provision for decline in value of inventories

| Item | Basis of making provision for decline in value of inventories | Reasons for reversal of decline in value of inventories for the period | Proportion of amount of reversal for the period to the closing balance of the relevant category of inventories |
|------------------------|---|--|--|
| Raw materials | Lower of cost and net realizable value | Increase in price | 2% |
| Work-in-progress | Lower of cost and net realizable value | Increase in price | 1% |
| Finished goods | Lower of cost and net realizable value | Increase in price | 2% |
| Spare parts and others | Lower of cost and net realizable value | Increase in price | - |

No inventory was used for guarantee as at 31 December 2013. And no interest expense was capitalized in the closing balance of inventory as at 31 December 2013.

10. Non-current assets due within one year

| Item | Closing balance | RMB Restated opening balance after business combination involving entities under common control |
|---|------------------|--|
| Trust financial products | 260,000,000.00 | 380,000,000.00 |
| Accounts receivable from disposal of assets ^(note) | 4,500,000,000.00 | 4,500,000,000.00 |
| Total | 4,760,000,000.00 | 4,880,000,000.00 |

Note: Accounts receivable from disposal of assets due within one year is RMB4.5 billion, including RMB2.6 billion from Shanghai Baosteel Stainless Co., Ltd. and 1.9 billion from Baosteel Special Steel Co., Ltd. refer to Note (V), 14(1).

Accounts receivable due from related parties in non-current assets due within one year refer to Note (VI).6(6).

11. Other current assets

| Item | Closing balance | RMB Restated opening balance after business combination involving entities under common control |
|----------------------------|-----------------|--|
| Financial products - Trust | 277,031,463.05 | - |

12. Loans and advances to customers

(1) Category of loans and advances to customers

| Item | Closing balance | RMB Restated opening balance after business combination involving entities under common control |
|-------------------------------|------------------|--|
| Loans | 2,192,214,717.69 | 2,237,151,741.38 |
| Discounts | 1,005,039,105.85 | 624,042,867.81 |
| Provision for loan impairment | (125,340,000.00) | (98,175,000.00) |
| Total | 3,071,913,823.54 | 2,763,019,609.19 |

(2) Provision for short-term, medium-term, and long-term loans

| Item | Restated opening carrying amount after business combination involving entities under common control | Increase in the current period | Decrease in the current period | | Exchange differences arising on translation of financial statements denominated in foreign currencies | Closing carrying amount |
|---|---|--------------------------------|--------------------------------|-----------|---|-------------------------|
| | | | Reversals | Write-off | | |
| Provision for short-term, medium-term, and long-term loans losses | 98,175,000.00 | 27,165,000.00 | - | - | - | 125,340,000.00 |

Loans and advances to customers due to shareholders holding at least 5% of the Company's shares with voting power at the beginning and closing of the current period are nil.

Loans and advances to customers due to related party at the beginning and closing of the current period refer to Note (VI). 6(7).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Available-for-sale financial assets

(1) Available-for-sale financial assets

| Item | Closing fair value | RMB Restated opening fair value after business combination involving entities under common control |
|---------------------------------------|--------------------|---|
| Available-for-sale bonds | 478,263,350.00 | 398,845,360.00 |
| Available-for-sale equity instruments | 530,879,557.29 | 1,068,986,941.93 |
| Total | 1,009,142,907.29 | 1,467,832,301.93 |

(2) Available-for-sale financial assets details are set out below:

| Classification of available-for-sale financial assets | Available-for-sale bonds | Available-for-sale equity instruments | RMB Total |
|--|--------------------------|---------------------------------------|------------------|
| Cost of available-for-sale equity instruments / Closing amortized cost of available-for-sale bonds | 480,466,789.90 | 958,334,067.87 | 1,438,800,857.77 |
| Closing fair value | 478,263,350.00 | 530,879,557.29 | 1,009,142,907.29 |
| Accumulated amount recognized in other comprehensive income arising from the change of fair value | (2,203,439.90) | (427,454,510.58) | (429,657,950.48) |
| Impairment provision accrued | - | - | - |

Note: The above-mentioned available-for-sale equity instruments primarily consisted of the 42,658,306 shares of equity investment in Shanxi Xishan Coal Electricity LLC ("Xishan CE") (000983), which was purchased by Baosteel International, a subsidiary of the Company, gradually since 2010 from Shenzhen Stock Exchange with a total cost of RMB 941,660,003.69 and unit cost of RMB 22.10 per share. Up to 31 December 2013, the closing stock price of Xishan CE dropped to RMB 7.1 per share and the total closing value of this financial asset depreciated to RMB 302,873,972.60 with the accumulated decline of RMB 638,786,031.09.

Such equity investment in Xishan CE is held for strategic purpose and will not be traded based on the temporary fluctuation of stock price. Therefore, the Group accounts for the equity investment as available-for-sale financial assets.

According to ASBE, as available-for-sale financial assets, the Group recognized the price fluctuation in capital surplus. In assessing whether there is any objective evidence of impairment on such available-for-sale financial assets, the Company mainly analyzed the operation of the investee. The management of the Company believes that no impairment shall be recognized on 31 December, 2013 for such available-for-sale financial assets based on the predetermined criteria of available-for-sale financial assets impairment (Note II(9)) by considering the following relevant factors:

1) Xishan CE is the biggest giant in the coal industry with dominance of high quality metallurgical coking coal; 2) In addition to coal industry, Xishan CE developed two industry chains, coal-electricity-material chain and coal-carbon-chemistry chain, separately; 3) The decline of price of Xishan CE was primarily due to the bear capital market. And the decline was random and temporary; 4) The operation of Xishan CE has been stable for the past several years. No significant drop of revenue and EBITDA or significant deterioration of operation has occurred to Xishan CE during the past three years, and; 5) The strategic purpose of the Company to hold the equity investment in Xishan CE remains unchanged.

14. Long-term receivables

| | Closing balance | RMB Restated opening balance after business combination involving entities under common control |
|---|-------------------|--|
| Accounts receivable from disposal of assets ^(Note 1) | 18,000,000,000.00 | 22,500,000,000.00 |
| Finance leases receivables | 13,648,375.00 | 43,013,996.26 |
| including: Unrealized finance income | (648,375.00) | (2,993,996.26) |
| Bad debt provision | (1,950,000.00) | (4,081,000.00) |
| Others | 3,704,636.88 | - |
| Less: Accounts receivable from disposal of assets due within one year ^(Note 1) | 4,500,000,000.00 | 4,500,000,000.00 |
| Total | 13,514,754,636.88 | 18,035,939,000.00 |

Note 1: In accordance with the *Connected Transaction Bulletin* (Lin 2012-05) issued by the Company on February 29, 2012, and the *Supplementary Bulletin of Proposal on Sales of Related Assets of Stainless Steel and Special Steel Business Units* issued by the Company on March 14, 2012, the Company transferred the assets and equities of the Stainless and Special Steel Business Units at the evaluation value based on 31 December 2011 on the asset evaluation report issued by China Assets Appraisal Co., Ltd..

The Company completed the above-mentioned assets transfer on April 1, 2012. The accounts receivable from disposal of assets is RMB22.5 billion and will be paid in five equal instalments in five years. From 2013 onwards, the Company will receive both the interest and principal on the accounts receivable from disposal of assets on April 1 every year and the final payment on April 1, 2017. As of December 31, 2013, the closing balance of accounts receivable from disposal of assets is RMB 18 billion, RMB 10.4 billion from Baosteel Stainless and RMB 7.6 billion from Baosteel Special Steel. RMB 4.5 billion of the accounts receivable mentioned above from disposal of assets will be due within one year, RMB 2.6 billion from Baosteel Stainless and RMB 1.9 billion from Baosteel Special Steel, respectively.

Note 2: Long-term receivables due from shareholders holding at least 5% of the Company's shares with voting power in beginning and end of the current period are nil.

Note 3: Long-term receivables due from related parties in beginning and end of the current period refer to Note (VI). 6(8).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Investments in joint ventures and associates

| Name of investee | Type | Place of incorporation | Legal representative | Nature of business |
|---|------|------------------------|----------------------|----------------------|
| I. Joint ventures | | | | |
| Baosteel-NSC/Arcelor Automotive Steel Sheets Co., Ltd. (BNA) | LLC | Shanghai | Shinya Higuchi | Manufacturing |
| Bao-Island Enterprise Co., Ltd. (Bao-Island Enterprise) | LLC | Hong Kong | Not applicable | Ship chartering |
| Shanghai China Shipping-Baosteel Steel Processing Co., Ltd. (Shipping-Baosteel) ^(Note 2) | LLC | Shanghai | Zhang Yong | Manufacturing |
| Shandong Baohua wear-resistant steel Co. Ltd. (Shandong Baohua) | LLC | Linyi | Yao Linlong | Manufacturing |
| Guangzhou JFE Steel Sheet Co., Ltd. (JFE Steel Sheet) | LLC | Guangzhou | Huang Zhiyong | Steel Manufacturing |
| Hangzhou Baowei Auto Part Co., Ltd. (Baowei Auto Part) ^(Note 3) | LLC | Hangzhou | Hu Hong | Processing |
| Changsha Baosheng Steel Processing and Distribution Co., Ltd. (Changsha Baosheng) ^(Note 3) | LLC | Changsha | Yao Linlong | Manufacturing |
| Changshu Baosheng Fine Blanking Material Co., Ltd. (Baosheng Fine Blanking) ^(Note 3) | LLC | Changshu | Yao Linlong | Manufacturing |
| II. Associates | | | | |
| Shanghai Baosteel & Arcelor-Tailor Metal Co., Ltd. (Welding Co.) | LLC | Shanghai | Hou Xiangdong | Manufacturing |
| Shanghai Renwei Software Co., Ltd. (Renwei Software) | LLC | Shanghai | Song Jianhai | IT |
| Henan Pingbao Coal Co., Ltd. (Henan Pingbao) | LLC | Xuchang | Chen Jiansheng | Mining |
| Tianjin BCM Distribution Co., Ltd. (Tianjin BCM) | LLC | Tianjin | Pan Zhijun | Iron & steel trading |
| Wuxi Baomit Steel Processing and Delivery Co., Ltd. (Wuxi Baomit) ^(Note 1) | LLC | Wuxi | Ogiwara Shinichi | Iron & steel trading |
| Sichuan Daxing Baohua Chemical Co., Ltd. (Sichuan Daxing) | LLC | Dazhou | Tang Chun | Manufacturing |
| NSM Siderurgica Modenese SPA ("NSM") | LLC | Modena Italy | Not applicable | Steel extension |
| Baosteel Can Making (Vietnam) Co., Ltd. (Vietnam Can Making) | LLC | Binh Duong Vietnam | Not applicable | Package industry |
| Beijing Qingkechuangtong Information and Technology Co., Ltd. (Qingke Chuangtong) | LLC | Beijing | Fan Jianming | IT |
| Zhengzhou Hongzhongbao Metal Processing Co., Ltd. (Zhengzhou Hongzhongbao) | LLC | Zhengzhou | Qi Tengzi | Manufacturing |
| Guangzhou Guangqibaoshang Steel Processing Co., Ltd. (Guangqibaoshang) | LLC | Guangzhou | Liang Danqing | Manufacturing |
| Wuxi Baomeifeng Steel Processing Co., Ltd. (Wuxi Baomeifeng) | LLC | Wuxi | Sakata Chicheng | Manufacturing |
| Shanghai Foreign Service Baosight Information Technology Co., Ltd. (Foreign Service Baosight) | LLC | Shanghai | Bi Peiwen | IT |

Note 1: At the balance sheet date, although the Group owns 51% equity interest of Wuxi Baomit, the Group only has half of the directors on its board. The board is chaired by one of the directors appointed by Mitsui & Co., Ltd.. In accordance with the articles of association of Wuxi Baomit, the chairman has the final decision when votes for or against a decision are equal in number. As a result, Wuxi Baomit has been regarded as an associate of the Group and is accounted for by using equity method.

Note 2: These investments were disposed of by the Group in 2013. Hence, no financial information is disclosed.

Note 3: The share capital has not yet been fully contributed. Also, no operation is being launched in 2013.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

| | | | | | | | | | RMB |
|----------|-----------------|---|--|--|---|---|---------------------------------------|---------------------------|-----|
| Currency | Paid-in capital | Proportion of equity interest held by the Group (%) | Proportion of voting power in the investee held by the Group (%) | Investee's total assets at the end of the period | Investee's total liabilities at the end of the period | Total net assets at the end of the period | Total operating income for the period | Net profit for the period | |
| | '000 | | | | | | | | |
| RMB | 3,000,000 | 50 | 50 | 4,391,343,722.06 | 1,078,016,004.30 | 3,313,327,717.76 | 12,498,745,154.08 | 119,067,164.28 | |
| HKD | 3,300 | 50 | 50 | 1,691,255,672.40 | 518,504,763.60 | 1,172,750,908.80 | 755,338,844.10 | 30,191,848.80 | |
| RMB | 199,930 | - | - | - | - | - | - | - | |
| RMB | 200,000 | 50 | 50 | 344,933,296.78 | 145,294,188.16 | 199,639,108.62 | 137,260,477.33 | 643,554.43 | |
| RMB | 442,800.00 | 50 | 50 | 7,413,621,116.03 | 5,174,921,483.69 | 2,238,699,632.34 | 3,636,508,532.87 | 48,226,453.00 | |
| RMB | 180,000.00 | 50 | 50 | 177,299,799.15 | 2,371,537.86 | 174,928,261.29 | - | (328,662.99) | |
| RMB | 20,000.00 | 50 | 50 | 21,605,822.67 | 2,111,124.61 | 19,494,698.06 | - | (505,301.94) | |
| RMB | 60,000.00 | 50 | 50 | 73,693,555.90 | 13,788,200.48 | 59,905,355.42 | - | (94,644.58) | |
| RMB | 121,500 | 38 | 38 | 712,748,637.22 | 383,806,050.85 | 328,942,586.37 | 1,142,566,878.14 | 67,525,976.92 | |
| USD | 1,500 | 41.33 | 41.33 | 8,924,002.33 | 3,337,340.62 | 5,586,661.71 | 38,132,693.74 | 56,328.11 | |
| RMB | 800,000 | 40 | 40 | 1,767,959,111.02 | 871,699,840.04 | 896,259,270.98 | 900,028,149.71 | 176,428,588.74 | |
| RMB | 140,000 | 40 | 40 | 149,770,314.97 | 20,126,704.86 | 129,643,610.11 | 255,684,952.89 | 13,789.34 | |
| RMB | 640,710 | 51 | Note 1 | 279,140,099.27 | 138,399,054.61 | 140,741,044.66 | 278,899,090.59 | 4,029,721.95 | |
| RMB | 5,000 | 45 | 45 | 122,173,760.15 | 57,430,634.89 | 64,743,125.26 | 235,546,943.25 | 7,248,208.28 | |
| EUR | 1,500 | 35 | 35 | 267,131,697.00 | 239,366,164.80 | 27,765,532.20 | 538,563,833.50 | (9,305,494.00) | |
| USD | 35,600 | 30 | 30 | 376,741,386.93 | 180,707,361.27 | 196,034,025.66 | 74,481,636.41 | 7,803,875.92 | |
| RMB | 20,000 | 35 | 35 | 27,199,055.13 | 11,808,412.60 | 15,390,642.53 | 27,030,153.20 | 1,890,642.53 | |
| RMB | 55,000 | 49 | 49 | 229,795,967.64 | 182,473,606.19 | 47,322,361.45 | 108,356,961.82 | (4,997,152.46) | |
| RMB | 68,000 | 35 | 35 | 391,571,460.09 | 322,447,382.35 | 69,124,077.74 | 456,413,294.32 | 1,124,077.74 | |
| USD | 8,000 | 35 | 35 | 311,541,836.73 | 250,680,442.08 | 60,861,394.65 | 362,407,169.85 | 3,466,467.36 | |
| RMB | 10,200 | 40 | 40 | 10,931,491.06 | 717,344.32 | 10,214,146.74 | 1,097,283.02 | 14,146.74 | |

Where the equity method of accounting is adopted, there is no significant difference in the accounting policies of the Group and its associates and joint ventures. No significant limitation exists regarding cash and investment income repatriation from these associates.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Long-term equity investment

(1) Details of long-term equity investments are as follows:

| Name of investee | Accounting method | Initial investment cost | Restated opening balance after business combination involving entities under common control | Increase/ (decrease) | Closing balance |
|---|-------------------|-------------------------|---|----------------------|-------------------|
| Joint ventures | | | | | |
| BNA | Equity method | 1,500,000,000.00 | 1,779,116,617.94 | (122,452,759.05) | 1,656,663,858.89 |
| Bao-Island Enterprise | Equity method | 143,084,132.00 | 588,951,350.00 | (2,575,895.60) | 586,375,454.40 |
| Shipping-Baosteel ^(Note 3) | Equity method | 99,965,000.00 | 106,999,583.95 | (106,999,583.95) | - |
| Shandong Baohua | Equity method | 100,000,000.00 | 99,497,777.09 | 321,777.22 | 99,819,554.31 |
| JFE Steel Sheet | Equity method | 1,593,220,650.00 | 1,455,053,848.90 | 13,308,650.60 | 1,468,362,499.50 |
| Baowei Auto Part | Equity method | 90,000,000.00 | - | 89,835,668.50 | 89,835,668.50 |
| Changsha Baosheng | Equity method | 10,000,000.00 | - | 9,747,349.03 | 9,747,349.03 |
| Baosheng Fine Blanking | Equity method | 30,000,000.00 | - | 29,952,677.71 | 29,952,677.71 |
| Subtotal of joint ventures | Equity method | 3,566,269,782.00 | 4,029,619,177.88 | (88,862,115.54) | 3,940,757,062.34 |
| Associates | | | | | |
| Welding Co. | Equity method | 74,102,784.20 | 125,780,231.56 | (948,386.39) | 124,831,845.17 |
| Renwei Software | Equity method | 5,131,591.00 | 2,285,686.88 | 23,280.41 | 2,308,967.29 |
| Henan Pingbao | Equity method | 320,000,000.00 | 314,699,782.40 | 43,803,925.98 | 358,503,708.38 |
| Tianjin BCM | Equity method | 56,000,000.00 | 52,012,241.29 | 180,265.49 | 52,192,506.78 |
| Wuxi Baomit | Equity method | 32,522,976.15 | 68,788,330.31 | 1,363,532.53 | 70,151,862.84 |
| Sichuan Daxing | Equity method | 22,500,000.00 | 25,234,160.90 | 3,900,245.47 | 29,134,406.37 |
| NSM | Equity method | 74,784,021.08 | 66,542,463.52 | (13,148,115.94) | 53,394,347.58 |
| Vietnam Can Making | Equity method | 65,176,492.00 | 63,043,011.88 | (4,232,804.18) | 58,810,207.70 |
| Qingke Chuangtong | Equity method | 3,500,000.00 | 3,500,000.00 | 4,161,724.89 | 7,661,724.89 |
| Zhengzhou Hongzhong | Equity method | 26,950,000.00 | 25,638,789.33 | (2,450,832.22) | 23,187,957.11 |
| Guangqi Baoshang | Equity method | 23,800,000.00 | 23,800,000.00 | 393,427.21 | 24,193,427.21 |
| Wuxi Baomeifeng | Equity method | 35,173,600.00 | 29,118,497.35 | 1,015,239.88 | 30,133,737.23 |
| Foreign Service Baosight | Equity method | 10,000,000.00 | - | 4,085,658.70 | 4,085,658.70 |
| Subtotal of associates | Equity method | 749,641,464.43 | 800,443,195.42 | 38,147,161.83 | 838,590,357.25 |
| Others | | | | | |
| Baovale Mining Co., Ltd. | Cost method | - | 103,282,213.00 | - | 103,282,213.00 |
| Taiyuan Baoyuan Chemical Co., Ltd. | Cost method | - | 9,000,000.00 | (9,000,000.00) | - |
| CISDI Engineering Co., Ltd. | Cost method | - | 9,508,999.34 | - | 9,508,999.34 |
| Jinchuan Group Automation Engineering Co., Ltd. | Cost method | - | 1,000,000.00 | - | 1,000,000.00 |
| Zhongjiing Investment Consultancy Stock Co., Ltd. | Cost method | - | 3,000,000.00 | - | 3,000,000.00 |
| Hanyang Components Co., Ltd. | Cost method | - | 3,311,720.00 | - | 3,311,720.00 |
| Anhui Huishang Co., Ltd. | Cost method | - | 3,000,000.00 | - | 3,000,000.00 |
| Henan Longyu Energy Co., Ltd. | Cost method | - | 370,269,254.56 | - | 370,269,254.56 |
| Shanghai Luojing Mining Port Co., Ltd. | Cost method | - | 88,734,096.00 | - | 88,734,096.00 |
| Yongmei Group Co., Ltd. | Cost method | - | 279,000,000.00 | - | 279,000,000.00 |
| Henan Zhenglong Coal Co., Ltd. | Cost method | - | 45,569,714.27 | - | 45,569,714.27 |
| China Resources Land Limited (Beijing) | Cost method | - | 1,618,750.00 | - | 1,618,750.00 |
| Shanghai Huayi Information Technology Co., Ltd. | Cost method | - | 3,000,000.00 | - | 3,000,000.00 |
| Globalore Pte Ltd. | Cost method | - | 15,713,750.00 | (471,500.00) | 15,242,250.00 |
| Guoqi (Beijing) Automotive Lightweight Technology Research Co., Ltd. | Cost method | - | 3,000,000.00 | - | 3,000,000.00 |
| PetroChina Northwest United Pipeline Co., Ltd. | Cost method | - | 4,800,000,000.00 | 3,200,000,000.00 | 8,000,000,000.00 |
| Yangtze River Economic United Development (Group) Co., Ltd. | Cost method | - | 980,000.00 | - | 980,000.00 |
| NCBC | Cost method | - | - | 5,600,000.00 | 5,600,000.00 |
| Subtotal of others | | - | 5,739,988,497.17 | 3,196,128,500.00 | 8,936,116,997.17 |
| Equity transferred from old system trade right due to non-tradable share reform | | - | 7,949,489.18 | - | 7,949,489.18 |
| Total | | - | 10,578,000,359.65 | 3,145,413,546.29 | 13,723,413,905.94 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

| RMB | | | | | |
|---|--|---|--------------------------|---|-------------------------------|
| Proportion of equity interest held by the Group (%) | Proportion of voting power in the investee held by the Group (%) | Explanation of the inconsistency between the proportion of equity interest and the proportion of voting power | Provision for impairment | Provision for impairment for the period | Cash dividends for the period |
| 50 | 50 | | - | - | 184,618,820.61 |
| 50 | 50 | | - | - | - |
| - | - | | - | - | - |
| 50 | 50 | | - | - | - |
| 50 | 50 | | 35,000,000.00 | - | - |
| 50 | 50 | | - | - | - |
| 50 | 50 | | - | - | - |
| 50 | 50 | | - | - | - |
| | | | 35,000,000.00 | - | 184,618,820.61 |
| 38 | 38 | | - | - | 26,600,000.00 |
| 41.33 | 41.33 | | - | - | - |
| 40 | 40 | | - | - | - |
| 40 | 40 | | - | - | - |
| 51 | Note 1 | | - | - | 1,160,928.72 |
| 45 | 45 | | - | - | - |
| 35 | 35 | | - | - | - |
| 30 | 30 | | - | - | - |
| 35 | 35 | | - | - | - |
| 49 | 49 | | - | - | - |
| 35 | 35 | | - | - | - |
| 35 | 35 | | - | - | - |
| 40 | 40 | | - | - | - |
| | | | - | - | 27,760,928.72 |
| 50 | Note 2 | Note 2 | - | - | 17,521,717.50 |
| - | - | | - | - | - |
| 6.28 | 6.28 | | - | - | 60,887,153.28 |
| 7.13 | 7.13 | | - | - | - |
| 5 | 5 | | 666,024.47 | - | - |
| 20 | 20 | | 3,311,720.00 | - | - |
| 3.53 | 3.53 | | - | - | 240,000.00 |
| 12.96 | 12.96 | | - | - | 139,772,196.30 |
| 12 | 12 | | - | - | 14,366,722.14 |
| 7.78 | 7.78 | | - | - | 201,547,600.00 |
| 4.91 | 4.91 | | - | - | - |
| 0.09 | 0.09 | | - | - | - |
| 15 | 15 | | - | - | 60,000.00 |
| 14.29 | 14.29 | | 3,426,457.80 | 3,426,457.80 | - |
| 6.90 | 6.90 | | - | - | 25,900.00 |
| 12.8 | 12.8 | | - | - | - |
| Few | Few | | - | - | - |
| 10 | 10 | | - | - | - |
| | | | 7,404,202.27 | 3,426,457.80 | 434,421,289.22 |
| | | | - | - | - |
| | | | 42,404,202.27 | 3,426,457.80 | 646,801,038.55 |

Note 1:

Details refer to Note (V). 15 Note 1.

Note 2:

As the Company does not exert actual control, joint control or significant influence over the operating policies and financial decisions of Baovale Mining Co., Ltd., but is only able to collect fixed payment from Baovale Mining Co., Ltd. in accordance with investment agreements. Therefore, the investment in Baovale is regarded as long-term equity investment and measured on basis of cost method.

