

中国2010年上海世博会全球合作伙伴
Global Partner of Expo 2010 Shanghai China



2007

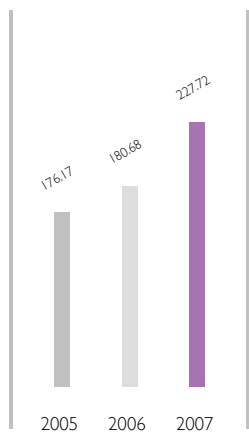
年度报告

Baosteel Group Corporation
Annual Report

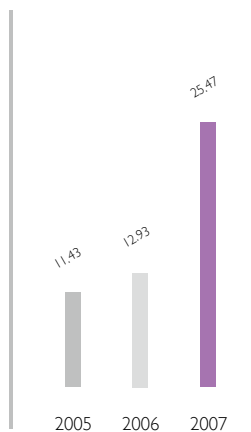
Contents

Major Financial Data	1
A Corporate Profile	2
Chairman's Message	4
Baosteel Leadership	6
Organizational Diagram	10
Industrial Sectors	12
Technical Innovation & Intensified R&D	32
Serving Customers	34
Energy Saving and Environment Protection	36
People Foremost	38
Financial Statements	41
Highlights of the Year 2007	50

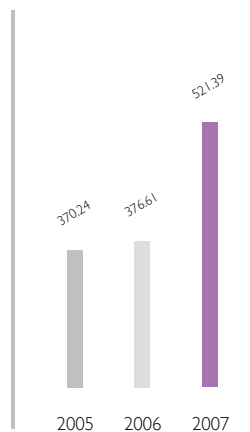
Major Financial Data



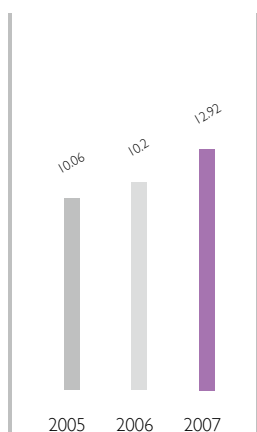
Consolidated Operating Revenue
(RMB in billion)



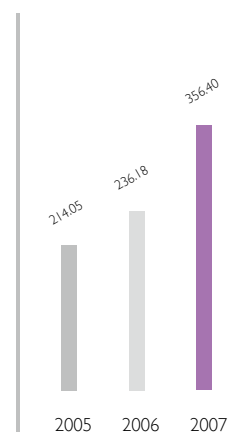
Net Profits
(RMB in billion)



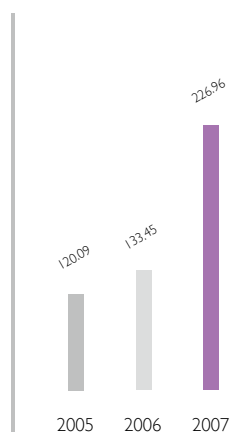
EBITDA
(RMB in billion)



Net Assets Earning Ratio



Total Assets
(RMB in billion)



Net Assets
(RMB in billion)

A Corporate Profile



Baosteel Group Corporation (Baosteel) is the most competitive steel producer of China, and has been one of the Fortune Global 500 for four consecutive years from 2003 to 2006. In 2007, Standard & Poor granted the long-term credit level “A -” to Baosteel Group Corporation and Baosteel Co., Ltd. and raised their prospect rating from “stable” to “positive”, a new breakthrough after its record-high credit level “A -” was registered in December 2006. In the same year, Baosteel for the third time entered the Fortune’s list of the Global Most Respected Companies.

Baosteel engages in the production of high-tech and high value-added premium steels as mainline. Its steelmaking capacity is about 30m t/a, its profit making ability takes lead in the iron and steel world, and its products sell well at home and abroad. Now, its steel industry covers three major categories: carbon steel, stainless steel and specially-alloyed steel, with focus placed on automotive steel (for limousine in particular), appliance steel, oil pipeline steel, drill pipe, oil well tube, high pressure boiler steel, cold rolled silicon steel, stainless steel, high alloy steel and living steel. Its produced steels possess the physical quality that can rival the world-class equivalents.

Complementary to the steelmaking industry as it is, the sideline business associated with Baosteel’s development strategy is centered on the iron and steel supply chain, technology chain and resources utilization chain, so as to strengthen the integration of resources available inside and outside Baosteel, sharpen its edge of competitiveness, thus enhancing its standing in steel industry. Until now, Baosteel has reshaped its setup, comprising six business sectors: iron and steel as mainline, resource development, steel processing, technology service, finance and production service as side lines.

In 2007, Baosteel mapped out the plan of its new-round development for the period of 2007 through 2012. Its cardinal strategic thinking for this period of development has thereby taken shape: to adhere to the basic line of “production-scale expansion”, to shift its strategy from the “premium steels” to the “premium steels plus corporate scale”, to change its center of gravity of work from “building new facilities” to “merging and restructuring plus building new facilities”, and to vigorously enhance its comprehensive competitiveness to lead the advancement of China’s steel industry as well. The strategic goal Baosteel pursues is to turn itself into a world-class public company worldwide, which owns independent IPR and powerful competitiveness and wins



most of the social respects, and which is featuring “the most powerful steelmaking capability and the appropriately developed diversification”, so as to become the elite of the Global 500. To gain this end, Baosteel has set up such immediate targets: its comprehensive steelmaking competitiveness will get not less than the third place in the world steel industry and its ranking in the Global 500 will go beyond the 200th.

Baosteel boasts a good thirty years-long history, since Dec. 23, 1978, a historical date when the breaking ground for initial construction took place at the Yangtze River estuary side. Baosteel will continue its innovation strive, expand premium steels and take an active part in China’s steel industry restructuring. While unceasingly sharpening the edge of competitiveness in steel industry and accelerating its business diversification, Baosteel will go all out to implement the strategic plan for the new-round development, in an effort to achieve its developmental breakthrough.

Chairman's Message

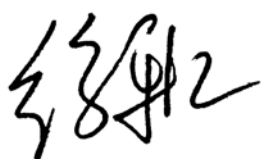
The year 2007 has seen the Baosteel's debuting of its six years-long plan for the new-round development. Under the leadership of the State on-Assets Supervision & Administration Commission with the State Council, all the Baosteel has worked hard and fully fulfilled the annual operation and production targets. Its steel output, consolidated operating revenue and aggregated profits all have hit the record high. Its different works relating to reform and growth have been carried out in the right direction so that the momentum of fine development has been maintained in an inspiring manner.

Looking into the prospect of China's steel industry development, we feel faced with unprecedented opportunities and challenges. Since such problems as the overcapacity of the national steelmaking industry and the hard competition of the similar products in the marketplace have made the competitive situations increasingly complex and critical, Baosteel's operation and production cannot but greet the ever-growingly fierce challenges. The price hikes of resource, energy and sea transportation have brought nearly overwhelming pressure to bear on the steelmakers for sustainable development, so, the energy security appears under the material threat, and the steelmakers feel more keenly than ever the urgent need to save energies and reduce emissions. For this reason, it can be asserted to some extent that China's steel industry has now entered a very critical development period, and gets confronted to the turning point of development model change.

There have elapsed the whole 30 years since the founding of Baosteel in the same year when the 3rd Plenum Session of the 11th Congress of CPC was held. After longstanding strive, Baosteel has satisfactorily succeeded to live up with the Party's and people's expectations. Today just as required by our mission, we have to participate in the great undertakings for rejuvenating Chinese nation and to take greater political responsibility for our Party, our nation and our people. The Party's 17th Congress definitely advocated the policy to change the economic development models, called upon us to implement the scientific outlook of development in an all-rounded manner, and pinpointed the orientation to follow for our future development, and further put forth the new and stringent requirements for the reform and development of the nation's steel industry. Marching on as we are from a new starting-point, we Baosteel should feel that it is incumbent on all our staff members to shoulder the greater historical mission.

In 2008, Baosteel will make further efforts to perfect the corporate governance framework, regularize the corporate operation, persist in innovation, expand premium steels, strengthen synergy and enhance competitiveness in a continuous way, and will take an energetic approach to participate in reorganization and restructuring of China's steel industry, so that the new innovative situation will be created as a result of much more of the wisdom and dynamism it devotes to this undertaking. While stepping up its progress in the industrial diversification to ensure the sustainable and sound development of the production service sector, Baosteel will continue to advance the overseas business, and stand ready to seize opportunities for its strive for better corporate development prospects, in order to make greater contribution to the ever-expanding access of the Chinese brand steels to the world market.

Being steeled and tempered by 30 years-long progresses which are full of difficulties and hardships, the people of Baosteel all feel highly confident and highly determined to embrace the company's growing future. United as one, they will strive with all their might to implement the strategic plan for the new-round development, and to realize Baosteel's great leap. Therefore, we are soundly convinced that Baosteel's future will be undoubtedly endowed with very broad growing space and very promising prospect.





