EXPO 2010 SHANGHAI CHINA

BAOSTEEL

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

# 2008
# Sustainability Report
## BAOSHAN IRON & STEEL CO., LTD.

# Contents



## Our Commitment

The board of directors of the Company and all its members guarantee that this Report is free of any false representation, misleading statement or material omission and are jointly and severally responsible for authenticity, accuracy and completeness of the information contained in this Report.

## Social Contribution Per Share

The social contribution per share of Baoshan Iron & Steel Co., Ltd. is RMB1.835 in 2008.

| | | |
|---|---|---|
| | Basic earnings per share: | RMB0.369 per share |
| + | Taxes paid in the reporting year: | RMB0.889 per share |
| + | Salaries and wages paid to employees: | RMB0.404 per share |
| + | Interest on borrowings paid to banks and other creditors: | RMB0.168 per share |
| + | Outward donations and values created for other stakeholders: | RMB0.001 per share |
| - | Other social costs arising from environmental pollutions and other incidents: | RMB0.004 per share |
| | Social contribution per share: | RMB1.835 per share |

Note: Environment control cost and pollutant discharge fees incurred by environmental accidents can be included into "other social costs arising from environmental pollutions and other incidents". As no environmental accident occurred in 2008, the "other social costs arising from environmental pollutions and other incidents" only include "pollutant discharge fee".

# About This Report

This Report is the annual *Sustainability Report* issued by Baoshan Iron & Steel Co., Ltd. (hereinafter referred to as "Baosteel" or " the Company") for the fourth consecutive year. Baosteel released two Annual Reports on Environment earlier.

This Report was prepared in accordance with the GRI Sustainability Reporting Guidelines (G3) and in reference to the 2008 *Annual Reporting Memo No. 1 for Listed Companies: Preparation and Review of Internal Control Report and Corporate Social Responsibility Report* issued by Shanghai Stock Exchange.

# Range

The report mainly describes the activities of Baosteel and its 13 branches and subsidiaries, as listed below, and concerns the aspects of economy, environment and social responsibility, etc. from January 1st to December 31st, 2008, unless otherwise specified: Baosteel Branch Co., Stainless Steel Branch Co., Special Steel Branch Co., Medium and Heavy Plate Branch, Shanghai Meisteel Co., Ltd, Nantong Baogang Nippon, Ningbo Baosight Stainless Steel Co., Ltd, Baosteel-NSC Automotive Steel Sheets Co., Ltd., Yantai Lubao Steel Pipe Co., Ltd., Baosteel Huangshi Coated and Galvanized Sheets Co. Ltd., Chemical Branch Co., Baosteel Research Institute, Shanghai Baosteel International Economic and Trading Co., Ltd. and Shanghai Baosight Software Co., Ltd.. Compared with the last report the main criteria have not been changed, only some contents were added to the range of report concerning Baosteel Medium and Heavy Plate Branch.

The financial data in the report is stated in Renminbi Yuan (CNY). For convenience of reference the following exchange rates are used in the report: USD1 = CNY 6.8346 (or CNY1 = USD0.1463), and the Euro exchange rate used is EUR1 = CNY9.6590 (or CNY1 = EUR0.1035). Both rates are taken from the rates published by the People's Bank of China on Dec.31, 2008.

Unless otherwise specified, the electric power purchased externally is converted based on the equivalent coefficient of electric power, that is 1 kW·h = 11.82 MJ of standard coal.

# Language and Publishing Format

The report is published in both Chinese and English. The Chinese version will prevail in the event of any discrepancy between the two versions. In case of any questions about this report, please contact us by phone or letter at the following address:

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The report was issued in two forms - print and PDF electronic document that can be downloaded from Baosteelk Website (http://www.baosteel.com).

# 01 Honors & Awards

Baosteel was widely recognized across all segments of the society in 2008. Those listed below are some of the selected honors and awards won by Baosteel in 2008.

- "Corporate Social Responsibility Contribution Award"

  Baosteel won the "Corporate Social Responsibility Contribution Award" at the Harmonious Society Building & CSR (Shanghai Pudong) Forum 2008.

- Outstanding Enterprises Awards in Corporate Social Responsibility Ratings

  Baosteel won the "Outstanding Enterprise Awards" in the Corporate Social Responsibility Ratings initiated by the *First Financial Daiyl*.

- Baosteel ranked first in the CSR Indices released by Shanghai National Accounting Institute

- Baosteel was awarded the "China's Most Admired Company" by Fortune (Chinese Edition)

- "China's Most Respected 50 Listed Companies"

  Baosteel was recognized as "China's Most Respected 50 Listed Companies" in 2008 by World Executive Group, World Entrepreneur and World Finance Lab.

- "International 'A' Rating for sustainable development"

  RepuTex, a well-renowned international sustainability rating agency, gave an "International Rating A" to Baosteel to recognize its achievements in sustainable development.

  Ms Martha Grossman, General Manager of RepuTex China said, "Our rating on Baosteel reflects the on-going development of the company's risk management practices and its management focus on systems to address key risk areas. The Company has established dedicated strategies to address strategic planning, environmental protection and audit, and these strategies are backed by policy and systems, as well as compliance and oversight processes."

- Honored as one of the first "Cleaner Production & Environment friendly" Enterprises in China

- First benchmarks for "China's Green Companies" listed by China Enterprise Directors Association

- Best Companies for Energy Conservation and Environmental Protection

  Baosteel was recognized as the one of "Best Companies for Energy Conservation and Environmental Protection" at the executive round table on energy efficiency and sustainable development of enterprises jointly held by China Enterprise Confederation and World Environment Center.

- "Service Providers to the Satisfaction of National Users"

  Baosteel was awarded the "Service Providers to the Satisfaction of National Users" by China Association for Quality, and Shanghai Baosteel Chemical Co., Ltd. was given the title of "Enterprises to the Satisfaction of National Users".

  Earlier, Baosteel was honored the title of "Enterprises to the Satisfaction of National Users" and "Excellent Enterprises in the National User Satisfaction Program".

- "China's Creditworthy Companies of the Year" in 2007

  Baosteel was honored the title of "China's Creditworthy Companies of the Year" in 2007 by China Enterprise Confederation China Enterprise Directors Association.

- "Innovative Organization in China Credit Co-building Year of 2007"

  Baosteel was given the title of "Innovative Organization in China Credit Co-building Year of 2007" at "China Credit 4.16 Summit Forum 2008" co-hosted by over twenty guilds.

- The AAA Enterprise "Observing Contract and Valuing Credit" of Shanghai in 2006-2007

- Standard & Poor's raised Baosteel rating to "A-"

  Standard & Poor's revised its outlook on Baosteel Group Corporation Limited ("Baosteel Group") and its subsidiary Baoshan Iron & Steel Co., Ltd ("Baosteel") from positive to stable, and gave a long-term "A-" credit rating to both companies.

# 02 Message from the Top Management



Chairman of Board of Directors:
**Xu Lejiang**

President:
**Fu Zhongzhe**

The steel industry of China experienced dramatic ups and downs in 2008. Iron ore, coke, coal and alloys and other raw and auxiliary materials also underwent ongoing price surges. After the fourth quarter, amid the global economic recession triggered by the financial crisis, demands dropped extensively along the steel industry chain, resulting in slump of steel prices, sharp decline in sales of steels and dramatic decrease in profit. In the context of the global financial crisis imposing an ongoing impact on the real economy, the export of steel products suffered from increasingly more antidumping, anti-subsidy investigation and trade frictions.

Enterprises should consider more for sustainable development amid the current difficulties.

In addition to a concept and commitment, sustainability development of enterprises is also a process of practice that requires inclusion of sustainable development into daily operations and pay equal attention to the sustainability of social and economic development when seeking sustainable economic development.

Performing social responsibility is a sustainable way of business growth, which becomes a campaign for business entities. On December 29, 2007, the State-Owned Assets Supervision and Administration Commission set out eight requirements on social responsibility of enterprises in the "Opinions on Social Responsibility of Enterprises Directly under the Central Government". On May 13, 2008, Shanghai Stock Exchange issued the Circular on Strengthening Social Responsibility of Listed Companies, calling for active fulfillment of social responsibility by listed companies and introducing the concept of "Social Contribution Per Share".

We think that the social responsibility of steel makers includes that following elements:

- Providing quality services and products for the society is the basic function of steel makers;
- Operation in compliance with laws is the ethical bottom line of steel makers;
- Continuously improving profitability is the objective of steel makers;
- Pushing forward M&A and fueling development of the industry is a historic mission of large- and medium-sized steel makers;
- Causing downstream and upstream enterprises to perform social responsibility is an obligatory of each corporate citizen;
- Giving a balanced consideration to all stakeholders and achieving common development is the basis for survival of steel makers;
- Technical innovation, elimination of backward capacities, energy conservation and emission reduction and cyclic economy development are the only way of steel makers; and
- Dedication to public welfare and charitable donations are the most direct way of performing social responsibility and attracting the most concerns of the public.

# 02 Message from the Top Management



In 2008, In the face of difficult conditions caused by excessive supply in the domestic steel market and revival of trade protectionism, Baosteel overcame cost rises of raw materials and sharp downturn of the steel market and achieved stable overall production and operation. The annual sales volume of commodity billets were 22.813 million tons, generating RMB200.85 billion of gross operating income and RMB8.67 billion of total profit.

These achievements benefited from ongoing efforts of Baosteel in the following aspects:

In addition to taking "creating maximum value for shareholders" as the goal of the company, we also incorporate social responsibility into business operations to achieve a win-win result of economic profits and social benefits. From the perspective of economic, environment and social harmony, we paid due attention to the relation between social responsibility and long-term business growth, and turning social responsibility to the power and long-term benefits of business development.

We always follow the mission of "becoming the most important steel maker in the world committed to providing value-added products and services". Oriented to high-quality and environment-friendly products, the Company has continuously been optimizing product mix, enhancing brand effect, and has basically established the main production bases for six types of high-quality steel products, namely automobile steel plates, stainless steel, shipbuilding steel plates, electric steels, oil steel pipes and high-efficiency construction steels, delivering considerable contributions to rapid growth of the national economy.

We always observe the principles of energy conservation and emission reduction, environmental protection and cyclic economy development. In recent years, major indicators of cyclic economy has represented first-class levels among domestic like steel makers after introduing many energy-saving and environment-friendly new technologies, and some indicators are globally leading, making the Company "Environment-Friendly Enterprises of China", "Model Enterprises of Cyclic Economy of China", and "Cleaner Producer and Environment-Friendly Enterprises" in the steel industry of China. The Company has become the practitioner and leader in cyclic economy in the steel industry of China.

As an innovative pilot enterprise of the country, we follow the way of technological innovation focusing on independent integration and take proprietary intellectual property as the main line to develop the technological innovation strategy and system. A series of core steel technologies with proprietary intellectual property has been developed, including slag treatment, and innovative enterprises characterized by open-ended independent integration.

We give full consideration to the needs of all stakeholders to pursue common development. We deliver continuous returns to shareholders via solid growth, good performance and steady profit. Long-term win-win relations have been created with strategic users and suppliers, and efforts are made to cause downstream and upstream enterprises to promote green production and perform social responsibility; we are committed to building harmonious employee relations and providing a sound platform for employees to grow and enhance self-value; we proactively perform social responsibility and contribute much to improving the ecological environment of communities and building harmonious communities.

We dedicate ourselves to social welfare and always consider repaying the society as our mission and responsibility. We were fully dedicated to quake-relief and post-quake recovery of the "5.12" catastrophic

earthquake in Wenchuan County, Sichuan Province; we donated money to the "Hope Program", established the "China Baosteel Environment Awards" fund and the national natural science fund named "Joint Fund for Iron and Steel Research", and set up a long-term working mechanism for repaying the society.

In response to the current difficult conditions, we are endeavoring to promote the total risk management system and has established and implemented the key risk management project plan for 2009. Ten key risk management products are launched to perfect the release and decision-making mechanism for warning information and warning classes, strengthen interface between warning and execution, and further enhance total risk management.

To eliminate adverse effect and risks brought by the financial crisis and improving its competitiveness, the Company has taken the following actions in respect of product management, cost reduction, management reform and system and capability enhancement:

- Taking quality orientation as the preferred choice and operation philosophy, tapping into users' needs, enhancing synergism between production, marketing and research, speeding up product development and exerting every effort to expand market. Increasing market shares of unique leading products; accelerating development and market access of unique leading products; seeking continuous improvement and speeding up improvement in product making capacity.
- Carrying out cost reduction activities on an all-employee, all-aspect and total-process basis, sharpening competitive edge and enhance value creation ability.
- Promoting system innovation, optimizing organizational structure and improving operation and management capabilities. Establishing a marketing and procurement system and a production organization system oriented to user value and accommodating product diversity and multi-base requirements.

2009 is a crucial year for the Company to turn crisis to opportunities. The Company will seek to cut cost, continuously improve product quality, and develop cyclic economy, consolidate and enhance product advantages via technological innovation, improve system competitiveness via management reform, develop cyclic economy and achieve sustainable development.

Chairman of Board of Directors:

**Xu Lejiang** 

President:

**Fu Zhongzhe** 

In 2008, the annual sales volume of commodity billets were **22.813 million tons**, generating **RMB200.85 billion** of gross operating income and **RMB8.67 billion** of total profit.

# 03 Baosteel in Thirty Years



In the face of ups and downs in construction of Baosteel, the chief designer of the reform and opening up policy of China, Deng Xiaoping predicted that the history will prove that construction of Baosteel is correct. Now, this prediction has been proven by the thirty-year development of Baosteel.

On December 23, 1978, the day after the closing of the third plenary meeting of the 11th Central Committee of CCP, the first pile of Baosteel project was driven down at the shore of The East China Sea. As the first national key industrial project after the third plenary meeting of the 11th Central Committee of CCP and an important mark of China's entry into a new era centered on economic development, Baosteel shouldered the mission of building China into an iron and steel power and followed the way of scientific development in the thirty years' of reform and opening up, and has become one of the leading steel makers around the world in solid and steady pace. Now, Baosteel has developed from a regional plant into one of the top steel makers across the world, basically established the steel base with the largest size, the highest modernization level and the most advanced technological processes as well as R&D bases for new processes, new technologies and new materials, and has devised a Baosteel-specific way of SOE development. Baosteel Group, the parent company of Baosteel, has been included into the top 500 global companies for the fifth consecutive year and taken the first place in the manufacturing industry of China for four years consecutively.