Note 3:

Shipping-Baosteel completed its liquidation procedures in May, 2013 with the approval of its board resolution of liquidation. The disposal gain was RMB 1,222,342.77.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Investment properties

Investment properties measured at cost

| | | | RMB |
|--|---|--------------------------------|-------------------------|
| Item | Restated opening carrying amount after business combination involving entities under common control | Increase in the current period | Closing carrying amount |
| I. Total original carrying amount | 634,933,720.70 | 25,761,970.83 | 660,695,691.53 |
| 1. Buildings | 311,308,695.02 | 25,761,970.83 | 337,070,665.85 |
| 2. Land use rights | 323,625,025.68 | - | 323,625,025.68 |
| II. Total accumulated depreciation and amortization | 157,462,486.07 | 27,608,175.87 | 185,070,661.94 |
| 1. Buildings | 121,367,160.59 | 15,808,857.42 | 137,176,018.01 |
| 2. Land use rights | 36,095,325.48 | 11,799,318.45 | 47,894,643.93 |
| III. Total net book value of investment properties | 477,471,234.63 | - | 475,625,029.59 |
| 1. Buildings | 189,941,534.43 | - | 199,894,647.84 |
| 2. Land use rights | 287,529,700.20 | - | 275,730,381.75 |
| IV. Total accumulated provision for impairment losses of investment properties | - | - | - |
| 1. Buildings | - | - | - |
| 2. Land use rights | - | - | - |
| V. Total carrying amounts of investment properties | 477,471,234.63 | - | 475,625,029.59 |
| 1. Buildings | 189,941,534.43 | - | 199,894,647.84 |
| 2. Land use rights | 287,529,700.20 | - | 275,730,381.75 |

As at 31 December 2013, the property right of the buildings, amounting to RMB 78,948,374.68 in carrying amount, is still in the process of registration. (At 31 December 2012: RMB 78,336,893.89).

Description of investment properties:

- (1) The increase in the original carrying amount for the current period consists of RMB25,761,970.83 transferred from owner-occupied properties.
- (2) The increase in accumulated depreciation and amortization for the current period consists of RMB 20,144,658.97 charged for the current period, RMB 7,463,516.90 transferred from owner-occupied properties.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. Fixed assets

(1) Fixed assets

| RMB | | | | |
|---|---|--------------------------------|--------------------------------|-------------------------|
| Item | Restated opening carrying amount after business combination involving entities under common control | Increase in the current period | Decrease in the current period | Closing carrying amount |
| I. Total original carrying amount | 216,867,810,713.16 | 19,223,901,034.85 | 5,579,903,556.94 | 230,511,808,191.07 |
| Including: Buildings | 45,187,864,147.62 | 6,901,594,314.68 | 572,576,785.60 | 51,516,881,676.70 |
| Machinery and equipment | 137,228,471,635.45 | 10,318,795,172.71 | 3,864,914,991.95 | 143,682,351,816.21 |
| Transportation vehicles | 16,947,712,272.14 | 1,220,430,637.14 | 433,175,886.62 | 17,734,967,022.66 |
| Office and other equipment | 17,503,762,657.95 | 783,080,910.32 | 709,235,892.77 | 17,577,607,675.50 |
| II. Total accumulated depreciation | 137,414,001,727.59 | 11,317,878,936.52 | 4,809,068,491.12 | 143,922,812,172.99 |
| Including: Buildings | 22,043,253,988.08 | 2,802,286,874.12 | 313,447,036.07 | 24,532,093,826.13 |
| Machinery and equipment | 87,639,340,440.12 | 6,550,272,376.25 | 3,451,735,544.77 | 90,737,877,271.60 |
| Transportation vehicles | 14,340,545,985.91 | 708,067,115.31 | 404,654,715.75 | 14,643,958,385.47 |
| Office and other equipment | 13,390,861,313.48 | 1,257,252,570.84 | 639,231,194.53 | 14,008,882,689.79 |
| III. Total net book value of fixed assets | 79,453,808,985.57 | - | - | 86,588,996,018.08 |
| Including: Buildings | 23,144,610,159.54 | - | - | 26,984,787,850.57 |
| Machinery and equipment | 49,589,131,195.33 | - | - | 52,944,474,544.61 |
| Transportation vehicles | 2,607,166,286.23 | - | - | 3,091,008,637.19 |
| Office and other equipment | 4,112,901,344.47 | - | - | 3,568,724,985.71 |
| IV. Total provision for impairment losses | 2,433,241.08 | 368,483,266.19 | 134,208.16 | 370,782,299.11 |
| Including: Buildings | 295,671.34 | - | - | 295,671.34 |
| Machinery and equipment | 1,871,735.58 | 367,132,564.99 | 26,299.11 | 368,978,001.46 |
| Transportation vehicles | 217,604.23 | 26,345.56 | 74,998.06 | 168,951.73 |
| Office and other equipment | 48,229.93 | 1,324,355.64 | 32,910.99 | 1,339,674.58 |
| V. Total carrying amount of fixed assets | 79,451,375,744.49 | - | - | 86,218,213,718.97 |
| Including: Buildings | 23,144,314,488.20 | - | - | 26,984,492,179.23 |
| Machinery and equipment | 49,587,259,459.75 | - | - | 52,575,496,543.15 |
| Transportation vehicles | 2,606,948,682.00 | - | - | 3,090,839,685.46 |
| Office and other equipment | 4,112,853,114.54 | - | - | 3,567,385,311.13 |

(2) Temporarily idle fixed assets

As at 31 December 2013 and at 31 December 2012, the total carrying amount of temporarily idle fixed assets is Nil.

(3) Fixed assets leased out under operating leases

| RMB | | |
|----------------------------|-----------------|---|
| Item | Closing balance | Restated opening balance after business combination involving entities under common control |
| Buildings | 389,532,994.28 | 303,082,931.51 |
| Machinery and equipment | 205,588,434.68 | 205,439,151.28 |
| Transportation vehicles | 95,619,949.40 | 95,329,751.67 |
| Office and other equipment | 31,978,275.08 | 27,199,440.37 |
| Total | 722,719,653.44 | 631,051,274.83 |

(4) Fixed assets of which certificates of title have not been obtained

As at 31 December 2013, the property right of the buildings, amounting to RMB 2,938,230,461.06 (at 31 December 2012: 2,261,373,549.89), is still in the process of being transferred to the Group. The management anticipates no legal or other obstacles in obtaining the certificates as long as registration formalities are carried over and related fees are paid.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Details of movement of fixed assets:

- (1) The increase in the original carrying amount for the current period consists of RMB656,362,937.60 acquired, RMB13,699,340,567.85 transferred from construction in progress, RMB4,868,197,529.40 transferred from other non-current assets;
- (2) The decrease in the original carrying amount for the current period consists of RMB 5,112,985,087.66 on disposals, RMB 25,761,970.83 transferred to investment properties, RMB 29,910,883.15 on exchange differences arising on translation of financial statements denominated in foreign currencies, and RMB 411,245,615.30 transferred to construction in progress.
- (3) The increase in accumulated depreciation for the current period consists of RMB 10,075,853,946.11 charged for the current period and RMB 1,242,024,990.41 transferred from other non-current assets.
- (4) The decrease in accumulated depreciation for the current period consists of RMB 4,449,794,694.59 on disposals, RMB 7,463,516.90 transferred to investment properties, RMB 8,435,017.12 on exchange differences arising from translation of financial statements denominated in foreign currencies, and RMB 343,375,262.51 transferred to construction in progress.
- (5) The increase in the impairment for the current period consists of RMB 361,086,126.16 charged for the current period, RMB 7,360,386.05 transferred from other non-current assets, and RMB 36,753.98 due other increase.
- (6) The decrease in the impairment for the current period consists of RMB 134,208.16 on disposals.
- (7) As at 31 December 2013, the Group acquired a loan of RMB 89,058,597.36, pledged with the construction in progress of RMB 4,143,827.18, fixed assets of RMB 82,296,233.54 and land use rights of RMB 70,527,379.53 as collateral.

19. Construction in progress

(1) Details of construction in progress:

| Item | Closing balance | | | Restated opening balance after business combination involving entities under common control | | |
|---|-------------------|--------------------------|---------------------|---|--------------------------|---------------------|
| | Carrying amount | Provision for impairment | Net carrying amount | Carrying amount | Provision for impairment | Net carrying amount |
| Technical upgrade and infrastructure construction | 15,457,504,899.57 | 284,018,136.07 | 15,173,486,763.50 | 15,383,749,970.37 | - | 15,383,749,970.37 |

Note: As at 31 December 2013, the Group acquired a loan of RMB 89,058,597.36, pledged with the construction in progress of RMB 4,143,827.18, fixed assets of RMB 82,296,233.54 and land use rights of RMB 70,527,379.53 as collateral.

(2) Changes in significant construction in progress:

| Item | Budget | Restated opening balance after business combination involving entities under common control | Increase in the current period | Transfer to fixed assets | Transfer to intangible assets |
|---|-------------------|---|--------------------------------|--------------------------|-------------------------------|
| | | | | | |
| Technical upgrade and infrastructure construction | 60,202,182,894.46 | 15,383,749,970.37 | 13,881,090,546.14 | 13,699,340,567.85 | 107,995,049.09 |

| Item | Amount invested as a proportion of budget amount (%) | Amount of accumulated capitalized interest | Including: capitalized interest for the period | Capitalization rate for the period | Source of fund | Closing balance |
|---|--|--|--|------------------------------------|-------------------------------|-------------------|
| Technical upgrade and infrastructure construction | 49% | 268,278,721.80 | 183,548,635.86 | 2.72%-7.290% | Cash from operation and loans | 15,457,504,899.57 |

The increase of construction in progress for the current period consists of RMB 978,130,545.39 transferred from other non-current assets (see Notes V. (25));

(3) Impairment of construction in progress:

| Construction in progress | Restated opening balance after business combination involving entities under common control | Provision charged for current period | Write-off | Closing balance |
|---------------------------------------|---|--------------------------------------|---------------|-----------------|
| Technology Upgrade Project of Baotong | - | 284,018,136.07 | - | 284,018,136.07 |
| Others | - | 71,522,362.21 | 71,522,362.21 | - |
| Total | - | 355,540,498.28 | 71,522,362.21 | 284,018,136.07 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20. Materials for construction of fixed assets

| RMB | | | | |
|----------------------|---|--------------------------------|--------------------------------|-----------------|
| Item | Restated opening balance after business combination involving entities under common control | Increase in the current period | Decrease in the current period | Closing balance |
| Special materials | 3,980,140.81 | 164,687,616.42 | 1,530,861.22 | 167,136,896.01 |
| Special equipment | 101,308,565.85 | 113,793,324.78 | 161,728,310.64 | 53,373,579.99 |
| Equipment in transit | 5,901,660.28 | 341,812,778.50 | 335,928,512.80 | 11,785,925.98 |
| Total | 111,190,366.94 | 620,293,719.70 | 499,187,684.66 | 232,296,401.98 |

21. Intangible assets

| RMB | | | | |
|--|---|--------------------------------|--------------------------------|-------------------------|
| Item | Restated opening carrying amount after business combination involving entities under common control | Increase in the current period | Decrease in the current period | Closing carrying amount |
| I. Total original carrying amount | 7,663,000,904.75 | 335,457,581.73 | 29,657,354.13 | 7,968,801,132.35 |
| Land use rights | 7,467,926,627.42 | 164,817,645.75 | 25,383,965.92 | 7,607,360,307.25 |
| Software | 77,308,498.40 | 160,277,511.27 | 4,115,888.21 | 233,470,121.46 |
| Others | 117,765,778.93 | 10,362,424.71 | 157,500.00 | 127,970,703.64 |
| II. Total accumulated amortization | 903,950,731.29 | 189,395,358.30 | 2,962,822.63 | 1,090,383,266.96 |
| Land use rights | 782,643,749.13 | 150,632,405.12 | 1,672,646.22 | 931,603,508.03 |
| Software | 58,717,439.87 | 33,827,048.84 | 1,290,176.41 | 91,254,312.30 |
| Others | 62,589,542.29 | 4,935,904.34 | - | 67,525,446.63 |
| III. Total net book value of intangible assets | 6,759,050,173.46 | | | 6,878,417,865.39 |
| Land use rights | 6,685,282,878.29 | | | 6,675,756,799.22 |
| Software | 18,591,058.53 | | | 142,215,809.16 |
| Others | 55,176,236.64 | | | 60,445,257.01 |
| IV. Total provision for impairment | - | | | - |
| Total carrying amount of intangible assets | 6,759,050,173.46 | | | 6,878,417,865.39 |

Description of intangible assets:

- As at 31 December 2013, land use rights without certificates of the title show a net carrying amount of RMB36,747,012.26 (at 31 December 2012: RMB 124,035,761.53). The management of the Company anticipates no legal or other obstacles in obtaining the certificates as long as registration formalities are carried over and related fees are paid;
- As at 31 December 2013, the Group acquired a loan of RMB 89,058,597.36, pledged with the construction in progress of RMB 4,143,827.18, fixed assets of RMB 82,296,233.54 and land use rights of RMB 70,527,379.53 as collateral;
- The increase in the original carrying amount consists of RMB 227,462,532.64 acquired and RMB 107,995,049.09 transferred from construction in progress;
- The decrease in the original carrying amount for the current period consists of RMB 28,347,999.08 on disposals and RMB 1,309,355.05 on exchange differences arising from translation of financial statements denominated in foreign currencies.
- The increase in accumulated amortization consists of RMB 189,392,175.05 charged for the current period and RMB 3,183.25 on exchange differences arising from translation of financial statements denominated in foreign currencies.
- The decrease in accumulated amortization consists of RMB 2,962,822.63 on disposals.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

22. Long-term prepaid expenses

| RMB | | | | | | |
|---|---|--------------------------------|-----------------------------|----------------|---|-----------------|
| Item | Restated opening balance after business combination involving entities under common control | Addition in the current period | Amortization for the period | Other decrease | Exchange differences arising on translation of financial statements denominated in foreign currencies | Closing balance |
| Fees for decoration | 15,266,773.20 | 9,046,919.36 | 5,921,019.68 | 364,618.01 | - | 18,028,054.87 |
| Leasing expenses | 10,065,560.24 | 675,048.08 | 2,622,012.57 | - | 496.27 | 8,119,092.02 |
| Relocation expense of Meishan steel coke oven | 875,226,039.79 | - | 19,095,840.84 | - | - | 856,130,198.95 |
| Huangshi Phase II Cold Rolling High voltage power expense | - | 2,957,130.00 | 443,569.50 | - | - | 2,513,560.50 |
| Others | 5,601,159.99 | 150,000.00 | 2,530,478.77 | 1,962,276.36 | (5,063.88) | 1,253,340.98 |
| Total | 906,159,533.22 | 12,829,097.44 | 30,612,921.36 | 2,326,894.37 | (4,567.61) | 886,044,247.32 |

Note: According to the "Agreement on relocating residents in health protection area of Shanghai Meishan iron & steel Co., Ltd. in the 11th 5-year period" signed by Shanghai Meishan Iron & Steel Co., Ltd., ("Meishan Steel") Banqiao sub-district office of Nanjing Yuhuatai District and Nanjing Yuhua Economic and Technological Development Zone Management Committee on 16 October 2012, residents within 1 kilometer from Meishan coke oven construction project are compensated by Meishan Steel at RMB 880,000,000, whereas Meishan Steel shall pay RMB 750,000,000 to Banqiao sub-district office of Nanjing Yuhuatai District, and RMB 130,000,000 to Nanjing Yuhua Economic and Technological Development Zone Management Committee, respectively. In accordance with the agreement, Meishan Steel has paid RMB 120,000,000 in 2012, RMB 510,000,000 in 2013, and shall pay RMB 250,000,000 in 2014. The above compensation undertaken by Meishan Steel will be amortized in accordance with the remaining lives of the major assets of the related construction project. See Note (V). 42. Note 1.

23. Deferred tax assets/deferred tax liabilities

(1) Recognized deferred tax assets and deferred tax liabilities

| RMB | | |
|---|------------------|---|
| Items | Closing balance | Restated opening balance after business combination involving entities under common control |
| Deferred tax assets: | | |
| Provision for impairment losses of assets | 735,772,130.97 | 244,093,502.38 |
| Provision for impairment losses of the non-current assets | - | 661,252,241.71 |
| Unrealized profit from inter-group transactions | 72,094,670.94 | 61,600,939.99 |
| Deductible losses | 874,815,776.41 | 892,566,277.20 |
| Difference in residuals of fixed assets | 4,473,837.50 | 18,998,741.47 |
| Termination benefits | 24,196,560.60 | 35,133,779.13 |
| Losses from changes in fair values | 108,520,952.82 | 7,818,532.68 |
| Others | 232,904,150.31 | 113,822,032.98 |
| Subtotal | 2,052,778,079.55 | 2,035,286,047.54 |
| Deferred tax liabilities: | | |
| Payment of tax unpaid for investment income | 302,407,284.28 | 298,006,027.57 |
| Gains from changes in fair values | 10,161.75 | 20,176,926.95 |
| Others | 2,441,837.36 | 2,449,569.80 |
| Subtotal | 304,859,283.39 | 320,632,524.32 |

(2) Details of unrecognized deferred tax assets

| RMB | | |
|---|------------------|---|
| Item | Closing balance | Restated opening balance after business combination involving entities under common control |
| Provision for impairment losses of assets | 935,834,604.27 | 147,251,704.70 |
| Deductible losses | 3,038,730,548.46 | 1,852,816,168.52 |
| Others | 10,268,706.00 | 11,771,343.15 |
| Total | 3,984,833,858.73 | 2,011,839,216.37 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Deductible losses, for which no deferred tax assets are recognized, will expire in the following years

| Year | Closing balance | RMB |
|-------|------------------|---|
| | | Restated opening balance after business combination involving entities under common control |
| 2013 | - | 27,375,538.32 |
| 2014 | 276,110,991.95 | 84,590,871.22 |
| 2015 | 182,277,001.79 | 192,084,081.95 |
| 2016 | 177,672,927.08 | 166,981,062.26 |
| 2017 | 1,348,130,047.30 | 1,381,784,614.77 |
| 2018 | 1,054,539,580.34 | - |
| Total | 3,038,730,548.46 | 1,852,816,168.52 |

(4) Details of taxable temporary differences and deductible temporary differences

| Item | Amount | RMB |
|--|------------------|-----|
| | | |
| Closing balance: | | |
| Deductible temporary differences and deductible losses: | | |
| Provision for impairment losses of assets | 2,926,072,698.77 | |
| Unrealized profit from inter-group transactions | 288,378,683.76 | |
| Deductible losses | 3,499,263,105.62 | |
| Difference in residuals of fixed assets | 15,571,280.82 | |
| Termination benefits | 97,153,349.70 | |
| Losses from changes in fair values | 434,083,811.27 | |
| Others | 929,921,163.90 | |
| Subtotal | 8,190,444,093.84 | |
| Taxable temporary differences: | | |
| Payment of tax unpaid for investment income | 2,121,305,146.41 | |
| Gains from changes in fair values | 40,647.00 | |
| Others | 9,629,436.35 | |
| Subtotal | 2,130,975,229.76 | |
| Restated opening balance after business combination involving entities under common control: | | |
| Deductible temporary differences and deductible losses: | | |
| Provision for impairment losses of assets | 1,013,421,569.43 | |
| Provision for impairment losses of the non-current assets | 2,645,008,966.84 | |
| Unrealized profit from inter-group transactions | 246,403,759.96 | |
| Deductible losses | 3,577,801,402.97 | |
| Difference in residuals of fixed assets | 73,599,004.47 | |
| Termination benefits | 140,935,467.83 | |
| Losses from changes in fair values | 31,274,130.72 | |
| Others | 455,288,131.92 | |
| Subtotal | 8,183,732,434.14 | |
| Taxable temporary differences: | | |
| Payment of tax unpaid for investment income | 2,104,021,539.87 | |
| Gains from changes in fair values | 80,707,707.80 | |
| Others | 9,656,099.94 | |
| Subtotal | 2,194,385,347.61 | |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

24. Details of provision for impairment losses of assets

RMB

| Item | Restated opening carrying amount after business combination involving entities under common control | Increase in the current period | Decrease in the current period | | Closing carrying amount |
|--|---|--------------------------------|--------------------------------|------------------|-------------------------|
| | | | Reversals | Write-off | |
| I. Bad debts provision | 407,380,327.74 | 224,255,644.72 | 87,338,484.51 | 492,980.19 | 543,804,507.76 |
| II. Provision for decline in value of inventories | 613,706,960.84 | 1,010,355,662.16 | 408,646,736.23 | 3,173,676.28 | 1,212,242,210.49 |
| III. Provision for impairment losses of long-term equity investments | 38,977,744.47 | 3,426,457.80 | - | - | 42,404,202.27 |
| IV. Provision for impairment losses of fixed assets | 2,433,241.08 | 368,483,266.19 | - | 134,208.16 | 370,782,299.11 |
| V. Provision for impairment losses of construction in progress | - | 355,540,498.28 | - | 71,522,362.21 | 284,018,136.07 |
| VI. Provision for impairment losses of loans | 98,175,000.00 | 27,165,000.00 | - | - | 125,340,000.00 |
| VII. Provision for impairment losses of the non-current assets | 2,645,008,966.84 | 904,289,977.07 | - | 3,549,298,943.91 | - |
| Total | 3,805,682,240.97 | 2,891,699,630.02 | 495,985,220.74 | 3,622,805,294.55 | 2,578,591,355.70 |

25. Other non-current assets

RMB

| Item | Closing balance | Restated opening balance after business combination involving entities under common control |
|--|------------------|---|
| Prepayment for land use right of Zhanjiang Steel | 1,950,000,000.00 | 1,776,722,979.37 |
| Prepayment for investment in Guangzhou Steel Sheet Co., Ltd. (Note1) | 1,500,000,000.00 | 1,500,000,000.00 |
| Prepayment for engineering equipment of Zhanjiang Steel | 1,480,977,080.05 | 640,223,753.86 |
| Loans due from Bao-Island Enterprise | 117,905,780.14 | 117,905,780.14 |
| Disposal of assets in Luojing area (Note2) | - | 11,761,322,763.87 |
| Less: provision for impairment of the non-current assets (Note2) | - | (2,645,008,966.84) |
| Financing product | - | 50,000,000.00 |
| Deductible VAT of Zhanjiang Steel | 365,473,992.51 | - |
| Others | 3,801,051.70 | 3,446,522.16 |
| Total | 5,418,157,904.40 | 13,204,612,832.56 |

Note1: In December 2011, Baosteel Zhanjiang Iron & Steel Co., Ltd. ("Zhanjiang Iron & Steel") set up a joint venture, Guangzhou Steel Sheet Co., Ltd. with Guangzhou Iron & Steel Enterprise Group. According to the JV contract, the registered capital of Guangzhou Steel Sheet Co., Ltd. is RMB 3.251 billion, whereby Zhanjiang Iron & Steel will contribute RMB 1.658 billion in cash in exchange for 51% of the equity of Guangzhou Steel Sheet Co., Ltd.. According to restructure arrangement of the iron and steel industry in Guangzhou between Baosteel Group and Guangzhou SASAC, Guangzhou Iron & Steel Enterprise Group transferred its 46.14% equity in Guangzhou Steel Sheet Co., Ltd to Zhanjiang Iron & Steel at the price of RMB 1.5 billion in April 2012 with the option to repurchase such equity at the same price within three years. If Guangzhou Iron & Steel Enterprise Group will waive the repurchase right at maturity, Zhanjiang Iron & Steel shall transfer the prepayment to long term investment in Guangzhou Steel Sheet Co., Ltd. If Guangzhou Iron & Steel Enterprise Group will exercise the repurchase right at maturity, Zhanjiang Iron & Steel shall recover its prepayment and return its long term payable to Baosteel Group of RMB 1.5 billion.

Note2: According to the resolution of the third meeting of the fifth board of directors, the board of directors approved "the Principle of Utilization of Assets at Luojing area":

1. Stop production at Luojing area in view of industrial restructure in Baoshan Area and opportunity of Baosteel Zhanjiang project;
2. Approve the following plans of the asset disposal at Luojing area in accordance with the following principles: the Company shall (1) retain assets, such as oxygen-making, steelmaking equipment, and demonstrate the feasibility of the relocation to Zhanjiang; (2) make overall transfer of COREX assets at Luojing area and key production technology to Baosteel Group; (3) make overall transfer of the land use right, buildings and auxiliary assets to Baosteel Group.

According to the "Announcement on the disposal of COREX assets at Luojing area" published on 30 October 2012, Approved by the board of directors, the Company disposed of the COREX assets to Baosteel Group at a consideration of RMB2,731,126,672.18. By 31 December 2012, the Company has fully collected the payment from Baosteel Group. The book value of COREX assets is RMB 2,770,093,916.97 and the loss from the disposal is RMB38,967,244.79.

As of 31 December 2012, the Company presents remaining assets at Luojing area as other non-current assets except COREX assets at RMB11,761,322,763.87. The Company believes that there is no impairment on the assets which will be disposed of to Baosteel Group. The Company has made impairment of RMB 2,645,008,966.84 on the remaining assets except COREX assets, based on the difference between the carrying amount of the assets and the estimated recoverable amount.

As of September 2013, the Company transferred buildings and auxiliary assets, amounting to RMB 3,630,387,083.63, which had been accounted for in other non-current assets, and was previously supposed to be transferred to Baosteel Group, to fixed assets for its own use. Accordingly, the Company made up the depreciation for such fixed assets from October 2012 to September 2013.

As of October 2013, the Company disposed of assets of CCPP generator unit in Luojing Area and related land use rights to Shanghai Electric Power Co., Ltd., at the consideration of RMB 1,774,184,295.12, including other non-current assets at the book value of RMB 1,826,454,408.65 and fixed assets at the book value of RMB 6,072,842.34. Upon disposal, the Company recognized loss from disposal of assets RMB 58,342,955.87. The gain from the transfer of land use right refers to Note (V). 57(1).