Baosteel Leadership

Board of Directors



Xu Lejiang Chairman



Liu Guosheng Vice Chairman



Feng Guojing Outside Director



Li Qingyan Outside Director



Yang Xianzu Outside Director



Xia Dawei Outside Director

Chairman of Board of Supervisors



He Wenbo Director



Wu Tianlin Chairman of Board of Supervisors



Wu Yaowen Outside Director



Wang Jinde Staff Director



Liu Zhanying
Secretary of
Party Discipline
Supervision
Committee

Dai Zhihao
Vice President

Zhao Kun
Vice President

He Wenbo
Vice President

Xu Lejiang
Chairman



Liu Guosheng
Party Secretary

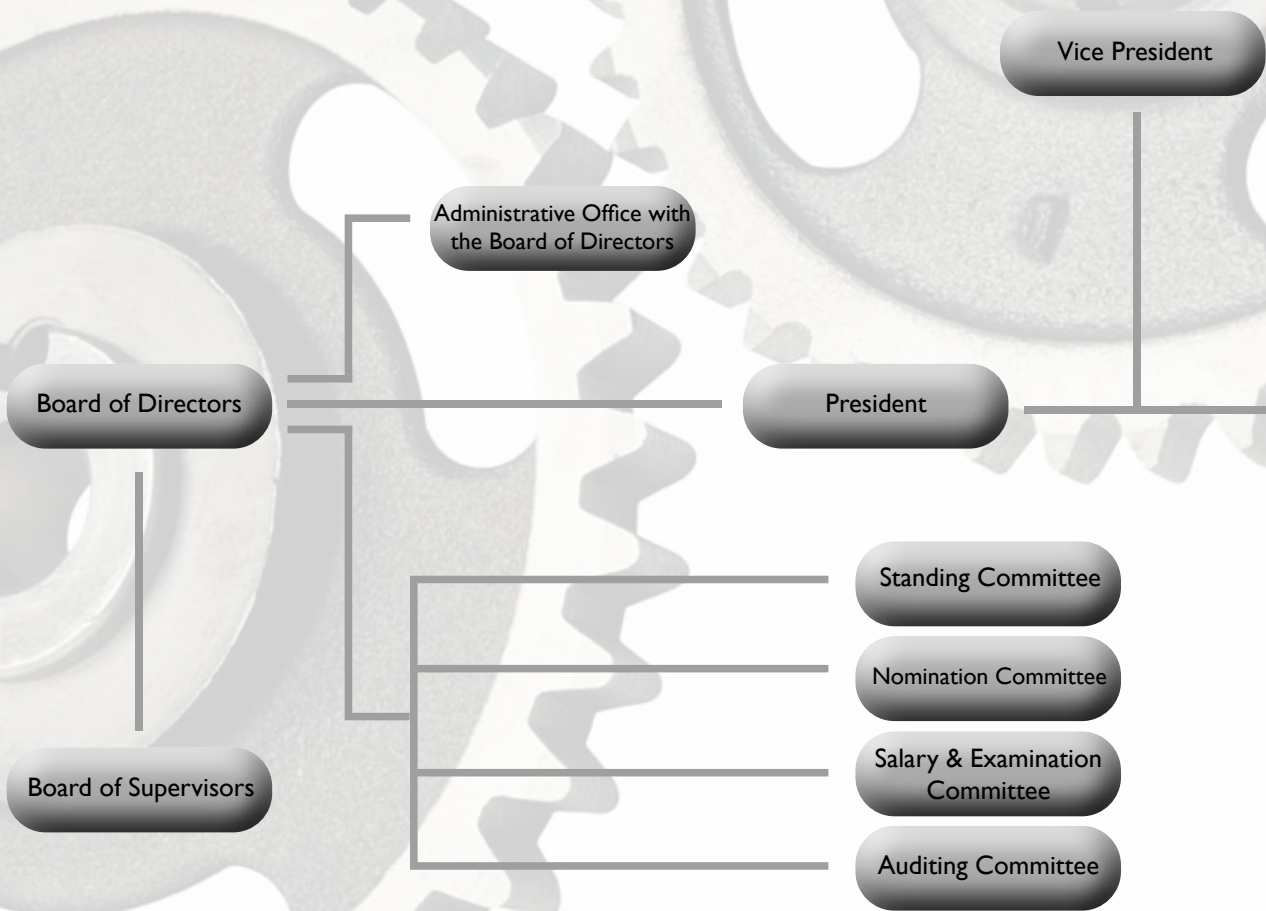
Ouyang Yingpeng
Vice Party Secretary

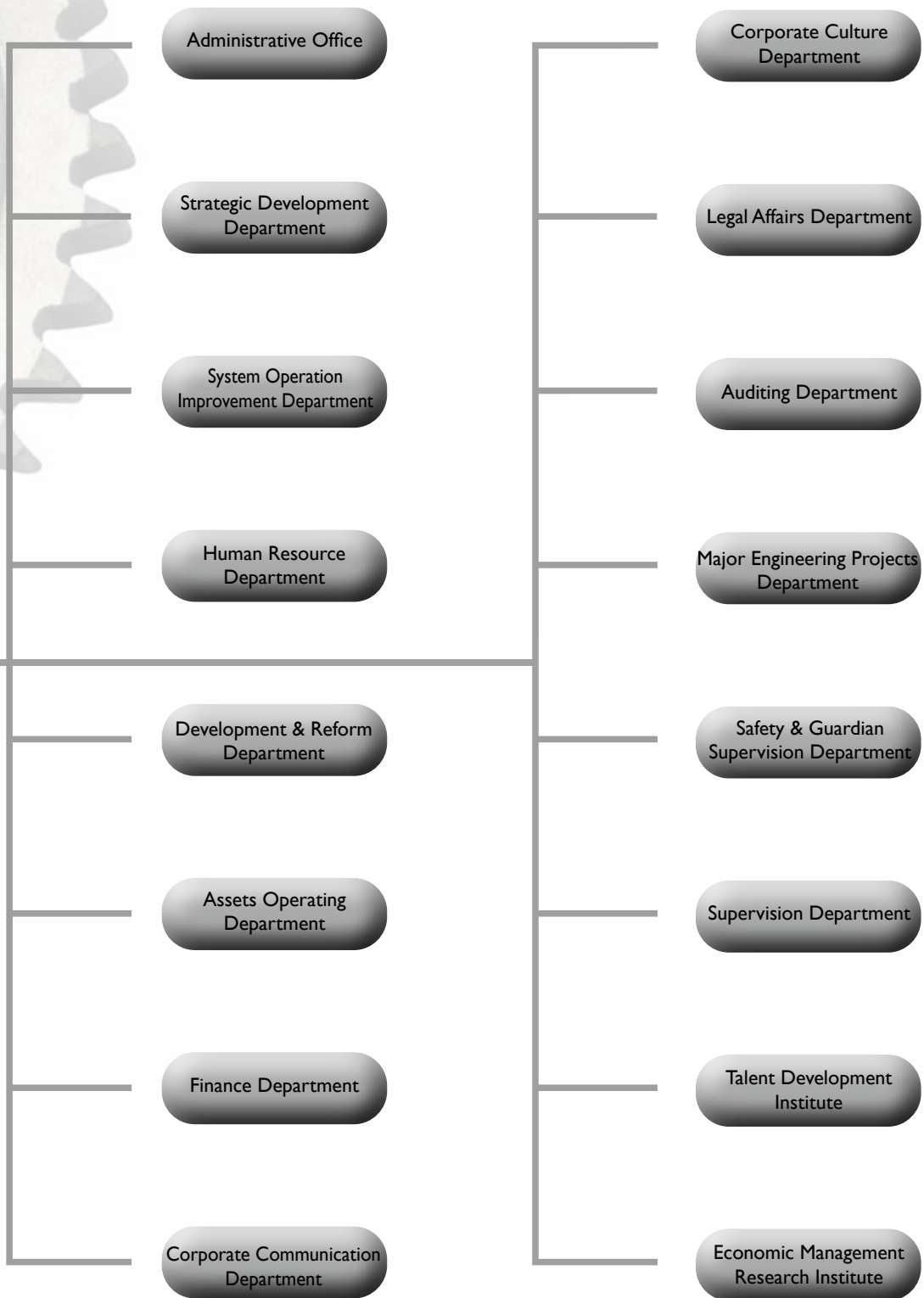
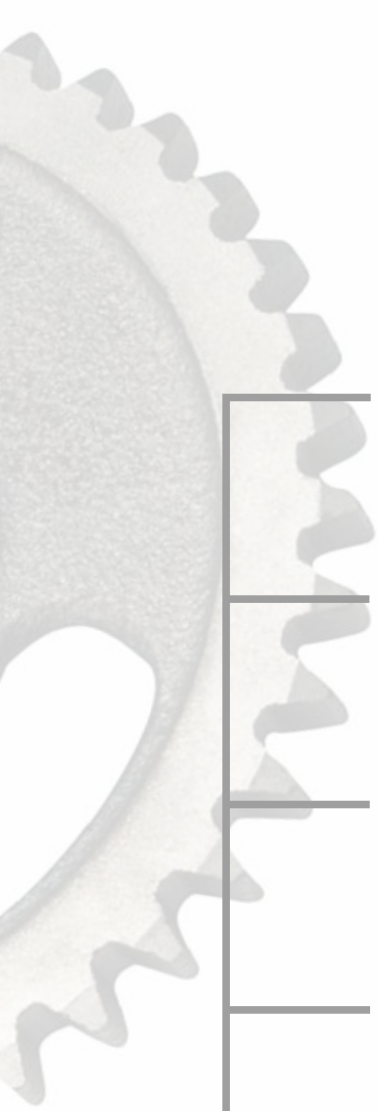
Ma Guoqiang
Vice President

Zhao Xia
Vice President

Chen Delin
Chief Legal Consultant,
Secretary to the Board of
Director

Organizational Diagram





Industrial Sectors



Shanghai Baoshan Iron & Steel Co., Ltd. (Baosteel Co., Ltd.) has established its standing of the world-class steel complex in the global steel market, thanks to its comprehensive superiority in the fields of integrity, talent, innovation, management and technology. Its comprehensive competitiveness ranks third in the world steel industry, according to the assessment of the “Guide to World Steel Industry”, and the company is taken as one of the most promising steelmakers rich in growth potentials.

Baosteel has been specialized in the production of the high-tech and high value-added steels, including the automotive steel, shipbuilding steel, oil and gas mining steel, pipeline steel, appliance steel, silicon steel, boiler steel, pressure vessel steel, food and beverage packaging steel, metal product processing steel, stainless steel, specially-alloyed steel and living steel as well. Not only has Baosteel taken the lead in the supply of a variety of steels in the home market, but its steel products also have been selling well to over 40 countries and regions such as Japan, South Korea, Europe and USA. Based upon the up-to-date technologies involving modern iron and steel metallurgy, hot rolling and cold rolling, hydraulic and sensing, electronic control, computer and information and communication, Baosteel’s equipment is featuring the large scale and the continuous and automatic functions, and remains as modern as the world-class technology, by the means of continued technical revamping and upgrading.

Steel Industry

Premium Steel Base



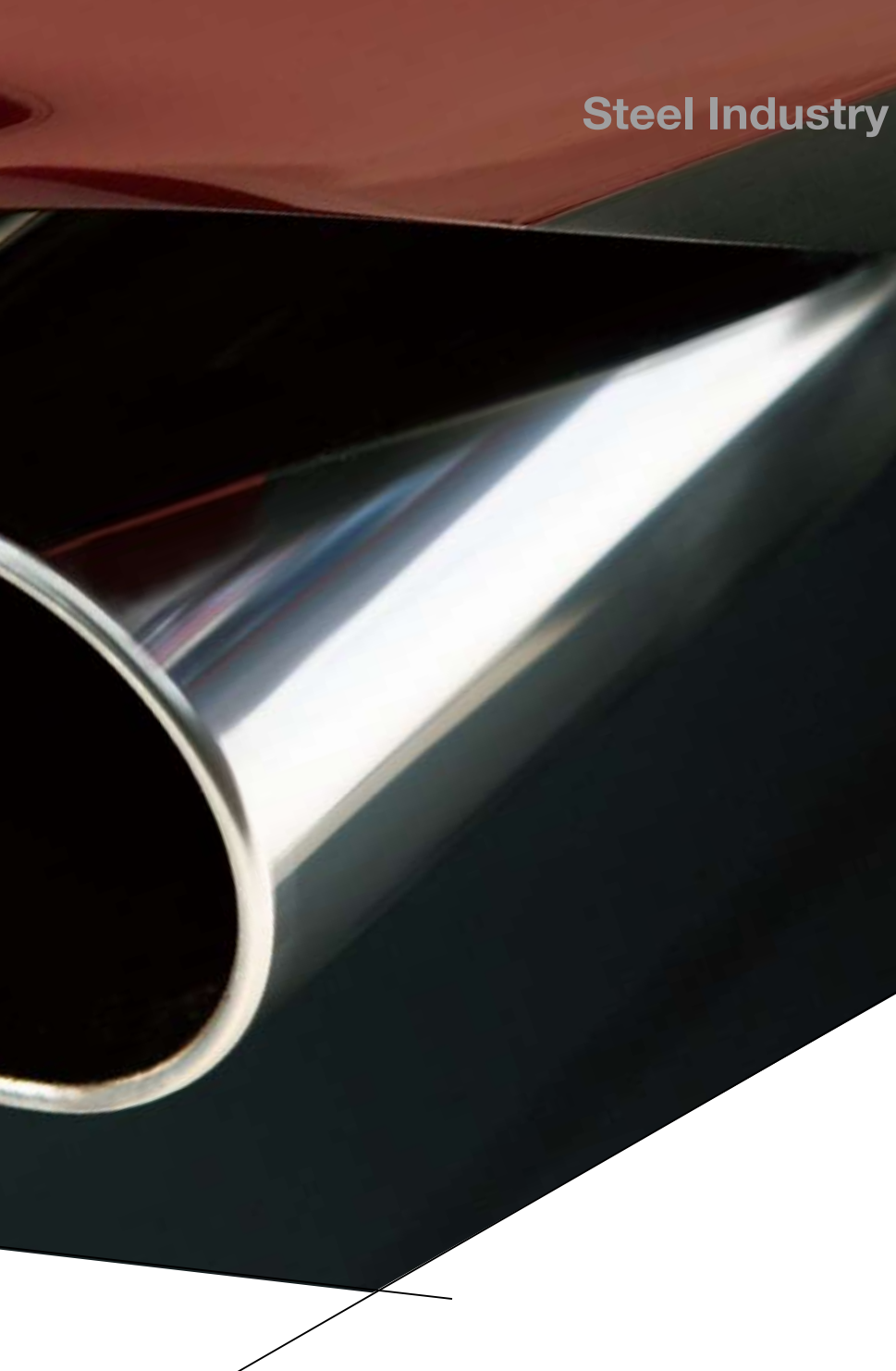


Industrial Sectors

Baosteel Co., Ltd. applies the international advanced quality management practices, and got all its major steel products certified by the international prestigious authoritative institutions. It has passed the ISO9001 certification and reassessments, obtained the right of use of the API monogram and the JIS approval certificates. While being accepted through the QS9000 certification respectively by the “Big Three” automakers, i.e. General Motor, Ford and Chrysler, it has successfully gone through the certification of the ship classification societies from seven nations, namely, China, France, USA, UK, Germany, Norway and Italy. With its strong power of R&D, it applies itself to the development of the new steel products, new production processes and new technological equipment. By doing so, it has been building up the inexhaustible power for further growth of the company.

Baosteel Co., Ltd. attaches great importance to the environment protection and energetically goes in for the sustainable development. As the first Chinese steel producer who has passed the certification of ISO4001, it really deserves the title of “the most beautiful steel enterprise worldwide”.