After thirty-year development, Baosteel is playing an extraordinary role in the history of China's steel industry and in the process of the country's reform and opening up. The past thirty years witnessed major breakthroughs and great strides forward and rapid development of Baosteel.

As the trendsetter in reform, Baosteel is the first extra-large steel maker after China began to reform and open up to the outside, destined to have more reform and innovation genes. Introduction of management software that cost USD89 million, separation of main and auxiliary operations, separation of social functions, introduction of five working days, and abandonment of eight-tier wage system … all these innovative steps represent bold reform of conventional practices and systems. Based on specific production conditions, Baosteel created a new "centralized and consistent management" mode, which served as sound foundation of Baosteel modern management system. Baosteel took the lead in introducing the concept of "serving users" and established a total budget management and an integrated "production-marketing-research" mode, the first to set up a completely new system adapted to the market economy. Baosteel always pursues system innovation under requirements of the modern enterprise system. Baosteel went public in 2000; additional offering was made in 2005, marking overall listing of the main steel business.

Baosteel made great technological achievements by independent innovation. Under the instructions of Deng Xiaoping that read "developing new technologies, good at learning and adept in innovation", Baosteel has created a unique way of technological innovation and the independent integration and innovation system via digestion, absorption and secondary innovation. Baosteel has now become the R&D bases for new processes, new technologies and new materials in the steel industry with the strongest innovation capability. A core technology chain has been developed that includes low-cost refining technology, clean and homogeneous steel technology, high-precision rolling technology, orifice and wall thickness control technology, hot treatment and surface treatment technologies. Excellent researchers and cutting-edge technologies spring up one after another.

(Extracted from *Baosteel Daily* of December 22, 2008 "*History Will Prove that Construction of Baosteel is Correct*"; minor deletions and changes are made)

Baosteel follows the way of "premium plus scale". Automobile steel plates, household appliance steels, pipe steels, shipbuilding steel plates, silicon steels, high-temperature alloy special steel … all these are products Baosteel is proud of. "Premium Baosteel" is widely known presently, thanks to the strategy of focus on quality, technical revamps, upgrading of equipments of production capacity, and continuous optimization of product mix and grades. Meanwhile, Baosteel pays much attention to size expansion. After construction of three phases, Baosteel has become a 10mn-ton modern steel maker parallel to globally leading steel makers and established competitive core bases. In 1998, Baosteel was re-organized together with Shanghai Steel and Meisteel, making it a world first-class steel maker with a 20 mn-ton capacity and strengths allowing Baosteel to compete with leading steel makers in the world. In 2007, Baosteel Group re-organized Xinjiang Bayi Steels (group) Co., Ltd., with its capacity further expanded to 30 million tons. In June 2008, Baosteel Group merged with and re-organized Guangdong Iron & Steel Group to prepare for the Zhanjiang steel project.

Baosteel maintains green production. Baosteel seeks to become the pioneer in sustainable development and has made great stride forward from "green production" to "producing green". Since its birth, Baosteel has always targeted at world first-class environment protection practices, invested heavily in environment protection facilities and controled pollution at sources. Later, Baosteel introduced the concepts of "pollution control, resource conservation and full utilization". Currently, the six major energy conservation technologies of the steel industry have been successfully applied in Baosteel. In Baosteel, furnace slag is turned into environment-friendly construction materials, steel slag becomes fertilizer … integrated use of resources also operates in a massive scale. Baosteel takes all possible action towards the vision of "making the earth greener, the water cleaner, the sky bluer and the home better". In 2004, Baosteel produced the first environment friendly coated products in China. Since then, more and more "green products" has emerged in the product family of Baosteel. In addition, Baosteel extends environment protection to product chain and supply chain, dedicated to energy conservation and environment protection in the larger community.

Baosteel values people and pursues harmonious development. Baosteel shoulders the mission of "becoming a first-class steel maker in the world, providing value-added products and services to the society". After thirty years' development, Baosteel has established a corporate culture focusing on "stringent requirements, learning and innovation and seeking first-class status", with core values being "integrity, cooperation, innovation and pursuant for maximum corporate value" Under these guidelines, Baosteel values people by caring and fostering employees and seeking common development with employees. Baosteel enhances education and training, provides ample career development opportunities, encourages employees to devote themselves to corporate development and share corporate achievements with employees.

Repaying the society to perform corporate social responsibility. Baosteel regards repaying the society as an obligation of a leading player in the industry. The Company has provided strong supports for education, public sports and public welfare and charity, made great contributions to poverty alleviation, disaster relief and building of a harmonious society. Baosteel established the RMB100m "Baosteel Education Awards" and created the "Fine Art Award Fund"; provided over RMB6.7 million Tibet aid funds accumulatively and completed 43 aid projects; carried out a series of poverty alleviation programs in Yunnan Province; provided valuable supports for relief and recovery of Wenchuan catastrophic earthquake; donated money to construction of 38 Hope Primary Schools … all represent the steel giant's full commitment to social harmony.

Baosteel always pursues excellence. Baosteel has become a giant after lapse of thirty years. Looking into the future, Baosteel is now standing at another starting line. By 2012, Baosteel will reach a capacity of 50 million tons and Baosteel Group will have a capacity of 80 million tons. Baosteel will become the most competitive steel maker in the world, be included into the largest three steel makers in the world and the top 200 of the global 500 companies, and become a respected first-class public company across the globe. That's the strategic goal and new mission of Baosteel. The blueprint is in place. At the second stage of its development, Baosteel will fully carry forward the scientific view of development, seek every opportunity, face down challenges, consolidate confidence and develop from a good to an excellent player!

# 04 Capital Stock Change and Shareholders

- Capital Stock Change
- Securities Issuing and Listing
- Shareholders



## Capital Stock Change

### 1. Capital Stock Change Table

Unit: ten thousand shares

| | Beginning of year | | Inc. or Dec. (+,-) | | End of year | |
|---|---|---|---|---|---|---|
| | Q'ty | Prop. | Expiry | Sum | Q'ty | Prop. |
| I. Restricted Stock | | | | | | |
| 1. State Shareholding | 1,190,091.74 | 67.96% | -1,190,091.74 | -1,190,091.74 | 0 | 0 |
| 2. State-owned legal person Shareholding | | | | | | |
| 3. Other domestic capital shareholding | | | | | | |
| Where: | | | | | | |
| Domestic legal person shareholding | | | | | | |
| Domestic natural person shareholding | | | | | | |
| 4. Foreign capital shareholding | | | | | | |
| Where: | | | | | | |
| Foreign legal person shareholding | | | | | | |
| Foreign natural person shareholding | | | | | | |
| II. Non-Restricted Stock | | | | | | |
| 1. RMB common stock | 561,108.26 | 32.04% | 1,190,091.74 | 1,190,091.74 | 1,751,200 | 100% |
| 2. Domestic listing foreign capital stock | | | | | | |
| 3. Overseas Listing foreign capital stock | | | | | | |
| 4. Others | | | | | | |
| III. Stock total | 1,751,200 | 100% | 0 | 0 | 1,751,200 | 100% |

### 2. Restricted Stock Change Table

Unit: share

| Shareholder name | Q'ty at beginning of year | Q'ty to be expiry this year | Q'ty to be added this year | Q'ty at end of year | Reasons for restricted | Date of expiry |
|---|---|---|---|---|---|---|
| Baosteel Group Co., Ltd. | 11,900,917,441 | 11,900,917,441 | 0 | 0 | Promise of share reform | 2008.08.19 |

## Securities Issuing and Listing

As approved by Document (ZJXK [2008] No. 739) of CSRC, the Company issued RMB10 billion convertible corporate bonds with detachable stock options and bonds at par value (RMB100 each) on June 20, 2008 ("detachable convertible bond). The term of the detachable convertible bond is 6 years at a coupon rate of 0.80%. On June 30, 2008, the detachable convertible bond was split into 100 million (RMB10bn) corporate bonds and 1.6 billion warrants.

As approved by Document (SZSZ [2008] No. 81) of Shanghai Stock Exchange, the corporate bonds in the RMB10bn detachable convertible bonds were traded at Shanghai Stock Exchange on July 4, 2008 (Bond Name: 08 Baosteel Bond; Bond Code: 126016) The trading duration is from July 4, 2008 to June 19, 2014, and the payment date was the fifth trading day following the date of maturity June 19, 2014.

Approved by Document (SZQZ [2008] No. 11) of Shanghai Stock Exchange, the 1.6 billion warrants distributed to holders of detachable convertible bonds were traded on July 4, 2008 at Shanghai Stock Exchange (Name: CWB1; Code: 580024), with the warranty duration from July 4, 208 to July 3, 2010, and the exercise period being trading days between June 28, 2010 and July 3, 2010 (trade to be suspended during exercise period).

# Shareholders

## 1. Number of Shareholders and Particulars of Shareholding

Unit: share

Total of shareholders 833,419

Shareholding of first ten shareholders

| Shareholder name | Character of Shareholder | Share pro-portion | Total shares | Number of restricted share | Number of pledged, frozen |
|---|---|---|---|---|---|
| Baosteel Group Co., Ltd. | State-owned | 73.97% | 12,953,517,441 | 0 | No |
| CCB - Great Wall Brand Preferred Stock Securities Investment Fund | Other | 0.67% | 118,062,961 | 0 | No |
| ICBC - 50 Tradable Open-ended Index Securities Investment Fund | Other | 0.41% | 71,993,340 | 0 | No |
| Industrial Bank - Industrial Bank Global View Stock Investment Fund | Other | 0.32% | 56,821,601 | 0 | No |
| CCB - CIFM China. Advantage Fund | Other | 0.30% | 53,244,007 | 0 | No |
| MORGAN STANLEY & CO. INTERNATIONAL PLC. | Other | 0.30% | 52,892,877 | 0 | No |
| CCB - Boshi Value Adding No. 2 Securities Investment Fund | Other | 0.27% | 48,000,000 | 0 | No |
| Industrial Bank Trend Investment Mixed Security Investment Fund | Other | 0.25% | 42,999,926 | 0 | No |
| Taikang Life Insurance Co., Ltd. - Unit-linked Insurance - Unit-linked Personal Insurance | Other | 0.24% | 41,904,980 | 0 | No |
| China Merchants Bank - SSE Dividend ETF | Other | 0.24% | 41,424,114 | 0 | No |

| | |
|---|---|
| Explanation on the association relations or concerted action among the above-said share-holders | Industrial Bank Global View Stock Investment Fund and Industrial Bank Trend Investment Mixed Security Investment Fund are managed by Industrial Fund Management Co., Ltd. |

## 2. A Brief Account of the Controlling Shareholder and Actual Controller

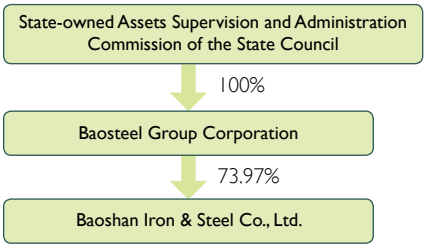
### (1) Controlling Shareholder

| | |
|---|---|
| Shareholder name: | Baosteel Group Corporation |
| Legal representative: | Xu Lejiang |
| Establishment date: | Nov. 17th, 1998 |
| Registered capital: | RMB 51,082,620,998.89 Yuan |
| Main business and management: | Baosteel Group Corporation is the state holding company and an investment organization authorized by the state, mainly engaging in operation of state-owned assets within the scope authorized by the State Council and carrying out related investment business in the fields of iron and steel, metallurgy and minerals, chemicals (except for dangerous articles), electric power, wharf, warehouse, transportation connected to iron and steel business, technology development, technology transfer, technology service, technology management consultation, import and export business approved by the Foreign Trade and Economic Cooperation Ministry, domestic and foreign trade (except for the items specially stipulated) and its service. |

### (2) Actual Controller

The actual controller of the Company is State-owned Assets Supervision and Administration Commission of the State Council.

### (3) Relationship between the Company and the Actual Controller



# 05 Governance Structure

- Present Directors, Supervisors & Executive Personnel
- Annual Compensation of Directors, Supervisors and Senior Management
- Appointment or Dismissal of Directors, Supervisors and Senior Management Personnel



## Present Directors, Supervisors & Executive Personnel

| Name | Post | Gender | Age | Term of Office |
|---|---|---|---|---|
| Xu Lejiang | Chairman of the Board | Male | 49 | 2007.12-2009.04 |
| Ouyang Yingpeng | Vice Chairman of BOD | Male | 58 | 2006.05-2009.04 |
| Fu Zhongzhe | Director, president | Male | 48 | 2007.04-2009.04 |
| He Wenbo | Director | Male | 53 | 2006.05-2009.04 |
| Li Haiping | Director | Male | 58 | 2006.05-2009.04 |
| Wu Yaowen | Director | Male | 65 | 2006.05-2009.04 |
| Shi Meilun | Independent Director | Female | 59 | 2006.05-2009.04 |
| Bei Kewei | Independent Director | Male | 51 | 2006.05-2009.04 |
| Zeng Jingxuan | Independent Director | Female | 51 | 2006.05-2009.04 |
| Sun Haiming | Independent Director | Male | 52 | 2006.05-2009.04 |
| Xie Zuchi | Independent Director | Male | 52 | 2006.05-2009.04 |
| Li Li | Chairman of SC | Female | 55 | 2006.05-2009.04 |
| Zhou Guiquan | Supervisor | Male | 53 | 2007.04-2009.04 |
| Liu An | Supervisor | Male | 47 | 2006.05-2009.04 |
| Han Guojun | Supervisor | Male | 53 | 2006.05-2009.04 |
| Peng Junxiang | Supervisor | Male | 43 | 2008.04-2009.04 |
| Zhao Zhouli | Vice president | Male | 52 | 2006.05-2009.04 |
| Cui Jian | Vice president | Male | 48 | 2006.05-2009.04 |
| Zhu Junsheng | Vice president | Male | 48 | 2006.05-2009.04 |
| Li Yongxiang | Vice president | Male | 48 | 2008.03-2009.04 |
| Jiang Licheng | Vice president | Male | 50 | 2008.03-2009.04 |
| Chen Ying | Vice president, Chief Financial Officer/ secretary of BOD | Female | 37 | 2008.03-2009.04 |
| Lou Dingbo | Vice president | Male | 46 | 2008.03-2009.04 |
| Pang Yuanlin | Vice president | Male | 45 | 2008.03-2009.04 |
| Chen Shouqun | Assistant to president | Male | 58 | 2006.10-2009.04 |
| Xie Wei | Assistant to president | Male | 44 | 2006.05-2009.04 |
| Wang Jianyue | Assistant to president | Male | 47 | 2008.03-2009.04 |
| Zhou Shichun | Assistant to president | Male | 47 | 2008.03-2009.04 |
| Wang Liqun | Assistant to president | Male | 52 | 2008.03-2009.04 |
| Zou Kuan | Assistant to president | Male | 51 | 2008.03-2009.04 |

Note: (1) The expiration of office is on the date of the annual meeting of shareholders of 2009.