As of December 2013, the Company transferred assets with book value of RMB 2,932,875,378.38 to Zhanjiang Steel at assessed value of RMB 2,108,858,719.00, including other non-current assets at the book value of RMB 2,507,498,207.75; fixed assets at the book value of RMB 167,131,308.42; and construction in progress at the book value of RMB 258,245,862.21. The above transfer caused impairment loss of RMB 802,270,715.70.

By 31 December 2013, the Company has made RMB173,541,623.58 of provision for impairment loss on the remaining machines and equipment at book value of RMB 1,151,672,168.97 on other non-current assets, and the Company accounted for these remaining assets as construction in progress at carrying amount of RMB 978,130,545.39. These assets will be utilized in future fixed assets reconstruction project.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

26. Short-term borrowings

| Item | Closing balance | RMB Restated opening balance after business combination involving entities under common control |
|--|-------------------|---|
| Secured loans with securities under the custody of lenders ^(Note 1) | 1,370,000,000.00 | 2,116,165,373.27 |
| Unsecured and non-guaranteed loans | 33,100,625,308.28 | 29,531,159,836.37 |
| Total | 34,470,625,308.28 | 31,647,325,209.64 |

At the balance sheet date, the interest rate of the Group's short-term borrowings ranges from 5.04% to 6.60% per annum in RMB (2012: 4.2% to 6.56% per annum); from 3 LIBOR+0.6% to 6 LIBOR+3.7% per annum in USD (2012: 3 LIBOR+0.6% to 3 LIBOR+0.4% per annum); from 1.47% to 2.25% per annum in EURO (2012: 1.6% to 2.01% per annum).

Note 1: As at 31 December 2013, the secured against unexpired discounted bank acceptance bills is Nil (at 31 December 2012: RMB746,165,373.27). Loans of RMB1,370,000,000.00 is secured against accounts receivable (31 December 2012: RMB1,370,000,000.00).

Bank facilities

As at 31 December 2013, the unutilized bank facilities of the Group approximate RMB109.76 billion. The management of the Company believes that the above mentioned facilities and the net cash flows from operating activities will be sufficient to repay the current liabilities due within one year.

27. Customer deposits and deposits from banks and other financial institutions

| Item | Closing balance | RMB Restated opening carrying amount after business combination involving entities under common control |
|------------------|------------------|---|
| Current deposits | 505,575,956.61 | 409,262,806.92 |
| Fixed deposits | 7,093,299,562.51 | 7,662,200,000.00 |
| Total | 7,598,875,519.12 | 8,071,462,806.92 |

Customer deposits and deposits from banks and other financial institutions due to shareholders holding at least 5% of the Company's shares with voting power in the current period refer to Note (VI). 6(9).

28. Taking from banks and other financial institutions

| Item | Closing balance | RMB Restated opening balance after business combination involving entities under common control |
|----------------------------|-----------------|---|
| Taking from domestic banks | 300,000,000.00 | 600,000,000.00 |

29. Held-for-trading financial liabilities

| Item | Closing fair value | RMB Restated opening fair value after business combination involving entities under common control |
|----------------------------------|--------------------|--|
| Derivative financial liabilities | - | 20,789,685.96 |

30. Notes payable

| Category | Closing balance | RMB Restated opening balance after business combination involving entities under common control |
|------------------------|------------------|---|
| Commercial acceptances | 1,952,856,799.77 | 2,457,421,652.79 |
| Bank acceptances | 477,103,840.91 | 1,037,258,562.67 |
| Total | 2,429,960,640.68 | 3,494,680,215.46 |

The above notes payable will be due in year 2014.

As at 1 January 2012 and 31 December 2013, notes payable due from any shareholders holding at least 5% of the Company's shares with voting power is Nil.

Notes payable due from any related parties refer to Note (VI). 6(10)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31. Accounts payable

(1) Details of accounts payable are as follows:

| Item | Closing balance | Restated opening balance after business combination involving entities under common control |
|--|-------------------|---|
| Accounts payable for equipment | 4,351,857,953.97 | 4,058,510,434.16 |
| Accounts payable for raw materials | 13,823,613,285.53 | 14,090,132,040.51 |
| Accounts payable for relocation expense of Meishan steel coke oven | - | 510,000,000.00 |
| Total | 18,175,471,239.50 | 18,658,642,474.67 |

As at 31 December 2013, accounts payable aged over one year, RMB516,293,892.17 in total (2012: RMB794,184,949.38), are construction fees for technical revamping and infrastructure projects with a long period of construction.

(2) Accounts payable due from any shareholder holding at least 5% of the Company's shares with voting power or from related parties in the current period refer to Note (VI). 6(11).

32. Receipts in advance

(1) Details of receipts in advance are as follows:

| Item | Closing balance | Restated opening balance after business combination involving entities under common control |
|---------------------|-------------------|---|
| Receipts in advance | 11,971,576,846.67 | 11,194,906,638.62 |

The receipts in advance with significant balances in the Group are all aged within one year as at 31 December 2013.

(2) Receipts in advance from shareholders holding at least 5% of the Company's shares with voting power or from related parties in the reporting period refer to Note (VI). 6(12).

33. Employee benefits payable

| Item | Restated opening carrying amount after business combination involving entities under common control | Increase in the current period | Decrease in the current period | Closing carrying amount |
|---|---|--------------------------------|--------------------------------|-------------------------|
| I. Wages or salaries, bonuses, allowances and subsidies | 1,157,150,723.53 | 6,093,365,742.13 | 6,061,760,293.90 | 1,188,756,171.76 |
| II. Staff welfare | - | 343,080,495.31 | 343,080,495.31 | - |
| III. Social security contributions | 2,876,784.95 | 1,762,453,204.50 | 1,763,134,733.97 | 2,195,255.48 |
| Including: Basic pension insurance | 1,137,030.08 | 909,412,394.02 | 909,502,156.02 | 1,047,268.08 |
| Medical insurance | 1,167,869.12 | 477,956,133.81 | 478,626,036.05 | 497,966.88 |
| Unemployment insurance | 94,967.52 | 69,208,955.41 | 69,203,451.14 | 100,471.79 |
| Work injury insurance | 40,519.88 | 26,458,358.77 | 26,470,225.00 | 28,653.65 |
| Maternity insurance | 42,486.26 | 34,742,343.45 | 34,742,629.05 | 42,200.66 |
| Employment fee for the injured | 37,625.74 | 39,530,722.38 | 39,533,300.42 | 35,047.70 |
| Annuity fund | 356,286.35 | 193,527,481.89 | 193,440,121.52 | 443,646.72 |
| Others | - | 11,616,814.77 | 11,616,814.77 | - |
| IV. Housing funds | - | 532,145,463.59 | 532,062,139.89 | 83,323.70 |
| V. Termination benefits | 153,484,012.78 | 124,644,910.81 | 170,348,861.12 | 107,780,062.47 |
| VI. Labor union and education fund | 193,337,746.71 | 200,432,772.71 | 196,263,071.34 | 197,507,448.08 |
| VII. Others | 60,369,288.76 | 361,842,896.39 | 221,974,345.65 | 200,237,839.50 |
| Total | 1,567,218,556.73 | 9,417,965,485.44 | 9,288,623,941.18 | 1,696,560,100.99 |

As at 31 December 2013, the employee benefits payable, amounting to RMB 982,397,188.61 (2012: RMB 982,397,188.61) of the parent company and amounting to RMB73,294,125.79 of Baosteel International (2012: RMB73,294,125.79), is in line with pay-to-performance.

There are no overdue employee benefits payable or non-monetary benefits as at 31 December 2013.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

34. Taxes payable

| | | RMB |
|---------------------------------------|------------------|---|
| Item | Closing balance | Restated opening balance after business combination involving entities under common control |
| Value-added tax | (882,917,685.18) | (1,512,469,951.92) |
| Business tax | 12,010,423.80 | 30,498,534.04 |
| Enterprise income tax | 2,217,924,359.46 | 2,310,697,331.89 |
| Individual income tax | 120,136,917.64 | 113,463,297.15 |
| City construction and maintenance tax | 23,809,498.67 | 12,512,023.75 |
| Property tax | 14,465,691.82 | 21,688,768.56 |
| Others | 275,952,184.24 | 117,075,267.84 |
| Total | 1,781,381,390.45 | 1,093,465,271.31 |

35. Interest payable

| | | RMB |
|--|-----------------|---|
| Item | Closing balance | Restated opening balance after business combination involving entities under common control |
| Interest payable on convertible loan notes | 42,222,222.22 | 42,222,222.22 |
| Interest payable on medium-term notes | 17,033,333.36 | 17,033,333.36 |
| Interest payable on short-term borrowings | 161,826,161.88 | 120,444,971.85 |
| Interest payable on corporate bonds of Bao-trans | 5,715,843.75 | - |
| Total | 226,797,561.21 | 179,700,527.43 |

Interest payable due to shareholders holding at least 5% of the Company's shares with voting power in the current period refer to Note (VI). 6(13).

36. Dividends payable

| | | RMB |
|---------------------------------------|-----------------|---|
| Name of entity | Closing balance | Restated opening balance after business combination involving entities under common control |
| China Oriental Asset Management Corp. | 9,475,888.34 | 9,475,888.34 |
| Mitsui & Co., Ltd. | 1,277,780.39 | 6,985,188.21 |
| Corning (Hong Kong) Ltd. | 2,082,443.05 | 2,082,443.05 |
| Toyota Tsusho Corporation | - | 2,079,496.03 |
| Nanjing New Line Logistics Co., Ltd. | 450,000.00 | 900,000.00 |
| Guizhou Aluminium Plant | 603,743.23 | 603,743.23 |
| CEC Co., Ltd. | 158,584.69 | 6,532.76 |
| Others | 22,022.21 | 22,022.21 |
| Total | 14,070,461.91 | 22,155,313.83 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

37. Other payables

(1) Details of other payables are as follows:

| | | RMB |
|--|------------------|---|
| Items | Closing balance | Restated opening balance after business combination involving entities under common control |
| Guarantee and deposit fees | 462,993,321.14 | 419,839,762.17 |
| Advanced fund | 149,367,008.59 | 123,799,500.89 |
| Transportation and port fees | 17,055,542.99 | 18,952,504.05 |
| Construction fees payable | 555,840,667.37 | 341,224,368.77 |
| Land clearing fees payable | - | 30,791,771.26 |
| Relief fund | 25,196,247.00 | 16,686,854.63 |
| Payable to Baosteel Group on the Acquisition of Zhanjiang Longteng | - | 900,000,000.00 |
| Commission fees | 1,283,742.56 | 1,214,115.67 |
| Others | 13,507,392.19 | 27,424,290.27 |
| Total | 1,225,243,921.84 | 1,879,933,167.71 |

(2) At the opening and closing of the year, no other payables are due to any shareholders holding at least 5% of the Company's shares with voting power or related party refer to Note (VI). 6(14).

(3) Description of significant other payables aged more than one year:

The other payables aged more than one year amount to RMB113,077,990.03 (2012: RMB 145,530,580.57), which are deposits payable in nature under long-term service contracts.

38. Non-current liabilities due within one year

(1) Details of non-current liabilities due within one year are as follows:

| | | RMB |
|--|-------------------|---|
| Item | Closing balance | Restated opening balance after business combination involving entities under common control |
| Long-term borrowings due within one year | 2,193,103,622.22 | 4,502,840,000.00 |
| Long-term payables due within one year | 250,000,000.00 | - |
| Bonds payable due within one year | 9,784,554,462.35 | - |
| Total | 12,227,658,084.57 | 4,502,840,000.00 |

(2) Long-term borrowings due within one year

(a) Long-term borrowings due within one year

| | | RMB |
|------------------------------------|------------------|---|
| Item | Closing balance | Restated opening balance after business combination involving entities under common control |
| Secured loans | 5,320,000.00 | - |
| Unsecured and non-guaranteed loans | 2,187,783,622.22 | 4,502,840,000.00 |
| Total | 2,193,103,622.22 | 4,502,840,000.00 |

Note: Secured loans refer to Note (V). 40.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(b) Top five balance of long-term borrowings due within one year

| Lender | Inception date of borrowing | Maturity date | Original Currency | Interest rate (% per annum) | Closing balance | |
|---------------------------------------|-----------------------------|---------------|-------------------|-----------------------------|-----------------|------------------|
| | | | | | Amount in USD | Amount in RMB |
| | | | | | | |
| Sumitomo Mitusi Banking Corp ("SMBC") | 24 Aug 2012 | 14 Feb 2014 | USD | 3 month LIBOR+2.2% | 50,000,000.00 | 304,845,000.00 |
| SMBC | 8 Feb 2013 | 5 Aug 2014 | USD | 3 month LIBOR+1.05% | 50,000,000.00 | 304,845,000.00 |
| SMBC | 17 Jul 2013 | 17 Oct 2014 | USD | 3 month LIBOR+1.05% | 50,000,000.00 | 304,845,000.00 |
| JP Morgan Chase Bank | 24 Aug 2012 | 14 Feb 2014 | USD | 3 month LIBOR+2.5% | 50,000,000.00 | 304,845,000.00 |
| Bank of Communication | 24 Feb 2011 | 24 Feb 2014 | RMB | 5.9850% | | 230,000,000.00 |
| Total | | | | | | 1,449,380,000.00 |

| Lender | Inception date of borrowing | Maturity date | Original Currency | Interest rate (% per annum) | Opening balance | |
|--|-----------------------------|---------------|-------------------|-----------------------------|-----------------|------------------|
| | | | | | Amount in USD | Amount in RMB |
| | | | | | | |
| The Export-import Bank of China ("EIBC") | 15 Sep 2010 | 15 Jul 2013 | USD | 6 month LIBOR+2.8% | 200,000,000.00 | 1,257,100,000.00 |
| EIBC | 19 Jul 2010 | 19 Jul 2013 | USD | 6 month LIBOR+2.1% | 100,000,000.00 | 628,550,000.00 |
| EIBC | 29 Dec 2010 | 16 Dec 2013 | USD | 6 month LIBOR+0.5% | 100,000,000.00 | 628,550,000.00 |
| EIBC | 16 Dec 2010 | 16 Dec 2013 | USD | 6 month LIBOR+0.5% | 100,000,000.00 | 628,550,000.00 |
| EIBC | 1 Nov 2011 | 16 Dec 2013 | USD | 6 month LIBOR+1% | 100,000,000.00 | 628,550,000.00 |
| Total | | | | | | 3,771,300,000.00 |

(3) Long-term payables due within one year

| Item | Closing balance | Restated opening balance after business combination involving entities under common control |
|--|-----------------|---|
| | | |
| Payables on compensation for relocation (Note) | 250,000,000.00 | - |

Note: Details of the payables for on compensation for relocation refer to Note (V), 22 Note.

(4) Long-term bond payables due within one year

| Name of bond | Par value | Issue date | Term of the bond | Issue amount |
|----------------------------------|-------------------|--------------|------------------|-------------------|
| 08 Baosteel Bond (126016) (Note) | 10,000,000,000.00 | 20 June 2008 | 6 years | 10,000,000,000.00 |

| Name of bond | Opening interest payable | Accrued interest for the period | Interest paid during the period | Closing interest payable | Closing balance |
|----------------------------------|--------------------------|---------------------------------|---------------------------------|--------------------------|------------------|
| 08 Baosteel Bond (126016) (Note) | 42,222,222.22 | 80,000,000.00 | 80,000,000.00 | 42,222,222.22 | 9,784,554,462.35 |

Note: Approved by China Securities Regulatory Commission (CSRC) in the document of [2008]739, the Company issued, on 20 June 2008, RMB10 billion convertible loan notes with par value of RMB100 per bond and a duration of six years (from 20 June 2008 to 20 June 2014). The coupon rate was 0.8% per annum. The dividend was paid once a year on 20 June, and the principal was returned once and for all when the time expired. Every 10 bonds are attached by 160 copies of stock purchase components issued by the issuer. The duration of the component was 24 months from the date of its being listed on the market. The number of the note remained unchanged in the reporting period. The exercising period was the last five trading days of the duration. The exercise proportion was 2 to 1, meaning that two shares of the note represent one share of the Company's stock, and the initial exercise price was RMB12.50 per share, which was adjusted to RMB12.16 per share due to dividend on 15 June 2009. The exercise price was adjusted to RMB11.80 per share on 24 May 2010 due to dividend. In the duration of the component, the exercise price and proportion would be adjusted accordingly when the cut off of the dividend or right of the previous fiscal year is carried out. When the uses of the funds from the note issuance are found to be greatly different from those the Company promised in the prospect, which is considered an alternation of the uses of the funds according to relative regulations of China Securities Regulatory Commission or is confirmed by the commission, component holders are entitled to buy the notes at the price of its book value plus the current interest. The fair value of the liability component on the day of issue is measured on basis of the prices of similar securities, while the rest is recognized as the fair value of the equity and recorded in the shareholders' equity.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39. Other current liabilities

(1) Other current liabilities:

| RMB | | |
|-----------------------------------|------------------|---|
| Item | Closing balance | Restated opening balance after business combination involving entities under common control |
| Bonds payable due within one year | 1,848,866,666.64 | 1,017,012,500.06 |

(2) Bonds payable due within one year

| RMB | | | | | | | | | |
|---|-------------------------|------------|------------------|-------------------------|--------------------------|---------------------------------|---------------------------------|--------------------------|-------------------------|
| Name of bond | Par value | Issue date | Term of the bond | Issue amount | Opening interest payable | Accrued interest for the period | Interest paid during the period | Closing interest payable | Closing balance |
| Bonds payable due within 1 year (CP001) ^(Note) | 500,000,000.00 | 1 May 2012 | 1 Year | 500,000,000.00 | 15,633,333.36 | 7,816,666.64 | 23,450,000.00 | - | - |
| Bonds payable due within 1 year (CP002) ^(Note) | 500,000,000.00 | 1 Nov 2012 | 1 Year | 500,000,000.00 | 4,025,000.00 | 20,125,000.00 | 24,150,000.00 | - | - |
| Bonds payable due within 1 year (CP001) ^(Note) | 1,800,000,000.00 | 7 May 2013 | 1 Year | 1,800,000,000.00 | - | 51,360,000.00 | - | 51,360,000.00 | 1,848,866,666.64 |
| Total | 2,800,000,000.00 | | | 2,800,000,000.00 | 19,658,333.36 | 79,301,666.64 | 47,600,000.00 | 51,360,000.00 | 1,848,866,666.64 |

Note: In December 2011, Shanghai Meishan Iron & Steel Co., Ltd. ("Meishan Steel"), a subsidiary of the Company was approved by the National Association of Financial Market Institutional Investors (NAFMII) to issue short-term bonds in China with the amount of RMB1 billion and the bonds can be issued within 2 years from approval. In May 2012, Meishan Steel issued the first phase of short-term bonds with amount of RMB500,000,000 (12MeiSteel CP001), with issuing price RMB100 par value and fixed interest rate 4.69% per annum. Interest will be paid together with principal at maturity; In November 2012, Meishan Steel issued the second phase of short-term bonds with amount of RMB 500,000,000.00 (12MeiSteel CP002), with issuing price RMB100 par value and fixed interest rate 4.83% per annum. Interest will be paid together with principal at maturity. In 2013, Meishan Steel was approved by the National Association of Financial Market Institutional Investors (NAFMII) to issue short-term bonds in China with the amount of RMB3.3 billion, and the bonds can be issued within 2 years from approval. On 7 May 2013, Meishan Steel issued the third phase of short-term bonds with the amount of RMB 1,800,000,000.00 (13MeiSteel CP001), with issuing price RMB100 par value and fixed interest rate 4.28% per annum. Interest will be paid together with principal at maturity.

40. Long-term borrowings

(1) Categories of long-term borrowings

| RMB | | |
|--|-------------------------|---|
| Item | Closing balance | Restated opening balance after business combination involving entities under common control |
| Unsecured and non-guaranteed loans | 4,618,707,905.51 | 2,643,322,040.42 |
| Secured loans with securities under the custody of the Group ^(note) | 83,738,597.36 | 88,367,952.00 |
| Total | 4,702,446,502.87 | 2,731,689,992.42 |

Note: As at 31 December 2013, the Group acquired a loan of RMB 89,058,579.36 with portion of RMB 5,320,000.00 due within one year, with the construction in progress of RMB 4,143,827.18, fixed assets of RMB 82,296,233.54 and land use rights of RMB 70,527,379.53 as collateral.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(2) Top five balance of long-term borrowings

| Lender | Inception date of borrowing | Maturity date | Currency | Interest rate (% per annum) | Closing balance | |
|--|-----------------------------|---------------|----------|-----------------------------|----------------------------|-----------------------------|
| | | | | | Amount in foreign currency | Amount in domestic currency |
| | | | | | | |
| The Export-import Bank of China ("EIBC") | 15 July 2013 | 15 July 2015 | USD | 2.4000% | 208,000,000.00 | 1,268,155,200.00 |
| EIBC | 15 July 2013 | 15 July 2015 | USD | 2.4000% | 100,000,000.00 | 609,690,000.00 |
| EIBC | 27 Dec 2013 | 15 July 2015 | USD | 2.7000% | 100,000,000.00 | 609,690,000.00 |
| China Construction Bank | 13 Sep 2013 | 12 Sep 2016 | USD | 3 month LIBOR+2.7% | 100,000,000.00 | 609,690,000.00 |
| EIBC | 15 July 2013 | 15 July 2015 | USD | 2.4000% | 92,000,000.00 | 560,914,800.00 |
| Total | | | | | | 3,658,140,000.00 |

| Lender | Inception date of borrowing | Maturity date | Currency | Interest rate (% per annum) | Opening balance | |
|---|-----------------------------|------------------|----------|-----------------------------|----------------------------|-----------------------------|
| | | | | | Amount in foreign currency | Amount in domestic currency |
| | | | | | | |
| SMBC | 24 August 2012 | 14 February 2014 | USD | 3 month LIBOR+2.2% | 50,000,000.00 | 314,275,000.00 |
| J.P.Morgan Chase Bank | 24 August 2012 | 14 February 2014 | USD | 3 month LIBOR+2.5% | 50,000,000.00 | 314,275,000.00 |
| Baoshan branch of China Construction Bank | 20 May 2011 | 18 April 2014 | RMB | 5.985% | | 340,000,000.00 |
| Baoshan branch of China Construction Bank | 26 April 2011 | 25 March 2014 | RMB | 5.985% | | 300,000,000.00 |
| Baoshan branch of China Construction Bank | 20 June 2011 | 19 May 2014 | RMB | 5.76% | | 110,000,000.00 |
| Total | | | | | | 1,378,550,000.00 |

41. Bonds payable

| Name of bond | Par value | Issue date | Term of the bond | Issue amount | Opening interest payable | Accrued interest for the period | Interest paid during the period | Closing interest payable | Closing balance |
|--------------------------------------|----------------------|------------|------------------|----------------------|--------------------------|---------------------------------|---------------------------------|--------------------------|------------------|
| Medium Term Bonds (1282134) (Note 1) | 500,000,000.00 | 4 May 2012 | 3 years | 500,000,000.00 | 17,033,333.36 | 25,550,000.00 | 25,550,000.00 | 17,033,333.36 | 497,634,942.72 |
| Bao-trans Corporate Bond (Note 2) | U.S.\$500,000,000.00 | 5 Dec 2013 | 5 years | U.S.\$500,000,000.00 | - | 5,715,843.75 | - | 5,715,843.75 | 3,005,073,404.48 |
| Total | | | | | 17,033,333.36 | 31,265,843.75 | 25,550,000.00 | 22,749,177.11 | 3,502,708,347.20 |

Note1: In December 2011, Shanghai Meishan Iron & Steel Co., Ltd. ("Meishan Steel"), a subsidiary of the Company was approved by the National Association of Financial Market Institutional Investors (NAFMII) to issue medium-term bonds in China with the amount of RMB4 billion, and the bonds can be issued within 2 years from approval. Meishan Steel issued the first phase of medium-term bond with amount of RMB500,000,000 (12MeiSteel MTN1), with issuing price RMB100 par value and fixed interest rate 5.11% per annum. Interest will be paid annually on May 4. The bond will be due on 4 May, 2015.

Note2: In December 2013, Bao-Trans Co., Ltd ("Bao-Trans"), a subsidiary of the Company was approved by the 2012 general shareholders' meeting held on 26 April 2013 to issue bonds denominated in US dollar in Hong Kong with the amount of USD0.5 billion and duration of 5 years in accordance with the resolution of the shareholders' meeting of Developing Direct Financing. Bao-Trans issued bonds with issuing price 99.199% of par value and fixed interest rate 3.75% per annum on 5 December 2013. Interest will be paid semi-annually on June 12 and December 12 December, respectively. The bond will be due on 12 December, 2018.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

42. Long-term payables

| RMB | | |
|--|-----------------|---|
| Item | Closing balance | Restated opening balance after business combination involving entities under common control |
| Accounts payable for relocation expense of Meishan steel coke oven ^(Note 1) | 250,000,000.00 | 250,000,000.00 |
| Less: Long-term payables due within one year ^(Note 2) | 250,000,000.00 | - |
| Total | - | 250,000,000.00 |

Note 1: Relocation expense of Meishan steel coke oven refers to Note (V). Note (22).

Note 2: Long-term payables due within one year refer to Note (V). Note 38 (3).