Steel Industry



Premium Steel Base



Industrial Sectors



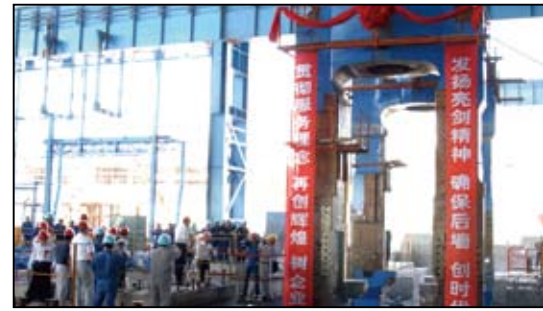
The Luojing Engineering Project started up on Jun 29, 2005, in which is introduced the modern compact steelmaking production process consisting of the COREX melting reduction for iron-making, the steelmaking, the continuous casting and the heavy plate rolling. As for the Phase I project, there has been installed and completed the full steelmaking process production line, including the COREX-C3000 iron-making furnace (1 set), the converters (150 t x 2 sets), the slab continuous caster (250 mm x 1 set), the twin-stand heavy plate mill (4200 mm x 1 set), the CCPP (160 Mw x 1 set), and the air separating plants (60,000 m³ x 2 sets) as well.

The COREX-C3000 adopted for the Luojing engineering project is widely recognized as the most clean and the most advanced iron-making technology worldwide. Its iron-making capacity attains 1.50m t/a, two times that of COREX-C 2000 under operation in the world today. As is well known, the COREX technology has now achieved the world-class clean steel production standard, because the conventional coking plant and sinter plant are eliminated due to such process configuration, so that it dramatically reduces the pollutant emissions, especially the SO₂ emission, which now accounts for only 4.9% against the blast furnace technology.

Furthermore, the Luojing engineering project has put into service various energy-efficient technologies for the iron and steel production. The residual energy and residual heat and the solid wastes that proceed from iron and steel production and the carbonic gas as by-product of the production are all recycled over there in a comprehensive manner. By this way, the steel works carries out highly an efficient circular utilization of energy, making a positive impact on China's circular economy and the city environment protection.

On November 8, 2007, the Luojing engineering project Phase I registered its first success along with the first tapping of the hot metal made by its innovative iron-making plant. On November 13, 2007, the first slab was cast in its steelmaking plant. On November 24, 2007, Baosteel held the grand ceremony for the hot load test run of the Luojing engineering project

Steel Industry Luoqing Engineering Project

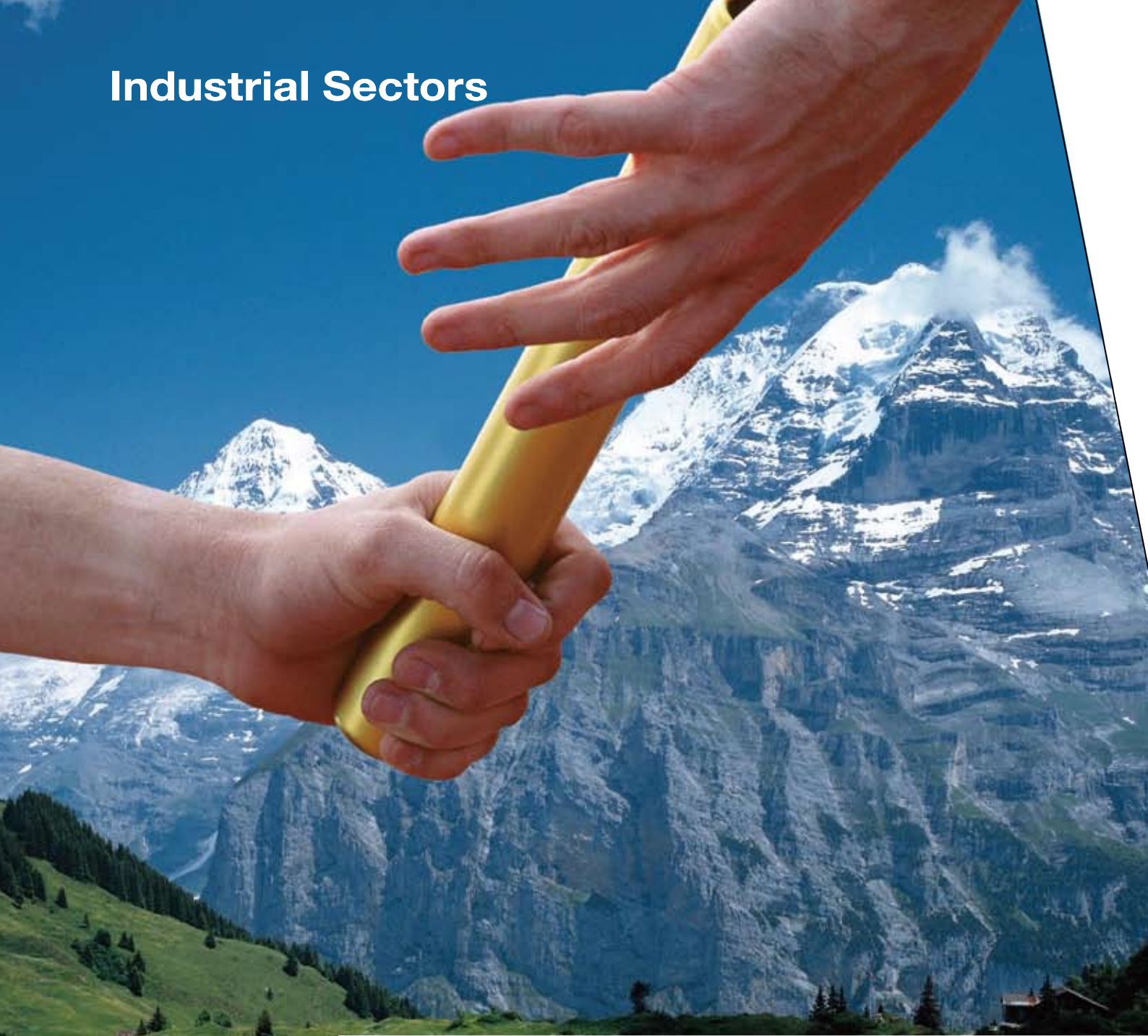


relating to Pudong Iron & Steel Company Relocation project and for the iron tapping of the COREX. On February 27, 2008, the first heavy plate was successfully rolled out of the heavy plate mill, thus marking the completion of the construction of the Luoqing engineering project Phase I as a whole.

The Luoqing engineering project Phase I is designed for such a capacity as: producing 1.50m t/a of iron, 1.57m t/a of steel, 1.52m t/a of continuous cast slab, 1.60m t/a of heavy plate and generating 1.20b Kw/a of electricity. Its main product mix includes high quality shipbuilding plate, oil platform steel, living steel, bridge and structure steel, boiler and pressure vessel steel, wear resistant steel, corrosion resistant steel, high strength special-purposed steel (1000 Mpa class), special-purposed alloy steel, military-purposed steel (for naval vessel and armor), and the product quality standard is set as high as that of the world-class.

In line with Baosteel's premium steel development strategy, the construction of Luoqing engineering project Phase II started up at the end of 2007. The project is expected to bring the total production capacity up to 3.00m t/a of iron, 3.14m t/a of steel, 3.05m t/a of slab, 3.00m t/a of medium heavy plate. After completing the project Phase II, a Baosteel's premium heavy plate production base will come into being and will stand out with its up-to-date technology, friendly environment and world-class management standard.

Industrial Sectors



In 2007, Baosteel intensified the work in the co-investment and cooperation for a series of projects. On the basis of the experience summarized from the mergers respectively with Shanghai Iron & Steel Group and Meishan Iron & Steel Group, the new merger with and restructuring of Bayi Steel Co., Ltd. was completed, and the Hanbao Iron & Steel Co., Ltd. with Handan Iron & Steel Group Corporation, a joint venture was set up by and between Baosteel and Handan Steel. Furthermore, while the strategic alliance framework agreement by and between Baosteel and Baotou Steel and the strategic cooperation framework agreement by and between Baosteel and China Steel were successively concluded at home, Baosteel CSV was founded by Baosteel and VALE, Brazil, as a joint-venture in Brazil.

In January 2007, the agreement on the capital increasing for and restructuring of Bayi Steel Co., Ltd. was entered by and between Baosteel Group Corporation and the people's government of Xinjiang Uygur Autonomous Region. All the procedures for the equity share appropriation and transfer and capital increasing were settled at the end of the year. After the merger, Baosteel coordinated and integrated Bayi Steel's operation in the aspects of strategy, plan, technology, management and supply chain. By pushing ahead for further integrating measures, Bayi Steel successfully connected



Steel Industry Significant Co-investments and Cooperations



the hot rolling line to the cold rolling line in an all-rounded manner, continuously realized stable production, raising remarkably the economic returns. By now, the engineering construction of Bayi Steel new area has been unfolded in full swing, and the great efforts are being made for greater progress. So, its No.1 blast furnace, two coke oven furnaces, one converter have come on stream one after another. It is expected to complete this project by the end of the nation's "eleventh five years plan". By then, its product mix will include bar steel, wire rod, hot rolled sheet and medium heavy plate in series.

In May 2007, the agreement on a joint venture of 5m t/a class premium steel project was co-signed in the city of Shijiazhuang by Baosteel Group Corporation and Handan Steel Group Corporation, who co-established in September of the year the joint-venture "Hanbao Iron & Steel Co., Ltd. with Handan Steel Group" and began implementing the new steel works project. In December, the joint venture officially opened. At the present, its six principal engineering projects of Phase I, namely, blast furnace, coke oven furnace, raw material yard, sinter plant, steelmaking plant as well as hot rolling mill, have all been under construction, and are expected to realize the overall "hook-up" of all the facilities installed in the first half of 2008.



Industrial Sectors



Majishan Extension Project Phase II

The construction of the project began on December 28, 2005 and ended on October 27, 2007. The project succeeded in reaching its monthly throughput in November 2007. Its design throughput is 30m t/a including a loading capacity of 15m t/a and an unloading capacity of 15m t/a.



Product Mix Upgrading Project of Cold Steel Sheet Rolling Plant

The construction of the project began on December 28, 2005, and ended on October 26, 2007. After completion of the project, an additional capacity of 0.4m t/a of tinplate and chromed plate has been made available.



Cold Strip Stainless Steel Project Phase I

The construction of the project began on April 26, 2006, and ended on December 18, 2007. After completion of the project, an additional capacity of 0.7m t/a of hot rolled and pickled stainless steel strip coil and that of 1.15m t/a of hot rolled and pickled carbon steel strip coil have been made available.



No.3 Hot Strip Rolling Project

The construction of the project began on May 23, 2005 and ended on March 30, 2007. Its monthly design output target was achieved in September 2007. After completion of the project, an additional capacity of 3.70m t/a of hot rolled steel has been made available.

Cold Stainless Steel Strip Rolling Project (Follow-up Phase)

The construction of the project began on November 18, 2007, and will end on May, 2010. After having completed the project, the total production scale will expand to 2.06m t/a, including 0.66m t/a of stainless steel strip and 1.40m t/a of carbon steel strip.



2,500 m³ Blast Furnace in Bayi Steel New Area

The construction of the project began on November 15, 2006. It is the first blast furnace that Baosteel Group Corporation invested in and built up after the merger.



No.1 & No.2 Coke Oven Furnaces Project in Bayi Steel New Area

The construction of the project began at the end of November, 2006, which includes 2 sets of 6,000 mm coke oven furnaces for Phase I. Just as the No.1 coke oven furnace and its ancillary chemical production system were brought into operation on schedule on November 23, 2007, so was the No.2 coke oven furnace on December 16, 2007. Equipped with a total of 110 ovens, the two furnaces can produce 1.10m t/a of coke according to its design capacity.

Since 2007, Baosteel began implementing its strategic plan for the new-round development. After having completed and put into service a number of major engineering projects, it has gradually attained its development targets on the production capacity and the product mix of the existing steelmaking base, and enhanced its progress in the production capacity and market share of automotive steel, stainless steel, appliance steel, packaging steel and specially-alloyed steel.



Industrial Sectors





Baosteel Resources Co., Ltd. (Baosteel Resources), formerly Baosteel Trade Co., Ltd., is one of the Baosteel's wholly-funded subsidiaries. Founded on July 21, 2006, it deals with sourcing business - one of six major businesses of Baosteel. In quest of all-win in the international cooperation, it keeps the global minerals sourcing within its ken, and devotes itself to supplying quality products including iron ore, coal, alloy, non-ferrous metal, stainless raw materials and scrap steel, and logistics and value-added service.

Baosteel Resources has established the long-term strategic cooperation relationships on iron ore with the renowned suppliers respectively from Australia, Brazil, India, Chilly and South Africa and the strategic cooperation relationship on coal with quite a few of Chinese large-sized coal mining enterprises. In the meantime, it has set up 4 joint-venture type or cooperation type coal subsidiaries, and held shares of 6 coal enterprises. Its nickel iron production base has been built up at home, while its Baowei Resource Co., Ltd. dedicated to the production of chromium iron has come into being in India with Indian partner's share holding. With its scrap steel processing factories scattered in Shanghai, Zhejiang and Jiangsu, it has also a vehicle breaking factory - a leading enterprise of the kind in Shanghai and a vessel dismantling factory, which is given the State-class qualification for obsolete vessel dismantling business as the unique qualified one in this area.