(2) As of the end of this reporting period, Ms. Li Li held 30,000 shares in the Company, Mr. Zhou Kuan held 13,420 shares, and no changes occurred in the reporting period. No other directors, supervisors and senior management held shares in the Company.

## Retired Supervisors and Senior Management Personnel in 2008

| Name | Post | Gender | Age | Term of Office |
|---|---|---|---|---|
| Li Haiping | Vice president | Male | 58 | 2006.05-2008.08 |
| Zhou Zhuping | Supervisor | Male | 45 | 2006.05-2008.04 |
| Wang Li | Assistant to president | Male | 52 | 2006.10-2008.03 |

## Annual Compensation of Directors, Supervisors and Senior Management

The total compensation of directors, supervisors and senior management in the year (on a pretax basis) is RMB14,992,000, particularized as follows:

Unit: RMB10,000

| Name | Position | Whether to receive compensation from the Company or other affiliates | Compensation received from the Company (pretax) | Less-than-full-year compensation, if any |
|---|---|---|---|---|
| Xu Lejiang | Chairman of the Board | Yes | - | |
| Ouyang Yingpeng | Vice Chairman of BOD | Yes | - | |
| Fu Zhongzhe | Director, president | No | 98.08 | |
| Li Haiping | Director | No * | 34.91 | 2008.1-2008.7 |
| He Wenbo | Director | Yes | - | |
| Wu Yaowen | Director | Yes | 25.00 | |
| Shi Meilun | Independent Director | No | 25.00 | |
| Bei Kewei | Independent Director | No | 25.00 | |
| Zeng Jingxuan | Independent | No | 25.00 | |
| Sun Haiming | Independent | No | 25.00 | |
| Xie Zuchi | Independent Director | No | 25.00 | |
| Li Li | Chairman of SC | No | 25.00 | |
| Zhou Guiquan | Supervisor | Yes | - | |
| Liu An | Supervisor | No | 21.52 | 2008.1-2008.4 |
| Han Guojun | Supervisor | No | 82.20 | |
| Peng Junxiang | Supervisor | Yes | - | |
| Zhao Zhuping | Retired supervisor | Yes | - | |
| Zhao Zhouli | Vice president | No | 87.92 | |
| Cui Jian | Vice president | No | 87.92 | |
| Zhu Junsheng | Vice president | No | 80.84 | |
| Li Yongxiang | Vice president | No | 80.84 | |
| Jiang Licheng | Vice president | No | 87.92 | |
| Chen Ying | Vice president, Chief Financial Officer/ secretary of BOD | No | 80.84 | |
| Lou Dingbo | Vice president | No | 80.84 | |
| Pang Yuanlin | Vice president | No | 80.84 | |
| Chen Shouqun | Assistant to president | No | 71.52 | |
| Xie Wei | Assistant to president | No | 56.96 | |
| Wang Jianyue | Assistant to president | No | 71.52 | 2008.4-2008.12 |
| Zhou Shichun | Assistant to president | No | 71.52 | |
| Wang Liqun | Assistant to president | No | 77.76 | |
| Zou Kuan | Assistant to president | No | 56.96 | |
| Wang Li | Retired GM assistant | No | 13.28 | 2008.1-2008.3 |
| Total | | | 1499.19 | |

Note: "Whether to receive compensation from the Company or other affiliates" means whether persons serving as directors, supervisors or senior management personnel at the Company during the reporting year receive compensation from the Company or other affiliates. Director Li Haiping received compensation from Baosteel Group after retirement from deputy GM of the Company in August 2008.

The annual allowance (before-tax) of outside directors (including independent directors) and outside supervisors that are not taken by controlling shareholders is RMB 250,000, In addition, the Company bears all travel and lodging expenses for the directors, supervisors, and executive personnel to participate in board meetings, supervisors' meetings and shareholders' meetings.

## Appointment or Dismissal of Directors, Supervisors and Senior Management Personnel

At the 11th meeting of the 3rd board of directors held on March 26, 2008, the Company adopted resolutions to appoint Li Yongxiang, Jiang Licheng, Chen Ying, Lou Dingbo and Pang Yuanlin deputy GMs of Baoshan Iron & Steel Co., Ltd, and appoint Wang Jianyue, Zhou Shichun, Wang Liqun and Zou Kuan GM assistants of Baoshan Iron & Steel Co., Ltd. Meanwhile, Mr. Wang Li resigned from the office of GM assistant.

At the 2007 annual meeting of shareholders of the Company held on April 28, 2007, the Company appointed Peng Junxiang supervisor of the Company and removed Zhou Zhuping from the office of supervisor.

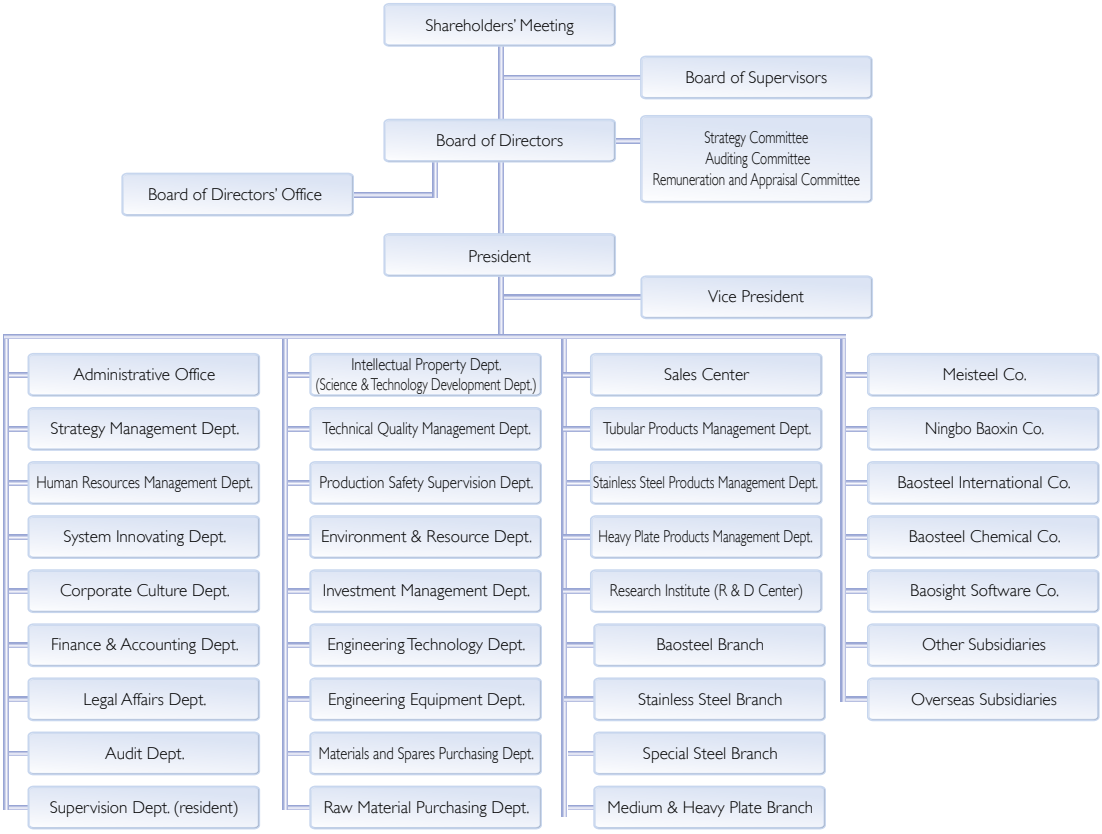
At the 14th meeting of the 3rd board of directors held on August 28, 2008, the Company adopted a resolution to appoint Mr. He Wenbo member of the Strategy Committee of the board of directors and appoint Ms. Zeng Jingxuan member of the Audit Committee of the board of directors. Mr. Li Haiping resigned from the office of deputy GM at the same time.

# 06 Management Improvement

- Organizational Structure
- Major Events in Organization Reconstruction
- Management Innovation



## Organizational Structure




## Major Events in Organization Reconstruction

1. **Continuous Improvement in the System of Category Management Departments**

In 2008, the Company listed into priorities the "continuous improvement and optimization of the category management Departments". In addition to the stainless steel management department and steel pipe management departments, the heavy plate management department was established to apply category management to heavy plate products.

2. **Completing Management Integration of Assets Acquired in Luojing Project**

In April 2008, relevant assets of the Shanghai Pudong Iron and Steel Co. Ltd. under Baosteel Group were put under branch management to establish the "Heavy Plate Branch of Baoshan Iron & Steel Co., Ltd." Heavy Plate Branch became another steel production and operation unit of Baosteel in Shanghai, mainly engaged in production and manufacturing business of steel products.

3. **Optimizing Organizational Setup of the Company's Technological System**

To further improve technological innovation capacity of the Company and push forward category management, the Company review and optimize the business process of the technological system and adjusted functions of relevant departments, thereby fully playing the role of category management departments in new product research and development.

4. **Adjustment in Safety and Security System**

The Company adjusted the safety and security system according to the requirements of Shanghai governmental authorities early in 2008 by incorporating security, fire control and transport safety into the Production Safety Supervision Department of the Company, which was renamed "Safety and Security Supervision Department".

## Management Innovation

### 1. Promoting Professional System Capability Assessment and Enhancement

To further improve the management system of the Company, specialty management departments of the Company reviewed current capability of their own specialty system regardless of geographic differences and manufacturing unit boundary and introduced system capability enhancement actions.

### 2. Optimizing Strategic Performance Management Mode

In 2008, aiming at building a strategic performance management system and improving execution capability, the Company continuously optimized performance management, standardized performance management procedures, and further optimized the Company's performance assessment system featuring from-top-down breakdown and from-bottom-up support The fulfillment of strategic tasks and budgetary objectives and implementation oversight were assured via efficient synergism between corporate performance management, strategic planning and budgetary planning. On that basis, a performance management atmosphere has been created that focuses on overall enhancement of corporate value, breakthroughs in bottlenecks and weaknesses and continuous improvement in collaborative operation efficiency.

### 3. Deepening Integrated Synergism

In 2008, under joint efforts of relevant parties, the integrated synergism work proceeded as planned and produced RMB1.695 billion of synergetic benefits that represented 141% of the annual target predetermined.

### 4. IT Development

The Company endeavored to push forward the integrated operation management system and construction of its auxiliary projects, and stabilize and optimize the functioning of the new system put alive. The sales and logistics control systems have successfully has covered stainless steel products of the heavy plate branch and the stainless steel branch. The demand management and comprehensive marketing planning system has covered carbon steel sheets of Baosteel branches and all products of the stainless steel branch and Meisteel. The financial system has covered the Medium and Heavy Plate Branch and the stainless steel branch. The procurement and supply chain system has covered procurement business of the first non-Shanghai steel subsidiary-Baotong Steel. Other integrated information systems has also covered steel making units and trade/service/processing units within and beyond Shanghai.

### 5. Establishing and Improving Risk Management System

In 2008, for full operation of the risk early-warning mechanism and fulfillment of management responsibilities and for building of the total risk management system, the Company focused on implementing the responsibility system and basic working procedures for risk management, further improved risk management and internal control, and developed the total risk management procedures. In addition, from the perspective of value management, the risk factors at operation level of the Company were identified, reviewed and listed with 792 individual risk items and 60 overall risk items placed on file. 10 major/important risks and the scheme of counter-measures of the Company were made out and place on file in 2008.

In 2008, produced **RMB1.695 billion** of synergetic benefits that represented **141%** of the annual target predetermined.

## 2008 Media Coverage Summary

- Baosteel included confidentiality system building into the corporate risk management to advance development of the total risk management system.
- Baosteel Calibration Lab was first recognized by the State in 2003, given the international accreditation symbol in 2006, and re-approved by the National Accreditation Service for Conformity Assessment in 2008, marking that Baosteel Calibration Lab has reached international leading level in testing capability, precision control and all management aspects.
- Special Steel Branch was certified for GJB9001A-2001 by China New Age Certification Center.
- The testing center of the Special Steel Branch passed re-examination and expansion review of the state-approved labs, and the 89 testing items in 13 categories in 2004 were expanded to the current 110 items in 19 categories.
- The Meisteel Testing Center lab passed field review of National Accreditation Service for Conformity Assessment, was approved to issue internationally recognized testing reports with certification symbol (CNAS) in the seven fields approved.
- According to the central enterprise IT levels released by the State-owned Assets Supervision and Administration Commission, Baosteel was given an IT level index of 92.28 in 2007, falling into Class A, ranking third in the 145 central enterprises assessed and ranking first in metallurgy enterprises.
- Baosteel started full promotion of the procurement E-commerce after successful launch of the Marketing E-Commerce Platform.
- The Internet trading amount of Baosteel via E-commerce accounted for 40% of E-commerce trading amount of Shanghai.
- Baosteel continuously deepened the synergistic effect of integrated procurement and extended the PSCS procurement and supply system to cover Meisteel, Baotong Steel, Ningbo Baosightg and other non-Shanghai branches and subsidiaries, so as to integrate procurement resources and improve procurement efficiency.

## Baosteel IT Solutions

To better respond to new market challenges, steel makers all push forward IT development actively. The Baosight Co., Ltd. (Baosight) has built up extensive and valuable experience in its long engagement in IT development of Baosteel and created comprehensive IT solutions specific to the industry.

The IT solutions of Baosight introduce the concept of "finance-oriented" and adopt the design strategies and approaches oriented to "business operation", thereby allowing steel makers to meet the objective of "organizing production as per contracts, applying total-process production management and control, and pursuing the maximum capability of marketing and production". The solutions integrate many real-time processing technologies. No matter it is scheduling, quality determination and production results collection, the costing can be triggered by events that occur in production to start real-time accounting and immediate processing, and provide the basis for agile manufacturing.