43. Special payables

| RMB | | | | |
|----------------------|---|--------------------------------|--------------------------------|-----------------|
| Item | Restated opening balance after business combination involving entities under common control | Increase in the current period | Decrease in the current period | Closing balance |
| Government subsidies | 688,993,701.54 | 133,160,000.00 | 82,555,160.30 | 739,598,541.24 |

44. Other non-current liabilities

| RMB | | |
|--|-------------------------|---|
| Item | Closing carrying amount | Restated opening carrying amount after business combination involving entities under common control |
| Interest free loan from Baosteel Group ^(Note 1) | 1,500,000,000.00 | 1,500,000,000.00 |
| Deferred income ^(Note 2) | 1,218,672,931.60 | 1,201,329,376.35 |
| Other | 74,350.81 | - |
| Total | 2,718,747,282.41 | 2,701,329,376.35 |

Note 1: Refer to Note (V). (25) Note 1.

Note 2: Details of deferred income

| RMB | | | | | | |
|---|---|----------------|------------------------------------|----------------|------------------|--------------------------------|
| Item | Restated opening carrying amount after business combination involving entities under common | Increase | Recognized in non-operating income | Other | Closing balance | Assets related/ Income related |
| Key industries and comprehensive technology transformation projects | 799,949,040.08 | 128,965,933.80 | 104,559,718.18 | (8,786,000.00) | 815,569,255.70 | Assets related |
| Interest allowance on special loan | 133,905,378.80 | - | - | - | 133,905,378.80 | Assets related |
| Compensation from relocation | 113,755,603.69 | - | 5,836,928.94 | - | 107,918,674.75 | Assets related |
| Allowance for infrastructure | 99,665,904.89 | - | - | - | 99,665,904.89 | Assets related |
| High-tech subsidies of Baosight | 33,028,804.99 | 31,914,257.57 | 26,673,989.00 | - | 38,269,073.56 | Income related |
| Other | 21,024,643.90 | 35,143,000.00 | 32,823,000.00 | - | 23,344,643.90 | |
| Total | 1,201,329,376.35 | 196,023,191.37 | 169,893,636.12 | (8,786,000.00) | 1,218,672,931.60 | |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

45. Share capital

As at 31 December 2013, the registered and paid-in capital of the Company totals at RMB16,471,724,924.00 with par value of RMB1.00 each. The share class and structure are set out as follows:

| | Restated opening balance after business combination involving entities under common control | Changes for the period | | | | | Closing balance |
|---------------------------------------|---|------------------------|-------------|--------------------------------------|------------------|------------------|-------------------|
| | | New issue of shares | Bonus issue | Capitalization of surplus reserve | Others | Subtotal | |
| 2013: | | | | | | | |
| I. Tradable shares | | | | | | | |
| I. Ordinary shares denominated in RMB | 17,122,048,088.00 | | | | (650,323,164.00) | (650,323,164.00) | 16,471,724,924.00 |
| II. Total shares | 17,122,048,088.00 | - | - | - | (650,323,164.00) | (650,323,164.00) | 16,471,724,924.00 |
| 2012: | | | | | | | |
| I. Tradable shares | | | | | | | |
| I. Ordinary shares denominated in RMB | 17,512,048,088.00 | - | - | - | (390,000,000.00) | (390,000,000.00) | 17,122,048,088.00 |
| II. Total shares | 17,512,048,088.00 | - | - | - | (390,000,000.00) | (390,000,000.00) | 17,122,048,088.00 |

According to "The Board's Resolution on the motion of repurchase shares of the Company by centralized bidding", "The creditors' notice about repurchase shares of Baoshan Iron & Steel Co., Ltd.", "The 2012 second Resolution of extraordinary shareholders meeting of Baoshan Iron & Steel Co., Ltd." and the Company's revised Articles of Association, the Company repurchased A-shares on Shanghai Stock Exchange by centralized bidding with price of no more than RMB5 per share and amount of no more than RMB5 billion in total. The first repurchase began on 21 September 2012, and the Company has repurchased 414,055,508 shares by the end of 2012. According to the resolution and the Company's revised Articles of Association, the Company applied for reduction of share capital of RMB0.39 billion, and finished all procedures in China Securities Depository and Clearing Corporation Limited., Shanghai Branch on 20 December 2012. The Company updated all commercial registration in December 2012, and the updated registered share capital is RMB 17,122,048,088.00 as at 31 December 2012. Deloitte Touche Tohmatsu CPA LLP. has verified the change in share capital and issued the capital verification report.

Up to 21 May, 2013, the Company has completed the implementation of the share repurchase scheme, whereby the Company repurchased 650,323,164 shares in 2013, and repurchased and reduced 390,000,000 shares in 2012, respectively. According to the resolution and the Company's revised Articles of Association, the Company applied for reduction of share capital RMB 650,323,164 and finished all procedures of cancellation of 650,323,164 shares in China Securities Depository and Clearing Corporation Limited., Shanghai Branch on 23 May 2013. The Company completed the above-mentioned procedures on 24 June, 2013 and the registered capital of the Company was updated to RMB 16,471,724,924. The change in registered capital has been verified by Deloitte Touche Tohmatsu CPA LLP.

As at 31 December 2013, Baosteel Group held 13,128,825,267 shares of the ordinary shares without selling restrictions, and the equity interest held by Baosteel Group reached 79.71%.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

46. Capital reserve

| | | | | RMB |
|---|--|---------------------------|---------------------------|-------------------|
| Item | Restated opening balance after business combination involving entities under common control | Increase in the period | Decrease in the period | Closing balance |
| 2013: | | | | |
| Capital premium | | | | |
| Including: Reserve from conversion of state-owned shares | 5,726,556,609.73 | - | - | 5,726,556,609.73 |
| Share premium ^(Note 1) | 28,292,589,020.80 | - | 2,548,936,133.80 | 25,743,652,887.00 |
| Difference arising from business combination under common control | 116,748,214.86 | - | - | 116,748,214.86 |
| Other comprehensive income | | | | |
| Including: Provision for equity investment ^(Note 2) | (26,971,288.79) | - | 28,881,183.42 | (55,852,472.21) |
| Changes in fair value of available-for-sale financial assets | 69,775,101.55 | - | 495,832,826.57 | (426,057,725.02) |
| Income tax impact of changes in fair value of available-for-sale financial assets | (25,451,000.87) | 123,958,206.64 | - | 98,507,205.77 |
| Others | - | - | 2,400.00 | (2,400.00) |
| Other capital reserves ^(Note 3) | 1,855,722,688.77 | 50,639,539.20 | 143,201,560.07 | 1,763,160,667.90 |
| Total | 36,008,969,346.05 | 174,597,745.84 | 3,216,854,103.86 | 32,966,712,988.03 |
| 2012: | | | | |
| Capital premium | | | | |
| Including: Reserve from conversion of state-owned shares | 5,726,556,609.73 | - | - | 5,726,556,609.73 |
| Share premium ^(Note 1) | 29,703,329,723.00 | - | 1,410,740,702.20 | 28,292,589,020.80 |
| Other comprehensive income | 6,569,992,800.00 | - | 6,453,244,585.14 | 116,748,214.86 |
| Other comprehensive income | | | | |
| Including: Provision for equity investment | (42,263,025.08) | 15,291,736.29 | - | (26,971,288.79) |
| Changes in fair value of available-for-sale financial assets | 112,104,726.42 | - | 42,329,624.87 | 69,775,101.55 |
| Income tax impact of changes in fair value of available-for-sale financial assets | (36,033,407.09) | 10,582,406.22 | - | (25,451,000.87) |
| Other capital reserves ^(Note 3) | 1,866,944,402.56 | 110,952,749.32 | 122,174,463.11 | 1,855,722,688.77 |
| Total | 43,900,631,829.54 | 136,826,891.83 | 8,028,489,375.32 | 36,008,969,346.05 |

Note 1: Decrease in share premium due to the cancellation of treasury shares refer to Note (V). 47.

Note 2: Increase in provision for equity investment is due to the movement of capital reserve of joint ventures and associates the Group accounts for by using equity method.

Note 3: Increase in other capital reserves is mainly attributable to the monetary refund from the port construction in accordance with the relevant regulations of the Ministry of Transport and the Ministry of Finance upon collection of port construction fee from Shanghai Port. Decrease in other capital reserve is mainly due to excess of the consideration paid to acquire the minority interest of Zhangjiang Steel over the net book value of such interest.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

47. Treasury shares

| Item | RMB Amount |
|---|------------------|
| 2013: | |
| Opening balance | 115,785,165.80 |
| Increase in the period: | |
| Acquisition of shares from other shareholders | 3,083,474,132.00 |
| Decrease in the period: | |
| Cancellation | 3,199,259,297.80 |
| Closing Balance | - |

The 2012 second extraordinary shareholders meeting of Baoshan Iron & Steel Co., Ltd. passed the "The Board's Resolution on the motion of repurchase shares of the Company by centralized bidding" on 17 September 2012. The Company disclosed "Report on Baoshan Steel & Iron Co., Ltd. Repurchase shares" on 21 September 2012 as follows: the Company will repurchase A shares on Shanghai Stock Exchange by centralized bidding with price of no more than RMB5 per share and amount of no more than RMB5 billion in total. The repurchased shares will be cancelled. The number of shares to be repurchased is expected to be 1 billion, i.e. 5.7% of the total share capital and 22.8% of the public outstanding shares. The valid period of repurchase is 12 months since the resolution was passed at the general shareholders' meeting.

From 1 January 2013 to 31 December 2013, the Company repurchased 626,267,656 shares, 3.66% of total shares before cancellation, with the highest price of RMB5.00 per share and the lowest price of RMB4.72 per share at total consideration of RMB 3,083,474,132.00.

The Company finished all procedures of cancellation of 650,323,164 shares in China Securities Depository and Clearing Co., Ltd., Shanghai Branch on 23 May 2013 and updated all administrative registration on 24 June 2013. After the cancellation, the total share capital decreased by RMB 650,323,164.00 and capital reserve decreased by RMB 2,548,936,133.80.

At 31 December 2013, the treasury stock of the Company is Nil.

48. Special reserve

| Item | Restated opening balance after business combination involving entities under common control | Increase in the period | Decrease in the period | RMB Closing balance |
|------------------------|---|---------------------------|---------------------------|------------------------|
| 2013: | | | | |
| Operation security fee | 17,894,916.86 | 336,082,904.52 | 331,816,860.32 | 22,160,961.06 |
| 2012: | | | | |
| Operation security fee | 11,788,986.69 | 166,742,174.93 | 160,636,244.76 | 17,894,916.86 |

Extracted the special reserve based on the "The Management Methods of the Extract and Use of the Enterprise Security Costs of Production" ([2012] No. 16) for the safe production expenditures.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

49. Surplus reserve

| | | | | RMB |
|-------------------------------|---|------------------------|------------------------|-------------------|
| Item | Restated opening balance after business combination involving entities under common control | Increase in the period | Decrease in the period | Closing balance |
| 2013: | | | | |
| Statutory surplus reserve | 9,979,131,134.13 | 649,243,384.94 | - | 10,628,374,519.07 |
| Discretionary surplus reserve | 13,250,583,473.91 | 649,243,384.94 | - | 13,899,826,858.85 |
| Total | 23,229,714,608.04 | 1,298,486,769.88 | - | 24,528,201,377.92 |
| 2012: | | | | |
| Statutory surplus reserve | 8,930,401,416.20 | 1,048,729,717.93 | - | 9,979,131,134.13 |
| Discretionary surplus reserve | 12,201,853,755.98 | 1,048,729,717.93 | - | 13,250,583,473.91 |
| Total | 21,132,255,172.18 | 2,097,459,435.86 | - | 23,229,714,608.04 |

According to China Company Laws and the Article of Association of the Company, the Company is required to transfer 10% of its net profit to the statutory surplus reserve.

The discretionary surplus reserve is appropriated subsequent to the appropriation of statutory surplus reserve and subject to approval. Upon approval, the discretionary surplus reserve can be used to make up the losses from previous years or increase the Company's share capital.

50. Retained earnings

| | | | RMB |
|---|-------------------|----------------------------------|------|
| Item | Amount | Proportion of appropriation | |
| 2013: | | | |
| Retained earnings at beginning of year | 34,802,934,026.47 | | |
| Add: Net profit attributable to owners of the Company for the period | 5,818,471,202.97 | | |
| Less: Appropriation to statutory surplus reserve | 649,243,384.94 | 10% of net profit of the Company | |
| Appropriation to discretionary surplus reserve | 649,243,384.94 | 10% of net profit of the Company | |
| Declaration of dividends on ordinary shares | 2,278,368,991.45 | | Note |
| Retained earnings at the end of the period | 37,044,549,468.11 | | |
| 2012: | | | |
| Retained earnings at beginning of year before business combination under common control | 30,754,305,445.21 | | |
| Adjustment of business combination under common control | (405,891,494.19) | | |
| Retained earnings at beginning of year after business combination under common control | 30,348,413,951.02 | | |
| Add: Net profit attributable to owners of the Company for the period | 10,089,628,467.77 | | |
| Less: Appropriation to statutory surplus reserve | 1,048,729,717.93 | 10% of net profit of the Company | |
| Appropriation to discretionary surplus reserve | 1,048,729,717.93 | 10% of net profit of the Company | |
| Declaration of dividends on ordinary shares | 3,502,409,617.60 | | |
| Impact of business combination under common control | (35,239,338.86) | | |
| Retained earnings at the end of the period | 34,802,934,026.47 | | |

Details of adjustment of business combination under common control:

The retained earnings at beginning of year decreased by RMB737,874,887.33 due to the change of the consolidation scope.

Note: According to the resolution of Sixth Meeting of the Fifth Board on 29 March 2013, which was approved by the general shareholders' meeting on 26 April 2013, the Company announced cash dividend to all registered shareholders as of the announcement date with total amount of RMB 2,278,368,991.45 (before tax) based on the total number of shares of 17,122,048,088 (Note (V). 45).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

51. Operating income and operating costs

(1) Operating income

| Item | RMB | |
|----------------------------|---|---|
| | Amount recognized in the current period | Restated amount recognized in the previous period |
| Principal operating income | 188,328,279,762.66 | 189,712,472,013.32 |
| Other operating income | 1,360,099,920.56 | 1,422,723,730.83 |
| Operating income | 189,688,379,683.22 | 191,135,195,744.15 |
| Operating costs | 171,718,199,823.29 | 176,885,151,589.78 |

(2) Principal operating activities (classified by industries)

| Name of industry | RMB'000 | |
|--------------------------------|---|-----------------|
| | Amount recognized in the current period | |
| | Operating income | Operating costs |
| Iron & steel manufacturing | 127,283,500 | 115,296,829 |
| Processing and distributing | 176,820,663 | 172,910,408 |
| Information technology | 3,575,727 | 2,729,024 |
| E-commerce | 3,501,398 | 3,459,603 |
| Chemical | 10,678,289 | 9,654,034 |
| Elimination between industries | (133,531,297) | (133,489,322) |
| Total | 188,328,280 | 170,560,576 |

(3) Principal operating activities (classified by products)

| Name of product | RMB'000 | |
|---------------------|---|-----------------|
| | Amount recognized in the current period | |
| | Operating income | Operating costs |
| Iron & steel | 171,273,369 | 155,866,386 |
| Chemical products | 10,678,289 | 9,654,034 |
| Information service | 3,646,668 | 2,730,088 |
| Others | 2,729,954 | 2,310,068 |
| Total | 188,328,280 | 170,560,576 |

(4) Principal operating activities (classified by geographical areas)

| Name of geographical area | RMB'000 | |
|---------------------------|---|-----------------|
| | Amount recognized in the current period | |
| | Operating income | Operating costs |
| Domestic | 169,120,712 | 152,250,089 |
| Overseas | 19,207,568 | 18,310,487 |
| Total | 188,328,280 | 170,560,576 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Operating income from the Company's top five customers

| RMB | | |
|------------------|-------------------|---|
| Name of customer | Operating income | Proportion to total operating income of the Company (%) |
| Entity One | 10,760,113,243.81 | 6 |
| Entity Two | 2,873,027,885.93 | 2 |
| Entity Three | 2,643,497,422.65 | 1 |
| Entity Four | 2,534,203,679.29 | 1 |
| Entity Five | 2,410,305,831.81 | 1 |
| Total | 21,221,148,063.49 | 11 |

52 Business taxes and levies

| RMB | | | |
|---------------------------------------|---|---|----------------------|
| Item | Amount recognized in the current period | Restated Amount recognized in the previous period | Basis of calculation |
| Business tax | 37,684,165.88 | 81,261,144.22 | Note |
| City construction and maintenance tax | 182,511,957.17 | 106,154,907.86 | Note |
| Education surcharges | 169,120,805.82 | 97,584,525.99 | Note |
| Others | 24,349,577.32 | 23,442,049.54 | Note |
| Total | 413,666,506.19 | 308,442,627.61 | |

Note: Relevant criteria and tax rates for the above items refer to Note (III).

53. Financial expenses

| RMB | | |
|-------------------------------------|---|---|
| Item | Amount recognized in the current period | Restated amount recognized in the previous period |
| Interest expenses | 1,751,360,362.29 | 2,202,236,880.00 |
| Less: Capitalized interest expenses | 183,548,635.86 | 248,933,818.43 |
| Less: Interest income | 1,205,149,835.24 | 1,402,944,847.66 |
| Exchange differences | (955,115,324.54) | (107,536,479.34) |
| Others | 48,321,878.76 | 45,755,100.28 |
| Total | (544,131,554.59) | 488,576,834.85 |

54. Impairment losses of assets

| RMB | | |
|--|---------------------------------------|---|
| Item | Amount incurred in the current period | Restated amount recognized in the previous period |
| I. Bad debt losses | 136,917,160.21 | (31,496,841.08) |
| II. Inventory provision (reversal) | 601,708,925.93 | (526,763,337.49) |
| III. Impairment for loans | 27,165,000.00 | 24,775,000.00 |
| IV. Impairment for long term investment | 1,609,581.60 | 35,000,000.00 |
| V. Impairment for other non-current assets | 1,620,916,601.51 | 2,645,008,966.84 |
| Total | 2,388,317,269.25 | 2,146,523,788.27 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

55. Gains from changes in fair values

| RMB | | |
|--|---|---|
| Items resulting in gains from changes in fair values | Amount recognized in the current period | Restated amount recognized in the previous period |
| Held-for-trading financial assets | 6,796,050.20 | 7,814,089.85 |
| Held-for-trading financial liabilities | 20,789,685.96 | (20,789,685.96) |
| Total | 27,585,736.16 | (12,975,596.11) |

56. Investment income

(1) Details of investment income

| RMB | | |
|--|---|---|
| Item | Amount recognized in the current period | Restated amount recognized in the previous period |
| Income from long-term equity investments under cost method | 434,421,289.22 | 252,517,369.55 |
| Income from long-term equity investments under equity method | 174,802,410.63 | 68,859,832.09 |
| Stock investment income | 8,799,180.79 | 17,231,662.25 |
| Bond investment income | 42,298,928.31 | 36,110,389.88 |
| Fund investment income | 480,566.54 | 22,876,381.81 |
| Investment (losses) income from disposal of derivative financial instruments | (14,773,709.28) | (9,684,429.21) |
| Investment income from disposal of equity investment | 4,203,958.34 | 665,609,496.33 |
| Others | 33,821,550.51 | 23,003,324.70 |
| Total | 684,054,175.06 | 1,076,524,027.40 |

(2) Income from long-term equity investments under cost method

Top five investees of whose investment income accounts for the highest proportion of the pre-tax profit:

| RMB | | | |
|--|---|---|-------------------|
| Investee | Amount recognized in the current period | Restated amount recognized in the previous period | Reason for change |
| Yongmei Group Co., Ltd. | 201,547,600.00 | 113,370,525.00 | Cash dividend |
| Henan Longyu Energy Co., Ltd. | 139,772,196.30 | - | Cash dividend |
| CISDI Engineering Co., Ltd. | 60,887,153.28 | 5,649,323.48 | Cash dividend |
| Baovale Mining Co., Ltd. | 17,521,717.50 | 35,668,836.00 | Cash dividend |
| Shanghai Luojing Mining Port Co., Ltd. | 14,366,722.14 | 13,395,251.27 | Dividend |
| Total | 434,095,389.22 | 168,083,935.75 | |

(3) Income from long-term equity investments under equity method:

Top five investees from which the investment income accounts for the highest proportion of the pre-tax profit as below:

| RMB | | | |
|-----------------------|---|---|---------------------------------------|
| Investee | Amount recognized in the current period | Restated Amount recognized in the previous period | Reason for change |
| Henan Pingbao | 59,538,555.11 | 75,223,699.23 | Change of the profit of associate |
| BNA | 58,365,170.40 | 73,074,198.01 | Change of the profit of joint venture |
| Welding Co. | 25,651,613.61 | 28,506,378.27 | Change of the profit of associate |
| Bao-Island Enterprise | 15,095,924.40 | 1,323,729.25 | Change of the profit of joint venture |
| JFE Steel Sheet | 13,308,650.60 | (138,166,801.10) | Change of the profit of joint venture |
| Total | 171,959,914.12 | 39,961,203.66 | |

As at 31 December 2013, no significant limitation exists regarding investment income repatriation.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

57. Non-operating income

(1) Details of non-operating income:

| RMB | | | |
|--|---------------------------------------|---|---|
| Item | Amount incurred in the current period | Restated Amount incurred in the previous period | Amount incurred in non recurring gains and loss in the current period |
| Total gains on disposal of non-current assets | 360,318,736.82 | 9,690,798,794.24 | 360,318,736.82 |
| Including: Gains on disposal of fixed assets | 14,050,835.02 | 1,927,304,625.37 | 14,050,835.02 |
| Gains on disposal of intangible assets ^(Note) | 346,267,901.80 | 7,763,494,168.87 | 346,267,901.80 |
| Government grants | 391,903,997.38 | 716,212,755.79 | 391,903,997.38 |
| Compensation income | 27,212,391.46 | 21,961,918.24 | 27,212,391.46 |
| Others | 102,937,215.53 | 91,013,205.73 | 102,937,215.53 |
| Total | 882,372,341.19 | 10,519,986,674.00 | 882,372,341.19 |

Note: The gains on disposal of intangible assets in current period mainly consisted of the gains from the sale of land use right to Shanghai Power over the CCGP generator and relevant assets. Up to the reporting date, the Company is still on the process of obtaining the relevant certificate of the land use right.

(2) Government grants recognized in profit and loss in current period:

| RMB | | | |
|--|---------------------------------------|---|--------------------------------|
| Items | Amount incurred in the current period | Restated Amount incurred in the previous period | Assets related/ Income related |
| Subsidies for high-tech achievement transformation | 59,921,691.08 | 71,242,006.71 | Both income and assets related |
| Compensation for relocation | 59,876,337.21 | 132,536,148.03 | Income related |
| Transfer of prior year government grants related to technology improvement | 44,059,169.32 | 33,874,586.01 | Assets related |
| Special fiscal funds of land infrastructure construction | 30,756,648.88 | - | Assets related |
| Grants for waste gas treatment | 11,000,000.00 | 8,000,000.00 | Income related |
| Significant technology innovation | - | 150,185,356.10 | Income related |
| Special fund for foreign economic and technology cooperation | - | 139,950,000.00 | Income related |
| Others | 186,290,150.89 | 180,424,658.94 | |
| Total | 391,903,997.38 | 716,212,755.79 | |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

58. Non-operating expenses

| RMB | | | |
|--|---------------------------------------|---|---|
| Item | Amount incurred in the current period | Restated Amount incurred in the previous period | Amount incurred in non-recurring gains and loss in the current period |
| Total losses on disposal of non-current assets | 472,234,905.84 | 779,567,721.43 | 472,234,905.84 |
| Including: Losses on disposal of fixed assets | 447,374,361.65 | 718,361,101.82 | 447,374,361.65 |
| Losses on disposal of intangible assets | 24,860,544.19 | 61,206,619.61 | 24,860,544.19 |
| Donations to third parties | 16,184,550.00 | 34,658,179.49 | 16,184,550.00 |
| Others | 67,739,286.16 | 150,424,222.82 | 67,739,286.16 |
| Total | 556,158,742.00 | 964,650,123.74 | 556,158,742.00 |

59. Income tax expenses

| RMB | | | |
|--|---------------------------------------|---|--|
| Item | Amount incurred in the current period | Restated Amount incurred in the previous period | |
| Current tax expense calculated according to tax laws and relevant requirements | 1,909,395,457.27 | 3,661,955,314.60 | |
| Adjustment to previous period's income tax | (31,310,710.64) | (92,676,929.59) | |
| Adjustment to deferred income tax | 91,341,980.71 | (860,899,636.36) | |
| Total | 1,969,426,727.34 | 2,708,378,748.65 | |

Reconciliation of income tax expenses to the accounting profit is as follows:

| RMB | | |
|--|-------------------------------|--------------------------------|
| | Amount for the current period | Amount for the previous period |
| Accounting profit | 8,009,761,350.56 | 12,663,670,698.07 |
| Income tax expenses calculated at 25% (previous period: 25%) | 2,002,440,337.63 | 3,165,917,674.52 |
| Adjustment to previous period's income tax | (31,310,710.64) | (92,676,929.59) |
| Effect of expenses that are not deductible for tax purposes | 51,446,156.15 | 70,073,189.56 |
| Effect of tax-free income | (159,008,724.09) | (130,057,257.51) |
| Effect of unrecognized deductible losses and deductible temporary differences | 561,320,371.66 | 181,127,542.48 |
| Effect of using previously unrecognized deductible losses and deductible temporary differences | (44,694,320.31) | (48,922,150.50) |
| Changes in opening balances of deferred tax assets/liabilities due to the change in tax rate | - | (202,337.62) |
| Additional tax incentives | (381,405,182.76) | (402,281,433.43) |
| Others | (29,361,200.30) | (34,599,549.26) |
| Total | 1,969,426,727.34 | 2,708,378,748.65 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

60. Calculation process of basic earnings per share

For the purpose of calculating basic earnings per share, net profit for the current period attributable to ordinary shareholders is as follows:

| | RMB | |
|---|-------------------------------|---|
| | Amount for the current period | Restated amount for the previous period |
| Net profit for the current period attributable to ordinary shareholders | 5,818,471,202.97 | 10,089,628,467.77 |
| Including: Net profit from continuing operations | 5,818,471,202.97 | 10,089,628,467.77 |
| Net profit from discontinued operations | - | - |

For the purpose of calculating basic earnings per share, the denominator is the weighted average number of outstanding ordinary shares and its calculation process is as follows:

| | RMB | |
|--|-------------------------------|---|
| | Number for the current period | Restated number for the previous period |
| Number of ordinary shares outstanding at the beginning of the year | 17,122,048,088.00 | 17,512,048,088.00 |
| Add: Weighted average number of ordinary shares issued in current year | - | - |
| Less: Weighted average number of ordinary shares repurchased in current year | 421,335,003.00 | 61,529,573.00 |
| Number of ordinary shares outstanding at the end of the year | 16,700,713,085.00 | 17,450,518,515.00 |

Earnings per share

| | RMB | |
|--|-------------------------------|---|
| | Amount for the current period | Restated amount for the previous period |
| Calculated based on net profit attributable to shareholders of the Company: | | |
| Basic earnings per share | 0.35 | 0.58 |
| Calculated based on net profit from continuing operations attributable to shareholders of the Company: | | |
| Basic earnings per share | 0.35 | 0.58 |
| Calculated based on net profit from discontinued operations attributable to shareholders of the Company: | | |
| Basic earnings per share | - | - |

The Company has no potential ordinary share which has dilutive effect in the current period, and therefore no diluted earnings per share are disclosed.