Baosteel Resources deals with iron ore and metallurgical auxiliary materials, including fine ore, lump ore, pellet, limestone, dolomite, serpentine, olivine; coals including coking coal, rich coal, PCI coal, power coal, lump coal and metallurgical coke; stainless steel raw materials including nickel, nickel iron, chromium, chromium iron, ruddle nickel ore, chromium ore; and scrap steels including cut material, baled material, clean scrap.

Baosteel Resources offers additionally the logistics services such as shipment agent, forwarder, railway shipment, warehousing and storage, loading and unloading at port. And it has expanded the ocean-going transportation through the strategic cooperation with China Shipping Group.

Upholding its core value of "integrity, synergy, development, maximized corporate value", Baosteel Resources consistently strives for the joint development together with shareholder, customer, supplier, staff member and all the outside society. In accordance with the commercialization principle for business expansion, it has been improving its work in prospecting, engineering, mining and dressing, processing, transportation and trade, making a well-tested industrial structure and enhancing its core competitiveness so as to bring itself in the ranks of the world-class mineral resources comprehensive suppliers.



Industrial Sectors



Baosteel Metals Co., Ltd. (Baosteel Metals) is a Baosteel's wholly-funded subsidiary, which came into existence after Baosteel reorganized the former Baosteel Business Development Company, the former Metal Products Business Unit, the former Automotive Trade Company and the former Wire Rod Products Division into one setup, in order to vigorously develop the steel processing business, at the end of 2007. It plays an important part in Baosteel's metal processing business.

Baosteel Metals is one of the six major business sectors, whose core business includes: steel structure, metallic packaging, automotive parts, wire rod products, industrial gases and automotive trade.

Its steel structure business involves mainly the general project contracting for steel structure and the new type steel structure R&D and application. It is a strong working entity, which integrates steel structure R&D, design, purchase, manufacture and contracting.

Its metal packaging business involves the design and manufacture of packaging materials and packaging container mostly made out of metals. Its metal packaging products include metal plate printing, two-piece and three-piece beverage cans, inhalator bottle, various bottle caps, miscellaneous bottles, chemical barrel and steel barrel.

Its automotive parts business involves the precision manufacture and processing for the mainstream automobiles customers and those that are in close relation with steel industry. Its capability of the systematic supply and total solutions has taken shape.

Its long-established wire rod products business offers the finished products for nearly all the fields of application.

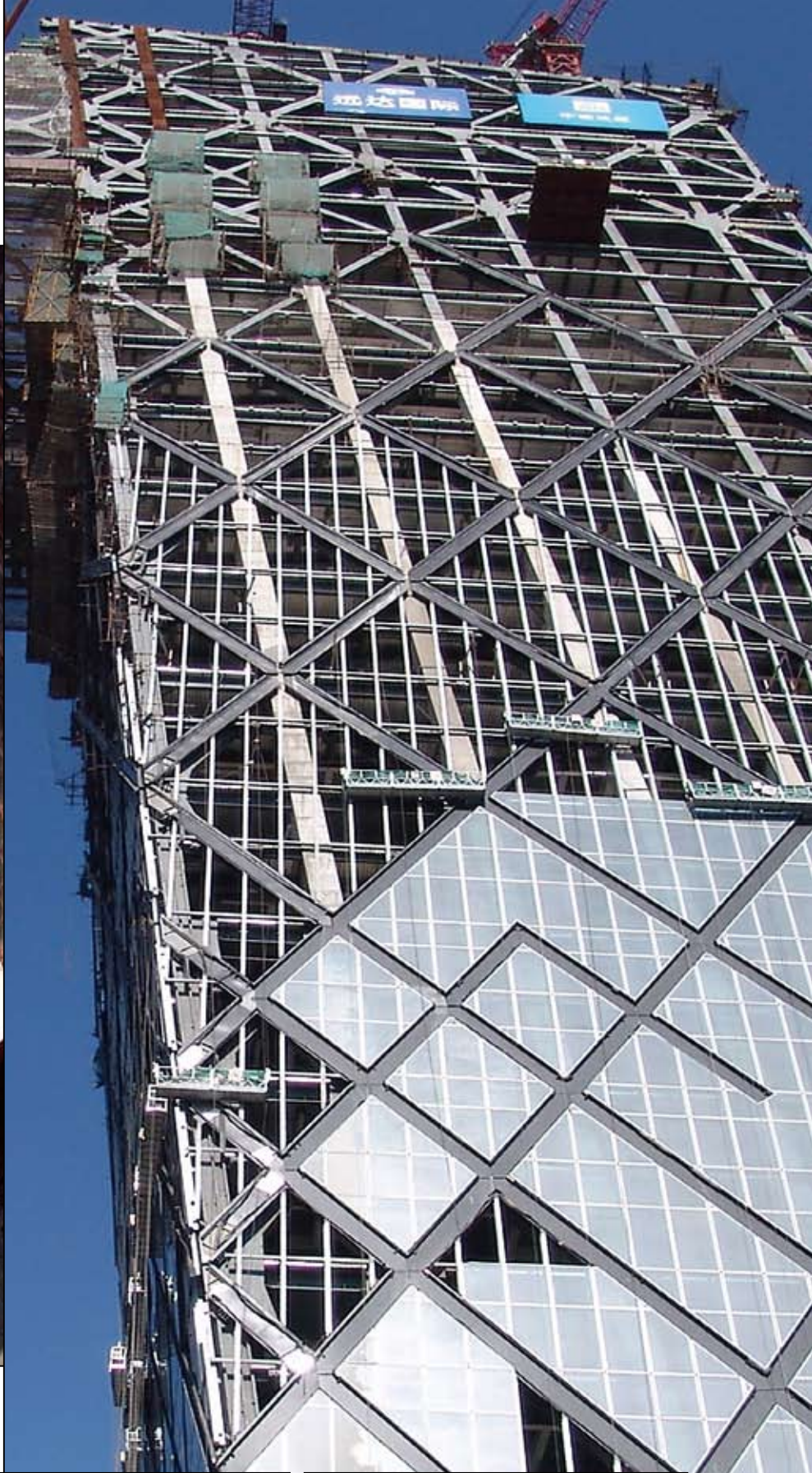
Its industrial gases business mainly involves liquefied gases and bottled gases. The on-site gas production projects have been vigorously promoted and the hydrogen, CO₂, medical-purposed gas, special gas and rare gas among others have concurrently developed and produced.

Its trade sector's line of business ranges from the trade of metallurgical charging materials and metal materials, to the import and export of commodities and technology.

Its automotive trade division engages in the automobile transaction and service and the second-hand automobile deals.

Baosteel Metals sticks to the Baosteel's corporate culture, carries forward the spirit of "responsibility and innovation, integrity and synergy and value creation", takes the way of creating and guiding the steel needs, and strives to construct and enhance Baosteel's metal processing platform. By doing so, it will turn itself into a company specializing in steels and in-depth processed products and relevant service, which performs the international operation, mass production, and which possesses the independent IPR and famous brands.

Steel Processing



Industrial Sectors





Shanghai Baosteel Engineering & Equipment Co., Ltd. (BSEE), a wholly-owned subsidiary of Baosteel Group Corporation, is a major player dedicated to the engineering technology services that Baosteel keeps expanding. It commits itself to the research, application and industrialization of the up-to-date metallurgical technology and process and to the supply of the state-of-art equipment in complete set. It handles an extensive scope of business ranging from steel industry to non-ferrous industry, light industry, chemical industry, machinery, transportation, energy and environment as well. Holding a dozen of subsidiaries that are able to provide the design and manufacture of top class metallurgical equipment, it is taken as a China's preponderant metallurgical engineering technology enterprise with the integrated superiority in the complete engineering design, equipment design and manufacture and equipment supply.

BSEE engages in a variety of solutions including research and development, design and manufacture, complete plant and general project contracting. It successively supplied the engineering designs for Baosteel's different major projects, namely Shanghai No.1 Steel Company's stainless steel project, Ningbo Baoxin Company's cold rolled stainless steel project, Pudong Steel Company's special steel project, Shanghai No.5 Steel Company's section bar steel project. It was awarded "the Gold Prize for the State Quality Engineering Project of the Year 2007" because of the Baosteel Group Shanghai No.1 Steel Company's stainless steel and carbon steel hot rolled strip coil technical revamping project, for which it provided the engineering survey and exploration and the engineering design. It possesses the core technologies in connection with the pulverized coal injection and residual heat recovery for blast furnace, the combined top and bottom blowing converters, secondary metallurgy, slag treatment, dust collection for steelmaking plant, waste water treatment for cold rolling mill, continuous strip processing, oil well tube processing line, light-duty steel structure, and therefore enjoys high reputation in steel industry.

BSEE has been now endeavoring to transform itself into the world-class international engineering company that supplies all-dimensional solutions to the modern steelmakers and to bring energetic and effective support to the Baosteel's new-round expansion. In 2007, it successively undertook the general engineering for Pudong Steel Company's Luoqing relocation project, the technological integration and equipment complete-set forming for COREX furnace's pulverized coal injection system project in Luoqing, the Xinjiang Bayi Steel medium heavy plate mill relocation and construction project and limestone kiln project, thus making effective contribution to Baosteel's new development.

In the meantime, BSEE has devoted great efforts to expand its access to the external market. Not only have the strategic cooperation relationships been established between BSEE and other Chinese large-sized steelmakers such as ShaoSteel, AnSteel, BaotouSteel and HanSteel, but its bids for ShaoSteel's RH, AnSteel's RH, BaotouSteel RH and Hunan Lanbo calcium carbide furnace general contracting project were also won one after another. And it has scored success in strive for the overseas market, with its new breakthroughs, as the contract of 300 t RH and LF plant for Hyundai Korea, that of slag treatment for JSW India were concluded.

Shanghai Baosight Co., Ltd. (Baosight), a listed software enterprise whose share Baosteel Co., Ltd. controls, is the key player in Baosteel's information technology development. It mainly engages in information-purposed solutions, automation system integration and operation and maintenance for steelmaking enterprise, city intelligent traffic comprehensive solution and comprehensive monitoring for road, bridge, channel and track traffic, and the electro-mechanical package product and operation and maintenance as well.

In 2007, Baosight upheld the working policy of "serving Baosteel, optimizing structure, operating cost-efficiently and enhancing capability". Vigorous efforts were focused on the integration projects of Baosteel Co., Ltd., PudongSteel's relocation Luoqing Engineering Project, the MeishanSteel's independent and innovative integration of cold rolling project, which were taken by the company as the Three Major Projects. By continuously improving the basic management, it definitely ensured the smooth advance, smooth operation and smooth milestones attainment in course of the project construction, and raised its comprehensive ability to serve Baosteel and its affiliated enterprises.

With regard to the management system, it successfully passed the certification ISO/IEC 20000, in 2007, and became one of the few software enterprises endowed with the entire IT service management system.

With regard to the expansion of access to the market, following its entry into the businesses of municipal engineering, finance, chemicals, mining and non-ferrous metallurgy, it made the continuous and great progress in the city intelligent traffic system and the overseas software outsourcing business. Relying on its 20 years-long rich experience in service rendered to Baosteel and its well-prepared technology, it sprang up by one stride as a supplier in the track traffic comprehensive monitoring market.

Baosight has been taking lead in a series of public assessments in 2007. It ranked 21st in the Top 100 China's Large Software Enterprises, 4th in Top 10 China's Independent Brand Software, and 3rd in 500 China's Service Enterprises. After being granted the title of the State Innovative Pilot Enterprise as the first group of laureates in the previous year, it won in 2007 the honor of "Top 10 Innovative Software Enterprise of the Year 2007".



Industrial Sectors

Funded in 1998, Fortune Trust & Investment Co., Ltd. (Fortune Trust) is the key player in the finance that Baosteel strives to develop. With a registered capital of 1.0b yuan (including 15m dollar), it controls the stocks of Fortune SGAM Fund Management Co., Ltd. (Fortune Fund) and Fortune Securities Brokering Co., Ltd. (Fortune Securities).

Fortune Trust began in 2007 to implement its six year development strategic plan. It took the specialization and differentiation as the basic strategy, placed stress on the two major lines, i.e. asset management and trust service, worked hard to elevate the competence, build brand and improve channels, so that the large scale development in asset management, asset capitalization, portfolio type securities investment and privately raised fund trusteeship, corporate annuity and staff member welfare plan was scored. Its consolidated operation income in 2007 went beyond 2.192b yuan, its consolidated profit rose by 301% to 1.518b yuan, an increase of 378m over the year 2006, and its consolidated asset management volume amounted to 125.0b yuan, so its performance hit a record high.