For steel makers with different production lines, the solutions provide different functions suitable for both large steel makers and small and medium steel makers.

The IT solutions of Baosight helps improve product quality, cut down manufacturing time and reduce manufacturing cost. The IT solutions of Baosight have a strong scalability and has extended to e-commerce, customer relationship management (CRM) and supply chain management (SCM), data warehouse and data mining. These solutions enable online search, online procurement and online ordering, and help enterprises to shift to the "customer-centered" new system to meet the ever-changing market needs.

# 07 Anti-Corruption



Insisting on the governance of root causes and symptoms of corruption, Baosteel has adopted comprehensive control, punishment and prevention, and prevention-oriented policy. It combines the punishment and prevention system, laying focus on the leaders and staff members, who are in charge of business. The Company paid great attention to education, strengthened restrictions of system and intensified supervision. In addition, in order to enhance harmonious development of anti-corruption system, promotion of probity, reform and productive operations, the Company actively intensified probity promotion, self-discipline, case investigation, efficiency supervision, root causes control and so on.

In 2008, according to the punishment and prevention system and *Report System of Anti-corruption and Promotion of Probity,* a regular analysis of tendentious problems was conducted and "zero report system" was strictly executed by functional departments and branches (subsidiaries). Financial internal control inspection was carried out, and 20 inactive accounts were cancelled; post review was conducted with focus laying on such sensitive posts as procurement, marketing and construction, and supervision on these posts was strengthened.

According to the *Working Plan for Establishing and Improving the Corruption Prevention and Control System 2008-2012* of the Central Committee of CCP, the program for splitting the implementation measures and responsibility was worked out. Baosteel emphasized education on probity, risk prevention, the "No Pass under 3 Conditions" [Note 1] for significant issues. Meanwhile, the company enhanced moral, law and discipline awareness of staff members, particularly the leaders and managers. The proportion of employees that received education and training is above 90%, while 100% of all the managers or employees in charge of business have received anti-corruption education. Management personnel above the direct management level conducted self-inspection against the seven anti-corruption requirements and all made open anti-corruption commitment.

Baosteel adheres to control commercial bribery via normalizing operation, optimizing management processes and purifying the business environment. It promotes demonstrative examples set among managerial personnel and executes the decision principles strictly in accordance with the "Three Importance with One Greatness" [Note 2]; implements Procurement under Sunlight [Note 3]; launches activities such as "Commitment Declaration to Be Honest and Faithful" and "Dual-signature for Honesty [Note 4]"; in some important projects, the company called for the activity of "High Quality Project and Outstanding Cadres"; in combination with enterprise risk management, Baosteel has intensified internal control and system limitation of moral risk and operation risk; as for suppliers engaged in unfair competition activities in businesses with Baosteel, the Company regularly released lists of no-entry and no-trading companies; Prohibited issues inspection was carried out in the Company to investigate and punish non-compliances.

Note 1. The "No pass in 3 Conditions" for significant issues: It refers to no pass for unknown cause or responsibility of significant cases; no pass for failure of responsibility to enact investigative or rectification measures; no pass for persons concerned for other employees who received no education.

Note 2. Three Importance with One Greatness: It means that any important determination proceedings, important personnel appointments, important project arrangements and great capital investments must be done under the guidance of group discussion. No arbitrary behavior is allowed.

Note 3. Procurement under Sunlight: It means that through methods such as bidding to make procurements transparent and procedural, to build an "open, just, fair" procurement environment to realize probity and efficiency among employees.

Note 4. Dual-signature for Honest: It implies that while signing economic contracts with other parties, signing Probity Agreement or Agreement for Common Construction of Probity and Honesty as a way to preserve and perfect the business environment.

# 08 Innovation Development

- Actions
- Achievements



## Actions

To fulfill the strategic goal of Baosteel sustainable development, the Company released and started implementation of the *Baosteel Technological Innovation System Development Program* in 2006. The program identifies the policies, objectives and tasks in respect of technological innovation by 2020, focuses on medium-and long-term development projects and key subjects of technical innovation during the 11th five-year-plan and attaches much importance to capabilities of the technological innovation development system in ten aspects.

According to the strategic goal of Baosteel in the new development round and *Baosteel Technological Innoration System Development Progrom*, Baosteel established the Baosteel Technological Innovation Plan 2007-2012 in 2006, and the roadmap of technological innovation of Baosteel in the six years and key technology fields expected to make breakthroughs are identified.

In 2008, the Company developed the *Three-Year Action Plan for Enhancement of the R&D system Capacity* (2008-2010) that further clarifies the overall goals and annual objectives, key performance indicators and key work plan in the three years, and plans to fulfill the goals and objectives set out in the "Program" and the "Technological Innovation Plan" via implementation of annual objectives. The annual research plan clarifies R&D input rate, number of patent applications and granted patents, research benefits, new product selling rate, new product license number, and number of trial-made new products and other research input-output targets, and makes further breakdowns to research projects.

In 2008, Baosteel strengthened high-end product research and core technology chain extension, and systematically planned, pushed forward and made significant achievements in some major projects, including the "development of oriented silicon steel and high-grade non-oriented silicon steel making technology", "development and application of ultra-high strength automobile sheets", "research on key technologies of non-blast-furnace iron-making", "oxides metallurgy", and "research on application of sintering fume desulfurization technology in projects".

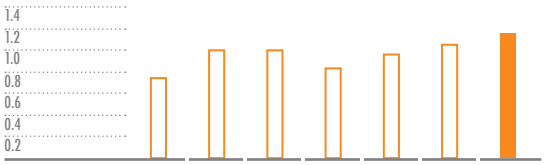
## Achievements

Baosteel made acceptable oriented silicon steel sheets/coils and started mass production; high magnetic flux and low temperature oriented silicon steels were trial-made in small quantity. It is capable of producing the high-grade one in mass production; and has started to supply the high-efficiency non-oriented silicon steel in batches and realized stable supply to the market.

Baosteel has started to produce hot-stamped high-strength automobile steels in mass production; realized the production of automobile frame plates of 550-700Mpa in series.

By developing the "steel maker by-product gas utilization and emission reduction technology" and integrating the first energy center real-time monitoring system in China and the energy management data warehouse, Baosteel eliminated the conflicts between intermittent recovery and continuous use of converter gas, and overcame many technical difficulties including the full and stable combustion of lower-calorific-value gas. A series of technologies for safety of gas facilities were developed. The project won the second national technological advancement prize in 2008, and is the first energy conservation and emission reduction project in the metallurgy industry, which was given the award. Baosteel made great breakthroughs in "research on application of sintering fume desulfurization technology in projects". The No. 3

R&D Input Rate of Baosteel in the Past 7 Years
(%)

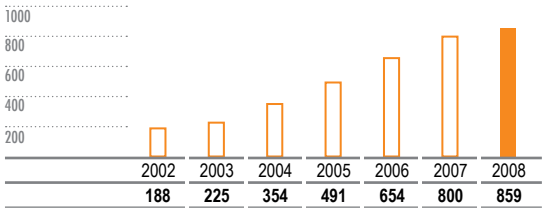



| 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|
| 0.7436 | 1 | 1 | 0.83 | 0.96 | 1.05 | 1.15 |

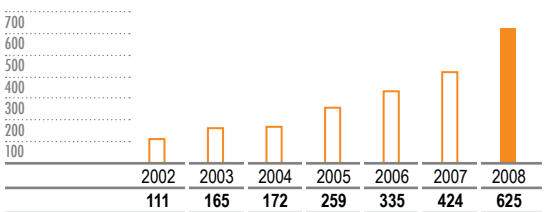
sintering fume desulfurization project of Meisteel was completed and started stable operation in February 2008, with a desulfurization of over 90%, a synchronous operation rate of over 99% and reduction of over 4,000 t SO2 emission in that year. This is the first full-blast sintering fume desulfurization equipment in China, and it provides cleaner production of Baosteel sinters. Efforts are being made to step up application of the technology after further optimization. The No. 3 sintering fume desulfurization project of Baosteel Branch and the No. 1 sintering fume desulfurization project of the stainless steel branch started operation at the end of October 2008.

The Company considers investment in research as the fuel for its sustainable development. To ensure a certain R&D input level, Baosteel patent applications increased stably, and the patents granted grew at over 20% for the fourth consecutive year. In 2008, the R&D input rate of Baosteel reached 1.15%; 859 patent applications were filed, with invention applications accounting for 42.4%; 625 patents were granted, representing a growth of 47.4% over the previous year. 82 grade numbers were issued for full production of new products, 2.08 million tons were trial-made, and the new product sale rate was 18.9%. In the year, Baosteel generated RMB1.23 billion of direct economic benefits of research, RMB2.9 billion of technology promotion benefits and over RMB 100 million of trades in technology.

Number of Patent Applications of Baosteel




Number of Patents Granted to Baosteel in the Past 7 Years




## 2008 Media Coverage Summary

- Baosteel became one of the first innovative enterprises of China.
- Baosteel became the first steel maker capable of pilot test of nano surface technology in the world.
- *A Safe and Environment-Friendly Technology of Slag Granulation* and the *Backup Roller Technology of High-strength and Fully-sealed Finishing and Straightening Machine* of Baosteel were given the Second Technological Invention Prize and the Second Technological Advancement Price of China, respectively.
- Five achievements of Baosteel including the *Independent Integration Technology for Hot-Plating Al-Zn Process* were given Shanghai Technological Advancement Award and Technological Invention Award.
- The First intellectual property strategy blueprint of Chinese enterprises-*Baosteel Intellectual Property Strategy Blueprint* was completed, which provides specific arrangements in respect of enhancing the awareness of patent application, guiding R&D of strategic products, strengthening innovative technology integration and patent technology monitoring, exerting the maximum effect of intangible assets, and playing a trendsetting role in implementation of the intellectual property strategy among domestic enterprises.
- With the unique anti-drift technology for cast cooling water pipe, Baosteel won a "huge order" of making cooling wall for extra-large blast furnace over 4,000 $m^3$.
- The innovative independent integration achievements of No. 8 air separator of Baosteel Branch were highly recognized by experts, who stated that these achievements broke foreign technological monophony, made historic breakthroughs in the air separation industry of China and produced considerable social and economic benefits.
- The two national standards *Duplex Grain Size Characterization and Determination Methods and the Method of Measuring Maximum Grain Size on the Metallographic Examination Surface (ALA Grain Size)* drafted by the Special Steel Branch passed review.
- The national standard *Quantitative Analysis on Nanofilm on Steel Surface-Glow Discharge Optical Emission Spectroscopy* drafted by the research institute passed review, and the reviewing experts suggested to turn the standard into international standard at an appropriate time.

# 09 Communication and Cooperation

- Holding the 3rd Baosteel Biennial Academic Conference
- Issuing the Cooperation Contribution Award for the First Time



As the new development strategy of the Company goes deeper in implementation, Baosteel has considerably expanded its communications and cooperation with outside at all business levels in the development of the Company. To better support its development, Baosteel actively explores new ways of cooperation and continuously raises cooperation levels and diversifies cooperation fields.

Since a long time ago, Baosteel has maintained communications with other domestic steel makers in energy conservation and environmental protection technologies in an active and open stance, and promoted its experience and technologies to peers in the industry. Through output of technology packages, the central energy management technology, the energy center construction and operation optimization technology, the large air separator management and operation technology, and the large gas cabinet construction management technology of Baosteel have been introduced to other steel makers in China, a great contribution to the improvement in energy conservation and consumption reduction across the industry.

## Holding the 3rd Baosteel Biennial Academic Conference

The 3rd Baosteel Biennial Academic Conference was held in September 26-28, 2008. The topic of this conference was "better steel, better environment and better life".

The conference was attended by over 500 leaders and experts of famous steel makers, universities, research institutions from 21 countries and regions across the world, including 99 foreign honorable guests. The conference received 516 papers, including 67 international papers. These papers cover 13 fields, including steel rolling, surface technology, frontier technology, metallurgy automation, resource environment and civil construction steels, and reflecting the overall capacity and development trends of the steel industry.

The extensive academic exchanges presented many cutting-edge technologies and all parties present learnt a lot from each other. The advanced iron making technology, the wastes treatment and reuse in the steel industry, development of environment-friendly products, research on steel structure houses, inclusions control technology and the clean steel technology are the focus of attention of steel makers within and beyond China. The conference included two forums on two hot issues in the steel industry, i.e. "corporate environment protection and social responsibility" and "steel structure houses and sustainable development". Both forums won great interest of visitors to the conference and Baosteel technological personnel, and were covered by many news media.

There were 54 domestic and foreign media that covered this conference, including 13 overseas media, such as Associated Press, AFP and Reuters. As the official news release website of Shanghai Municipality, eastday.com provided live broadcasting of the conference at the main venue.

## Issuing the Cooperation Contribution Award for the First Time

On December 1, Baosteel gave the Cooperation Contribution Award to 10 foreign experts who delivered outstanding contributions.

With implementation of the new development strategy of Baosteel, over 1,000 foreign experts worked at Baosteel since 2007. Foreign experts contributed much to construction, operation and management and R&D and technological revamp of Baosteel. Some experts arrived at Baosteel even more than ten years ago and took part in and witnessed construction of many production lines of Baosteel; some experts worked with Baosteel people at the construction and production frontline, who are fully dedicated to multiple positions at the same time. To acknowledge contributions of these foreign experts, Baosteel set up the Cooperation Contribution Award. Ten foreign experts became the first winners of the award.

The Cooperation Contribution Award of Baosteel includes the Award of Best Cooperation, the Award of Outstanding Contribution and the Award of Best SV (site service and site technology). Ninomiya Atsushi from Nippon Steel Corporation and Tommaso from Siemens won the Award of Best Cooperation; Ebine Masayoshi from Mitsubishi-Hitachi, Krl Nussmueller from Andritz, Klaus Blanke from SMS-Demag and Furuya Takumi from Baolin Engineering won the Award of Outstanding Contribution; Winners of the Award of Best SV were Werner Schmitt from SMS-Meer, Robert Kuennold from Hitachi Europe Power Company, Wolfgang Sterrer from Siemens VAI, and Klaus Wilhelm from SMS-Demag.