61. Other comprehensive income

| | RMB | |
|--|-------------------------------|--------------------------------|
| Item | Amount for the current period | Amount for the previous period |
| 1. Gains (losses) arising from available-for-sale financial assets | (501,909,483.57) | (31,186,267.85) |
| Less: Tax effects arising from available-for-sale financial assets | (125,477,370.89) | (9,362,673.65) |
| Net amount included in other comprehensive income in the previous periods that is transferred to profit or loss for the period | (2,610,351.72) | 6,264,426.75 |
| Subtotal | (373,821,760.96) | (28,088,020.95) |
| 2. Share of other comprehensive income of the investee accounted for using the equity method | (28,678,273.73) | 15,332,645.99 |
| Less: Net amount included in other comprehensive income in the previous periods that is transferred to profit or loss for the period | - | 40,909.70 |
| Subtotal | (28,678,273.73) | 15,291,736.29 |
| 3. Translation differences of financial statements denominated in foreign currencies | (249,095,791.59) | (54,087,936.68) |
| Subtotal | (249,095,791.59) | (54,087,936.68) |
| 4. Other | (4,000.00) | - |
| Total | (651,599,826.28) | (66,884,221.34) |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

62. Notes to items in the cash flow statement

(1) Other cash receipts relating to operating activities

| RMB | | |
|---|-------------------------------|---|
| Item | Amount for the current period | Restated amount for the previous period |
| Non-operating income, government grant and etc. | 1,194,948,436.94 | 1,738,689,643.93 |

(2) Other cash payments relating to operating activities

| RMB | | |
|-------------------------|-------------------------------|---|
| Item | Amount for the current period | Restated amount for the previous period |
| Selling expenses | 1,099,280,251.62 | 1,674,517,376.24 |
| Administrative expenses | 1,368,390,520.21 | 1,971,903,275.27 |
| Others | 124,699,027.94 | 246,899,517.56 |
| Total | 2,592,369,799.77 | 3,893,320,169.07 |

(3) Other cash receipts relating to investing activities

| RMB | | |
|--|-------------------------------|---|
| Item | Amount for the current period | Restated amount for the previous period |
| Income from disposal of assets in Wusong block | 5,740,942,191.82 | 4,121,179,162.89 |
| Interest income | 172,566,273.61 | 413,889,215.27 |
| Total | 5,913,508,465.43 | 4,535,068,378.16 |

(4) Other cash payments relating to investing activities

| RMB | | |
|--|-------------------------------|---|
| Item | Amount for the current period | Restated amount for the previous period |
| Payment for acquire of investment | 900,000,000.00 | 1,539,880,728.08 |
| Cash payment upon the settlement of derivative instruments | 24,191,732.71 | 16,864,017.29 |
| Total | 924,191,732.71 | 1,556,744,745.37 |

(5) Other cash receipts relating to financing activities

| RMB | | |
|-------------------------------------|-------------------------------|---|
| Item | Amount for the current period | Restated amount for the previous period |
| Guangzhou Steel Sheet consideration | - | 1,500,000,000.00 |

Financing from/to related parties refer to Notes(VI),6(I5).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

63. Supplementary information to the cash flow statement

(1) Supplementary information to the cash flow statement

| | | RMB |
|---|--------------------|------------------------------------|
| Supplementary information | Current period | Restated amount of previous period |
| 1. Reconciliation of net profit to cash flow from operating activities: | | |
| Net profit | 6,040,334,623.22 | 9,955,291,949.42 |
| Add: Provision for impairment losses of assets | 2,388,317,269.25 | 2,146,523,788.27 |
| Depreciation of fixed assets and investment properties | 10,095,998,605.08 | 11,341,408,934.44 |
| Amortization of intangible assets | 189,392,175.05 | 210,738,738.24 |
| Amortization of long-term prepaid expenses | 30,612,921.36 | 17,902,407.01 |
| Losses on disposal of fixed assets, intangible assets and other long-term assets (gains are indicated by "-") | 111,916,169.02 | (8,911,205,574.89) |
| Losses on changes in fair values (gains are indicated by "-") | (27,585,736.16) | 12,975,596.11 |
| Financial expenses (income is indicated by "-") | (591,287,147.33) | 443,578,386.85 |
| Losses arising from investments (gains are indicated by "-") | (684,054,175.06) | (1,076,524,027.40) |
| Decrease in deferred tax assets (increase is indicated by "-") | 88,407,809.63 | (846,596,305.66) |
| Increase in deferred tax liabilities (decrease is indicated by "-") | 2,934,171.08 | 11,893,153.28 |
| Decrease in inventories (increase is indicated by "-") | (2,816,025,425.18) | 2,884,613,351.68 |
| Decrease in receivables from operating activities (increase is indicated by "-") | (2,605,556,062.93) | (868,119,810.68) |
| Increase in payables from operating activities (decrease is indicated by "-") | (132,928,562.98) | 6,863,411,469.28 |
| Net cash flow from operating activities | 12,090,476,634.05 | 22,185,892,055.95 |
| 2. Net changes in cash and cash equivalents: | | |
| Closing balance of cash | 11,507,852,396.93 | 7,632,107,621.86 |
| Less: Opening balance of cash | 7,632,107,621.86 | 13,023,524,324.21 |
| Add: Closing balance of cash equivalents | 91,000,000.00 | - |
| Less: Opening balance of cash equivalents | - | 280,780,713.36 |
| Net increase in cash and cash equivalents | 3,966,744,775.07 | (5,672,197,415.71) |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(V) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(2) Disposal of subsidiaries during the period

| | | RMB |
|---|-------------------|------------------------------------|
| Item | Current period | Restated amount of previous period |
| I. Information of acquisition of subsidiaries: | | |
| 1. Consideration of acquisition of subsidiaries | 4,976,333,561.88 | - |
| 2. Cash and cash equivalence paid for acquisition of subsidiaries | 4,976,333,561.88 | - |
| Less: cash and cash equivalent held by subsidiaries | 10,655,882.07 | - |
| 3. Net cash outflow on acquisition of subsidiaries | 4,965,677,679.81 | - |
| 4. Net assets of the acquired subsidiaries | 7,594,195,964.71 | - |
| Current assets | 2,281,977,807.40 | - |
| Non-current assets | 11,134,545,439.74 | - |
| Current liabilities | 4,082,800,515.32 | - |
| Non-current liabilities | 1,739,526,767.11 | - |
| II. Information of disposal of subsidiaries: | | |
| 1. Consideration of disposal of subsidiaries | - | 2,286,529,828.21 |
| 2. Cash and cash equivalence received from disposal of subsidiaries | - | 2,286,529,828.21 |
| Less: cash and cash equivalent held by subsidiaries | - | 313,486,177.83 |
| 3. Net cash inflow on disposal of subsidiaries | - | 1,973,043,650.38 |
| 4. Net assets of the disposed subsidiaries | - | 3,305,493,661.91 |
| Current assets | - | 2,852,381,530.44 |
| Non-current assets | - | 4,038,797,961.87 |
| Current liabilities | - | 3,490,144,965.40 |
| Non-current liabilities | - | 95,540,865.00 |

(3) Composition of cash and cash equivalents

| | | RMB |
|---|-------------------|--------------------------|
| Item | Closing balance | Restated opening balance |
| I. Cash | 11,507,852,396.93 | 7,632,107,621.86 |
| Including: Cash on hand | 862,784.89 | 894,131.30 |
| Bank deposits | 11,435,799,572.25 | 7,537,896,098.08 |
| Other monetary funds | 71,190,039.79 | 93,317,392.48 |
| II. Cash equivalents | 91,000,000.00 | - |
| Including: Funds from monetary market | - | - |
| III. Closing balance of cash and cash equivalents | 11,598,852,396.93 | 7,632,107,621.86 |

Cash and cash equivalents exclude restricted cash and cash equivalents of the Company or subsidiaries within the Group.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(VI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

1. Parent of the Company

| | |
|---|--|
| Name of Company | Baosteel Group Corporation (Baosteel Group) |
| Related party relationship | Parent company |
| Type of the entity | Limited company (state-owned) |
| Place of incorporation | Shanghai |
| Legal representative | Xu Lejiang |
| Nature of business | Iron and steel manufacturing & processing |
| Registered capital (RMB) | 52,791,100,998.89 |
| Proportion of the Company's ownership interest held by the parent (%) | 79.71 |
| Proportion of the Company's voting power held by the parent (%) | 79.71 |
| Ultimate controlling party of the Company | State-owned Asset Supervision and Administration Commission of the State Council |
| Organization code | 13220082-1 |

2. Subsidiaries of the Group

Please refer to Note (IV). 1 for details of subsidiaries of the Group.

3. Associates and joint ventures of the Group

Please refer to Note (V). 15 for details of associates and joint ventures of the Group.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(VI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

4. Other related parties of the Group

| Name of other related party | Relationship between other related parties and the Company | Organization code |
|---|--|-------------------|
| Baosteel Resources (International) Limited (Baosteel Resources (International)) | Fellow subsidiary | #6080030-0 |
| Baosteel Metal Co., Ltd. and its subsidiaries (Baosteel Metal and its subsidiaries) | Fellow subsidiary | 13223304-1 |
| Shanghai Baosteel Engineering & Technology Group Co., Ltd. and its subsidiaries (Engineering & Technology Co. and its subsidiaries) | Fellow subsidiary | 63083393-9 |
| Hwabao Trust Co., Ltd. (Hwabao Trust) | Fellow subsidiary | 63124192-7 |
| Hwabao Investment Co., Ltd. (Hwabao Investment) | Fellow subsidiary | 13222881-6 |
| Baosteel Group Baoshan Hotel (Baoshan Hotel) | Fellow subsidiary | 13342754-2 |
| Baosteel Development Co., Ltd. and its subsidiaries (Baosteel Development and its subsidiaries) | Fellow subsidiary | 13343894-6 |
| Baosteel Group Shanghai Ergang Co., Ltd. and its subsidiaries (Ergang and its subsidiaries) | Fellow subsidiary | 13320566-7 |
| Baosteel Group Shanghai No.1 Iron & Steel Co., Ltd. and its subsidiaries (No. 1 Steel and its subsidiaries) | Fellow subsidiary | 13220760-1 |
| Baosteel Group Shanghai Pipes Co., Ltd. (Shanghai Pipes) | Fellow subsidiary | 63057927-2 |
| Baosteel Group Shanghai Meishan Co., Ltd. and its subsidiaries (Meishan Steel and its subsidiaries) | Fellow subsidiary | 13226493-X |
| Baosteel Group Shanghai Pudong Iron & Steel Co., Ltd. and its subsidiaries (Pudong Steel and its subsidiaries) | Fellow subsidiary | 13221291-0 |
| Baosteel Group Shanghai No.5 Iron & Steel Co., Ltd. and its subsidiaries (No. 5 Steel and its subsidiaries) | Fellow subsidiary | 13220240-5 |
| Baosteel Group Xinjiang Bayi Iron & Steel Co., Ltd. and its subsidiaries (Xinjiang Bayi and its subsidiaries) | Fellow subsidiary | 22860110-1 |
| Baosteel Resource Co., Ltd. and its subsidiaries (Baosteel Resource and its subsidiaries) | Fellow subsidiary | 79144036-X |
| Shanghai Institute of Steel and Iron (Institute of Steel and Iron) | Fellow subsidiary | 13342720-0 |
| Ningbo Iron & Steel Co., Ltd. (Ningbo Steel and its subsidiaries) | Fellow subsidiary | 74497613-7 |
| Guangdong Baosteel Real Estate Co., Ltd. (Guangdong Real Estate) | Fellow subsidiary | 67706963-2 |
| Guangdong Shaoguan Iron & Steel Group Co., Ltd. and its subsidiaries (Shaoguan Steel and its subsidiaries) | Fellow subsidiary | 19152191-6 |
| Shanghai Baosteel Stainless Steel Co., Ltd. (Shanghai Stainless) | Fellow subsidiary | 59041990-0 |
| Baosteel Stainless Steel Co., Ltd. (Baosteel Stainless) | Fellow subsidiary | 59167293-2 |
| Baosteel Special Material Co., Ltd. and its subsidiaries (Baosteel Special Steel and its subsidiaries) | Fellow subsidiary | 59041866-8 |
| Baosteel Desheng Stainless Steel Co., Ltd. (Baosteel Desheng) | Fellow subsidiary | 78216761-3 |
| Shanghai Baohua International Tendering Co., Ltd. (Baohua Tendering) | Fellow subsidiary | 78425734-8 |
| Beijing Huili Property Development Co., Ltd. (Beijing Huili) | Fellow subsidiary | 76847696-2 |
| Shanghai Baosteel Technical and Economic Development Corporation (Technical & Economic Development Co., Ltd. and its subsidiaries) | Fellow subsidiary | 13220712-6 |
| Ningbo Baoxin Stainless Steel Co., Ltd. and its subsidiaries (Ningbo Baoxin and its subsidiaries) | Fellow subsidiary | 61027433-2 |
| Baosteel Australia Mining Co., Ltd. (Bao-Aus Mining) | Fellow subsidiary | N/A |
| Baosteel Group (Shanghai) Real Estate Co., Ltd. (Baosteel Real Estate) | Fellow subsidiary | 062553794 |
| Fujian Baosteel Real Estate Co., Ltd. (Fujian Real Estate) | Fellow subsidiary | 062262452 |
| Shanghai Baosteel Changning Real Estate Co., Ltd. (Changning Real Estate) | Fellow subsidiary | 08200555X |
| Ningbo Baosteel New Construction Material Co., Ltd. (New Construction Material) | Fellow subsidiary | 071480750 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(VI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

5. Related party transactions

Sales and purchases of goods, provision of services and receiving services

(1) Sales of goods, provision and receipt of services

RMB'000

| Related party | Transaction type | Details of related party transaction | Pricing of related party transactions | Amount for the current period | | Restated amount for the previous period | |
|---|------------------|--|---------------------------------------|-------------------------------|--|---|--|
| | | | | Amount | Proportion of the amount of related party transactions to that of similar transactions (%) | Amount | Proportion of the amount of related party transactions to that of similar transactions (%) |
| BNA | Sales | Iron and steel products, raw material and energy | Market price | 10,681,008 | 5.63 | 11,087,003 | 5.80 |
| Baosteel Stainless | Sales | Iron and steel product, raw materials and spare parts and energy | Market price or contract price | 2,847,940 | 1.50 | 5,210,851 | 2.73 |
| Meishan Steel and its subsidiaries | Sales | Iron and steel products, energy, and spare parts | Market price | 2,566,313 | 1.35 | 1,872,177 | 0.98 |
| Baosteel Development and its subsidiaries | Sales | Iron and steel products, spare parts and energy | Market price | 2,140,132 | 1.13 | 2,404,724 | 1.26 |
| Baosteel Special Steel and its subsidiaries | Sales | Iron and steel products, raw materials, spare parts and energy | Market price or contract price | 2,110,140 | 1.12 | 1,919,899 | 1.00 |
| Baosteel Resource and its subsidiaries | Sales | Raw materials | Market price | 1,806,090 | 0.95 | 2,135,130 | 1.12 |
| Baosteel Metal and its subsidiaries | Sales | Iron and steel products, energy and spare parts | Market price | 1,460,809 | 0.77 | 2,531,445 | 1.32 |
| Ningbo Steel and its subsidiaries | Sales | Iron and steel products, raw material and equipment | Market price | 590,320 | 0.31 | 88,619 | 0.05 |
| Guangzhou JFE | Sales | Iron and steel products and equipment | Market price | 575,534 | 0.30 | - | - |
| Welding Co. | Sales | Iron and steel products and raw materials | Market price | 550,795 | 0.29 | 524,989 | 0.27 |
| Shaoguan Steel and its subsidiaries | Sales | Energy and raw material | Market price | 526,596 | 0.28 | - | - |
| Baosteel Resource and its subsidiaries | Sales | Raw materials | Market price | 194,161 | 0.10 | 1,184,004 | 0.62 |
| Ningbo Baoxin and its subsidiaries | Sales | Iron and steel products and raw materials | Market price | 191,426 | 0.10 | 56,824 | 0.03 |
| Engineering & Technology Co. and its subsidiaries | Sales | Iron and steel products, energy, and spare parts | Market price | 178,498 | 0.09 | 475,722 | 0.25 |
| Tianjin BCM | Sales | Iron and steel products and raw material | Market price | 132,126 | 0.07 | 181,904 | 0.10 |
| Wuxi Baomit | Sales | Iron and steel products | Market price | 80,151 | 0.04 | 25,799.00 | 0.01 |
| Baosteel Group | Sales | Energy and spare parts | Market price | 7,413 | - | 9,205 | - |
| Baosteel Desheng | Sales | Energy and spare parts | Market price | 3,478 | - | 1,272 | - |
| Xinjiang Bayi and its subsidiaries | Sales | Iron and steel products and equipment | Market price | 1,173 | - | 44,020 | 0.02 |
| No. 1 Steel and its subsidiaries | Sales | Iron and steel products and spare parts | Market price | 56 | - | 3,234 | - |
| Pudong Steel and its subsidiaries | Sales | Spare parts | Market price | 18 | - | 22,179 | 0.01 |
| NSM | Sales | Iron and steel products | Market price | - | - | 95,934.00 | 0.05 |
| No. 5 Steel and its subsidiaries | Sales | Energy | Market price | - | - | 2,833 | - |
| Others | Sales | Energy, raw material and Spare parts | Market price | 2,874 | - | 13,205 | 0.01 |
| Total | | | | 26,647,051 | 14.03 | 29,890,972 | 15.63 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(VI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(2) Purchase of goods

RMB'000

| Related party | Transaction type | Details of related party transactions | Pricing of related party transactions | Amount for the current period | | Restated amount for the previous period | |
|---|------------------|--|---------------------------------------|-------------------------------|--|---|--|
| | | | | Amount | Proportion of the amount of related party transactions to that of similar transactions (%) | Amount | Proportion of the amount of related party transactions to that of similar transactions (%) |
| Baosteel Stainless | Purchase | Iron and steel products | Market price or contract price | 13,595,825 | 7.92 | 11,983,486 | 6.77 |
| BNA | Purchase | Iron and steel products, energy and raw material | Market price | 11,099,726 | 6.46 | 12,090,192 | 6.84 |
| Baosteel Special Steel and its subsidiaries | Purchase | Iron and steel products and energy | Market price or contract price | 6,339,438 | 3.69 | 3,933,627 | 2.22 |
| Ningbo Baoxin and its subsidiaries | Purchase | Iron and steel products and energy | Market price | 6,336,598 | 3.69 | 2,096,746 | 1.19 |
| Baosteel Resource and its subsidiaries | Purchase | Raw materials and energy | Market price | 5,492,476 | 3.20 | 6,460,459 | 3.65 |
| Ningbo Steel and its subsidiaries | Purchase | Iron and steel products | Market price | 1,845,008 | 1.07 | 1,943,396 | 1.10 |
| Meishan Steel and its subsidiaries | Purchase | Raw materials and spare parts | Market price | 1,407,421 | 0.82 | 1,195,523 | 0.68 |
| Baosteel Development and its subsidiaries | Purchase | Iron and steel products, spare parts and energy | Market price | 1,264,932 | 0.74 | 1,732,852 | 0.98 |
| Xinjiang Bayi and its subsidiaries | Purchase | Iron and steel products | Market price | 1,033,820 | 0.60 | 1,556,442 | 0.88 |
| Engineering & Technology Co. and its subsidiaries | Purchase | Equipment and raw material | Market price | 948,334 | 0.55 | 1,572,309 | 0.89 |
| Baosteel Resource International | Purchase | Raw materials | Market price | 285,365 | 0.17 | 493,427 | 0.28 |
| Guangzhou JFE | Purchase | Iron and steel products | Market price | 236,236 | 0.14 | - | - |
| Baosteel Metal and its subsidiaries | Purchase | spare parts | Market price | 178,912 | 0.10 | 99,540 | 0.06 |
| Baosteel Desheng | Purchase | Iron and steel products | Market price | 112,796 | 0.07 | 17,037 | 0.01 |
| Shaoguan Steel and its subsidiaries | Purchase | Iron and steel products | Market price | 49,315 | 0.03 | - | - |
| No. 5 Steel and its subsidiaries | Purchase | Energy | Market price | 37 | - | 22 | - |
| No. 1 Steel and its subsidiaries | Purchase | Spare parts | Market price | - | - | 47,203 | 0.03 |
| Others | Purchase | Spare parts, energy and etc. | Market price | - | - | 13,705 | 0.01 |
| Total | | | | 50,226,239 | 29.25 | 45,235,966 | 25.59 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(VI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(3) Provision of transportation service and technical supports

| Related party | Transaction type | Details of related party transactions | Pricing of related party transactions | RMB'000 | |
|---|-----------------------|--|---------------------------------------|-------------------------------|---|
| | | | | Amount for the current period | Restated amount for the previous period |
| | | | | Amount | Amount |
| Engineering & Technology Co. and its subsidiaries | Provision of services | Technical supports | Contract price | 220,423 | 92,841 |
| Baosteel Resource and its subsidiaries | Provision of services | Transportation services and technical supports | Contract price | 130,103 | - |
| Baosteel Group | Provision of services | Technical supports | Contract price | 99,305 | 51,768 |
| Baosteel Special Material and its subsidiaries | Provision of services | Technical supports | Contract price | 90,511 | 49,686 |
| Baosteel Stainless | Provision of services | Technical supports | Contract price | 86,589 | 65,996 |
| BNA | Provision of services | Transportation services and technical supports | Contract price | 84,493 | 81,086 |
| Baosteel Resource and its subsidiaries | Provision of services | Transportation services and technical supports | Contract price | 74,519 | 104,434 |
| Meishan Steel and its subsidiaries | Provision of services | Transportation services and technical supports | Contract price | 56,392 | 36,326 |
| Ningbo Baoxin and its subsidiaries | Provision of services | Technical supports | Contract price | 37,851 | 9,151 |
| Baosteel Development and its subsidiaries | Provision of services | Transportation services and technical supports | Contract price | 27,148 | 20,791 |
| Ningbo Steel and its subsidiaries | Provision of services | Technical supports | Contract price | 19,836 | 21,555 |
| Shaoguan Steel and its subsidiaries | Provision of services | Technical supports | Market price | 16,228 | - |
| Baosteel Desheng | Provision of services | Technical supports | Contract price | 14,820 | - |
| Xinjiang Bayi and its subsidiaries | Provision of services | Technical supports | Contract price | 14,625 | 25,930 |
| Baosteel Metal and its subsidiaries | Provision of services | Transportation services and technical supports | Contract price | 10,646 | 7,585 |
| Hwabao Trust | Provision of services | Technical supports | Contract price | 4,669 | 12,969 |
| Baohua Tendering | Provision of services | Technical supports | Contract price | 1,627 | 3,482 |
| Welding Co. | Provision of services | Technical supports | Contract price | 1,087 | 966 |
| Pudong Steel and its subsidiaries | Provision of services | Technical supports | Contract price | 414 | 456 |
| No. 5 Steel and its subsidiaries | Provision of services | Technical supports | Contract price | 298 | 327 |
| No. 1 Steel and its subsidiaries | Provision of services | Technical supports | Contract price | 5 | 22 |
| Others | Provision of services | Transportation services and technical supports | Contract price | 6,419 | 9,911 |
| Total | Provision of services | | Contract price | 998,008 | 595,282 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(VI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(4) Receipt of services

| Related party | Transaction type | Details of related party transactions | Pricing of related party transactions | Amount for the current period | Restated amount for the previous period |
|---|--------------------|---|---------------------------------------|-------------------------------|---|
| | | | | Amount | Amount |
| Baosteel Development and its subsidiaries | Receiving services | Logistics, project, transportation, examination, and maintenance fees | Contract price | 2,036,523 | 2,066,245 |
| Meishan Steel and its subsidiaries | Receiving services | Logistics, project, transportation, examination, and maintenance fees | Contract price | 1,152,934 | 798,222 |
| Engineering & Technology Co. and its subsidiaries | Receiving services | Project, examination, and maintenance fees | Contract price | 1,022,204 | 1,374,417 |
| Baosteel Resource and its subsidiaries | Receiving services | Transportation fees | Contract price | 340,323 | 448,081 |
| Bao-Island Enterprise | Receiving services | Transportation fees | Contract price | 277,747 | 359,039 |
| BNA | Receiving services | Processing fees | Contract price | 239,704 | 140,638 |
| Baosteel Group | Receiving services | Training fees | Contract price | 36,480 | 44,370 |
| Baosteel Special Steel and its subsidiaries | Receiving services | Processing fees | Contract price | 10,385 | 1,678 |
| Baosteel Stainless | Receiving services | Technical service fees | Contract price | 3,733 | 5,585 |
| Baohua Tendering | Receiving services | Tendering and other services | Contract price | 763 | 439 |
| Baosteel metal and its subsidiaries | Receiving services | Technical service fees | Contract price | 746 | 885 |
| Ningbo Baoxin and its subsidiaries | Receiving services | Logistics fees | Contract price | 572 | 230 |
| No. 5 Steel and its subsidiaries | Receiving services | Logistics and transportation fees | Contract price | 142 | 931 |
| No. 1 Steel and its subsidiaries | Receiving services | Logistics fees | Contract price | 46 | 1,047 |
| Others | Receiving services | Logistics and transportation fees | Contract price | 1,116 | 2,130 |
| Total | Receiving services | | Contract price | 5,123,418 | 5,243,937 |

(5) Other related party transactions

| Items | Note | Amount for the current period | Restated amount for the previous period |
|---|------|-------------------------------|---|
| Rental expenses | 1 | 380,883 | 361,177 |
| Financial service and interest expenses | 3 | 216,383 | 232,920 |
| Financial service and interest income | 2 | 164,792 | 209,861 |
| Rental income | 1 | 31,453 | 35,148 |
| Proceeds on disposal of assets and investments in Wusong area | | - | 43,972,290 |
| Transfer of Corex property | | - | 2,731,127 |
| Interest income from disposal of assets | | - | 938,024 |
| Joint research and development expenses | | - | 299,750 |
| Proceeds on disposal of a long-term investment | | - | - |

Note 1: When the Company was established, the Company signed a twenty-year agreement with Baosteel Group for the lease of the plant site land use right. In September 2001, the Company entered into a further twenty-year lease agreement with Baosteel Group for the use of the land for the plant site for assets acquired for Phase 3. In November 2002, the Company signed a new twenty-year lease agreement with Baosteel Group for the land use of the plant site for assets in custody due to acquisitions. In year 2013, land use right lease expense of the Company amounted to RMB234,186,471 (2012: RMB234,186,471).