With regard to the asset management, Fortune Trust managed the pro-stock investment accounts, and stood out by ranking 20th amongst all similar 245 pro-stock investment funds. It became one of the investment consultants for the first FOF product of Industrial & Commercial Bank of China and the principal safeguarded policy product of SGAM, and came on the stage of the mainstream asset management.

With the channel construction, Fortune Trust intensified the cooperation with China's seven big commercial banks and with some foreign banks, and successively launched such money management products as FOF, IPO subscription, principal safeguarded policy. Its remarkable products like "reinforced fund optimum selection" and "Delibao sky blue IPO subscription" won the title of the First 10 Best Banking Money Management Products of the Year 2007.

With regard to the asset capitalization, Fortune Trust works as the project trustee of Pudong Development Bank and Industrial & Commercial Bank of China and issued more than 8.4b yuan of trust products, accounting for 47% of the year's asset capitalization volume at the home market.

With regard to the corporate annuity, Fortune Trust got 8 significant Fortune 500 companies and some other Chinese well-known enterprises as its customers of the "Enjoyable Life" integrated welfare program and the corporate annuity, while more than 100 enterprises' annuity businesses were handed over to it by the three cities of Fujian Province.

Fortune Trust's operational performance and normalized management enjoyed popular appreciation. In April, 2007, it made itself a trust company through re-registering as the first successful candidate of the kind, with the approval of the Banking Supervisory Commission of China. It was awarded the title of "the China's Best Trust Company" and that of "the Excellent Trust Company" by Shanghai Securities Daily and Securities Times of Shenzhen, and won the honors of "the Most Respected Trust Leader" and "the Best Trust Manager" etc..

Founded in February 2003, Fortune SGAM Fund Management Co., Ltd., a joint venture of Fortune Trust and SGAM, was the second foreign-Chinese cooperation fund management company which opened officially in China. In its 150m yuan worth of registered capital, Fortune Trust held 51% of the shares while SGAM 49%. In 2007, its three fund products like Baokang Flexible Portfolio, Enhanced Index Fund and Advanced Growth were chosen as the diamond funds by the second "Top 10 Diamonds Funds" assessment event, so, it became the most crowned laureate of the fund management companies. And it was given the qualification of QDII in the same year and it soon designed its new QDII products.

Registered in Shanghai, with a 500m yuan worth of registered capital, Fortune Securities opened on March 8, 2002. Its business divisions are scattered respectively in Shanghai, Beijing, Hangzhou, Zhoushan, Fuzhou, and Shenzhen. Its line of business covers proxy-transaction of stocks, proxy-repaying capital plus interest, distribution of dividend and interest, proxy-storing securities as agent, authentication, proxy-registration and account opening.

In the light of the policy of "smooth transition, normalized expansion, sound foundation and readjusted layout", Fortune Securities made great efforts to improve its basic management, and seized the market opportunities to cast off the label of risky securities business. It took the appropriate measures to tackle the legacy problems, prepared to set up the research institute and realized the customer's asset deposit management by third party and the accounts liquidation.



Baosteel Group Finance Co., Ltd., (Bao Finance) is a national non-banking financial institution established with the approval of People's Bank of China. It mainly engages in the various financial services including centralized management of cash, loan provision, discounting, capital settlement, money management trust for Baosteel Group's member enterprises.

Just as a bridge between Baosteel Group member enterprises and the external financial market, Bao Finance has been playing a linking role in the corporate financial operation, which has greatly contributed to the reduced financial costs, improved capital management efficiency and operational benefits of Baosteel and other member enterprises. Therefore, its operation purpose of serving Baosteel and seeking for the maximized benefits of Baosteel has been materialized through its services.

Finance



Industrial Sectors

Baosteel Development Co., Ltd. is one of Baosteel's wholly-funded subsidiaries. It has made vigorous efforts to expand the production services, improve operation efficiency and service quality for Baosteel production customers, so as to support effectively the development of Baosteel steel industry. Not until at the end of 2007, was the former Baosteel Group Enterprise Development Corporation reorganized into Baosteel Development Co., Ltd., by streamlining the various businesses of the former company.

The production services are held in great account in the strategic plan for Baosteel's new-round development. Baosteel Development Co., Ltd. possesses 40% of the total net assets owned by all the production service players within Baosteel Group Corporation, and produces 75% of total sales incomes and 60% of the total profits. It is a pivotal platform for the development of Baosteel's production services. After streamlining and restructuring, it has set up three business units, i.e. Resource Recycling Business Unit, Factory Operation Business Unit, Industrial Property Business Unit and a supportive operation sector, i.e. Shanghai Zhongyun Investment Development Co., Ltd..

The Resource Recycling Business Unit engages in handling wastes generated from steelmaking processes in an innocuous way to recycle them into useful resources. It mainly produces (1) new type construction materials, like ore slag fine power, water slag, coal ash, steel slag; (2) magnetic materials, like iron oxide red, iron scale, magnetic core; (3) metallurgical auxiliary materials, like hot metal desulfurizing agent, metallurgical pellet, liquid steel heat insulating agent; and (4) materials from waste recycling, like regenerated refractory, regenerated oil and iron oxide pigments, etc..

The Factory Operation Business Unit engage in a series of intensive services, such as productive operation outsourcing, equipment and facility maintenance and repair, metallurgical product packaging. Owing to its extensive experience in specialized operation, it has become one of the key supporters for Baosteel's steel industry. It is able to supply large and medium-sized manufacturers and industrial zones with integrated production assistance service.

The Industrial Property Business Unit has passed a package of certifications, including ISO9001/ISO14001/ISO18001. Its line of business covers meal and beverage supply, property management, commuting bus, landscape and greening maintenance, road cleaning, industrial environment protection, medical care, health check-up, laundry and so on.

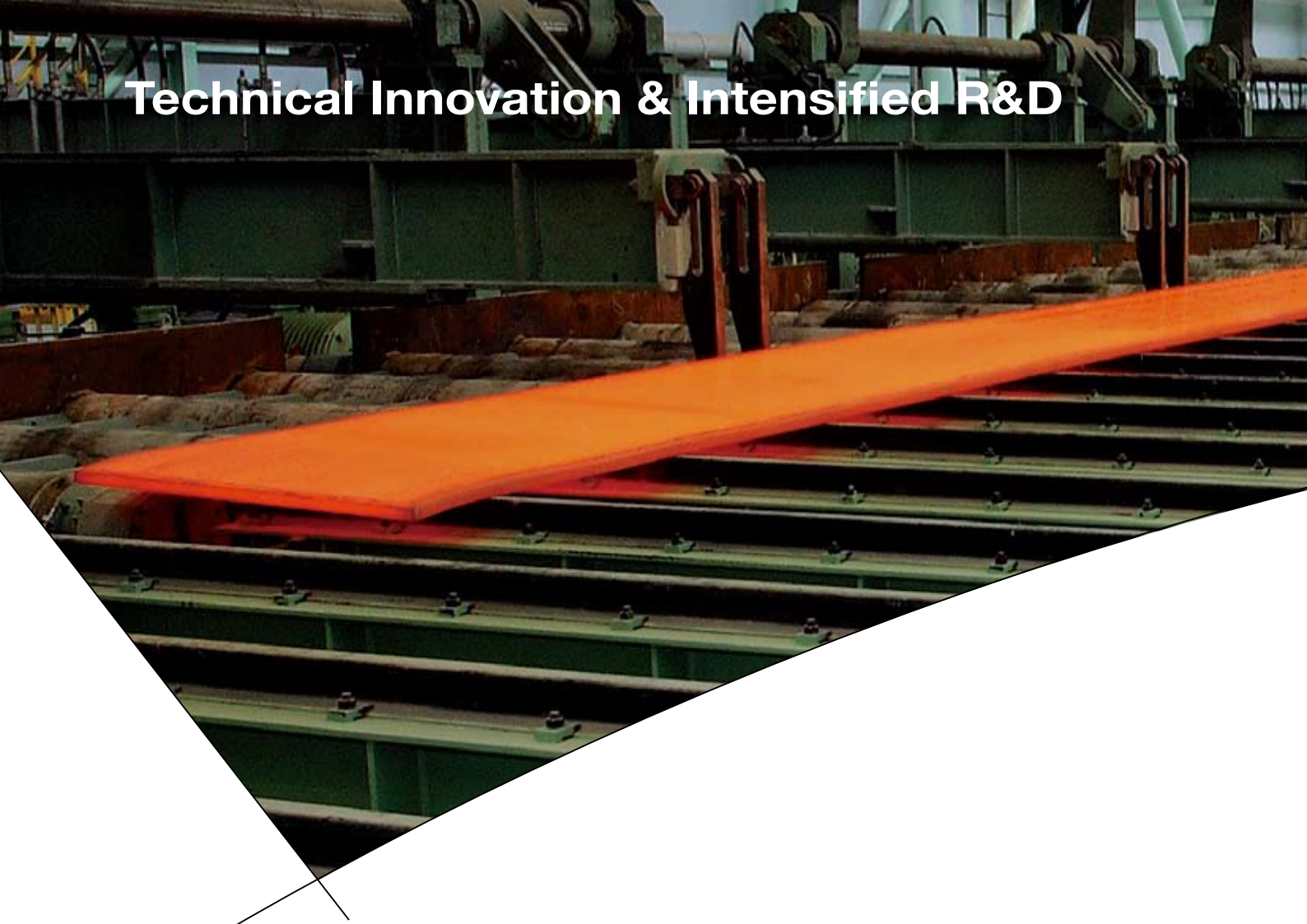
The Supportive Operation Sector (Shanghai Zhongyun Investment Development Co., Ltd.) is also an essential supportive entity, in addition to the a.m. three business units. It mainly engages in such key businesses as fund settlement center, value-added operation of fund center and accounting and booking center. Its business is focused on the outsourcing of accounting for the various entities of the Baosteel Development Co., Ltd. It undertakes the fund settlement, the value-added operation of the idle fund, so as to procure the scale efficiency of fund.

Along with its business integration under way, Baosteel Development Co., Ltd. has been streamlining and readjusting its business in depth. It lays strong emphasis on core business, enhances its competitiveness, and exerts all itself to achieve its development goals: specialized service, market focus and social operation. It will strive to build a modern production-focused service platform and to turn itself into a Chinese industrial service supplier endowed with the highest competitiveness.





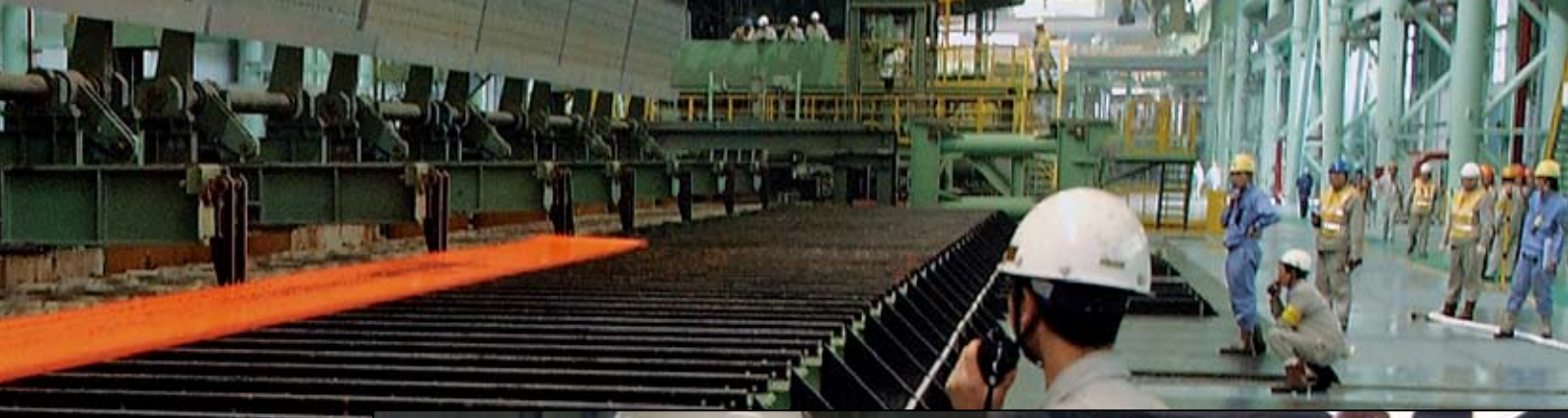
Technical Innovation & Intensified R&D



In accordance with the *Baosteel's Technical Innovation System Development Outline* and the Innovation Pilot Unit Arrangement Scheme, Baosteel keeps pushing ahead the construction of technical innovation system and bettering the efficiency of technical innovation. In 2007, its investment in R&D attained 1.01%, hitting a record high. It filed 1,077 patent applications, including 434 innovation patents, formed 2,178 pieces of know-how, and thus enhanced continuously its ability of innovation and integration on an independent basis.