The award winners expressed their joy in the ceremony, Mr. Ninomiya Yoshifumi said excitedly: "I will work even harder with my colleagues to contribute and promote further the friendship between Baosteel and Nippon Steel." Austrian supervisor, Mr. Wolfgang Sterrer has been working in Baosteel for just one year, he said with emotion that it is an honor to work for an internationally esteemed enterprise like Baosteel, he often found the technicians from China and Austria work side by side to discuss and solve problems in harmony and he enjoys the work at Baosteel.

### 2008 Media Coverage Summary

- On March 4, former German Chancellor Gerhard Schroeder visited Baosteel.
- Mr. Masamichi Sano, Honorary Professor of Nagoya University and famous steel expert visited Baosteel Research Institute.
- Baosteel and Shanghai Jiaotong University held the spring symposium on industry-university-research cooperation. Leaders of both parties expressed willingness of deepening and extending cooperation to leverage strengths of each other and achieve a win-win result.
- Baosteel officially joined the Advanced Steel Processing and Products Research Center of Colorado School of Mines, the first Chinese steel maker member of the center.
- Baosteel and Lausanne-based International Institute for Management Development signed the strategic cooperation memorandum.

# 10 Becoming Larger and Stronger

- Production Capacity
- Main Products
- Environment-Friendly Products



The Company thinks that the primary social responsibility of business entities is providing better products to the society at minimum consumption of and impact on natural resources.

## Production Capacity

In 2008, the Company completed acquisition of Luojing project assets of Shanghai Pudong Iron and Steel Co. Ltd. of Baosteel Group, and applied branch management to these assets by establishing the "Medium and Heavy Plate Branch". After the acquisition, the crude steel capacity of the Company increased to 26 million tons and the heavy plate capacity to 3.4 million tons (at a market share of 7.7%). With rapidly sharpened leading edge of Baosteel in heavy plates, particularly in shipbuilding plates and special-purpose plates, Baosteel became one of the largest domestic heavy plate makers. Meanwhile, The Luojing project assets and existing heavy plate capacity of Baosteel leveraged strengths of each other to improve competitiveness.

## Main Products

The Company made high-tech and high value added steel products covering a full range of products, including automobile steel, shipbuilding steel, steel for oil/gas mining and transmission, household appliance steel, electrical appliance steel, boiler and pressure vessel steel, steel for food and drink packaging, metalwork steel, stainless steel, steel for special-purpose materials and high-grade steel for construction use. Baosteel is the major steel supplier in China and also exports products to over 40 countries and regions, including Japan, South Korea, Europe and the USA.

In 2008, the Company sold 8.48 million tons of unique and leading products.

### 2008 Media Coverage Summary

- The nuclear power steel of Baosteel was approved by the Westing House and became the first Chinese supplier of nuclear containment steel plates.
- The high-quality bearing steel of Baosteel was certified according to the Emerson product quality system.
- The Special Steel Branch of Baosteel successfully developed the largest Ti-alloy plate blank in China and started mass supply to Japanese companies.
- The low-alloy high-strength Hot-dip Galvanizing products of Baosteel were certified by Danfoss and became the first Chinese maker of the six categories of hot-dip galvanized products.
- Baosteel products were certified by Mercedes-Benz.
- Baosteel started mass production of 16.66 mm thick-wall line pipes that established its leadership in HFW welded pipes in China.
- The 22 mm X80 heavy plates for pipeline of Baosteel were supplied to the West-to-East Gas Transmission No. 2 Line Project.
- Baosteel developed the steels for undercarriage of large airplanes in China.
- The high-frequency resistance straight seam welded sleeves of Baosteel were extensively used in place of imported ones in Turkmenistan natural gas drilling project.
- Baosteel became the only enterprise in China that has the total-process making technology of galvanized steel wires for large bridge cables.
- Baosteel became the sole supplier of shipbuilding plates of the first extra-large deep-water drilling platform in China.
- Baosteel became the sole supplier of colored steel plates for the relocation to Caofeidian project of Shougang Group.
- 90% of the shipbuilding steel plates of the largest very large crude carrier (VLCC) in the world "HUASHAN" were high-grade heavy plates from Baosteel.
- Five products of Baosteel won the title of "Excellent Quality Products in Metallurgy Industry 2008".
- The color coated sheet brand of Baosteel was unveiled, and the brand allegation of "building a colorful life" was raised.

# Environment-Friendly Products

In recent years, Baosteel adhered to the "green" theme and endeavored to develop new technologies, processes and products for clean production, ecological development and pollution control.

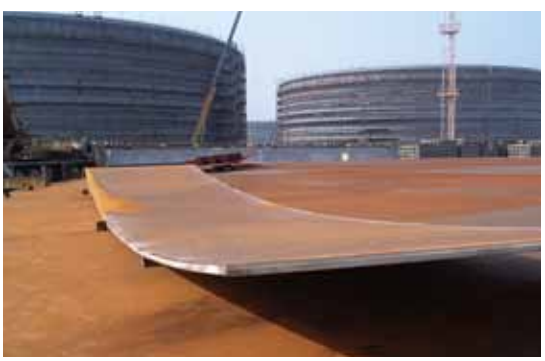
Baosteel applied the full life cycle management to steel products, developed "environment-friendly products", typically the high-strength high-corrosion-resistance steel, reduced steel consumption of downstream users, extended service life of steels and improved utilization efficiency of resources.

Baosteel high-strength steel series products are available in over 200 specs.

A series of environment-friendly products compliant with EU ROHS directive and having proprietary intellectual property of Baosteel have been developed. In 2008, the cold-rolled weather-resistant ultra-high-strength panels for containers with light weight and reliable safety started mass production at Baosteel, the only maker of such panels in China.

Baosteel supplies lightweight materials for Geely, Chery, Huacheng and other domestic automobile brands for weight reduction and oil consumption saving; hydraulic forming, hot forming and other advanced auto parts making technologies help users to cut costs.

Baosteel products are also extensively used in solar energy, nuclear power, wind power and other green energy sectors.



## 2008 Media Coverage Summary

- New Martensite stainless steel products of Baosteel exceeded the EU "green" threshold in corrosion resistance.
- The 7 mm and 1,770 mp galvanized wire for stay cables developed by Baosteel was awarded the "Major Innovation Project of Chinese Enterprises" jointly by China Enterprise Confederation and China Enterprise Director's Association.
- Baosteel became the sole Chinese producer and supplier of high-strength steel plates for 150,000 m3 extra-large crude oil storage tank.
- The nickel-based alloy oil casing and the subsea line pipe of Baosteel broke monopoly of imported products and support the energy security strategy of China.
- The Ultra super critical stainless steel pipes for boiler of Baosteel filled up the domestic gap in the field.
- Baosteel developed T24 high-pressure boiler pipes.
- Baosteel developed the ultra high-strength hot-rolled steels for construction machines.
- Chromium-free electro-galvanized fingerprint resistant products of Baosteel won the second prize of the national employee technological innovation issued by the Ministry of Science and Technology, the Ministry of Human Resources and Social Security and the All-China Federation of Trade Unions.
- Chromium-free electro-galvanized fingerprint resistant steel plates (SECCN5\SECDN5) of Baosteel were included into the top ten high-tech outcome commercialization projects of Shanghai in 2007; the extra deep drawing formed high-quality automobile steel plates and line steels (X70, X80) were included into the top ten sales; and the chromium-free electro-galvanized fingerprint resistant steel plates were included into the list of the top ten growth.
- The environment-friendly chromium-free phosphated sealed electro-galvanized steel strips were rated "A" in Shanghai hi-tech outcome commercialization.
- Baosteel developed the 600 mp hot dip galvanized TRIP steel plates to further diversify its automobile plate family.
- The weather-resistant bogie steels made by Baosteel to European standards were used for the light rail trains exported to India.
- Baosteel developed the double-high-surface fingerprint-resistant plates that provide high value added and represent cutting-edge technology not seen in China before. "Double-high-surface" means high surface quality and high surface performance, with corrosion resistance and conductivity meeting stringent standards.

# 11 Harmonious Development





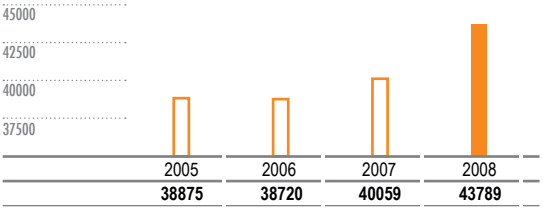
## Profile of Employees

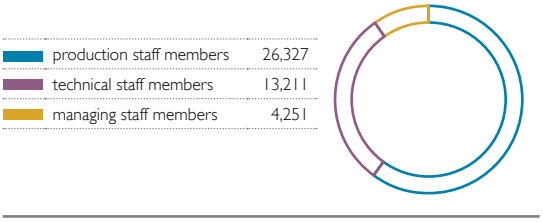
The Company offered increasingly more jobs and paid high attention to productivity improvement. At the end of 2008, the company had 43,789 employees in total, among them 26,327 are production staff members, 13,211 are technical staff members, and 4,251 are managing staff members. This number is 3,730 more than those at the end of the last reporting period, and there are 25,767 employees with an academic degree above associate degree.

Employees of the Company are mainly from Shanghai, Jiangsu, Zhejiang, Shandong, Hubei and some overseas regions.

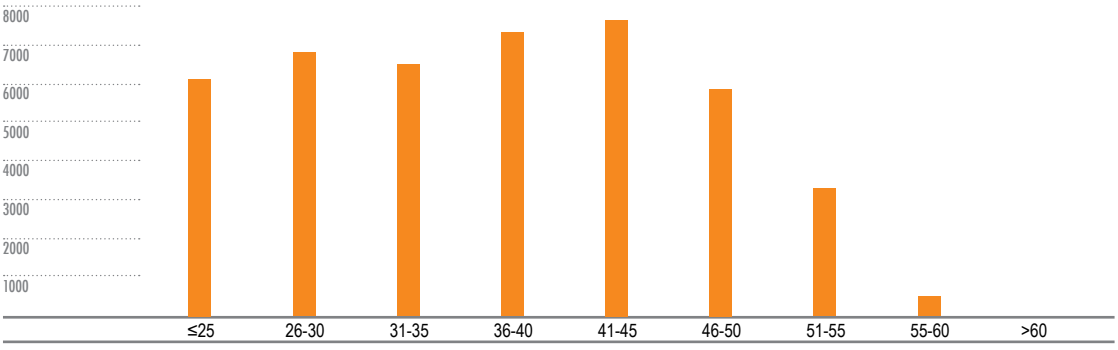
The Company provided equal employment opportunities regardless of genders and ages, however, due to characteristics of the steel industry, the company has a gender ratio of 6.8:1 (male to female). Our female employees mainly hold managing and technical business posts. Our employees are young and vigorous. The age structure is rational, with the majority being under the age of 45, making up 78.25% of all employees.

Staff number
(Unit: person)




Employees' age distribution
(Unit: person)




At the end of 2008, the company had **43,789** employees in total.

# Protection of Employees' Rights and Benefits

## 1. Providing Competitive Wages and Benefits

Baosteel has a well-developed compensation system that offers "externally competitive and internally fair" wages and benefits. The Company ensures that wages of employees are competitive in the industry and in the local area, and provides fair wages and benefits based on performance and competency of employees, thereby rewarding employees for their contributions to the Company, attracting and retaining competent people needed by strategic development of the Company, creating a link between income and performance and achieving harmonious development of employees and the Company.

## 2. Employment Policy

According to the principles of "good planning, sound organization, reasonable assessment and stringent selection" and in line with the industry characteristics and its cultural features, the Company developed standard employment management regulations, devised reasonable employment procedures, and applies the four-staged (making out recruiting plan, making out recruiting program, implementing recruiting program and post recruiting work) total process management over employees. Applicants are screened according to post requirements, interviewed by experts and tested to assess their competencies, and at last those meeting requirements of the Company are employed.

The Company employs local residents first for selected post under the principles of fairness and rationality, a way to provide more jobs for local residents and performing social responsibility for local social development.

## 3. Well-Developed Insurance and Benefits System

To stimulate employees and increase cohesiveness, the Company performs corporate social responsibility and protects legitimate rights and benefits of employees according to law, pays social contributions at such time and in such amount as required, including basic pension insurance, medical insurance, unemployment insurance, work-related injury insurance, maternity insurance and housing provident fund. These covers address concerns of employees after retirement and at the occurrence of accidents. In addition, Baosteel also provides corporate pension, free working lunch and other internal benefits.

Meanwhile, in consideration of such risks as potential accidents or major diseases that may cause heavy financial burdens, the Company purchases general employee group insurance that covers domestic accidents, domestic medical risks and international accidents, medical risks and rescues, intending to minimize financial loss of employees.

## 4. Recreational Facilities

In addition to seeking continuous corporate growth, the Company always pays due attention to sound growth of employees. The Baosteel gymnasium was upgraded to a large sports venue integrating fitness, sports and recreation. The Company encourages employees and their family members to participate healthful recreational and fitness activities. To facilitate employees to take exercise, the Company fully uses its social resources to provide many exercise spaces, helping achieving harmonious development of employees and the Company.

# 11 Harmonious Development





## Harmonious Industrial Relations

The Company regulates corporate activities in accordance with the *Labor Law*, the *Labor Contract Law* and the *Trade Union Law*. The Company maintains the employee service contract system, the collective contract system and the employee representative meeting system. The Company established and improved the trade union organization, labor dispute resolution organization, labor law supervision organization and labor protection supervision organization. The Company makes full play of the employee representative meeting system and steadily promotes equal negotiation and collective contract, and exerts every effort to build harmonious industrial relations.

## Opportunity Equalization and Diversification

1. The Company always adheres to the principal of "equal opportunity" and promotes equal treatment in all policies and schemes without any discrimination in respect of age, sex, race, religion and political orientation. Meanwhile, the Company gives due consideration to special groups, such as establishing the poverty alleviation mechanism that provides subsidies to financially troubled employees. Therefore, discrimination has never occurred in the Company in respect of sex, post and groups.

2. The Company pays due attention to employees from ethnic minorities. Minority allowances are paid and Moslem restaurants are provided for these employees. Attention has been paid to appoint employees from ethnic minorities to some important management posts of the Company.