The Group leased properties from such related parties as Baosteel Group, BNA, Baosteel Metal, lease equipment from Baosteel Stainless, leased vehicles from Baosteel Development and its subsidiaries and Baosteel Metal and its subsidiaries; in the meantime, the Group leased properties to BNA and Baosteel Resources and its subsidiaries, leased land use right to BNA. These leases are priced at negotiated price.

Note 2: The Group provided, via Finance Co., one of its subsidiaries, with loans, discounting and entrusted financing services to Baosteel Group and its subsidiaries, and hereby obtained interest income, discounting income and fees from entrusted financing.

Note 3: The Group collected deposits from Baosteel Group and its subsidiaries, and paid interest expenses at the RMB interest rate on saving as stipulated by the People's Bank of China.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(VI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

6. Amounts due from / to related parties

(1) Notes receivable

| | | RMB'000 |
|---|-----------------|--------------------------|
| Item | Closing balance | Restated Opening balance |
| Baosteel Special Steel and its subsidiaries | 224,782 | 160,613 |
| Baosteel Development and its subsidiaries | 196,550 | 147,178 |
| Meishan Steel and its subsidiaries | 194,005 | 181,943 |
| Baosteel Metal and its subsidiaries | 190,840 | 179,537 |
| Engineering & Technology Co. and its subsidiaries | 30,299 | 155,014 |
| Welding Co. | 15,000 | 60,000 |
| Tianjin BCM | 7,549 | 11,457 |
| Ningbo Baoxin and its subsidiaries | 7,515 | 5,761 |
| Xinjiang Bayi and its subsidiaries | 3,982 | 9,800 |
| Baosteel Resource and its subsidiaries | 3,000 | 3,000 |
| Ningbo Iron & Steel and its subsidiaries | 3,599 | 11,119 |
| Baosteel Desheng | 1,680 | - |
| Total | 878,801 | 925,422 |

(2) Accounts receivable

| | | RMB'000 |
|---|-----------------|--------------------------|
| Item | Closing balance | Restated opening balance |
| Ningbo Steel and its subsidiaries | 775,168 | 88,695 |
| Meishan Steel and its subsidiaries | 720,131 | 322,124 |
| Shaoguan Steel and its subsidiaries | 631,605 | - |
| Baosteel Special Material and its subsidiaries | 417,526 | 372,701 |
| BNA | 237,938 | 253,002 |
| Baosteel Stainless | 212,981 | 866,804 |
| Engineering & Technology Co. and its subsidiaries | 187,805 | 156,701 |
| Baosteel Resources (International) | 94,099 | 47,993 |
| Baosteel Metal and its subsidiaries | 49,295 | 85,034 |
| Baosteel Development and its subsidiaries | 34,795 | 69,718 |
| Ningbo Baoxin and its subsidiaries | 21,394 | 20,982 |
| Baosteel Group | 19,581 | 13,284 |
| Baosteel Resource and its subsidiaries | 18,950 | 145,104 |
| Baosteel Desheng | 10,618 | 467 |
| Welding Co., | 8,427 | 876 |
| Xinjiang Bayi and its subsidiaries | 2,439 | 4,886 |
| Hwabao Trust | 284 | 1,679 |
| NSM | - | 34,129 |
| Pudong Steel and its subsidiaries | - | 145 |
| Others | 1,785 | 630 |
| Total | 3,444,821 | 2,484,954 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(VI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(3) Prepayments

| | | RMB'000 |
|---|-----------------|--------------------------|
| Item | Closing balance | Restated opening balance |
| Ningbo Steel and its subsidiaries | 366,690 | 253,746 |
| BNA | 354,040 | 613,054 |
| Baosteel Resource and its subsidiaries | 209,332 | 115,336 |
| Xinjiang Bayi and its subsidiaries | 172,817 | 147,291 |
| Shaogang Steel and its subsidiaries | 48,529 | 16,664 |
| Baosteel Stainless | 37,412 | 212,168 |
| Engineering & Technology Co. and its subsidiaries | 30,258 | 80,794 |
| Baosteel Metal and its subsidiaries | 7,284 | 850 |
| Baosteel Special Steel and its subsidiaries | 1,182 | 5,270 |
| Meishan Steel and its subsidiaries | 880 | 1,723 |
| Baosteel Development and its subsidiaries | 822 | 303 |
| Ningbo Baoxin and its subsidiaries | 2 | 1,078 |
| Others | 656 | 2,466 |
| Total | 1,229,904 | 1,450,743 |

(4) Interest receivables

| | | RMB'000 |
|--|-----------------|--------------------------|
| Item | Closing balance | Restated opening balance |
| Baosteel Stainless ^(Note) | 421,585 | 541,970 |
| Baosteel Special Steel ^(Note) | 308,081 | 396,055 |
| Total | 729,666 | 938,025 |

Note: Interest receivables from Baosteel Stainless and Baosteel Special Steel refer to Note (V). 14(I).

(5) Other receivables

| | | RMB'000 |
|---|-----------------|--------------------------|
| Item | Closing balance | Restated opening balance |
| Baosteel Stainless | 34,987 | 26,794 |
| Baosteel Development and its subsidiaries | 16,410 | 422 |
| Ningbo Steel and its subsidiaries | 7,325 | 8,580 |
| Baosteel Special Steel and its subsidiaries | 1,662 | - |
| Welding Co. | 1,387 | 1,027 |
| Guangdong Shaoguan Steel and its subsidiaries | 1,157 | - |
| Meishan Steel and its subsidiaries | 769 | 7,585 |
| Shandong Baohua | 570 | - |
| Xinjiang Bayi and its subsidiaries | 133 | - |
| Engineering & Technology Co. and its subsidiaries | 42 | 1,157 |
| Baosteel Group | 1 | 19,807 |
| Others | 1,107 | 351 |
| Total | 65,550 | 65,723 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(VI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(6) Non-current assets due within one year

| | RMB'000 | |
|--|-----------------|--------------------------|
| Item | Closing balance | Restated opening balance |
| Baosteel Stainless ^(Note) | 2,600,000 | 2,600,000 |
| Baosteel Special Steel ^(Note) | 1,900,000 | 1,900,000 |
| Total | 4,500,000 | 4,500,000 |

Note: Details of non-current assets due within one year from Baosteel Stainless and Baosteel Special Steel receivable refer to Note (V). 14(I).

(7) Loans and advances to customers

| | RMB'000 | |
|---|-----------------|--------------------------|
| Item | Closing balance | Restated opening balance |
| Xinjiang Bayi and its subsidiaries | 700,000 | 700,000 |
| Ningbo Steel and its subsidiaries | 640,825 | 811,616 |
| Baosteel Resource and its subsidiaries | 430,970 | 603,137 |
| Meishan Steel and its subsidiaries | 423,563 | 101,672 |
| Engineering & Technology Co. and its subsidiaries | 157,500 | 207,500 |
| Baosteel Metal and its subsidiaries | 69,485 | 31,428 |
| Baosteel Development and its subsidiaries | - | 16,000 |
| Others | 80,000 | 76,594 |
| Total | 2,502,343 | 2,547,947 |

(8) Long-term receivables

| | RMB'000 | |
|---|-----------------|--------------------------|
| Item | Closing balance | Restated opening balance |
| Baosteel Stainless ^(Note) | 7,800,000 | 10,400,000 |
| Baosteel Special Steel ^(Note) | 5,700,000 | 7,600,000 |
| Engineering & Technology Co. and its subsidiaries | 13,000 | 40,020 |
| Total | 13,513,000 | 18,040,020 |

Note: Details of non-current assets due within one year receivables from Baosteel Stainless and Baosteel Special Steel refer to Note (V). 14(I).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(VI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(9) Customer deposits and deposits from banks and other financial institutions

RMB'000

| Item | Closing balance | Restated opening balance |
|---|-----------------|--------------------------|
| Baosteel Group | 6,811,594 | 7,154,123 |
| BNA | 332,344 | 294,950 |
| Hwabao Trust | 132,932 | 393,367 |
| Baosteel Development and its subsidiaries | 120,236 | 11,170 |
| Engineering & Technology Co. and its subsidiaries | 59,142 | 37,526 |
| Institute of Steel and Iron | 58,348 | 35,022 |
| Baosteel Resource and its subsidiaries | 23,375 | 84,531 |
| Hwabao Investment | 2,005 | 1,997 |
| No. 5 Steel and its subsidiaries | - | 10,898 |
| Others | 9,015 | 8,567 |
| Total | 7,548,991 | 8,032,151 |

(10) Notes payable

RMB'000

| Item | Closing balance | Restated opening balance |
|---|-----------------|--------------------------|
| BNA | 500,003 | 691,792 |
| Meishan Steel and its subsidiaries | 429,370 | 109,386 |
| Ningbo Baoxin and its subsidiaries | 327,137 | 946,957 |
| Baosteel Special Steel and its subsidiaries | 174,208 | 162,387 |
| Baosteel Stainless | 117,545 | 324,846 |
| Engineering & Technology Co. and its subsidiaries | 55,897 | 77,127 |
| Baosteel Development and its subsidiaries | 55,150 | 133 |
| Guangdong Shaoguan Steel and its subsidiaries | 45,288 | - |
| Baosteel Resource and its subsidiaries | 6,624 | - |
| Xinjiang Bayi and its subsidiaries | - | 81,329 |
| Others | 475 | 234 |
| Total | 1,711,697 | 2,394,191 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(VI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(11) Accounts payable

| | RMB'000 | |
|---|-----------------|--------------------------|
| Item | Closing balance | Restated opening balance |
| Baosteel Stainless | 1,003,617 | 803,703 |
| Baosteel Resource and its subsidiaries | 562,225 | 327,915 |
| Engineering & Technology Co. and its subsidiaries | 458,863 | 631,515 |
| Meishan Steel and its subsidiaries | 409,979 | 355,848 |
| Baosteel Development and its subsidiaries | 385,227 | 471,702 |
| BNA | 346,886 | 125,315 |
| Ningbo Baoxin and its subsidiaries | 332,961 | 323,036 |
| Baosteel Group | 211,403 | 10,302 |
| Baosteel Special Steel and its subsidiaries | 183,104 | 263,941 |
| Shanghai Stainless | 74,814 | 59,190 |
| Ningbo Steel and its subsidiaries | 11,808 | 30,739 |
| Bao-Island Enterprise | 3,531 | 15,518 |
| No. 5 Steel and its subsidiaries | - | 34 |
| No. 1 Steel and its subsidiaries | - | 7 |
| Others | 71,083 | 61,156 |
| Total | 4,055,501 | 3,479,921 |

(12) Receipts in advance

| | RMB'000 | |
|---|-----------------|--------------------------|
| Item | Closing balance | Restated opening balance |
| Baosteel Metal and its subsidiaries | 214,239 | 338,506 |
| Baosteel Development and its subsidiaries | 88,444 | - |
| Engineering & Technology Co. and its subsidiaries | 39,751 | 70,952 |
| Guangzhou JFE | 33,146 | - |
| Meishan Steel and its subsidiaries | 28,483 | 13,535 |
| Tianjin BCM | 20,885 | 28,427 |
| Baosteel Group | 16,419 | 139,203 |
| Wuxi Baomit | 8,897 | 3,512 |
| Guangdong Shaoguan Steel and its subsidiaries | 6,714 | - |
| Ningbo Baoxin and its subsidiaries | 4,208 | 8,966 |
| Baosteel Special Steel and its subsidiaries | 381 | 16,996 |
| Ergang and its subsidiaries | 200 | 200 |
| Pudong Steel and its subsidiaries | 153 | 153 |
| Baosteel Stainless | - | 65,702 |
| Welding Co. | - | 43,393 |
| Others | 3,203 | 1,810 |
| Total | 465,123 | 731,355 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(VI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (Continued)

(13) Interest payable

| RMB'000 | | |
|----------------------------------|-----------------|--------------------------|
| Item | Closing balance | Restated opening balance |
| Baosteel Group | 79,194 | 70,190 |
| Institute of Steel and Iron | 585 | |
| No. 5 Steel and its subsidiaries | - | 299 |
| Others | 786 | 3,290 |
| Total | 80,565 | 73,779 |

(14) Other payables

| RMB'000 | | |
|---|-----------------|--------------------------|
| Item | Closing balance | Restated opening balance |
| Baosteel Group | 5,598 | - |
| Engineering & Technology Co. and its subsidiaries | 5,491 | 57,191 |
| Baosteel Resource and its subsidiaries | 3,003 | 4,003 |
| Baosteel Development and its subsidiaries | 1,728 | 2,271 |
| Baosteel Metal and its subsidiaries | 1,463 | 920 |
| Meishan Steel and its subsidiaries | 1,059 | 3,316 |
| Baosteel Special Steel and its subsidiaries | 270 | 30 |
| No. 5 Steel and its subsidiaries | 234 | - |
| Others | 535 | 80 |
| Total | 19,381 | 67,811 |

(15) Other non-current liabilities

| RMB'000 | | |
|----------------|-----------------|--------------------------|
| Item | Closing balance | Restated opening balance |
| Baosteel Group | 1,500,000 | 1,500,000 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(VII) CONTINGENCIES

At the balance sheet date, the Group had no contingencies that need to be disclosed.

(VIII) COMMITMENTS

1. Significant commitments

(1) Capital commitments

| | RMB'000 | |
|---|-----------------|--------------------------|
| | Closing balance | Restated opening balance |
| Capital commitments that have been entered into but have not been recognized in the financial statements: | | |
| Contracted but not provided | 19,170,883 | 11,990,918 |
| Approved by the Board but not contracted | 2,509,301 | 722,300 |
| Total | 21,680,184 | 12,713,218 |

(2) Operating lease commitments

At the balance sheet date, the Group had the following commitments in respect of non-cancellable operating leases:

| | RMB'000 | |
|--|-----------------|-----------------|
| | Closing balance | Opening balance |
| Minimum lease payments under non-cancellable operating leases: | | |
| 1st year subsequent to the balance sheet date | 388,454 | 393,321 |
| 2nd year subsequent to the balance sheet date | 367,396 | 371,656 |
| 3rd year subsequent to the balance sheet date | 359,996 | 359,662 |
| Subsequent periods over 3 years | 1,304,090 | 1,622,840 |
| Total | 2,419,936 | 2,747,479 |

(IX) EVENTS AFTER THE BALANCE SHEET DATE

Profit appropriation after the balance sheet date

As approved by the sixth meeting of the fifth Board of Directors held from 27 March 2014 to 28 March 2014, based on the total number of shares of 16,471,724,924 (Note (V) 45), the Board of Directors proposed a cash dividend, with a total amount of RMB1,647,172,492.40 (before-tax). The proposal has been submitted to the general shareholders' meeting for final approval.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(X) OTHER SIGNIFICANT EVENTS

1. Assets and liabilities measured at fair value

| RMB | | | | | |
|--|--------------------------|--|--|---|------------------|
| Item | Restated opening balance | Profit or loss arising from changes in fair value for the period | Changes in fair value recognized in equity | Provision for impairment losses in the current period | Closing balance |
| Financial assets | | | | | |
| 1. Financial assets at fair value through profit or loss | 89,577,809.31 | 6,796,050.20 | - | - | 28,738,843.94 |
| 2. Available-for-sale financial assets | 1,467,832,301.93 | 2,610,351.72 | (429,657,950.48) | - | 1,009,142,907.29 |
| Sub-total of financial assets | 1,557,410,111.24 | 9,406,401.92 | (429,657,950.48) | - | 1,037,881,751.23 |
| Financial liabilities | (20,789,685.96) | 20,789,685.96 | - | - | - |

2. Financial assets denominated in foreign currencies and financial liabilities denominated in foreign currencies

| RMB | | | | | |
|--|--------------------------|--|--|---|-------------------|
| Item | Restated opening balance | Profit or loss arising from changes in fair value for the period | Changes in fair value recognized in equity | Provision for impairment losses in the current period | Closing balance |
| Financial assets | | | | | |
| 1. Loans and receivables (including accounts receivable, other receivables, and prepayments) | 13,444,136,544.37 | - | - | 23,294,465.75 | 21,753,612,366.33 |
| 2. Derivative financial assets | 7,848,049.15 | 12,633,462.95 | - | - | 2,867,855.98 |
| Sub-total of financial assets | 13,451,984,593.52 | 12,633,462.95 | - | 23,294,465.75 | 21,756,480,222.31 |
| Financial liabilities | 25,367,837,560.03 | - | - | - | 31,001,892,678.20 |

3. Key terms of annuity plan and major changes therein

In accordance with the "Reply to Baosteel Group's Application for Trial Enterprise Annuity Plan" (SASAC [2008]1268), by the State-owned Asset Supervision and Administration Commission of the State Council (SASAC), and the "Announcement of Proportion in Enterprise Annuity Plan" by the Human Resource Department of Baosteel Group, the annuity plan has been practiced in the Company since 1 January 2008. The portion assumed by the Company is 4% of the base amount of the individual salary, while the portion by the individual is 1%-7% of the base amount (1% of primary portion and no more than 6% of additional portion). The above annuity has been managed by Baosteel Group's subsidiary, Hwabao Trust Co., Ltd. since 2009.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(X) OTHER SIGNIFICANT EVENTS (Continued)

4. Business combination

(1) During 2013, the Group as the acquirer in a business combination involving enterprises under common control is as follows:

As mentioned in Notes (IV) (I), in accordance with the Proposal on Acquisition of Zhanjiang Iron & Steel Equity adopted at the third meeting of the fifth Board of Directors of the Company, and the Equity Transfer Agreement of Baosteel Zhanjiang Iron & Steel Co., Ltd., the Company acquired 71.8032 % equity of the Zhanjiang Iron & Steel Co., Ltd. held by Baosteel Group, and completed the payment for the equity accounts on October 31, 2012. The Company took over the control over Zhanjiang Iron & Steel Co., Ltd. in January 2013, thus, the Company incorporated Zhanjiang Iron & Steel Co., Ltd. into the scope of consolidation since January 1, 2013.

Basis of judgment for business combination involving enterprises under common control: The ultimate holding company of the Company and Zhanjiang Iron & Steel before and after the business combination is Baosteel Group.

The acquisition date is the date on which the acquirer effectively obtains control of the acquiree, i.e. the date on which control over net assets and production and operating decisions of the acquiree is transferred to the acquirer.

(2) Financial position of the acquiree on 31 December 2012 and the acquisition date

| Items | RMB Carrying amount at the acquisition date & 31 December 2012 |
|---|---|
| Assets: | |
| Cash and bank balances | 10,655,882.07 |
| Accounts receivable | 268,133,721.67 |
| Inventories | 81,540,756.42 |
| Other current assets | 1,921,647,447.24 |
| Long-term equity investments | 1,420,053,848.90 |
| Fixed assets and intangible assets | 617,881,886.31 |
| Construction in progress | 5,416,819,831.03 |
| Deferred tax assets | 8,750,000.00 |
| Long-term receivables and other non-current assets | 3,671,039,873.50 |
| Subtotal | 13,416,523,247.14 |
| Liabilities: | |
| Short-term borrowings | 2,682,800,000.00 |
| Accounts payable | 1,442,564,907.87 |
| Employee benefits payable | 2,194,171.21 |
| Taxes payable | (144,748,563.76) |
| Non-current liabilities due within one year | 99,990,000.00 |
| Other current liabilities | 1,739,526,767.11 |
| Subtotal | 5,822,327,282.43 |
| Total net assets | 7,594,195,964.71 |
| Less: Minority interests | 3,238,989,075.30 |
| Equity attributable to the Company's shareholders | 4,355,206,889.41 |
| Less: Acquisition consideration | 4,976,333,561.88 |
| Initial investment cost in excess of the carrying amount of the proportional equity share of net assets | 621,126,672.47 |

In accordance with the "Announcement on Acquisition of Zhanjiang Iron & Steel Equity"(Lin 2012-041) issued on 20 October 2012, Baosteel Group, Guangzhou SASAC and the Company signed the agreement of transfer on 71.8032% equity of Zhanjiang Iron & Steel jointly. The Company completed the transfer of control right above and the formalities of business change on 1 January 2013. Therefore the Company has incorporated Zhanjiang Iron & Steel into the scope of consolidation from 1 January 2013.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(X) OTHER SIGNIFICANT EVENTS (Continued)

The acquisition consideration is satisfied by cash. The carrying amounts of the consideration paid as of the acquisition date are:

| | RMB |
|---|------------------|
| | Amount |
| Acquisition consideration | - |
| Cash and cash equivalents | 4,976,333,561.88 |
| | RMB |
| | Amount |
| Cash and cash equivalents as acquisition consideration | 4,976,333,561.88 |
| Less: Cash and cash equivalents of the acquired subsidiaries and other business units | 10,655,882.07 |
| Net outflow of cash and cash equivalents paid upon acquisition of subsidiaries and other business units | 4,965,677,679.81 |

Since acquisition date was on January 1, 2013, there is no operating result and cash flows between January 1, 2013 and the acquisition date.

5. Others

5(1). Borrowing costs

| | | RMB |
|--|---|---------------------|
| Item | Amount of borrowing costs capitalized during the year | Capitalization rate |
| Construction in progress | 183,548,635.86 | 2.72%-7.29% |
| Including: Portion transferred to fixed assets in current year | 158,464,087.51 | |
| Borrowing costs recognized in profit or loss during the year | 1,567,811,726.43 | |
| Total borrowing costs during the year | 1,751,360,362.29 | |

5(2). Segment reporting

The Group defined report segments and disclosed segment information according to the "Accounting Standards for Business Enterprise Interpretation No. 3" since the beginning of 2009.

According to the Group's internal organization structure, management requirement and internal report system, the business segment is divided into 6 operating segments based on their operating activities. Six reporting segments are determined based on these operating segments. The group divided its reporting segments into steel and iron, processing and distribution, information technology, E-commerce, chemical and finance. As day-to-day activities of the Finance Co. are financial in nature, the investment income of Finance Co. has been included in the segment business income. The main products and services that each report segment provides are as follows:

Subsidiaries of each segment:

- (1) Iron & steel manufacturing: the Company, Meishan Steel, Yantai Lubao, Huangshi Coating & Galvanizing, Yantai Baosteel, Nantong Steel, Baoma Tube, Poly Pipe, BGM, Zhanjiang Iron & Steel and other iron and steel producing units;
- (2) Processing and distribution: Baosteel International, Baosteel America, Baosteel Europe, Baosteel Singapore, Howa Trading, Baosteel Brazil Trading and other trading subsidiaries;
- (3) Information technology: Baosight Software.
- (4) E-commerce: Shanghai Iron & Steel Trade Center, Bsteel, Eastern pay and Bao Chemical.
- (5) Chemical: Baosteel Chemical Co., Ltd.
- (6) Finance: Finance Co.,

For disclosure of the Group's operating data, the revenues are classified and disclosed in the region where the customers are situated, and the assets are classified and disclosed in the region where the assets are situated.

Financial expenses, impairment losses of assets, gains or losses from changes in fair value and investment income (excluding Finance Co.) have been excluded from the segment business profit. The deferred tax assets are not included in the segment assets, while short-term borrowings, non-current liabilities due within one year, long-term borrowings, long-term payables, bonds payable, and deferred tax liabilities have not been included in the segment liabilities.