With the focus on the product development strategy, Baosteel has been consistently pouring the growing money into R&D. It achieved success in developing a number of new steel products that meet the needs of such industries as automobile, home appliance and light industry, energy, transportation and engineering machinery. Its hot drawing steel passed the certification, so that progress was made for the construction of hot drawing steel production project. Its isotropic steel B220/260ZE passed the acceptance test conducted by Shanghai Municipal authority concerned, filling the gap of steel in Chinese market. Owing to steady progress in the non-oriented silicon steel developed by Baosteel in an independent manner, some of such steels have been come into markets at home and abroad. It is an important milestone that marks the phenomenal advancement of Baosteel silicon steel technology.

With emphasis laid on the key technical domains of its R&D, Baosteel has obtained the ever-teeming innovative results and put them into service, so as to further extend its core technology chain. It has continued working hard for the intensive research and development of a series of technologies: the low cost coal blending and iron ore blending technology which aims at extending the blast furnace campaign; the clean stainless steel making technology, stainless steel continuous casting protective powder technology and ferrite stainless steel slab width control technology which are designed to keep upgrading the stainless steel production process; the waste gas desulphurization technology and high viscosity slag treatment process and equipment technology which have been developed and put into production for the energy-efficient production and environment protection; the "throughout process" quality control system and the process supportive measures which focus on the No.3 hot strip rolling project, the No.5 cold rolled silicon steel project, the steel bloom continuous casting project, the cold rolled stainless steel project and COREX project. And furthermore, considerable headway has been made in the thin-slab continuous casting industrialization research, the strip surface inspection and detection technology, the steel shape control technology and IF steel low temperature annealing process technology as well.



Serving Customers



Being confronted to the harsh situation in the steel markets at home and abroad, Baosteel has fostered the marketing philosophy of “market-oriented and customer-focus”, set up and improved the sales network and system and built the global marketing framework system.

Baosteel has made continuous efforts to upgrade and optimize the sales network, raise the ability of controlling and managing market channels by means of IT application and give full play to the comprehensive advantages of its supply chain, render all-dimensional service to customers, so that its steel products have become increasingly competitive in all-round aspects.

In 2007, Baosteel’s integrated sales and logistics control and management system debuted successfully online. This system integrates and optimizes the different logistics including the ex-works logistics of all Baosteel’s manufacturing units, the regional logistics of its trade sector and the logistics of all its steel cutting and distribution service centers. It is designed to create a customer-focused marketing value chain which is characterized by “best service, quickest response and lowest cost”.

By building such excellent marketing value chain, Baosteel has built the customer service into the composition of its core competitiveness.





Energy Saving and Environment Protection

In compliance with the requirements of Shanghai Three-Years Action Program for Environment Protection, Baosteel has been carrying out the environment management and construction in full swing. Remarkable achievements have been scored especially in regard of its long-effect environment management mechanism.

In 2007, Baosteel pursued the goal of “building itself the world-class clean steel enterprise”, took the circular economy development as its starting point, boosted the energy-efficient and environment-friendly move and the comprehensive resource utilization practice, and thus realized a satisfactory performance in environment protection. It made more or less palpable progress in its major performance indices relating to energy, environment protection and comprehensive utilization of resource as against the year 2006. Its dust-fall content was brought down by 20.12% on a basis of year on year, total SO₂ emission by 13.74%, total flue gas dust and ash content by 9.26%, total COD emission by 43.83%. The steel by-product resource recycling ratio went beyond 98.48%, while the by-product reutilization in the production line accounted for 22.67%, as much as the previous year.

The cardinal guideline of Baosteel's development strategy is the sustainable development. Baosteel has published *the Sustainable Development Report of the Year 2006*, based upon its consistent efforts in improving economy, environment and social performance. The information revealed by this report reflects Baosteel's operation and management and its staff members' image, stresses the harmonious development of enterprise, nature and the whole society, and embodies the high sense of social responsibility of Baosteel which attaches great importance to environment protection, the circular economy, and the social monitoring.

Baosteel has signed *the Responsibility Contract for the Energy-Saving Goal for the Period of 11th Five-Year Plan* with the State government and *the Responsibility Contract for the Total Pollutant Control Goal for the Period of 11th Five-Year Plan* with the Regional governments. Now it is going all out to implement the state guideline of “building the economizing society”, fulfill all the environment protection tasks down to earth and ensure the full attainment of Baosteel's goal for the period of 11th Five-Year Plan.





People Foremost



As a corporate citizen, Baosteel bears in mind constantly its due social responsibility, rewards the society as much as it can, and renders service to communities wholeheartedly. It energetically supports the charities, makes considerable donations for commonweals and lends its aid to vulnerable people. By aiming at the coordinated combination of the corporate economic returns and the benefits of the society, it strives to attain the strategic goal of “building itself the most socially respected company”.

In December, 2007, Baosteel was officially accepted as the global steel cooperation partner for Shanghai Expo 2010, a unique steelmaker among all the global cooperation partners of the event, and given the honor to be the general supplier of steel for it.

For the purpose of practicing the scientific outlook of development centered on the people and constructing the harmonious society, Baosteel contributed 20m yuan to the Summer Special Olympics 2007, China, an action that incarnates its loving care for disabled people and Chinese traditional virtue of charity. In 2007, it granted 13.97m yuan to the “moderately well-off” model residence and the low-income people housing projects in the pasturing area of Tibet, a Baosteel’s Tibetan support counterpart, and played a positive part in ameliorating the local Tibetan people’s living condition and promoting the social and economic development of the Zhongba district. No sooner was received the message of the occurrence of the strong earthquake in Ninger district, Yunnan province than Baosteel donated 1.50m yuan to the disaster-hit area, so as to assist it to carry out its reconstruction and production restoration as quickly as possible. On occasion of the “big heart for eye disease” charity ceremonies held respectively in Rikaze city, Tibet autonomous region, and in Puer city, Yunnan province, Baosteel donated 1.70m yuan for cure 3,750 cataract-patients.





Financial Statements

Auditors' Report

Ernst & Young Hua Ming (2008)
Shen Zi No. 60469248_B01

To the board of directors of
Baosteel Group Corporation

We have audited the accompanying financial statements of Baosteel Group Corporation (the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated and company balance sheets as of 31 December 2007, the consolidated and company income statements, statements of changes in equity and cash flow statements for the year then ended and notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of financial statements in accordance with the "Accounting Standards for Business Enterprises". This responsibility includes (1) designing, implementing and maintaining internal controls relevant to the preparation of the financial statements that are free from material misstatement whether due to fraud or error; (2) selecting and applying appropriate accounting policies; and (3) making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Chinese Auditing Standards issued by the Chinese Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain a reasonable assurance as to 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 judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider the internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the 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.

Opinion

In our opinion, the financial statements have been prepared in accordance with the "Accounting Standards for Business Enterprises", and present fairly, in all material aspects, the financial position of the Group and the Company as of 31 December 2007 and the results of their operations and their cash flows for the year then ended.

The enclosed financial statements have been translated from the statutory financial statements prepared in accordance with generally accepted accounting principles applicable to enterprises established in the People's Republic of China. In the event of any differences in interpreting the financial statements, the Chinese version shall prevail.



Ernst & Young Hua Ming
Beijing, the People's Republic of China

Baosteel Group Corporation
Consolidated Balance Sheet

31 December 2007

(Expressed in Renminbi Yuan)		
ASSETS	31 December 2007	31 December 2006
Current assets		
Cash and bank balances	27,968,046,812.61	28,882,792,877.61
Settlement reserves	344,404,130.16	249,742,604.48
Due from banks and other financial institutions	42,366,680.00	-
Financial assets held for trading	4,870,236,026.32	2,336,239,797.29
Notes receivable	8,490,516,332.26	4,682,738,077.76
Accounts receivable	8,630,267,027.20	7,470,732,442.08
Prepayments	8,893,836,647.92	5,791,589,008.10
Interests receivable	27,088,903.88	1,007,429.22
Dividends receivable	22,686,910.56	17,206,560.74
Other receivables	2,580,816,531.15	1,896,601,090.51
Financial assets under repurchase agreements	5,755,900,000.00	-
Inventories	51,678,915,837.56	37,448,686,575.97
Other current assets	642,156,912.00	686,553,586.28
Total current assets	119,947,238,751.62	89,463,890,050.04
Non-current assets		
Loans and advances to customers	50,921,530.73	64,692,815.50
Available-for-sale financial assets	53,096,131,707.58	30,134,482,437.79
Held-to-maturity investments	6,873,529,761.35	4,514,001,726.88
Long-term receivables	58,205,135.58	2,560,000.00
Long-term equity investments	33,051,162,469.73	14,652,206,209.50
Investment properties	592,015,931.55	548,850,929.32
Fixed assets	105,866,740,535.41	84,883,915,357.54
Construction in progress	22,673,143,668.60	17,130,892,676.13
Construction materials	759,032,743.21	631,453,904.21
Intangible assets	10,830,644,111.54	7,370,612,180.83
Goodwill	21,491,631.86	79,046,351.22
Long-term prepayments	199,054,567.50	94,576,687.53
Deferred tax assets	1,603,890,298.03	1,308,857,459.76
Other non-current assets	780,454,438.53	633,292,858.44
Total non-current assets	236,456,418,531.20	162,049,441,594.65
TOTAL ASSETS	356,403,657,282.82	251,513,331,644.69

Baosteel Group Corporation
Consolidated Balance Sheet (continued)

31 December 2007

(Expressed in Renminbi Yuan)		
LIABILITIES AND OWNERS' EQUITY	31 December 2007	31 December 2006
Current liabilities		
Short-term loans	30,923,526,782.04	22,730,778,753.81
Due to banks and other financial institutions	36,112,460.50	19,805,065.64
Financial liabilities held for trading	174,951,938.47	9,170,958.85
Notes payable	5,244,393,572.31	3,045,130,692.47
Accounts payable	23,145,055,348.95	14,268,532,861.92
Advances	12,305,148,534.43	9,607,537,709.58
Employee benefits payable	9,271,095,859.93	6,863,021,641.96
Taxes payable	2,386,675,183.88	1,658,733,570.11
Interests payable	438,923,872.82	330,829,751.24
Dividends payable	1,082,424,492.06	28,485,523.64
Other payables	3,682,365,389.75	3,049,911,286.11
Acting trading securities	1,381,724,995.17	333,245,063.64
Non-current liabilities due within one year	3,238,306,875.00	431,071,116.49
Other current liabilities	-	10,617,121.51
Total current liabilities	93,310,705,305.31	62,386,871,116.97
Non-current liabilities		
Long-term borrowings	19,563,596,182.25	10,632,466,829.64
Long-term payables	2,066,202,391.88	1,513,716,061.49
Special payables	4,266,346,390.68	4,410,813,277.86
Provisions	485,024,186.89	1,286,080.74
Deferred tax liabilities	9,649,460,051.14	5,134,510,118.87
Other non-current liabilities	103,157,084.32	16,878,246.10
Total non-current liabilities	36,133,786,287.16	21,709,670,614.70
Total liabilities	129,444,491,592.47	84,096,541,731.67
Owners' equity		
Paid-in capital	51,728,828,764.60	49,478,570,998.89
Capital surplus	61,499,436,848.21	34,599,752,786.06
Surplus reserves	64,137,007,409.35	58,675,952,882.90
Retained earnings	15,903,209,126.12	922,375,952.08
Exchange differences on foreign currency translation	(17,410,440.19)	(23,315,966.25)
Total equity attributable to equity holders of the parent	193,251,071,708.09	143,653,336,653.68
Minority interests	33,708,093,982.26	23,763,453,259.34
Total owners' equity	226,959,165,690.35	167,416,789,913.02
TOTAL LIABILITIES AND OWNERS' EQUITY	356,403,657,282.82	251,513,331,644.69