3. In 2008, dispatching of overseas employees and repatriation arrangement mechanism were studied to assure proper "dispatching and repatriation". In addition, overseas returnees and foreign experts are encouraged to join Baosteel, so as to further promote internationalization and diversification of employees.

### 2008 Media Coverage Summary

- To further regulate the talent fostering process, Baosteel International developed and implemented the *Measures for Three-Year Promotion of Business Professionals*.
- The stainless steel branch developed the *Three-Year Talent Development Plan* in line with the overall requirements of the new development strategy of Baosteel.
- The stainless steel branch released the *Working Rules for Public Economic and Technological Innovation Activities*.
- The "backup roller technology for the high-strength and fully-sealed finishing and straightening machine" developed by the chief equipment inspector Wang Jun of Baosteel Branch won the second prize of national technological advancement in 2007.
- At the national highly skilled workers and rural talents commendation meeting of 2008, Wang Kangjian from Baosteel Branch won the "China Skills Award", and Han Mingming from the iron works of Baosteel Branch and Qian Xiaomin from the hot rolling plant of Baosteel Branch were honored the title of "National Skilled Workers".
- The chief engineer of Baosteel Branch Li Jun won the 11th "CAST Qiushi Outstanding Youth Award - Findings Commercialization".
- Li Yuan from the Special Steel Branch won the special award of the organization committee at the Steel University Org. 2007 Steek-Making Competition of IISI.
- Baosteel Branch held the fifth employee forum under the theme of technical innovation enhancement, including such topics as improving innovation capability of individuals and teams, raising overall innovation ability of the Company and optimizing innovation environment of the Company.

# Concurrent Growth for both Employees and the Company

## 1. Continual Improvement of Employees' Skills

Competitiveness of employees is always the powerhouse for sustainable development of the Company. In 2008, training per employee amounted to 116 hours, up 13.7% from 2007. 181,388 person-times were trained in total, including 18,617 person-times for managing personnel, 57,528 person-times for technical people, and 105,243 person-times for operators and maintainers. The average education level of employees has been enhanced over years. By the end of 2008, the average years of education reached 14.46 years.

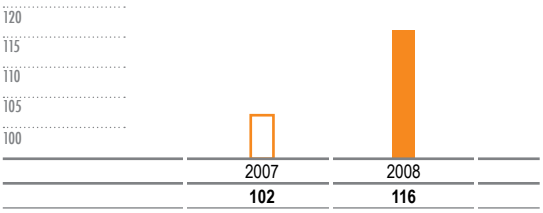
## 2. Inter-Organization Post Rotation Training Plan

The Company values hands-on training and follows the talent growth rules. A 700 -person-time annual post rotation plan involving all specialty systems was developed that covers four types: experience buildup, expertise expansion, business capability enhancement, and management skills. 715 person-time post rotation was completed in 2008, and the objectives of "mutual understanding, mutual cooperation, mutual trust, mutual recognition and knowledge expansion" were fulfilled.

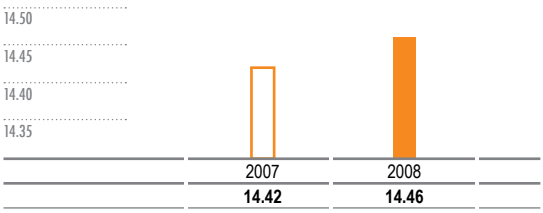
## 3. Exploration of Technical Talents Growth Rules

To create a Baosteel-specific technical talent growth system, the Company endeavors to build a "high-end" and versatile technical talent team that meets strategic development needs of the Company. In 2008, the Company reviewed arrangements of technical people engaged in process, R&D and equipments and prepared a technical people survey report that addressed four aspects: efficiency, positions, compensation and training. A technical talent pool was created, and a technical talent roadmap was developed.

Per capita of learning hours
(Unit: learning hour)




Per capita of education years
(Unit: year)




## 4. Special Trainings in Diversified Forms

The Company carried out such activities as innovation forum and technician rostrum to broaden horizon and improve study ability of employees. Topical lectures were provided, including the *Green Thinking: Sustainable Development Strategy, Updates on Development of Domestic and Foreign Macro-economy and Steel Industry, Technical Innovation and Outcome Application, Steel Maker Greenhouse Gas Emission Reduction Technology* and *Quality Management in Total Lifecycle of Products.*

## 5. Encouraged Employee Innovation

Baosteel Branch pays great attention to employee innovation. The Employee Invention and Creation Association was established to stimulate innovation among site people. Currently, about 80% of members of the association are from the production frontline.

The stainless steel branch instituted a technician association to provide a platform for site operators and maintainers to exchange skills and show talents. A variety of activities were organized to create a forum for communication between internal technicians, operators and maintainers and between inside and outside, so as to continuously update knowledge structure and improve capability of members.

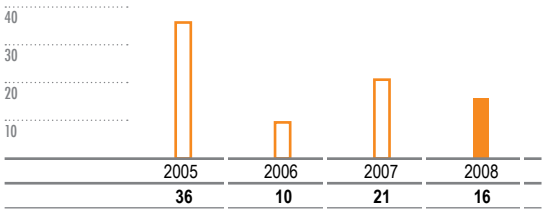
Baosteel branch, stainless steel branch, and Special Steel Branch established innovation studios and teams named after employees. In the future, these modes of frontline employee innovation will be promoted in Baosteel.

## Occupational Health and Safety

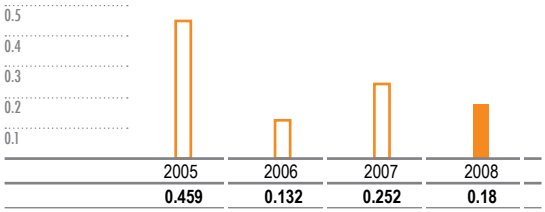
In 2008, the safety and security mechanism of the Company experienced great changes. The fire safety, traffic safety and security were incorporated into the "greater safety system". For the ultimate purpose of protecting occupational health and safety of employees, the Company enhanced safety responsibility at all levels, consolidated safety management, strengthened safety supervision, and provided more specific and effective safety training. The "greater safety system" was developed and carried out, with accident control going steadily.

In 2008, 16 employees were injured in production and operations, 5 less than 2007. The injury frequency (number of injured persons per million working hours) was 0.18, 28.6% less that that of 2007. The injury severity rate (number of lost working days per million working hours) was 144.8, 25.2% less than that of 2007.

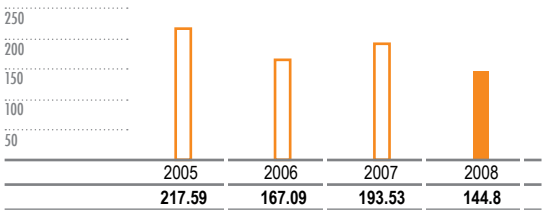
Number of injured persons




Injury frequency
(number of injured persons per million working hours)




Injury severity rate
(number of lost working days per million working hours)




### 1. Promoting the Foremen Safety Partnership Plan

Baosteel organized 36 "intra-process, intra-specialty and inter-region" foremen safety training sessions, which was attended by 568 persons in the year. The foremen safety partnership plan required trainees to sum up experiences from site practices and rethink profoundly by themselves in respect of like accidents that occurred around them. The training forms shifted from conventional classroom teaching to an interactive process in which trainees play the roles of both trainers and trainees to discuss site safety and specific cases in the working areas. In addition, the classroom was extended to the production site to assess site safety, enhance perceptual knowledge and sum up experiences. These efforts provide a new mode of safety training.

### 2. Carrying out Safety-related Technical Aid Activities

The Company dispatched safety-related technical aid teams to relevant entities to address problems in respect of occupational health and safety management, construction, non-coal mines, power cables, fire facilities and operation in confined spaces. They proposed solutions for site problems and presented special diagnosis reports.

### 3. Promoting the "3 Controls and 3 Excellents" Safety Management Program

The Company established and improved the classified and categorized safety control system with the participation of the owners, the collaborative entity admission and subcontract safety supervision system and the collaborative employee standardized operation safety control system. Excellent contractors, excellent projects and excellent employees were identified and rewarded.

### 4. Valuing Occupational Health of Employees

The Company promoted cleaner production, controlled the "sources" of occupational hazards at designing stage, regularly monitored risks in working posts, disclosed occupational hazards of working posts, carried out physical examination before, in and after services, and furnished complete the PPEs, alarms and first aid facilities.

The injury frequency ↓28.6%, The injury severity rate ↓25.2%.

# 12 Investors

- Giving Considerable Weight to Investor Relations
- Enhancing Investor Relations Management (IRM)
- Long-term and Stable Dividend Policy



Since the Baosteel went public eight years ago, the Company has undergone many ups and downs in the capital market and grows with investors in changes and innovation. The Company always observes the principle of "creating values for investors", maintains transparent and full disclosure of information, builds sound and interactive investor relations, provides a full-dimension platform for communication with investors, operates in good faith and seeks a win-win result with investors.

## Giving Considerable Weight to Investor Relations

The Company gave considerable weight to investor relations from top down. Chairman Xu Lejiang, General Manager Fu Zhongzhe and Deputy GM & Board Secretary Chen Ying and other executives participated in "one-to-one" communication, results announcements, online result announcements and other investor relation activities. Communications were maintained with investors in good faith to inform them of true information on the Company. In addition the management of the Company kept close track of capital market movements and performance of Baosteel shares, and collected and studied opinions and suggestions of investors on the Company. Functional departments of the Company also worked together to prepare various analysis materials to lay a solid foundation for full and efficient communication with investors.

## Enhancing Investor Relations Management (IRM)

As one of the listed companies which first developed investor relations management (IRM) in China, Baosteel has set up a relatively complete IRM system over many years, and gradually built up a multi-channel and all-around platform for information exchange in many ways, such as investor relation hotline, "one-to-one" communication, analysts' performance presentation, field research, shareholders' meeting, on-line performance release, company's website, teleconference and investor relations E-mail, which creates good conditions for effective communication between investors and the listed company.

In daily work, Baosteel has kept learning latest concepts and best practice on IRM, seeking a managing way suitable for the actual situation of the company, and improving relations with investors and information disclosure. While meeting the legal requirements on information disclosure, Baosteel also widens the extent of voluntary information disclosure in its periodical reports, offering both good and bad news, fully showing relevant risks and providing true and necessary basis for investors to make decisions. In the fourth quarter of 2008, due to the drastic change in the international and domestic economic environment, the whole steel industry suffered a loss, and Baosteel was also facing a severe situation. Based on the principle of "being honest to investors", the company fully reminded operation risks in its communication activities such as periodical report and on-line road show, thus enabling investors to be clear-headed in investment.

In addition to information legally required to be disclosed, Baosteel also complies the documents such as Baosteel's Record, which collects detailed data on the management of production and operation, sales, procurement, environmental protection, R&D, etc. Meanwhile, Baosteel continually enriches the information on the website for investor relations and optimized the columns on the website, so as to make it easier for investors to search desired information, and disclose information in a more realistic, accurate, and transparent way.

Baosteel pays great attention to good interaction with investors. While keeping an eye on the performance of the company's stock on the capital market, Baosteel pays attention to collect latest developments of the capital market and various investor's opinions daily obtained through channels such as investor hotline, E-mail and meeting, and feeds the collected information back to the management by means of non-periodic reports and periodicals such as Daily Express of the Stock Market, Information Abstract and Special Delivery of Chairman Secretary, so as to help the management know the information on the capital market and investors timely, and provide references for the management to make relevant decisions and effectively communicate with investors.

## Long-term and Stable Dividend Policy

The company is always trying its best to create values for investors, and never forgets to return its proceeds to investors while developing its main business. Baosteel 2004 annual general meeting of shareholders reviewed and approved the proposal on cash dividend policy which clearly specifies that the cash dividend of each future year should take up at least 40% of the net profit of that year. By promising the minimum proportion of cash dividend, the company has stabilized the expectation of investors, and guaranteed sound returns for investors. From December 2000 when the company was listed to December 31, 2008, the company has distributed a total dividend of RMB31.3 billion.

# 13 Suppliers

- Building a Long-term and Stable Procurement & Supply Chain
- Creating an Open and Transparent Procurement Atmosphere
- Launching Green Procurement Initiative



In terms of procurement of raw materials, goods, spare parts and equipments as well as logistics and transport, the company focuses on cooperation and alliance with strategic suppliers, and strengthens strategic partnership featured by mutual trust, win-win and mutual development with key suppliers by means of, for example, signing long-term agreements, carrying out technical exchanges and organizing management seminars, so as to ensure a long-term, stable and secure supply for the company.

Suppliers to be prefered by the company must observe commeical ethics, be committed to sustainable development, and have internatially competitive price and good performance in safety and quality. In case a local supplier and an overseas competitor have same performance, the local supplier may be advantageous due to its geographic location.

In 2008, the amount spent by the company to buy things from the top 5 suppliers accouted for 34.6% of the total amount of procurement in that year.

## Building a Long-term and Stable Procurement & Supply Chain

In 2008, faced with the drastically changing external environment and based on further optimization of supplier's structure, the company, by signing long-term strategic cooperation agreements with suppliers, strengthened the control over resources risks and supply risks, promoted orderly competition on and normal development of the market, provided secure guarantee for production, operation and project construction of Baosteel, and realized a win-win situation between suppliers and purchasers. In order to better cultivate and deepen strategic partnership, the company strengthened reciprocal visit and communication between senior management of suppliers and purchasers, established a mechanism for information exchange, improved technical cooperation and special subject training between suppliers and purchasers, and developed a higher level of strategic partnership. By integrating resources, expanding procurement size from competitive suppliers, and signing long-term strategic cooperation agreements with suppliers for strategic resources necessary for sustainable development of the company, the company obtained best procurement efficiency and maximized procurement benefits. The company also actively carried out localization for project materials, goods, equipments and spare parts, as well as production-supply-research integrated projects, so as to improve the adaptation of resources and supplies, better adapt to the changing situation of the procurement & supply market and meet requirements of strategic development of the company.

## Creating an Open and Transparent Procurement Atmosphere

**Optimizing procurement ways:** Differentiated procurement ways have been used for different purchased goods according to the degree of maturation of market competition. "Strategies for classified procurement" have been established to guide purchasers to choose different procurement ways to purchase different goods, so as to promote a standard and transparent procurement way. Open tender is used for key project goods, materials and equipment.