Segment reports are disclosed according to internal accounting policies and measuring standards, which are consistent with the policies and standards used in preparing financial reports.

The sales to individual customer of the Group has not accounted for more than 10% of the total revenue.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(X) OTHER SIGNIFICANT EVENTS (Continued)

(1) Segment information

| | Iron & steel manufacturing | | Processing and distribution | | Information technology | | E-commerce | | |
|--------------------------------|----------------------------|-----------------|-----------------------------|-----------------|------------------------|-----------------|----------------|-----------------|--|
| | Current period | Previous period | Current period | Previous period | Current period | Previous period | Current period | Previous period | |
| Operating income | | | | | | | | | |
| External revenue | 31,101,807 | 33,238,964 | 146,911,717 | 150,875,088 | 2,786,738 | 2,566,809 | 3,479,019 | 13,404 | |
| Inter-segment revenue | 97,172,562 | 114,721,692 | 31,795,117 | 30,104,943 | 794,549 | 1,071,667 | 27,046 | 44,913 | |
| Total segment operating income | 128,274,369 | 147,960,656 | 178,706,834 | 180,980,031 | 3,581,287 | 3,638,476 | 3,506,065 | 58,317 | |
| Operating expenses | 122,578,857 | 146,077,156 | 176,569,474 | 179,004,095 | 3,321,359 | 3,367,859 | 3,512,345 | 42,862 | |
| Operating profit | 5,695,512 | 1,883,500 | 2,137,360 | 1,975,936 | 259,928 | 270,617 | (6,280) | 15,455 | |

| | Iron & steel manufacturing | | Processing and distribution | | Information technology | | E-commerce | | |
|--|----------------------------|-----------------|-----------------------------|-----------------|------------------------|-----------------|----------------|-----------------|--|
| | Current period | Previous period | Current period | Previous period | Current period | Previous period | Current period | Previous period | |
| Total segment assets | 239,103,580 | 198,999,871 | 61,880,925 | 59,927,069 | 4,061,007 | 3,205,698 | 467,533 | 220,002 | |
| Total segment liabilities | 69,291,561 | 43,159,191 | 25,913,433 | 33,373,129 | 2,136,223 | 3,205,698 | 273,198 | 55,700 | |
| Supplementary information: | | | | | | | | | |
| Depreciation and amortization | 9,401,180.00 | 10,796,282.00 | 464,584.00 | 423,129.00 | 55,000.00 | 24,814.00 | 8,649.00 | 5,182.00 | |
| Impairment loss recognized in the current period | 871,200.00 | 2,123,656.00 | 153,956.00 | (99,753.00) | 30,331.00 | 19,112.00 | (450.00) | 143.00 | |
| Capital expenditures | 12,661,760.00 | 11,586,966.00 | 25,913,433.00 | 1,828,709.00 | 2,136,223.00 | 37,589.00 | 18,032.00 | 11,520.00 | |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(X) OTHER SIGNIFICANT EVENTS (Continued)

RMB '000

| | Chemical | | Finance | | Unallocated items | | Inter-segment eliminations | | Total | |
|--|----------------|-----------------|----------------|-----------------|-------------------|-----------------|----------------------------|-----------------|----------------|-----------------|
| | Current period | Previous period | Current period | Previous period | Current period | Previous period | Current period | Previous period | Current period | Previous period |
| | 5,401,893 | 4,431,915 | 403,811 | 466,100 | - | - | - | - | 190,084,985 | 191,592,280 |
| | 5,528,900 | 7,105,488 | 180,301 | 156,275 | - | - | (135,498,475) | (153,204,978) | - | - |
| | 10,930,793 | 11,537,403 | 584,112 | 622,375 | - | - | (135,498,475) | (153,204,978) | 190,084,985 | 191,592,280 |
| | 10,191,635 | 10,851,677 | 339,815 | 348,659 | - | - | (135,303,612) | (152,860,397) | 181,209,873 | 186,831,911 |
| | 739,158 | 685,726 | 244,297 | 273,716 | - | - | (194,863) | (344,581) | 8,875,112 | 4,760,369 |

RMB '000

| | Chemical | | Finance | | Unallocated items | | Inter-segment eliminations | | Total | |
|--|----------------|-----------------|----------------|-----------------|-------------------|-----------------|----------------------------|-----------------|----------------|-----------------|
| | Current period | Previous period | Current period | Previous period | Current period | Previous period | Current period | Previous period | Current period | Previous period |
| | 5,852,465 | 5,716,319 | 12,528,655 | 11,166,307 | - | - | (99,278,603) | (60,394,709) | 224,615,562 | 218,840,557 |
| | 1,502,006 | 1,583,999 | 10,799,396 | 9,624,538 | - | - | (60,370,572) | (40,391,271) | 49,545,245 | 50,610,984 |
| | 382,002.00 | 316,794.00 | 4,589.00 | 3,739.00 | - | - | - | - | 10,316,004.00 | 11,569,940.00 |
| | (6,181.00) | 6,524.00 | (8,874.00) | 56,422.00 | - | - | 1,348,335.00 | 40,420.00 | 2,388,317.00 | 2,146,524.00 |
| | 273,500.00 | 728,494.00 | 11,840.00 | 2,388.00 | - | - | (11,638.00) | (66,135.00) | 41,003,150.00 | 14,129,531.00 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(X) OTHER SIGNIFICANT EVENTS (Continued)

(2) External revenue by geographical area of source and non-current assets by geographical location

| | RMB'000 | |
|--|---|--|
| Item | Amount recognized in the current period | Amount recognized in the previous period |
| External revenue from domestic customers | 170,877,417 | 172,147,783 |
| External revenue from foreign customers | 19,207,568 | 19,444,497 |
| Sub-total | 190,084,985 | 191,592,280 |

| | RMB'000 | |
|---|-----------------------------|-----------------------------------|
| Item | Amount at the end of period | Amount at the beginning of period |
| Non-current assets located in domestic country | 147,241,345 | 149,943,526 |
| Non-current assets located in foreign countries | 1,405,745 | 1,191,183 |
| Sub-total | 148,647,090 | 151,134,709 |

Note: Non-current assets belong to the region they are situated, excluding financial assets and deferred tax assets.

External revenue includes:

| | RMB'000 | |
|----------------------------------|---|--|
| Item | Amount recognized in the current period | Amount recognized in the previous period |
| Investment income of Finance Co. | 59,019 | 80,484 |

The items excluding segment profit, segment assets and segment liabilities are set out as follows:

The segment profit does not include:

| | RMB'000 | |
|---|---|--|
| Item | Amount recognized in the current period | Amount recognized in the previous period |
| Financial expenses | (544,132) | 488,577 |
| Impairment losses of assets | 2,388,317 | 2,146,524 |
| Losses from changes in fair values | (27,586) | (12,976) |
| Investment income (excluding Finance Co.) | (625,035) | (996,040) |
| Total | 1,191,564 | 1,626,085 |

Segment assets do not include:

| | RMB'000 | |
|---------------------|-----------------------------|-----------------------------------|
| Item | Amount at the end of period | Amount at the beginning of period |
| Deferred tax assets | 2,052,778 | 2,035,286 |

Segment liabilities do not include:

| | RMB'000 | |
|---|-----------------------------|-----------------------------------|
| Item | Amount at the end of period | Amount at the beginning of period |
| Short-term borrowings | 34,470,625 | 31,647,325 |
| Non-current liabilities due within one year | 12,227,658 | 4,502,840 |
| Other current liabilities | 1,848,867 | 1,017,013 |
| Long-term borrowings | 4,702,447 | 2,731,690 |
| Long-term payables | - | 250,000 |
| Bonds payable | 3,502,708 | 9,835,739 |
| Deferred tax liabilities | 304,859 | 320,633 |
| Total | 57,057,164 | 50,305,240 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(X) OTHER SIGNIFICANT EVENTS (Continued)

5(3). Financial instruments and risk management

The Group's major financial instruments include cash and bank balances, held-for-trading financial assets, loans and advances to customers, long-term receivables, short-term borrowings, customer deposits and deposits in banks and other financial institutions, bonds payable and etc.. The major purpose of these financial instruments is to finance for the Group's operations or investments. The Group has various kinds of other financial assets and liabilities such as accounts receivable, notes receivable, accounts payable and notes payable and etc., which arise directly from its operation.

Based on the purpose of hedging risk, the Group has derivatives transactions, including forward currency contracts and interest rate swap contracts, in order to hedge the exchange rate and interest rate risks in its financing channels.

The Group's accounting policy of derivatives is set out in Note (II). 9.

1. Risk management objectives and policies

The Group's risk management objectives are to achieve proper balance between risks and yield, minimize the adverse impacts of risks on the Group's operation performance, and maximize the benefits of the shareholders and other equity investors. Based on these risk management objectives, the Group's basic risk management strategy is to identify and analyze the industry's exposure to various risks, establish appropriate bottom line for risk tolerance, implement risk management, and monitor these exposures to ensure that appropriate measures are implemented on a timely and effective manner.

1.1 Market risk

Market risk is the fluctuation of fair value of financial instruments. It is sensitive to market price fluctuation due to the change of foreign currency exchange rates (exchange rate risk), market price (price risk), market interest rates (interest rate risk), and etc.. All fluctuation is caused by the specific impact as a single financial instrument or the issuers or the entire market transactions of all financial instruments.

1.1.1 Currency risk

Currency risk is the risk that losses will occur because of changes in foreign exchange rates. The exchange rate risk which the Group faced is mainly dealt with in the operating activities (when settled by foreign currencies).

The iron ore imports of the Group are mainly settled in US dollars, which lead to unfavorable balance of US dollars. The Group prioritizes and selects financing activities in USD and financing activities in RMB according to the comprehensive financing cost ratio with the most preferential financing cost ratio in RMB currently available as the benchmark. At the same time, the Group traces the exchange trend of RMB against USD and evaluates the exchange rate risk related to liabilities in US dollars. In view of the practical situation of more bilateral fluctuations in the exchange rate of RMB against USD and changes in the trend of unilateral appreciation, the Group conducts financing activities in USD matched with forward exchange contracts to mitigate the exchange rate risk.

The risk management measure is to ensure that the risk of exchange rate fluctuation is set within an acceptable level at the beginning. The above mentioned synthetic fund cost is the netting of the loan interest paid and gain/loss upon the settlement of the forward contracts. During the period of US dollar borrowing, the foreign exchange rate will not have substantial effect upon the Group's operations but will probably have timing effect during different reporting period due to the revaluation of foreign exchange rate.

1.1.2 Interest rate risk

Interest rate risk refers to the risk that the fair value of financial instruments or future cash flow fluctuates due to changes in interest rate. The risk of the interest rate that the Group faces mainly related to the debt whose interest is on a floating basis. The Group's policy is that the fixed-rate debt and the floating-rate debt are combined as a portfolio to facilitate the interest cost management.

The interest rate of the RMB loans is adjusted according to the benchmark interest rate issued by the People's Bank of China after the maturity or the date upon the contracts. And the interest rate risk of most long-term foreign currency floating rate loans is set at the beginning by the interest rate swap as well as the interest rate of most of short-term foreign currency in the whole term is set at the beginning.

Interest rate risks of the financial instruments of the Group as presented in terms of dates to maturity and actual interest rates:

| Bonds | RMB | |
|-------------------------------------|-------------------------------------|-------------------------------------|
| | Amount at the end of period | Amount at the beginning of period |
| | Available-for-sale financial assets | Available-for-sale financial assets |
| More than 1 year | 478,263,350.00 | 398,845,360.00 |
| Effective interest rate (per annum) | 5.77%-7.56% | 4.48%-7.13% |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(X) OTHER SIGNIFICANT EVENTS (Continued)

| | Amount at the end of period | | | |
|-------------------------------------|--|--|------------------|--|
| | Placements with banks and other financial institutions | Financial assets purchased under resale agreements | Loans granted | Long-term receivables (including amount due within one year) |
| Within 1 year | - | - | - | 4,500,000,000.00 |
| More than 1 year | - | - | 3,197,253,823.54 | 13,513,000,000.00 |
| Total | - | - | 3,197,253,823.54 | 18,013,000,000.00 |
| Effective interest rate (per annum) | - | - | 1.94%-8.88% | 6.65%-5.904% |

| | Amount at the end of period | | | | | | | |
|-------------------------------------|-----------------------------|-------------------|--|-------------------|-------------------|---|-------------------|---|
| | Short-term borrowings | Borrowings | Deposits from banks and other financial institutions | Customer deposits | Bonds payable | Financial assets sold under repurchase agreements | Accounts payables | Long-term payables (including amount due within one year) |
| Within 1 year | 1,848,866,666.64 | 36,663,728,930.50 | 300,000,000.00 | 7,598,875,519.12 | 9,784,554,462.35 | 666,961,287.43 | - | 250,000,000.00 |
| More than 1 year | - | 4,702,446,502.87 | - | - | 3,502,708,347.20 | - | - | - |
| Total | 1,848,866,666.64 | 41,366,175,433.37 | 300,000,000.00 | 7,598,875,519.12 | 13,287,262,809.55 | 666,961,287.43 | - | 250,000,000.00 |
| Effective interest rate (per annum) | 4.28% | 0.9393%-6.60% | 3.25%-4.02% | 0.35%-7.4% | 2.99%-5.62% | 3.25~3.5% | - | 5.04% |

1.1.3. Other price risk

The Group is exposed to the market price risk of changes in financial assets and liabilities measured at the market price, affecting the profit and loss in available-for-sale financial assets and held-for-trading financial assets.

The risk of the investments is mainly due to changes in the price of the financial instruments because of the factor that affects the specific financial assets or their issuers or the whole market.

Equity price risk

Equity price risk refers to potential loss in fair value of equity security resulting from adverse changes in a particular stock or stock index. As at 31 December 2013, the Group was exposed to equity price risks from individual equity investment, which belongs to held-for-trading equity investment (Note (V). 2) and available-for sale equity investment (Note (V). 13). The exchange traded investment of the Group is at Shanghai Stock Exchange and Shenzhen Stock Exchange, and is measured on basis of market quota at the balance sheet date.

The stock index on the day nearest to the balance sheet date at the following stock exchange and the highest and lowest closing prices in the year are shown as follows:

| | 31 December 2013 | Highest/Lowest 2013 | 31 December 2012 | Highest/Lowest 2012 |
|---|------------------|---------------------|------------------|---------------------|
| Shanghai—A share index of Shanghai Stock Exchange | 2,277 | 2,445/1,850 | 2,269 | 2,478/1,949 |
| Shenzhen—A share index of Shenzhen Stock Exchange | 1,058 | 1,106/816 | 881 | 1,020/725 |

The following table represents the sensitivity of the pre-tax profit and equity against every 5% change in fair value of equity instruments (on basis of the book value as at the balance sheet date), while all other variables remain constant and before any impact of taxation is considered. From the perspective of sensitivity analysis, the impact upon available-for-sale equity instrument investment can be regarded as one upon the change in fair value of the investment, without taking into consideration of possible deduction in income statements.

| RMB'000 | | | |
|---|---------------------------------|-------------------------------------|--------------------------------------|
| 2013 | Book value of equity investment | Increase/decrease of pre-tax profit | Increase/decrease in capital reserve |
| Investments at following stock exchanges: | | | |
| Shanghai—Available-for-sale investment | 228,006 | - | 11,400.30 |
| Shenzhen—Available-for-sale investment | 302,874 | - | 15,143.70 |
| RMB'000 | | | |
| 2012 | Book value of equity investment | Increase/decrease of pre-tax profit | Increase/decrease in capital reserve |
| Investments at following stock exchanges: | | | |
| Shanghai—Available-for-sale investment | 475,610 | - | 23,781 |
| Shenzhen—Available-for-sale investment | 593,377 | - | 29,669 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(X) OTHER SIGNIFICANT EVENTS (Continued)

| | | | | | | | | RMB |
|-----------------------------------|--|--|--|------------------|--|--|--|-----|
| Amount at the beginning of period | | | | | | | | |
| | | Placements with banks and other financial institutions | Financial assets purchased under resale agreements | Loans granted | | | Long-term receivables (including amount due within one year) | |
| | | - | - | - | | | 4,500,000,000.00 | |
| | | - | - | 2,861,194,609.19 | | | 18,040,020,000.00 | |
| | | - | - | 2,861,194,609.19 | | | 22,540,020,000.00 | |
| | | - | - | 1.15%-7.00% | | | 5.904%-6.65% | |

| | | | | | | | | RMB |
|-----------------------------------|-----------------------|-------------------|--|-------------------|------------------|---|-------------------|---|
| Amount at the beginning of period | | | | | | | | |
| | Short-term borrowings | Borrowings | Deposits from banks and other financial institutions | Customer deposits | Bonds payable | Financial assets sold under repurchase agreements | Accounts payables | Long-term payables (including amount due within one year) |
| | 1,017,012,500.06 | 36,150,165,209.64 | 600,000,000.00 | 8,071,462,806.92 | - | 437,705,880.63 | 510,000,000.00 | - |
| | - | 2,731,689,992.42 | - | - | 9,835,739,000.07 | - | - | 250,000,000.00 |
| | 1,017,012,500.06 | 38,881,855,202.06 | 600,000,000.00 | 8,071,462,806.92 | 9,835,739,000.07 | 437,705,880.63 | 510,000,000.00 | 250,000,000.00 |
| | 4.69%-4.83% | 0.957%-7.31% | 3.95%-4.02% | 0.385%-6.00% | 2.99%-5.62% | 2.26%-2.27% | 5.04% | 5.04% |

1.2 Credit risk

Credit risk refers to the risk that one party of financial instruments is not able to perform obligations, which causes the financial loss of the other party. For fixed-income investment, credit risk is the risk of financial losses caused by the debtors who could not pay the principal or interest on time. For equity investment, it is the risk of losses incurred by the failure of the business operation of the invested companies.

Credit risks of the Group mainly result from all types of receivable and loans and advances to customers. In order to control the credit risks, the Group conducts transactions with authorized well-known third parties. In accordance with the Group's policy, all customers who need credit transactions are required to be assessed under credit review. In addition, the Group performs ongoing monitoring on accounts receivable balance to ensure that the Group will not face significant risks of bad debts. In the relevant sales settlement, the Group mainly requests full advances or deposit with delivery on cash. For only a few strategic clients, the Group applies lines of credit and deadlines of payment after credit assessments and transactions are settled via bank acceptance notes when possible. In the relevant purchase settlement, the Group mainly applies cash on demand and payment with credit to settle. Only for building contractors of construction object, part of demand of long-cycle constructions and resources in short supply, the Group provides a certain advance to suppliers subject to lines of credit and deadlines after they pass the credit assessments.

The disbursement of loans and advances of the Group is due to principal operations of Finance Co. and debtors are only limited to members of Baosteel Group with a good credit assessment. The credit risk is controlled within an appropriate level.

The Group's credit risk of other financial assets and liabilities result from the default of the counterparties. When there is no collateral or other credit enhancement, the maximum credit exposure of the Group is the carrying amount of these financial instruments. The Group has not provided any form of guarantee which may put itself in a situation of risks. As at 31 December 2013, 26% of the receivables were due from the top five debtors, the Group is not found to be exposed to significantly intensive credit risks.

1.3 Liquidity risk

Liquidity risk is the risk that the Group may encounter deficiency of funds in meeting obligations associated with financial liabilities. The Group exercises trade financing, convertible loan notes, medium-term notes, long-term and short-term loans, other interest-bearing loans and other means to strike a balance between continuity and flexibility of financing. The Group also acquires sufficient credit from major financial institutions to satisfy short-term and long-term demands for funds. The Group monitors the short-term and long-term demands for funds on a real time basis to ensure the abundance of cash reserves and security for cash outflows at any time. Bonds issuance, medium-term notes and bank borrowings are the Group's main sources of fund. The Group's current liabilities exceed current assets at RMB16.576 billion. As at 31 December 2013, the Group has obtained unutilized bank loan facilities of approximately RMB109.76 billion. Consequently, the management of the Company believes that no significant liquidity risk was noted for the Group.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(X) OTHER SIGNIFICANT EVENTS (Continued)

2. Fair value

2.1 Methods and assumptions used by the Group to estimate the fair value of a financial instrument:

- (1) Investment with a fixed date of maturity: the Group adopts the market quoted price to determine the fair value of the said investment. When the market quoted price is not accessible, the Group estimates the price on the basis of the latest transaction or the current cash flow of the available prices or interest rates of similar investment.
- (2) Investment funds and equity securities: the Group adopts the market quoted price to determine the fair value of the said investment where such quoted prices are not available, investments are determined reasonably by its cost.
- (3) The book values of all assets and liabilities approximate their fair values.

2.2 Fair value hierarchy

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Level 1 to 3 based on the degree to which the fair value is observable.

Level 1 - those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3 - those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| | | | | RMB |
|--|------------------|--------------|---------|------------------|
| | Closing Balance | | | Total |
| | Level 1 | Level 2 | Level 3 | |
| Held-for-trading financial assets | | | | |
| – Held-for-trading bond investment | 25,870,987.96 | - | - | 25,870,987.96 |
| – Held-for-trading fund investment | - | - | - | - |
| – Derivative financial assets | - | 2,867,855.98 | - | 2,867,855.98 |
| Available-for-sale financial assets | | | | |
| – Equity instruments | 530,879,557.29 | - | - | 530,879,557.29 |
| – Debt instruments | 478,263,350.00 | - | - | 478,263,350.00 |
| – Others | - | - | - | - |
| Total | 1,035,013,895.25 | 2,867,855.98 | - | 1,037,881,751.23 |
| Held-for-trading financial liabilities | | | | |
| – Derivative financial liabilities | - | - | - | - |
| Total | - | - | - | - |

| | | | | RMB |
|--|--------------------------|---------------|---------|------------------|
| | Restated opening balance | | | Total |
| | Level 1 | Level 2 | Level 3 | |
| Held-for-trading financial assets | | | | |
| – Held-for-trading bond investment | - | 51,729,760.16 | | 51,729,760.16 |
| – Held-for-trading fund investment | 30,000,000.00 | - | | 30,000,000.00 |
| – Derivative financial assets | - | 7,848,049.15 | - | 7,848,049.15 |
| Available-for-sale financial assets | | | | |
| – Equity instruments | 1,068,986,941.93 | - | | 1,068,986,941.93 |
| – Debt instruments | 398,845,360.00 | - | - | 398,845,360.00 |
| – Others | - | - | | |
| Total | 1,497,832,301.93 | 59,577,809.31 | - | 1,557,410,111.24 |
| Held-for-trading financial liabilities | | | | |
| – Derivative financial liabilities | - | 20,789,685.96 | - | 20,789,685.96 |
| Total | - | 20,789,685.96 | - | 20,789,685.96 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(XI) NOTES TO KEY ITEMS IN THE COMPANY'S FINANCIAL STATEMENTS

1. Accounts receivable

(1) Disclosure of accounts receivable by categories:

| Category | Closing balance | | | | Opening balance | | | |
|---|-------------------|----------------|--------------------|----------------|------------------|----------------|--------------------|----------------|
| | Carrying amount | | Bad debt provision | | Carrying amount | | Bad debt provision | |
| | Amount | Proportion (%) | Amount | Proportion (%) | Amount | Proportion (%) | Amount | Proportion (%) |
| Accounts receivable that are individually significant | 9,306,089,206.37 | 87 | - | - | 8,138,600,417.27 | 86 | 406,930,020.86 | 75 |
| Accounts receivable that are not individually significant but for which bad debt provision has been assessed individually | 21,250,890.94 | - | 21,250,890.94 | 49 | 21,970,409.08 | - | 21,970,409.08 | 4 |
| Accounts receivables with provision accrued according to the Group | 1,431,006,281.80 | 13 | 22,049,858.98 | 51 | 1,366,662,029.67 | 14 | 111,160,196.01 | 21 |
| Total | 10,758,346,379.11 | 100 | 43,300,749.92 | 100 | 9,527,232,856.02 | 100 | 540,060,625.95 | 100 |

The aging analysis of accounts receivable is as follows:

| Aging | Closing balance | | | | Opening balance | | | |
|---|-------------------|----------------|--------------------|---------------------|------------------|----------------|--------------------|---------------------|
| | Carrying amount | Proportion (%) | Bad debt provision | Net carrying amount | Carrying amount | Proportion (%) | Bad debt provision | Net carrying amount |
| Within 1 year | 10,528,389,098.06 | 97.86 | 20,112,861.39 | 10,508,276,236.67 | 9,061,064,669.41 | 95.11 | 395,117,024.89 | 8,665,947,644.52 |
| More than 1 year but not exceeding 2 years | 202,583,405.31 | 1.88 | 1,936,997.59 | 200,646,407.72 | 441,324,475.47 | 4.63 | 121,249,210.74 | 320,075,264.73 |
| More than 2 years but not exceeding 3 years | 6,122,984.80 | 0.06 | - | 6,122,984.80 | 2,873,302.06 | 0.03 | 1,723,981.24 | 1,149,320.82 |
| More than 3 years | 21,250,890.94 | 0.20 | 21,250,890.94 | - | 21,970,409.08 | 0.23 | 21,970,409.08 | - |
| Total | 10,758,346,379.11 | 100.00 | 43,300,749.92 | 10,715,045,629.19 | 9,527,232,856.02 | 100.00 | 540,060,625.95 | 8,987,172,230.07 |

(2) Accounts receivable that are individually significant or not individually significant but for which bad debts has been assessed individually as at 31 December 2013:

| Content of accounts receivable | Carrying amount | Bad debt provision | Proportion of provision (%) | Reasons for provision |
|---------------------------------------|------------------|--------------------|-----------------------------|-----------------------|
| Receivables with significant balances | 9,306,089,206.37 | - | - | Note 1 |
| Receivables with long age | 21,250,890.94 | 21,250,890.94 | 100 | Note 2 |
| Total | 9,327,340,097.31 | 21,250,890.94 | | |

Note 1: There is no significant obstacle to collect the receivables due within one year and five percent provision is made using aging analysis method. As all the receivables with significant balances are from related parties, thus no provision is recognized according to the company's bad debt provision policy.

