

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.