**Deepening supplier management:** Two high-level supplier workshops have been organized, mainly focusing on the strategy for the new round of development of Baosteel, corporate culture, honesty of the enterprise and supply chain collaboration. By vigorously promoting Baosteel's culture which takes integrity and collaboration as core among vast suppliers, the company fully implemented the clean collaboration system with suppliers, positively guided suppliers to carry out legal competition in quality, price and delivery, and made most suppliers deeply impressed with the strong determination of Baosteel to build a fair, honest and standard purchase-and-supply environment.

**Implementing E-procurement:** As an important means of "sunshine purchase actions", the company planed an overall functional framework of E-procurement and stably promoted its implementation step by step. E-procurement has not only enabled a standard and transparent purchasing process, but also become a platform for establishing harmonious relationships between Baosteel and suppliers and improving purchasing efficiency by creating value for the company with the collaboration of the suppliers and purchasers. As for the current E-procurement platform, in seeking suppliers, on-line price inquiry and quotation has been realized, making the purchase decision-making process more transparent, open and fair. In the implementation of purchase, 86% orders, delivery and settlement can be completed on this platform, making the purchasing process more efficient and economic, and the communication with suppliers more frequent and convenient.

## Launching Green Procurement Initiative

The company is the first to launch Green Procurement Initiative in the field of purchasing materials, goods and equipment in China's steel industry. By publicly releasing Green Procurement Initiative on Baosteel E-business platform, the company declared its green procurement policies to the public and enhanced the awareness of the public on "Green Procurement". In case of equivalent effectiveness, the company will give priority to suppliers' products which have been certified by ISO14001 environmental management system, so as to effectively ensure environmental protection, energy saving and reutilization of purchased materials and goods, and further widen the road of sustainable development of Baosteel.

By sorting out the purchase catalogue, promoting the standardization of purchase for paint and other materials, and sorting out the environmental requirements of purchased goods, the company has defined key categories for green purchase, and organized using departments and technical departments to optimize technical standard of purchase and incorporate requirements on energy-saving and environmental protection into the standard. The company has improved the management on recycling materials, integrated and optimized the management process, and improved the recovery proportion and efficiency of waste materials and packaging materials. The company has also asked its suppliers to gradually obtain the certificate of environmental management systems, and asked 107 suppliers in the industries of fireproof materials, chemical and nonferrous metal to pass ISO14001 certification by the end of 2009.

# 14 Users





## Market and Users

The company focuses on international and domestic leading enterprises in the industries such as automobile, household electrical appliances, shipbuilding, petrochemical, machinery manufacturing, energy and transportation, building and decoration, and metal products, as well as main products or famous brands of these users and key international and domestic projects. The company has a big market advantage and stable directly-supplied users in the high-end market. Baosteel is the largest steel supplier for Chinese industries of automobile, household electrical appliances and oil and natural gas exploitation. In 2008, the proportion of directly sold commercial blanks of the company reached 83.5%.

In 2008, the company did not violate any provision on health and safety of product and service within products' life cycle, and was not seriously fined due to any violation against laws and regulations on the specification and application of products and services.

In 2008, the revenues from selling goods to top 5 customers made up 10 percent of the total business revenues.

## Honesty and Fairness in the Sales Link

In terms of sales, the company is always adhering to the practice that the managing staff should set an example by their own action for all employees to strengthen the awareness of integrity and build an honest and clean management circle. The company has also fully implemented classified management for sensitive posts, and built an honest and clean sales system which is more specific and more practical. With the help of the marketing system, the company has further enhanced the penetrability of employees on integrity ideas, the credibility on the market, and enforcement power on systems, built together with its employees the most competitive marketing value chain targeting at "best service, fastest response, lowest costs and highest integrity", ensured the whole marketing system effectively and accurately implemented various marketing strategies of the company, and promoted the progress of the user's satisfaction project. The company has continued to promote the construction of the punishment and prevention system starting from constructing education defense, institutional defense and technical defense. The company has also enhanced the enforcement for relevant management systems involving confidentiality, and signed confidentiality agreements with employees from the sales department to keep business secrets. No complaints due to invasion of user's privacy or loss of user's documents have ever occurred.

In 2008, the proportion of directly sold commercial blanks of the company reached **83.5%**.

# 14 Users





## Creating Value for Users

The company is always user-oriented, and adheres to the commitment of "Three Takings", i.e.: "taking user's standards as Baosteel's standards; taking user's plan as Baosteel's plan; and taking user's interests as Baosteel's interests". By improving the capability of the supply chain, the company met the growing demands of users and created value for them.

With the help of the platform of production, sales and research, the company has continuously been promoting the improvement of product quality and physical performance. By taking into account import substitution and supply for key projects, the company promotes R&D of new products and provides users with more and better products on a continuous basis. In 2008, the company sold 8.48 million tons of unique and leading products.

The company continues to promote the whole process period management for pilot user contracts by expanding the business scope covered by the integrated sales and logistics control system platform. It communicates with users on a regular basis, systematically solves problems of users, effectively improves user's perception, and keeps improving the strategic partnership with users. Compared with that of 2007, the average whole process period of pilot user contract is reduced by more than 20%. Users say that Baosteel's whole process period management of contracts really reduced the inventory of users and reduced capital occupation, reflected Baosteel's cooperation concept of creating value for users.

## Improving Users' Satisfaction

In 2008, the company provided product-related information required by users in a timely and effective way by means of website, publication, telephone, E-mail and fax. The company is always combining the integrity culture of the company into all marketing activities, and focuses on products such as auto sheets and color coated sheets to carry out brand promotion activities. The company has not violated any provision on marketing communications, as well as any relevant provision on information and identification of products and services.

Meanwhile, the company takes "raising client satisfaction perception, raising service ability" as the guide conception to improve client service. Through improving clients' representative system, and refining the client service work, the company improved the whole course management of client contracts, constantly optimizing products objection disposal procedure, strengthening overseas client technical service, so as to upgrade client service soft power of marketing system. Therefore, clients' satisfaction score has been kept above 90.

### 2008 Media Coverage Summary

- In 2008, Daqing Oilfield selected the first eight "AAA" strategic suppliers from 50 key suppliers, and Baosteel ranked first.
- To further improve quality of color coated household appliances and meet increasing demands of users, Baosteel prepared the *Production Manual of Color Coated Household Appliances*.
- Baosteel launched the *Guidelines on Application of Color Coated Steel Plates* for Construction, the first "cyclopedia" in China covering design, material selection and production of color-coated plates for construction.
- Project manager, Zhang Feizhou from the construction equipment department of Baosteel and the chief engineer, Bao Ping from Baosteel Nippon Auto Plate Co., Ltd. won "Service Stars to the Satisfaction of National Users" and the "Service Stars to the Satisfaction of Shanghai Users" respectively.
- Baosteel maintains continuous improvement in customer service management from "production-oriented" to "customers' need oriented". By accessing the Baosteel E-commerce platform, "Baosteel Online", strategic customers can find the execution of their orders.
- Baosteel won the "Excellent Suppliers" silver medal issued by the US-based Caterpillar, becoming one of the few steel makers awarded the medal across the world.
- Baosteel North Trade Co., Ltd. was recognized as the global best supplier by Shenyang North Traffic Heavy Industry Group Co., Ltd.

# 15 Repaying the Society





Baosteel always takes social responsibility as one of its important duties. Baosteel has fulfilled its commitment to seek harmony with natural environment and communities and grow together with employees and partners.

In 2008, the Company donated RMB22,787,600 to public welfare and charity organizations, which fully demonstrated its fulfillment of social responsibility.

## Earthquake Relief

Immediately after the catastrophic "5.12" Earthquake hit Wenchuan County, Sichuan Province, Baosteel Group exerted every effort to support quake relief. Leaders of the group decided at the meeting that "Baosteel will provide the most desired and the strongest possible supports to quake-affected areas". Under the leadership and arrangements by Baosteel Group, Baosteel units and employees were fully dedicated to quake relief and post-quake recovery. As the old saying goes, "When disaster struck, help came from all sides". Baosteel units and employees donated supplies and money to quake-hit areas and party members paid extraordinary membership dues. These efforts helped victims of the earthquake to overcome and rehabilitate from difficulties. Baosteel units and individuals donated over RMB16.5 million and JPY3 million.

After the occurrence of Wenchuan earthquake, members of the Chinese Communist Youth League (CCYL) at Baosteel actively responded to the Baosteel CCYL Committee's call for blood donor volunteers, in addition to the donation of supplies and money. Over 2,000 Baoteel people joined "Shanghai Emergent Reserves of Blood Donating Volunteers" in three days.

Baosteel International Western Ltd. (BIW) is located in Chengdu, a city heavily hit by the earthquake. On the day when the earthquake occurred, all employees of the company walked several kilometers in rain to the temporary blood donation point of Chengdu Blood Center and joined the one-hundred-meter queue of blood donators quietly. BIW took proper actions after the occurrence of the disaster and resumed normal business in the next day, staying at the frontline of earthquake relief.

Also in Chengdu, Chengdu Baosteel Can Making Co., Ltd. Which was at the pilot production stage started the emergent response plan immediately after the disaster and carefully checked all the equipment. Preparations for production were resumed on May 14.

## Poverty Alleviation

In 2008, the Company donated RMB8.9 million to four poverty-stricken counties in Yunnan Province, namely Zhenyuan, Mojiang, Jiangcheng and Ning'er, all earmarked for poverty alleviation. Baosteel Branch, Baosteel International and Meisteel were responsible for the management of poverty alleviation. In addition, Baosteel also donated RMB931,200 poverty alleviation funds to four less developed villages, i.e. Bao'an Village, Mengxi Village, Yongle Village and Mengdong Village in Chongming County, Shanghai.

According to arrangements and requirements of the CPC Shanghai Municipal Committee and Baosteel Group Party Committee, Baosteel Branch took poverty alleviation in less developed areas as a good opportunity to repay the society and contribute to the building of new suburban areas and new rural areas of Shanghai, and established a long-term aid relation with less developed Bao'an Village and Mengxi Village, Miao town, Chongming County. For that end, Baosteel Branch set up a team headed by party committee leaders and defined the three-year aid objectives and approaches based on repeated surveys and communications, in a bid to increase income of the villagers and improve their infrastructures. After persistent efforts from many sides, these aids have delivered interim outcomes: basic infrastructures planned were completed in Bao'an Village and Mengxi Village, including road construction, farrmland preparation, unpaved road upgrading and channel construction. A student aid program was carried out to help 45 students from poor families. The "embracing spring, giving warmth and promoting harmony" campaign was launched to comfort financially troubled villagers before the Spring Festival.

## Other Donations and Aids

To push forward the Company's development strategy and promote harmony between society and environment, the Company shouldered the mission of supporting key state projects and charity undertakings of the country and provided donations and aids in support of poverty alleviation, public welfare, education, environmental protection, basic research on relevant industries, charity and red cross society donations.

Baosteel accumulatively donated about RMB9.215 million in the year to public welfare, charity organizations and public culture services. Baosteel donated RMB4.5 million to China Antarctic Summer Research Station for procurement of construction materials for works in the station area, and donated RMB3.5 million worth of buildings made of color coated sheets to the guard post on the Heixiazi Island.

# 15 Repaying the Society





## Taking the Lead in "Green Building"

As the world population expands and urbanization proceeds at a faster pace, people pose an increasingly urgent need for residence and environment. Therefore, International Iron & Steel Institute (IISI) initiated the Living Steel Program designed to provide efficient and cost-efficient solutions for worldwide housing problems via sustainable housing design and building innovation.

Steel-structured house is known as the "green building" in the 21st century due to its environmental friendliness and sustainability. Compared with conventional concrete structures, steel-structured house is energy efficient, land saving, environment-friendly and 100% reusable. Meanwhile, the steel-structured house can be pre-fabricated and assembled on site to considerably cut the time for construction and effectively reduce foundation cost. Its cost is almost the same with that of concrete buildings, and is in line with the definition of economically suitable building.

In 2005, Baosteel joined Living Steel Program as the only full member in China. On March 5, 2008, the corner stone laying ceremony of the steel-structured housing demonstration project of Baosteel was held at Huangjinkou Residential Block, Wuhan. All steel columns used in the demonstration project are cold-bent square steel pipes made by Baosteel, a more cost-efficient and ideal type of residential steel compared with the conventional H-shaped steel. The demonstration project is an economically suitable building project designed to address housing problem of low-income families and provide high-quality life for users.

After the "5.12 Wenchuan Earthquake", post-quake recovery project was launched, Baosteel became the designer and contractor of the first fully steel-structured residential project, "Happy Home·Yiyuan" in Dujiangyan, Sichuan Province. Advanced steel structure technology and products of Baosteel were applied to the project.

## Devoting to Lightweight Automobile Technology

Early in 2008, the Strategic Federation of Innovative Lightweight Automobile Technology (the "Federation") of China was established. It is the first strategic federation aiming at integrating the auto industry with upstream and downstream industrial resources for technology innovation and outcome sharing in China. Baosteel became the only steel maker in the 12 members of the Federation. The Federation planed to reduce the deadweight of automobiles under six Chinese brands by 8%~10% in three years through making breakthroughs in the lightweight technology.

The lightweight technology means reducing the deadweight of automobiles without compromising overall quality and performance, thereby saving energy, reducing emission and improving maneuverability and safety. Currently, this technology has become a key topic in the development of the auto industry China and abroad.

In the past eight years, Baosteel always followed on the development of international steel industry and auto industry. It joined the UltraLight Steel Auto Body (ULSAB) project of IISI and took the lead in developing the laser tailor welding technology in China. The practical quality 20 lightweight new products in 3 categories developed by Baosteel is comparable with that of foreign products of the same categories, and 10 patents and over 20 technical know-hows were included in the technology. Baosteel laser tailor-welded products and high-strength steel have taken a leading position in market shares in the country and have been supplied to over 30 auto makers.

The hot stamping technology is a cutting-edge technology in auto plate applications, and has become the developing trend of auto making technologies. This technology considerably increases the strength of steel plates and the dimensional precision of parts, and thus allows for light auto body. In 2008, Baosteel provided samples of hot-stamped auto body parts to Chery. Chery's test showed the hot-stamped parts of Baosteel exceeded international standards in performance, and the dimension precision was obviously better than the former cold-stamped parts, and the weight of local auto body components was reduced by 18%. Because of the successful cooperation between Baosteel and Chery, many domestic auto makers signed sample making agreements with Baosteel.