Note 2: Bad debt provision is fully made due to long aging and a slim chance of recollection.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(XI) NOTES TO KEY ITEMS IN THE COMPANY'S FINANCIAL STATEMENTS (Continued)

- (3) Accounts receivable due to shareholders holding at least 5% of the Company's shares with voting power in the reporting period are set out below:

RMB

| Name of entity | Closing balance | | Opening balance | |
|----------------|-----------------|--------------------|-----------------|--------------------|
| | Carrying amount | Bad debt provision | Carrying amount | Bad debt provision |
| Baosteel Group | 15,411,607.54 | - | 12,985,175.49 | 649,258.77 |

- (4) Top five customers with the largest balances are set out below:

RMB

| Name of entity | Relationship with the Company | Amount | Age | Proportion to the total accounts receivable (%) |
|----------------|-------------------------------|------------------|---------------|---|
| Entity one | Related party | 7,436,528,455.41 | Note | 69 |
| Entity two | Related party | 778,131,374.30 | Within 1 year | 7 |
| Entity three | Related party | 414,047,758.16 | Within 1 year | 4 |
| Entity four | Related party | 389,286,995.97 | Within 1 year | 4 |
| Entity five | Related party | 288,094,622.53 | Within 1 year | 3 |
| Total | | 9,306,089,206.37 | | 87 |

Note: Including amount of accounts receivable within one year is RMB7,317,476,400.42 and amount of accounts receivable over one year and within two years is RMB119,052,054.99.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(XI) NOTES TO KEY ITEMS IN THE COMPANY'S FINANCIAL STATEMENTS (Continued)

2. Other receivables

(1) Disclosure of other receivables by categories:

| Category | Closing balance | | | | Opening balance | | | |
|---|-----------------|----------------|--------------------|----------------|-----------------|----------------|--------------------|----------------|
| | Carrying amount | | Bad debt provision | | Carrying amount | | Bad debt provision | |
| | Amount | Proportion (%) | Amount | Proportion (%) | Amount | Proportion (%) | Amount | Proportion (%) |
| | | | | | | | | |
| Other receivables that are individually significant | 257,817,634.17 | 77 | - | - | 214,902,461.01 | 67 | 2,330,038.88 | 46 |
| Other receivables that are not individually significant but for which bad debt provision has been assessed individually | - | - | - | - | - | - | - | - |
| Accounts receivables with provision accrued according to the Group | 78,092,064.36 | 23 | 8,050,708.33 | 100 | 105,938,869.45 | 33 | 2,743,703.10 | 54 |
| Total | 335,909,698.53 | 100 | 8,050,708.33 | 100 | 320,841,330.46 | 100 | 5,073,741.98 | 100 |

Aging analysis of other receivables is as follows:

| Aging | Closing balance | | | | Opening balance | | | |
|---|-----------------|----------------|--------------------|-----------------|-----------------|----------------|--------------------|-----------------|
| | Amount | Proportion (%) | Bad debt provision | Carrying amount | Amount | Proportion (%) | Bad debt provision | Carrying amount |
| | | | | | | | | |
| Within 1 year | 257,309,686.51 | 77 | 5,629,392.86 | 251,680,293.65 | 278,549,609.21 | 87 | 4,254,225.60 | 274,295,383.61 |
| More than 1 year but not exceeding 2 years | 44,133,144.15 | 13 | 2,421,315.47 | 41,711,828.68 | 3,811,721.25 | 1 | 819,516.38 | 2,992,204.87 |
| More than 2 years but not exceeding 3 years | 2,706,867.87 | 1 | - | 2,706,867.87 | - | - | - | - |
| More than 3 years | 31,760,000.00 | 9 | - | 31,760,000.00 | 38,480,000.00 | 12 | - | 38,480,000.00 |
| Total | 335,909,698.53 | 100 | 8,050,708.33 | 327,858,990.20 | 320,841,330.46 | 100 | 5,073,741.98 | 315,767,588.48 |

(2) Other receivables that are individually significant or not individually significant but for which bad debt provision has been assessed individually as at 31 December 2013:

| Content of other receivables | Carrying amount | Amount of bad debt | Proportion of provision (%) | Reasons |
|---|-----------------|--------------------|-----------------------------|---------|
| Other receivables with significant balances | 257,817,634.17 | - | - | Note 1 |

Note 1: Other receivables with significant balances mainly consist of advance money for another and purchase VAT provisional estimate for related transaction, since the risk of recovery is very low, the Company made no bad debts allowance on it.

(3) Other receivables due to shareholders holding at least 5% of the Company's shares with voting power in the reporting period are set out below:

| Name of Entity | Closing balance | | Opening balance | |
|----------------|-----------------|--------------------|-----------------|--------------------|
| | Carrying amount | Bad debt provision | Carrying amount | Bad debt provision |
| | | | | |
| Baosteel Group | - | - | 19,806,918.00 | 990,345.90 |

(4) Top five entities with the largest balances of other receivables

| Name of Entity | Relationship with the Company | Amount | Age | Proportion to the total other receivables (%) |
|----------------|-------------------------------|----------------|---------------|---|
| Entity one | Third party | 112,050,640.10 | Within 1 year | 33 |
| Entity two | Related party | 43,491,733.69 | Within 1 year | 13 |
| Entity three | Related party | 35,729,594.29 | Within 1 year | 11 |
| Entity four | Related party | 34,965,666.09 | Within 1 year | 10 |
| Entity five | Third party | 31,580,000.00 | Note | 9 |
| Total | | 257,817,634.17 | | 76 |

Note: As at 31 December 2013, the other receivables aged more than 3 years amounted to RMB31,580,000.00.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(XI) NOTES TO KEY ITEMS IN THE COMPANY'S FINANCIAL STATEMENTS (Continued)

3. Investments in joint ventures and associates

| Name of investee | Type | Place of incorporation | Legal representative | Nature of business | Paid-in capital | | Proportion of equity interest held by the Company (%) |
|-----------------------|------|------------------------|----------------------|--------------------|-----------------|-----------|---|
| | | | | | Currency | '000 | |
| I. Joint ventures | | | | | | | |
| BNA | LLC | Shanghai | Tongkou Zhenzai | Manufacturing | RMB | 3,000,000 | 50 |
| Bao-Island Enterprise | LLC | Hong Kong | Not applicable | Ship chartering | HKD | 3,300 | 50 |

4. Long-term equity investments

Details of long-term equity investments are as follows:

| Name of investee | Accounting method | Initial investment cost | Opening balance | Increase/ (decrease) | Closing balance |
|---|-------------------|-------------------------|-------------------|----------------------|-------------------|
| Subsidiaries | | | | | |
| Yantai Lubao | Cost method | 243,248,705.24 | 361,404,905.16 | - | 361,404,905.16 |
| Huangshi Coating & Galvanizing | Cost method | 12,254,475.04 | 175,658,477.39 | - | 175,658,477.39 |
| Baosteel International | Cost method | 4,735,670,804.11 | 6,013,886,552.67 | - | 6,013,886,552.67 |
| Meishan Steel | Cost method | 6,609,321,102.70 | 8,938,982,988.14 | - | 8,938,982,988.14 |
| Baosight Software | Cost method | 241,213,064.59 | 275,664,363.08 | - | 275,664,363.08 |
| Baosteel America | Cost method | 42,567,875.48 | 187,562,180.98 | - | 187,562,180.98 |
| Howa Trading | Cost method | 154,073,767.03 | 221,975,780.12 | - | 221,975,780.12 |
| Baosteel Europe | Cost method | 93,801,781.59 | 328,631,981.58 | - | 328,631,981.58 |
| Baosteel Singapore | Cost method | 76,419,617.09 | 154,883,364.09 | - | 154,883,364.09 |
| Bao-Trans Enterprises | Cost method | 29,882,599.80 | 81,867,650.27 | 288,682,845.00 | 370,550,495.27 |
| Baosteel Brazil Trading | Cost method | 526,327.52 | 728,647.73 | - | 728,647.73 |
| Baosteel Chemical | Cost method | 3,006,227,819.74 | 3,006,227,819.74 | - | 3,006,227,819.74 |
| Finance Co. | Cost method | 372,864,751.93 | 568,270,003.65 | - | 568,270,003.65 |
| Zhanjiang Steel | Cost method | 4,976,333,561.88 | - | 11,262,206,889.41 | 11,262,206,889.41 |
| Yantai Tubes | Cost method | 640,000,000.00 | 1,600,000,000.00 | - | 1,600,000,000.00 |
| Nantong Steel | Cost method | 518,520,310.51 | 948,520,310.51 | - | 948,520,310.51 |
| Baoma Tube | Cost method | 36,673,650.00 | 36,673,650.00 | - | 36,673,650.00 |
| Subtotal | | 21,789,600,214.25 | 22,900,938,675.11 | 11,550,889,734.41 | 34,451,828,409.52 |
| Joint ventures | | | | | |
| BNA | Equity method | 1,500,000,000.00 | 1,779,116,617.94 | (122,452,759.05) | 1,656,663,858.89 |
| Bao-Island Enterprise | Equity method | 143,084,132.00 | 588,951,350.00 | (2,575,895.60) | 586,375,454.40 |
| Subtotal of joint ventures | | 1,643,084,132.00 | 2,368,067,967.94 | (125,028,654.65) | 2,243,039,313.29 |
| Others | | | | | |
| Baovale Mining Co., Ltd. | Cost method | - | 103,282,213.00 | - | 103,282,213.00 |
| Shanghai Luojing Ore Terminal Co., Ltd. | Cost method | - | 88,734,096.00 | - | 88,734,096.00 |
| Bsteel Online Co., Ltd | Cost method | - | 16,308,530.65 | - | 16,308,530.65 |
| Automotive Lightweight Technology Research Co Ltd | Cost method | - | 3,000,000.00 | - | 3,000,000.00 |
| PetroChina Northwest United Pipeline Co., Ltd. | Cost method | - | 4,800,000,000.00 | 3,200,000,000.00 | 8,000,000,000.00 |
| Others | Cost method | - | 980,000.00 | - | 980,000.00 |
| Subtotal | | - | 5,012,304,839.65 | 3,200,000,000.00 | 8,212,304,839.65 |
| Total | | | 30,281,311,482.70 | 14,625,861,079.76 | 44,907,172,562.46 |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(XI) NOTES TO KEY ITEMS IN THE COMPANY'S FINANCIAL STATEMENTS (Continued)

| | | | | | RMB |
|--|--|---|---|------------------------------|---------------------------------|
| Proportion of voting power in the investee held by the Company (%) | Investee's total assets at the end of the period | Investee's total liabilities at the end of the period | Total net assets at the end of the period | Total revenue for the period | Total net income for the period |
| 50 | 4,391,343,722.06 | 1,078,016,004.30 | 3,313,327,717.76 | 12,498,745,154.08 | 119,067,164.28 |
| 50 | 1,691,255,672.40 | 518,504,763.60 | 1,172,750,908.80 | 755,338,844.10 | 30,191,848.80 |

| | | | | | RMB |
|---|--|---|---------------------------------|--|-------------------------------|
| Proportion of equity interest held by the Company (%) | Proportion of voting power in the investee held by the Company (%) | Explanation of the inconsistency between the proportion of equity interest and the proportion of voting power | Provision for impairment losses | Provision for impairment losses for the period | Cash dividends for the period |
| 79.82 | 79.82 | - | - | - | - |
| 58.45 | More than 50% | - | - | - | 4,676,000.00 |
| 100 | 100 | - | - | - | 500,000,000.00 |
| 77.04 | 77.04 | - | - | - | - |
| 55.5 | 55.5 | - | - | - | 43,521,264.93 |
| 100 | 100 | - | - | - | - |
| 100 | 100 | - | - | - | - |
| 100 | 100 | - | - | - | - |
| 100 | 100 | - | - | - | - |
| 100 | 100 | - | - | - | - |
| 100 | 100 | - | - | - | 497,377,938.60 |
| 62.1 | 62.1 | - | - | - | - |
| 85.71 | 85.71 | - | - | - | - |
| 80 | 80 | - | - | - | - |
| 95.82 | 95.82 | - | - | - | - |
| 75 | 75 | - | - | - | - |
| | | | | | 1,045,575,203.53 |
| 50 | 50 | - | - | - | 184,618,820.61 |
| 50 | 50 | - | - | - | - |
| | | | | | 184,618,820.61 |

| | | | | | |
|-------|--------|---|---|---|------------------|
| 50 | Note 1 | - | - | - | 17,521,717.50 |
| 12 | 12 | - | - | - | 14,366,722.14 |
| 17 | 17 | - | - | - | 1,080,193.52 |
| 6.90 | 6.90 | - | - | - | - |
| 12.80 | 12.80 | - | - | - | - |
| Few | Few | - | - | - | 25,900.00 |
| | | | | | 32,994,533.16 |
| | | | | | 1,263,188,557.30 |

Note:

As the Company does not exert actual control, joint control or significant influence over the operating policies and financial decisions of Baovale Mining Co., Ltd., and the Company is only entitled to a fixed payment in accordance with investment agreement, the Company accounts for the investment in Baovale as a long-term equity investment by using cost method.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(XI) NOTES TO KEY ITEMS IN THE COMPANY'S FINANCIAL STATEMENTS (Continued)

5. Operating income and operating costs

(1) Operating income

| Item | RMB | |
|----------------------------|---|--|
| | Amount recognized in the current period | Amount recognized in the previous period |
| Principal operating income | 114,542,585,806.33 | 129,427,031,108.43 |
| Other operating income | 280,063,006.50 | 305,118,247.05 |
| Total | 114,822,648,812.83 | 129,732,149,355.48 |
| Operating costs | 103,299,412,868.12 | 120,018,114,042.54 |

(2) Principal operating activities (classified by industries)

| Name of industry | RMB'000 | | | |
|----------------------------|---|-----------------|--|-----------------|
| | Amount recognized in the current period | | Amount recognized in the previous period | |
| | Operating income | Operating costs | Operating income | Operating costs |
| Iron & steel manufacturing | 114,542,586 | 103,093,136 | 129,427,031 | 119,794,810 |

(3) Principal operating activities (classified by products)

| Name of product | RMB'000 | | | |
|-----------------|---|-----------------|--|-----------------|
| | Amount recognized in the current period | | Amount recognized in the previous period | |
| | Operating income | Operating costs | Operating income | Operating costs |
| Iron & steel | 114,542,586 | 103,093,136 | 129,427,031 | 119,794,810 |

(4) Principal operating activities (classified by geographical areas)

| Name of geographical area | RMB'000 | | | |
|---------------------------|---|-----------------|--|-----------------|
| | Amount recognized in the current period | | Amount recognized in the previous period | |
| | Operating income | Operating costs | Operating income | Operating costs |
| Domestic | 105,015,256 | 93,589,564 | 117,114,771 | 107,004,054 |
| Overseas | 9,527,330 | 9,503,572 | 12,312,260 | 12,790,756 |
| Total | 114,542,586 | 103,093,136 | 129,427,031 | 119,794,810 |

(5) Operating income from the Company's top five customers

| Name of customer | Operating income | RMB | |
|--|-------------------|---|--|
| | | Proportion to total operating income of the Company (%) | |
| Total operating income from the Company's top five customers | 49,361,920,866.91 | 43 | |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(XI) NOTES TO KEY ITEMS IN THE COMPANY'S FINANCIAL STATEMENTS (Continued)

6. Investment income

(1) Details of investment income

| RMB | | |
|--|---|--|
| Item | Amount recognized in the current period | Amount recognized in the previous period |
| Income from long-term equity investments under cost method | 1,078,569,736.69 | 1,080,086,225.16 |
| Income from long-term equity investments under equity method | 73,461,094.80 | 107,617,111.14 |
| Income from disposal of long-term equity investments | - | 664,738,169.53 |
| Investment income from disposal of held-to-maturity investments | 17,075,198.65 | 1,526,130.14 |
| Investment gains (losses) from disposal of derivative financial instrument | (14,773,709.28) | (9,684,429.21) |
| Total | 1,154,332,320.86 | 1,844,283,206.76 |

(2) Income accounting for 5% of the pre-tax profit or ranking the top five highest proportion of the total profit from long-term equity investments under cost method are as follows:

| RMB | | | |
|---|---|--|--|
| Investee | Amount recognized in the current period | Amount recognized in the previous period | Reasons for movement in the current period |
| Baosteel International | 500,000,000.00 | 400,000,000.00 | Cash dividend |
| Baosteel Chemical | 497,377,938.60 | 512,741,873.12 | Cash dividend |
| Baosight Software | 43,521,264.93 | 28,383,433.65 | Cash dividend |
| Baovale Mining Co., Ltd. | 17,521,717.50 | 35,668,836.00 | Cash dividend |
| Shanghai Luojing Ore Terminal Co., Ltd. | 14,366,722.14 | 13,395,251.27 | Cash dividend |
| Total | 1,072,787,643.17 | 990,189,394.04 | |

(3) Income from long-term equity investments under equity method:

| RMB | | | |
|-----------------------|---|--|--|
| Investee | Amount recognized in the current period | Amount recognized in the previous period | Reasons for movement in the current period |
| BNA | 58,365,170.40 | 73,074,198.01 | Profit of the joint venture |
| Bao-Island Enterprise | 15,095,924.40 | 1,323,729.25 | Profit of the joint venture |
| STAL Precision | - | 35,397,743.47 | Disposed last year |
| Rihong Stainless | - | (2,178,559.59) | Disposed last year |
| Total | 73,461,094.80 | 107,617,111.14 | |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(XI) NOTES TO KEY ITEMS IN THE COMPANY'S FINANCIAL STATEMENTS (Continued)

7. Bank facilities

As at 31 December 2013, the unutilized bank facilities of the Company reached RMB103.83 billion. The management of the Company believes that the above mentioned facilities and the net cash flow from operating activities would be sufficient to repay the current liabilities due in the coming period.

8. Supplementary information to the cash flow statement

(1) Supplementary information to the cash flow statement

| | RMB | |
|--|--------------------|--------------------|
| Supplementary information | Current period | Previous period |
| 1. Reconciliation of net profit to cash flow from operating activities: | | |
| Net profit | 6,492,433,849.38 | 10,487,297,179.33 |
| Add: Provision for impairment losses of assets | 113,905,152.00 | 2,338,457,245.04 |
| Depreciation of fixed assets and investment properties | 6,798,651,304.90 | 8,173,838,537.15 |
| Amortization of intangible assets | 35,087,501.42 | 51,175,150.37 |
| Amortization of long-term prepaid expenses | 113,333.88 | 756,904.05 |
| Losses on disposal of fixed assets, intangible assets and other long-term assets | 840,497,892.81 | (8,951,851,098.01) |
| Losses on changes in fair values (gains are indicated by "-") | (20,789,685.96) | 20,789,685.96 |
| Financial expenses (income is indicated by "-") | (1,509,789,343.94) | (480,175,845.49) |
| Losses arising from investments (gains are indicated by "-") | (1,154,332,320.86) | (1,844,283,206.76) |
| Decrease in deferred tax assets (increase is indicated by "-") | 227,178,324.74 | (466,961,981.03) |
| Increase in deferred tax liabilities (decrease is indicated by "-") | 4,401,256.71 | 15,798,837.83 |
| Decrease in inventories (increase is indicated by "-") | (1,524,780,421.45) | 3,394,154,762.99 |
| Decrease in receivables from operating activities (increase is indicated by "-") | 454,200,216.00 | (747,289,696.54) |
| Increase in payables from operating activities (decrease is indicated by "-") | 4,703,339,532.81 | (1,964,703,529.62) |
| Net cash flow from operating activities | 15,460,116,592.44 | 10,027,002,945.27 |
| 2. Net changes in cash and cash equivalents: | | |
| Closing balance of cash | 6,290,586,489.64 | 2,036,143,946.73 |
| Less: Opening balance of cash | 2,036,143,946.73 | 8,826,002,497.24 |
| Net increase in cash and cash equivalents | 4,254,442,542.91 | (6,789,858,550.51) |

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31 December 2013

(XII) APPROVAL OF THE FINANCIAL STATEMENTS

The Company's financial statements and the consolidated financial statements were approved by the board of directors and authorized for issue on 28 March 2014.

SUPPLEMENTARY INFORMATION

1. Breakdown of non-recurring profit or loss

| Items | Amount | RMB |
|--|------------------|-----|
| | | |
| Profit or (loss) on disposal of non-current assets | (107,712,210.68) | |
| Government grants recognized in profit or loss (other than grants which are closely related to the Company's business and are either in fixed amounts or determined under quantitative methods in accordance with the national standard) | 391,903,997.38 | |
| The excess of attributable fair value of identifiable net assets over the consideration paid for the acquisition of subsidiaries, associates and joint ventures | 11,607,412.35 | |
| Impairment loss on other non-current assets | (975,812,339.28) | |
| Other non-operating income or expenses other than the above | 46,225,770.83 | |
| Tax effects | 163,498,181.34 | |
| Effects attributable to minority interests (after tax) | (32,130,969.23) | |
| Total | (502,420,157.29) | |

2. Return on net assets and earnings per share ("EPS")

The return on net assets and EPS have been prepared by Baoshan Iron & Steel Co., Ltd. in accordance with Information Disclosure and Presentation Rules for Companies Making Public Offering of Securities No. 9 - Calculation and Disclosure of Return on Net Assets and Earnings Per Share (Revised 2010) issued by China Securities Regulatory Commission.

| Profit for the reporting period | Weighted average return on net assets (%) | Basic EPS (RMB) |
|--|--|--------------------|
| Net profit attributable to ordinary shareholders of the Company | 5.29 | 0.35 |
| Net profit after deduction of non-recurring profits or losses attributable to ordinary shareholders of the Company | 5.75 | 0.38 |

SUPPLEMENTARY INFORMATION (Continued)

3. Abnormal financial statements items ("F/S items") and description of reasons

RMB

| | F/S Items | 31 December 2013/ for the year ended | 31 December 2012/ for the year ended | Change by | Cause for the changes |
|----|---|---|---|-----------|--|
| 1 | Cash and bank balances | 12,881,234,298.49 | 8,851,124,979.28 | 46% | Cash and bank balances increased mainly because the Company would repay the convertible bonds due within one year in 2014, adopted low-rate USD financing strategy, and used RMB funds and structured deposits to earn income. |
| 2 | Long-term equity investments | 13,681,009,703.67 | 10,539,022,615.18 | 30% | Due to the investment of RMB3.2 billion in the Project of PetroChina Northwest United Pipeline Co., Ltd., the long-term equity investments rose by RMB3.14 billion. |
| 3 | Other non-current assets | 5,418,157,904.40 | 13,204,612,832.56 | -59% | Other non-current assets decreased by RMB7.79 billion mainly because of the disposal of assets of RMB1.83 billion of CCPP unit in Luoqing Area; the relocation of assets of RMB2.67 billion including heavy plate mill from Luoqing Area to Zhanjiang, and the reclassification of buildings and auxiliary assets amounting to RMB 3.41 billion from Luoqing Area to fixed assets. |
| 4 | Tax payable | 1,781,381,390.45 | 1,093,465,271.31 | 63% | Tax payable grew by RMB0.69 billion mainly because the excess of input VAT from Meishan Steel Project II from last year was used up in 2013. |
| 5 | Non-current liabilities due within one year | 12,227,658,084.57 | 4,502,840,000.00 | 172% | Non-current liabilities due within one year rose by RMB7.73 billion, mainly due to the reclassification of RMB9.79 billion from long-term convertible bonds and the repayment of RMB2.28 billion of long-term loan due within one year. |
| 6 | Long-term borrowings | 4,702,446,502.87 | 2,731,689,992.42 | 72% | Long-term borrowings increased by RMB1.971 billion because the Company enlarged long-term borrowings to optimize the debt structure. |
| 7 | Financial Expense | (544,131,554.59) | 488,576,834.85 | -211% | Financial expense decreased by RMB1.033 billion as exchange gains grew due to the appreciated RMB against USD in 2013. Also, the Company used overseas capital platform to lower the cost of borrowings. |
| 8 | Income from investment | 684,054,175.06 | 1,076,524,027.40 | -36% | Income from investment declined by RMB0.392 billion because of the disposal of investment in Ningbo Baoxin, STAL Precision and Rihong Stainless by recognizing income from investment RMB 0.49 billion in 2012. |
| 9 | Non-operating income | 882,372,341.19 | 10,519,986,674.00 | -92% | Non-operating income dropped by RMB9.638 billion mainly due to income from disposal of Stainless and Special Steel units in 2012. |
| 10 | Non-operating expense | 556,158,742.00 | 964,650,123.74 | -42% | Non-operating expense decreased by RMB0.408 billion mainly due to loss from disposal of fixed assets of stainless and special steel units in the year of 2012. |

Section X Documents Available for Reference

1. Copy of the financial statements signed and sealed by the legal representative, person in charge of the accounting body and chief accountant;
2. The original copies of the Auditor's Report sealed by the accounting firm and signed by the certified public accountant;
3. All original copies of the documents and announcements published on the newspapers designated by the China Securities Regulatory Committee during the reporting period.

Chairman: He Wenbo
Baoshan Iron & Steel Co., Ltd.
28 March 2014