Baosteel Group Corporation
Consolidated Income Statement

Year Ended 31 December 2007

			(Expressed in Renminbi Yuan)	
			2007	2006
Gross revenue			227,715,937,881.04	178,507,753,615.31
Including: Revenue			226,751,403,309.91	178,070,281,349.96
Interest income			310,388,373.34	137,161,384.57
Net fee and commission income			654,146,197.79	300,310,880.78
Gross cost			206,949,439,396.55	158,466,860,058.46
Including: Operating costs			188,096,303,845.89	144,812,039,624.83
Interest expenses			148,620,517.36	8,414,327.29
Net fee and commission expenses			167,250.19	1,060,141.28
Taxes and surcharges			1,894,450,312.49	1,010,483,372.01
Selling expenses			3,276,727,499.77	2,870,369,897.28
General and administrative expenses			10,629,317,502.67	9,756,829,033.60
Finance costs			1,204,466,356.63	846,136,943.19
Impairment of assets			1,699,386,111.55	(838,473,281.02)
Add: Gains from changes in fair value			552,764,880.29	176,587,182.71
Investment income			14,726,712,466.71	2,385,583,466.89
Including: Share of profits less losses of associates and jointly controlled entities			2,410,054,061.88	396,669,968.90
Profit from operations			36,045,975,831.49	22,603,064,206.45
Add: Non-operating income			867,801,452.95	292,884,075.94
Less: Non-operating expenses			1,266,920,010.29	518,051,607.61
Total profit			35,646,857,274.15	22,377,896,674.78
Less: Income tax expenses			10,177,992,206.50	6,278,679,386.37
Net profit for the year			25,468,865,067.65	16,099,217,288.41
Minority interests			3,730,214,341.60	3,113,604,395.70
Net profit attributable to equity holders of the parent			21,738,650,726.05	12,985,612,892.71

Baosteel Group Corporation

Consolidated Cash Flow Statement

Year Ended 31 December 2007

	(Expressed in Renminbi Yuan)	
	2007	2006
Cash flows from operating activities:		
Cash received from sale of goods or rendering of services	251,290,764,961.73	204,122,851,141.13
Net decrease in deposits at the People's Bank of China and other financial institutions	105,916,195.68	2,577,610,363.24
Cash received from interest income, service charges and commissions	940,650,463.36	437,472,265.35
Net increase in amounts due to banks and other financial institutions	16,307,394.86	12,603,433.92
Net decrease in loans and advances to customers	62,241,284.77	-
Tax refunds	698,634,303.56	725,025,905.37
Sub-total of cash inflow from operating activities	253,114,514,603.96	207,875,563,109.01
Cash paid for goods and services	191,716,600,767.78	150,349,008,461.81
Net increase in loans and advances to customers	-	80,707,515.50
Net increase in due from banks and other financial institutions	42,366,680.00	-
Cash paid for interest income, service charges and commissions	163,911,703.65	9,474,468.57
Cash paid to and on behalf of employees	14,188,504,303.85	10,729,956,987.71
Cash paid for all types of taxes	21,888,056,135.72	14,316,384,472.92
Cash paid relating to other operating activities	8,211,024,149.41	6,406,920,510.02
Sub-total of cash outflow from operating activities	236,210,463,740.41	181,892,452,416.53
Net cash flows from operating activities	16,904,050,863.55	25,983,110,692.48
Cash flows from investing activities:		
Cash received from sale of investments	53,594,374,234.48	47,460,068,196.73
Cash received from return on investments	8,571,173,460.51	2,363,414,647.62
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	1,842,380,655.78	3,557,475,666.55
Net cash received from acquisitions of subsidiaries and other business units	1,858,158,653.55	-
Cash received relating to other investing activities	394,847,224.81	339,361,849.46
Sub-total of cash inflow from investing activities	66,260,934,229.13	53,720,320,360.36
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	28,451,199,124.77	23,049,502,669.64
Cash paid for acquisition of investments	65,702,133,663.67	47,597,781,073.77
Sub-total of cash outflow from investing activities	94,153,332,788.44	70,647,283,743.41
Net cash flows from investing activities	(27,892,398,559.31)	(16,926,963,383.05)
Cash flows from financing activities:		
Cash received from investments from investors	4,358,122,640.52	274,943,860.67
Including: Cash received from investments from minority shareholders	4,358,122,640.52	274,943,860.67
Cash received from borrowings	68,847,803,152.36	51,865,256,415.39
Sub-total of cash inflow from financing activities	73,205,925,792.88	52,140,200,276.06
Cash repayments of borrowings	56,754,002,641.67	46,392,537,540.00
Cash paid for distribution of dividends or profits and for interest expenses	4,263,952,966.01	2,607,847,629.99
Including: Cash paid for distribution of dividends or profits to minority shareholders	1,833,469,906.26	1,386,352,298.99
Cash paid relating to other financing activities	447,180,000.00	141,479,361.80
Sub-total of cash outflow from financing activities	61,465,135,607.68	49,141,864,531.79
Net cash flows from financing activities	11,740,790,185.20	2,998,335,744.27
Effect of changes in exchange rate on cash	201,645,768.98	56,431,158.63
Net increase in cash and cash equivalents	954,088,258.42	12,110,914,212.33
Add: cash and cash equivalents at beginning of year	31,585,812,648.00	19,474,898,435.67
Cash and cash equivalents at end of year	32,539,900,906.42	31,585,812,648.00

Baosteel Group Corporation
Balance Sheet

31 December 2007

(Expressed in Renminbi Yuan)		
ASSETS	31 December 2007	31 December 2006
Current assets		
Cash and bank balances	23,053,486,815.47	21,976,099,915.27
Financial assets held for trading	323,164,250.76	261,196,490.00
Dividends receivable	555,351,511.50	584,625,015.28
Other receivables	168,741,516.03	464,235,498.81
Non-current assets due within one year	800,000,000.00	1,400,000,000.00
Total current assets	24,900,744,093.76	24,686,156,919.36
Non-current assets		
Available-for-sale financial assets	46,298,866,076.74	28,722,783,682.99
Held-to-maturity investments	10,582,696,634.23	5,115,081,570.37
Long-term equity investments	99,968,931,395.52	97,402,284,919.87
Investment properties	59,890,687.17	64,993,208.08
Fixed assets	481,071,675.68	500,043,594.92
Construction in progress	347,424,998.92	217,227,734.62
Intangible assets	1,520,434,655.51	1,563,532,508.53
Deferred tax assets	36,255,156.91	61,540,153.54
Other non-current assets	800,000,000.00	1,600,000,000.00
Total non-current assets	160,095,571,280.68	135,247,487,372.92
TOTAL ASSETS	184,996,315,374.44	159,933,644,292.28

Baosteel Group Corporation
Balance Sheet (continued)

31 December 2007

(Expressed in Renminbi Yuan)		
LIABILITIES AND OWNERS' EQUITY	31 December 2007	31 December 2006
Current liabilities		
Accounts payable	272,022,247.05	290,413,738.49
Employee benefits payable	3,517,614,146.98	2,723,788,263.80
Taxes payable	606,948,025.77	344,798,233.68
Other payables	459,637,302.28	663,948,928.61
Dividends payable	1,047,691,934.93	-
Non-current liabilities due within one year	99,261,258.00	100,377,420.00
Other current liabilities	1,476,879,361.13	6,718,376,654.44
Total current liabilities	7,480,054,276.14	10,841,703,239.02
Non-current liabilities		
Long-term borrowings	632,251,915.69	736,606,286.24
Deferred tax liabilities	8,648,527,452.97	4,866,893,011.61
Total non-current liabilities	9,280,779,368.66	5,603,499,297.85
Total liabilities	16,760,833,644.80	16,445,202,536.87
Owners' equity		
Paid-in capital	51,728,828,764.60	49,478,570,998.89
Capital surplus	52,369,645,555.69	36,429,627,462.62
Surplus reserves	64,137,007,409.35	58,675,952,882.90
Retained earnings	-	(1,095,709,589.00)
Total owners' equity	168,235,481,729.64	143,488,441,755.41
TOTAL LIABILITIES AND OWNERS' EQUITY	184,996,315,374.44	159,933,644,292.28

Baosteel Group Corporation
Income Statement

Year Ended 31 December 2007

(Expressed in Renminbi Yuan)		
	2007	2006
Revenue	182,173,463.01	190,541,871.67
Less: Operating costs	40,674,291.94	33,089,392.42
Taxes and surcharges	10,777,048.06	9,448,077.57
General and administrative expenses	1,464,544,064.54	653,457,181.24
Finance costs	(491,035,151.78)	(419,879,762.38)
Impairment of assets	(23,791,318.08)	(5,533,468.44)
Add: Gains from changes in fair value	131,109,364.22	97,361,670.00
Investment income	11,982,095,656.10	12,413,834,373.52
Including: Share of profits less losses of associates and jointly controlled entities	80,891,859.59	5,689,299.76
Profit from operations	11,294,209,548.65	12,431,156,494.78
Add: Non-operating income	79,883,373.23	88,343,279.28
Less: Non-operating expenses	447,911,547.60	77,300,385.23
Profit before tax	10,926,181,374.28	12,442,199,388.83
Less: Income tax expenses	3,078,061,100.16	402,835,205.15
Net profit for the year	7,848,120,274.12	12,039,364,183.68

Baosteel Group Corporation
Cash Flow Statement

2007

	(Expressed in Renminbi Yuan)	
	2007	2006
Cash flows from operating activities:		
Tax refunds	47,808,156.00	82,592,430.13
Cash received relating to other operating activities	627,454,609.49	191,329,934.75
Sub-total of cash inflow from operating activities	675,262,765.49	273,922,364.88
Cash paid to and on behalf of employees	397,937,196.36	255,645,087.70
Cash paid for all types of taxes	2,818,319,574.61	62,323,228.43
Cash paid relating to other operating activities	498,839,500.72	449,905,983.33
Sub-total of cash outflow from operating activities	3,715,096,271.69	767,874,299.46
Net cash flows from operating activities	(3,039,833,506.20)	(493,951,934.58)
Cash flows from investing activities:		
Cash received from sale of investments	27,310,992,867.34	22,264,571,950.66
Cash received from return on investments	16,603,362,491.81	6,235,160,966.87
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	1,408,288,734.60	3,196,849,380.60
Cash received relating to other investing activities	593,848,299.46	538,119,554.69
Sub-total of cash inflow from investing activities	45,916,492,393.21	32,234,701,852.82
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	171,958,206.77	120,426,839.63
Cash paid for acquisition of investments	39,169,106,687.67	24,558,945,079.25
Cash paid relating to other investing activities	-	160,397,685.85
Sub-total of cash outflow from investing activities	39,341,064,894.44	24,839,769,604.73
Net cash flows from investing activities	6,575,427,498.77	7,394,932,248.09
Cash flows from financing activities:		
Cash repayments of borrowings	5,326,967,825.86	702,850,000.00
Cash paid for distribution of dividends or profits and for interest expenses	336,257,069.60	24,452,077.72
Cash paid relating to other financing activities	447,296,375.61	2,371,941,344.16
Sub-total of cash outflow from financing activities	6,110,521,271.07	3,099,243,421.88
Net cash flows from financing activities	(6,110,521,271.07)	(3,099,243,421.88)
Effect of changes in exchange rate on cash	(39,383,076.02)	(35,612,233.77)
Net (decrease)/increase in cash and cash equivalents	(2,614,310,354.52)	3,766,124,657.86
Add: Cash and cash equivalents at beginning of year	25,667,797,169.99	21,901,672,512.13
Cash and cash equivalents at end of year	23,053,486,815.47	25,667,797,169.99

Highlights of the Year 2007

January

On Jan. 15, the Baosteel's cadre conference was held, at which Wang Dongming, vice director of the Organization Department of the CPC Central Committee, who was delegated by the CPC Central Committee leaders, announced the decision of the CPC Central Committee and the State Council on the readjustment of the senior leadership of Baosteel. Xu Lejiang was appointed the Chairman of Baosteel Group Corporation and Ai Baojun, the president of Baosteel Group Corporation.

On Jan. 16, the signing ceremony for the agreement on the increased investment in and the reorganization of Bayi Iron & Steel Group Corporation entered by and between Baosteel and the people's government of Xinjiang Uygur Autonomous Region was hosted in Urumchi. Wang Lequan, the Political Bureau member of CPC Central Committee, Party secretary of the Xinjiang Uygur Autonomous Region attended the event and delivered a keynote speech.

On Jan. 27, the appraisal result of the "Financial Celebrity List of the Year 2006" co-sponsored by Hexun.com and China's Stock Exchange Research & Design Center was announced. Baosteel Co., Ltd. was granted the honor of "the Best Investor Relationship Prize of the Year 2006", while Chen Ying, secretary of the board of directors, was chosen as "the China's Golden Medal Board Secretary of the Year 2006".

February

On Feb. 2, the agreement on the donation of 1.00m dollar to the Olympic Museum was co-signed by the Olympic Museum and Baosteel in Baosteel Tower. Baosteel was honored to be the worldwide unique steelmaker donator who could get its name engraved on the commemoration wall for the Olympics donators, becoming the second Chinese donator who did so.

On Feb. 27, Han Mingming, a workmanship expert of Baosteel Co., Ltd. was awarded "the State Science & Technology Progress Prize Class B" for his invention patent of "the metal detection and iron automatic removal technology" at the commendation conference of the State Science & Technology Progress Awards. And he was one of the three laureates as worker or farmer.



March

On Mar. 26, the hot rolled steel product mix readjustment project of Baosteel Meishan Co., Ltd. got started.

On Mar. 30, the No.3 hot rolling mill project of Baosteel Co., Ltd. came on stream.

On Mar. 31, Baosteel Co., Ltd. announced that from 2007 on, the implementation of its plan of new-round development would be unfolded in an all round way, upon the approval of its board of directors, so that until 2012, the steel output would jump as high as to 50m t/a, while a steel production base characterized by the complete product mix for its target market, the well-matched steel series and the premium steels taken as core products would be built up.

In March, the decision on the major readjustment of the company's senior leaders was made at the 5th session of the third board of the directors. According to the decision, Xu Lejiang left office as chairman of the board of directors of Baosteel Co., Ltd., Ai Baojun was elected chairman of the third board of directors of Baosteel Co., Ltd., Fu Zhongzhe was appointed the president of Baosteel Co., Ltd.



April

On Apr. 5, the Hebei provincial delegation made a two-days-long survey tour in Baosteel.

On Apr. 9, a delegation headed by Xi Jinping, Party secretary of Shanghai, Yang Xiong, vice mayor of Shanghai, Zhong Yanqun, vice director of Shanghai World Expo Executive Committee paid a visit to the Pudong Steel's relocation project site.

On Apr. 13, the Shanxi Huobaoganhe Coal Mine Co., Ltd., a joint investment setup, was founded by and between Shanxi Coking Coal Group Corporation and Baosteel Group Corporation, upon the co-signing ceremony. It was a strategic cooperation project between them or the Shanxi People's Government's project whose agreement had been concluded at the Shanghai Negotiating Meeting.

On Apr. 18, a production start-up ceremony was held for the No.3 hot rolling mill of Baosteel Co., Ltd..

On Apr. 24, Xi Jinping, Party secretary of Shanghai, accompanied by Hu Yanzhao, vice mayor of Shanghai, made an inspection tour in Baosteel Special Steel Branch.

On Apr. 26, the first batch of "the National Integrity Enterprises of the Year 2006" was selected by the China's Enterprises Confederation and the China's Enterprise Directors Association. On this occasion, Baosteel was voted "the highest integrity enterprise", and Baosteel Co., Ltd. Baosteel Branch was given the honor of "the outstanding integrity enterprise".

On Apr. 28, the grand opening ceremony was hosted in Bayi Steel for the Baosteel Group Xinjiang Bayi Iron & Steel Co., Ltd.. Wang Lequan, the Political Bureau member of CPC Central Committee, Party secretary of the Xinjiang Uygur Autonomous Region, and Li Rongrong, director and Party secretary of the State on-Assets Supervision & Administration Commission with the State Council, attended the event and delivered a keynote speech.

May

On May 10, Baosteel and Handan Iron & Steel Group Corporation co-signed the cooperation agreement on the founding of HandanSteel Hanbao Company by joint-investment, in Shijiazhuang, Hebei.

On May 14, the "the ceremony of Baosteel's donation to China's Environment Protection Foundation as a performance of its responsibility for the society" was solemnly staged in the People's Grand Hall. On this occasion, Baosteel donated 50m yuan to the Foundation. On an account of the commendation of the Baosteel's excellent performance in the environment protection and its effective support to the commonweals, the Foundation approved to change the "China Environment Prize" into "China Baosteel Environment Prize".



June

On Jun. 5, the commendation meeting for labor competition and work achievements was held for the 1880 hot strip rolling mill project.

On Jun. 12, Baosteel got its name engraved on the commemoration wall for the Olympics donors in the Switzerland's Olympics Museum in Losane, becoming the only steelmaker worldwide who did so.

On Jun. 15, the Fortune Trust was voted the "China's Best Trust Company" in the appraisals of "Honest Trustee - the China's Best Trust Companies". It won the other 6 single nomination prizes. Bai Yang, the senior manager of its corporate annuity service center was given "the Best Trust Plan Manager Prize".

On Jun. 15, the National Committee of China's Mechanical & Metallurgical Construction Materials Trade Union and the China's Iron & Steel Industry Association made the decision on the campaign to be carried out to learn from Han Mingming.

July

On Jul. 5, Baosteel released "the report on sustainable development for the year 2006.

On Jul. 12, Baosteel ranked 307th of the Fortune 500, based upon its 22.6634b dollar worth of sales income in 2006. By then it had been a Fortune 500 company for the four consecutive years.

On Jul. 18, the last production line – heavy plate mill was shut down, after finishing last rolled plate. In order to support the construction of the Shanghai World Expo venues, Pudong Iron & Steel Corporation was going to be relocated to Luojing, Baoshan.

On Jul. 23, the strategic alliance framework agreement was entered by and between Baosteel and Baotou Iron & Steel Group Corporation in Hohehot, Inner Mongolia Autonomous Region.



August

On Aug. 4, the *Three-Years-Long Contract for Imported Coal Shipments*, the *Nine-Years-Long Agreement and Three-Years-Long Contract for Coastal Shipments* and the *Twenty-Years-Long Contract for the Shipments of Iron Ore from Brazil to China with the 300,000 t Class Vessel* were concluded by and between Baosteel and COSCO. A broader development prospect in the two parties' cooperation would have been unfolded as a result of this event.

On Aug. 8, the State on-Assets Supervision & Administration Commission released the examination results of the operation performances accomplished by the Central Government-Owned Enterprises' heads, and in the meantime, made the survey and calculation for the examination results of the 7 enterprises which carried out the pilot operation according to the Company Law of People's Republic of China. Baosteel's performance was rated Class A, according to this examination.

On Aug. 10, the "2008 Olympics" Construction Project Head-Office with Beijing People's Government and the China's Iron & Steel Industry Association jointly commended nine Chinese steelmakers for their positive contributions to the construction of Beijing Olympics venues. Amid them, Baosteel took lead with its proactive attitude, top class quality and all-dimensional service.

On Aug. 11, Baosteel were awarded the five major honors through the Third China's Investor Relationship Management Appraisals: the Top 100 China's Investor Relationship Managers, the Best Large-Sized Company, the Best Executive (secretary of the board), the Best Communication as well as the Best Information Releasing People for the year 2006, being so much crowned that no one could rival since years.

On Aug. 28, Baosteel and FMG Australia co-hosted the signing ceremony of *Fortescue River Valley Iron Ore Project Co-investment Agreement*.



September

On Sep. 1, the Briefing Meeting of Top 500 China's Enterprises for the Year 2007 and China's Big Enterprises Summit announced the Top 500 China's Enterprises, among which Baosteel ranked 12th, and took the 1st place in Top 500 China's Manufacturers.

On Sep. 4, Xu Lejiang, chairman of Baosteel, put forward the company's strategic goal for the period of 2007 through 2012 at the first training course for the company's managerial personnel.

On Sep. 12, Baosteel was granted the honor of "Fortune's Most Admired Company".

On Sep. 13, the signing ceremony for establishing Hanbao Iron & Steel Co., Ltd. by joint investment was co-hosted by Baosteel and Handan Steel Group Corporation.

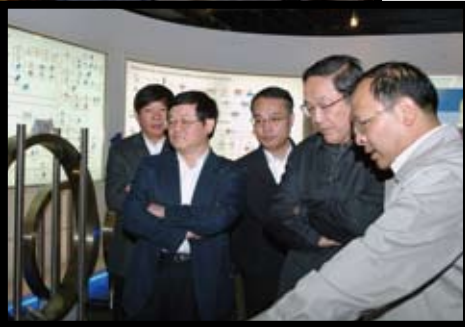
October

On Oct. 3, the opening ceremony for Baosteel CSV, a joint venture by Baosteel and CVRD, Brazil was held in the city of Victoria, Santo Esperito State, marking the official commencement of the Baosteel's first overseas steel plant.

On Oct. 11, Standard & Poor announced that Baosteel Group Corporation and Baosteel Co., Ltd. got the long-term credit standing adjusted up to "A -", while their prospects were raised from "stable" to "positive". It was a consecutive breakthrough in the standing, after hitting a record high with the rating of "A -" in December 2006.

On Oct. 21, Xu Lejiang was elected the alternate member of the 17th CPC Central Committee.

On Oct. 27, Majishan Port Project Phase II was completed and put into operation.



November

On Nov. 2, Baosteel was awarded the "Excellent Performance Enterprise Prize" and "Scientific Innovation Special Prize" for its outstanding achievements in production, operation and scientific innovation, as a result of the examination and appraisal of the first term of operation fulfilled by the Central Government-owned enterprises' leaders for the period of 2004 through 2006.

On Nov. 4, the COREX furnace of the Pudong Steel Relocation Luojing Project was successfully lit up as scheduled, after its steel structure, piping, mechanical and electrical equipment had been completed and commissioned.

On Nov. 6, Baoguo Ship, the first 200,000 t class large-sized ocean-going iron ore shipping vessel that the Japanese Passenger Liner Co., Ltd. built specially for Baosteel, left the port and began its commercial navigation.

On Nov. 10, the NM Rothschild & Sons Ltd. delegation headed by Mr. Schroeder, the former German Chancellor, senior consultant of the Bank and the member of the European Consultant commission paid visit to Baosteel.

On Nov. 13, Yu Zhengshen, the Political Bureau member of the CPC Central Committee, Party secretary of Shanghai made an inspection tour in Baosteel.

On Nov. 22, Xu Kuangdi, vice chairman of CPPCC, president of China's Engineering Academy visited Changzhou Baoling Heavy Industry Company and Changzhou Roll Manufacturing Company.

On Nov. 24, the ceremony was held for the commencement of hot load test run of Pudong Steel Luojing Project and the COREX tapping. The worldwide first COREX – C 3000 iron making furnace made a hit with its tapping. As a remarkable pioneer in China's iron making technology without blast furnace, this achievement is considered a great milestone in China's iron and steel industry development. At the ceremony were present Yu Zhengshen, Political Bureau member of CPC Central Committee, Party secretary of Shanghai, Xu Kuangdi, president of China's Engineering Academy, Han Zheng, vice Party secretary of Shanghai, Shanghai mayor; Zhang Lijun, vice director of State Environment Protection Administration, Xiong Bilin, vice director of the State Development & Reform Commission, Ole Haslestad, vice chairman of Siemens Industry Solutions and other representatives from overseas and domestic companies and institutions, who then all witnessed the stirring minutes of the hot metal tapping through the video equipment.

On Nov. 27 – 28, the third CPC congress of Baosteel Group Corporation was convened, at which the new Party committee and disciplinary committee of the Corporation were elected and the work report of the Party Committee and that of the disciplinary committee were both approved.

December

On Dec. 5, the strategic cooperation agreement was made and entered by and between Baosteel and China Steel Group Corporation.

On Dec. 15, the Hanbao Iron & Steel Co., Ltd., a joint venture between Baosteel and Handan Steel Group Corporation was founded along with the plate unveiling ceremony held. It was an essential step forward toward the cross-regional union of strong steelmakers – Baosteel and Handan Steel.

On Dec. 17, the '2007 National Customer Work and the Satisfactory Engineering Project Promotion Convention was hosted by China Association for Quality, at which Baosteel was granted the honor of the year's National Customer Satisfaction Service Model Enterprise, while Baosteel Chemicals was crowned with the Year's National Customer Satisfaction Model Enterprise.

On Dec. 27, the first provisional shareholder conference of Baosteel Co., Ltd. for the year 2007 was convened, at which such issues as the acquisition of the assets of Luojing Engineering Project, the proposed issuance of separate transactional and convertible corporate bonds and the election of Xu Lejiang as director of the board of director of the company were all examined and approved.

On Dec. 27, the 10th session of the third board of directors was held, at which Xu Lejiang was elected the chairman of the board, the executive director and the director of the strategy committee of the third board of director.

On Dec. 27, Ai Baojun was appointed vice mayor of Shanghai by the 41st session of Shanghai Municipal Standing Committee of NPC, leaving former office as the president of Baosteel Co., Ltd.

On Dec. 30, the fully automatic steelmaking process was realized in the No.6 converter of Baosteel Branch, which marked the successful commencement of the "one-key operation" type steelmaking system that Baosteel developed independently.



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