In the future, Baosteel will continue its efforts to apply laser tailor welding, internal high-pressure forming, hot-stamping forming and other advanced technologies to automobiles under Chinese brands, play a demo role and promote common development of steel and auto industries.

## Building Harmonious Community

Under the principles of "protecting and improving environment, improving integrated use of corporate resources, creating more benefits between government and enterprises and eventually achieving sustainable development", Baosteel and Baoshan District Government worked together to develop the regional cyclic economy, further promote consumption reduction, reuse and waste-to-resource conversion in production, distribution and consumption of products, heighten the awareness of corporate social responsibility, cut down production cost and fulfill objectives in relation to regional energy conservation and emission reduction.

In addition, despite sharp volatility in the steel market at the end of August, Baosteel decided to allocate over RMB27 million to finance the automatic environment monitoring and management system of the new environment monitoring center of Baoshan District.

# 16 Environmental Protection





## Bringing the Environment Impacts Caused by the Company Under Control

Steel making will pose impacts on the environment. Baosteel has done its best to bring these impacts under control and minimize their negative effects. We have made commitments not to cause any accident that will result in serious damage to the surrounding environment, respect and actively respond to environment requirements of all stakeholders, provide total-process environmental solutions ranging from project design, product making to recovery of discarded products, provide environment-friendly products to users, dispose of some wastes in communities and speed up the development of the cyclic economy.

In 1985, Baosteel started operation in the suburb of Shanghai, the most prosperous city in China. Due to its special location, Baosteel has paid extra attention to environmental protection since it was built, and understands that environmental protection is a crucial issue having an immediate effect on its survival and growth.

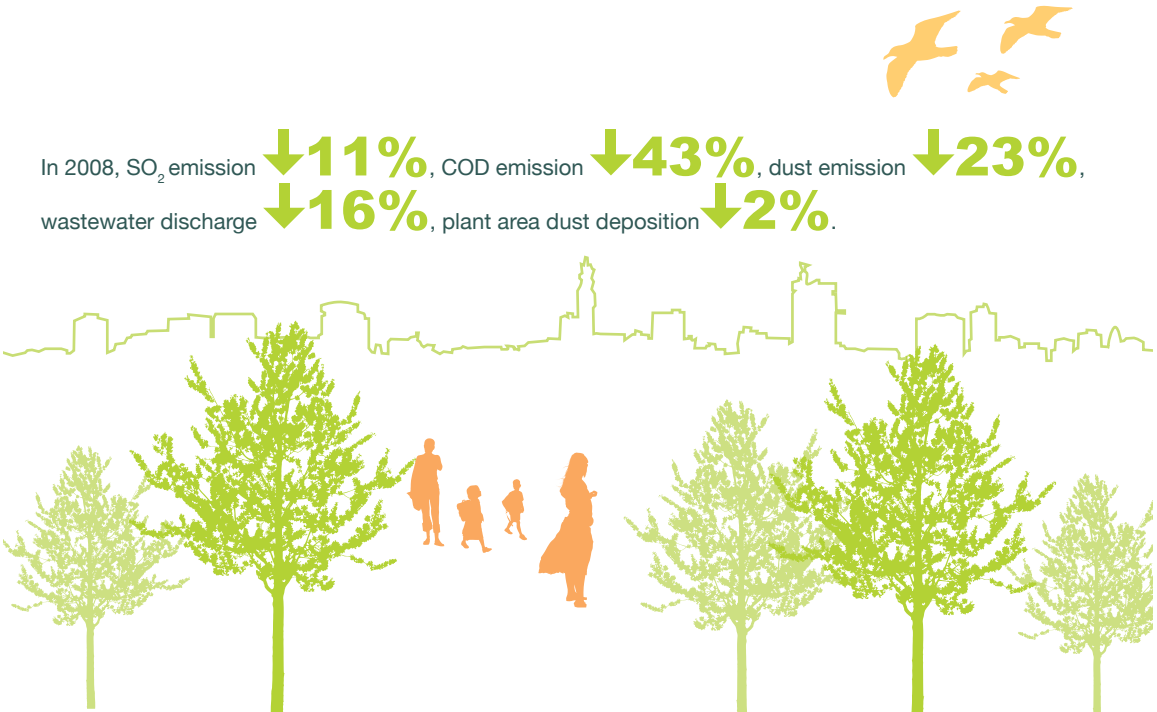
Baosteel is committed to improve co-existence of and harmony between industrial production and surrounding environment, reduce pollutant discharge and reduce impacts on environment. Baosteel asks all it branches and subsidiaries to maintain an internal control system according to the ISO14001 standards and apply standardized management; close down or upgrade backward capacities; conduct real-time monitoring of wastewater concentration at discharge points and assure discharge to standards; and protect surrounding environment and reduce damage to the habitats of animals and plants.

Baosteel endeavors to expand green coverage and maintains biodiversity in the plant area, cooperated with the community and government in various forms and deliver contributions to afforestation and biodiversity in local areas.

## Continuous Improvement in Performance

The environmental protection efforts of the Company takes total pollutant discharge as the quantitative objective and takes technical revamp and management improvement as approaches.

In 2008, Baosteel established the Medium and Heavy Plate Branch and Baotong Steel. Though the production capacity was increased, the total pollutant discharge was reduced. $SO_2$ emission decreased by 11%, COD emission dropped by 43%, dust emission decreased by 23%, wastewater discharge was reduced by 16%, and the plant area dust deposition was reduced by 2%.



# Environment and Energy Management

## 1. Objectives and Policies

Environmental Objective: To build a first-class clean iron and steel enterprise in the world

To meet the foregoing objective, we worked out the following management policies:

- Fully abide by the national laws, regulations and standards governing energy conservation and environmental protection, and perform international environmental conventions;
- Apply more stringent internal control standards, continuously reduce energy consumption and environmental impact in production and use of products;
- Improve production processes, optimize energy structure, reduce energy consumption and cut energy cost;
- Revamp new production units for energy conservation and environmental protection purposes, and maintain a good overall level of energy conservation and environmental protection across the Company;
- Reduce consumption, reuse and turn wastes to resources, improve the recycling rate in production;
- Respect opinions and requirements of stakeholders, continuously improve environmental quality of communities;
- Cause continuous improvement of partners in energy conservation and environmental protection management and performance;
- Pay due attention to weather changes, actively participate in domestic and international communications and cooperation in energy conservation and environmental protection, push forward R&D and promotion of energy conservation and environmental protection technology, and improve ecological environment; and
- Raise employees' awareness and capability, and try to make all employees participate in energy conservation and environmental protection.

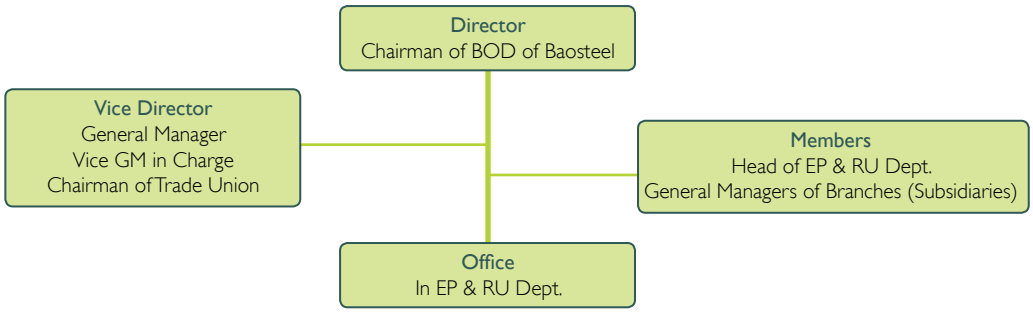
## 2. Management Framework and Responsibility

The Environmental Protection and Resource Utilization Committee of Baosteel ("EP & RU Committee") is the governing body of the Company's environmental protection and resource utilization work. It is responsible for developing the Company's policy on environmental protection and resource utilization, researching and defining development plans and programs for environmental protection and resource utilization of the Company, coordinating relations and resource allocation between branches and subsidiaries, and making decisions on major issues in relation to environmental protection and resource utilization.

The Company established the EP & RU department to maintain integrated management of environmental protection and comprehensive resource utilization. The Company developed rules and regulations on environmental protection and resource utilization from the perspective of specialty management and function management. The EP & RU Department researches and implements laws and governmental policies and guidelines on environmental protection on a macro basis, carries out national and local trade standards on environmental protection, energy conservation and comprehensive resource utilization; executes development programs and annual plans for environmental protection, energy conservation and comprehensive resource utilization of the Company; conducts overall assessment on environmental protection of the Company, prepares the sustainable development report of the Company; takes charge of environmental monitoring, environmental pollution control, and conducts research and analysis on major pollution accidents; follows up on the trends of domestic and overseas technologies for comprehensive utilization of secondary resources, and organizes management enhancement of and research on comprehensive resource utilization; holds annual and regular meetings of the EP & RU Committee, implements integrated management of environmental protection and resource utilization, and promotes the building of environment-friendly businesses.

Branches and subsidiaries also have their own management committees and departments for environmental protection and resource utilization, and work together to promote environment and resource management of the Company according to the ISO14001 standards.

Composition of the EP & RU Committee of Baosteel




## 3. Environment Management System

The ISO14001 Environment Management System (EMS) is an internationally accepted environment management mode and the guideline for Baosteel to manage environmental protection. In 2005, Baosteel (the predecessor of the present Baosteel Branch) became the first Chinese steel maker certified according to ISO14001. The system was subsequently fully promoted in branches and subsidiaries of Baosteel. By the end of 2008, except the Medium and Heavy Plate Branch that joined Baosteel this year, all steel branches and subsidiaries of Baosteel were ISO14001 certified.

Baosteel EMS (ISO14001) Certification (2008)

| Company Name | Date of Certification | Latest External Certification | Nature of Latest Certification | Certified by | Certificate No. |
|---|---|---|---|---|---|
| Baosteel Branch * | 1998.1 | 2008.10 | Review | BSI(Huaxia)** | EMS83746 |
| Stainless Steel Branch | 2005.7 | 2008.7 | Review | Grand Honour | 02208E20019R0L |
| Special Steel Branch | 2006.8 | 2008.3 | Supervision Audit | BVQi | 199825 |
| Medium and Heavy Plate Branch | By the end of 2009 | By the end of 2009 | Initial | BSI | -- |
| Meisteel Co. | 2006.12 | 2008.12 | Review | BSI | EMS99651 |
| Ningbo Baosight Co. | 2001.1 | 2009.1 | Review | Shanghai Quality | 00307E10001R2M |
| Nantong Baosteel | 2007.2 | 2008.5 | Review | Grand Honour | 02207E20002R0M |
| Yantai Lubao | 2003.5 | 2008.5 | Review | Grand Honour | 02207E20016R2M |
| Huangshi Coating Sheet | 2003.11 | 2007.12 | Review | QA Center of China Association for Quality | 00606E10322R0M |

Currently, Baosteel is promoting the comprehensive management system certification in brunches and subsidiaries, EMS is included in it as a component.

Note: * Including Baosteel Nippon Auto Plate Co., Ltd. and Baosteel Chemical Co., Ltd.

** The brackets mean the certification body issuing the initial certification.

## 4. Basic Energy Management

The Company actively took part in the "1000 Enterprises Energy Conservation Initiative" organized by the National Development and Reform Commission. The Company fostered a sound energy conservation atmosphere by means of skills competition, Energy Conservation Week, energy conservation training, and reasonable suggestions on energy conservation. The energy conservation objectives of the government were broken down to production units and taken as a measure for energy conservation performance assessment. Monthly follow-up analysis and quarterly review were conducted.

The Company strengthened energy measurement, energy statistics and energy audit. In 2008, the Company modified and supplemented management documents concerning energy measurement and statistics, improved energy statistics system and perfected the energy meter deployment. The Company worked out the *Regulations on Energy Audit Management* and included energy audit into day-to-day management of the Company.

As a pilot project, the National Audit Office conducted an energy conservation and emission reduction audit on Baosteel Group in 2008. The audited items included accuracy and traceability of energy and environmental data, pollutant discharge and payment of discharge fees, operation of environmental protection equipments and availability of funds for energy conservation and emission reduction. Baosteel organized Baosteel Branch, the Stainless Steel Branch, the Special Steel Branch, the Medium and Heavy Plate Branch, Meisteel and Baotong Steel to accept field survey and audit by the State Audit Office. According to the audit results, the Company checked and developed a phased elimination plan for the energy-intensive transformer and other equipments in use.

The Company interconnected energy systems of branches in Baoshan via the "Baosteel Energy Corridor" to form a large energy network that allows allocation of by-product gas, oxygen gas and other main energy media between production units, so as to reduce energy system diffusion, improve utilization ratio of energy media, and assure stability, efficiency and economy of the energy system.

## 5. Education and Trainings on Energy Conservation and Emission Reduction

Improving employees' awareness of energy conservation and emission reduction is an important component of environment management at Baosteel. In 2008, Baosteel provided trainings and continuing education to management and technical personnel of functional units, branches and subsidiaries under four topics: energy management technique, interpretation of energy conservation and environmental protection policies, integrated resource utilization technique, sustainable development and corporate social responsibility of Baosteel. In addition, the Company also provided trainings on professional skills for managers, technicians and field operators of branches and subsidiaries. These trainings helped enhance capability and awareness of environment management personnel to update their knowledge and improve their skills, thereby making them more capable of tackling problems and assuring smooth work in relation to energy conservation, environmental protection and cyclic economy.

The energy conservation and emission reduction trainings of Baosteel consisted of three tiers: 1) awareness training on energy and environment supervisors, including management methods, trends and responses of energy conservation and environmental protection; 2) training on general technicians and management personnel, including new energy conservation and emission reduction technologies in the industry and new laws and regulations; and 3) training on operation of energy conservation and environmental protection facilities. In addition, Baosteel took actions in other forms to make employees aware of the importance of energy conservation and emission reduction, and thus improved energy conservation and emission reduction awareness of all employees.

The energy conservation and emission reduction trainers of Baosteel included internal energy and environment experts, university professors, management and technical professionals from social organizations, and technical professionals from suppliers of energy conservation and environmental protection equipment. Combination of in-house and external experts assured professionalism of trainings and ensured seamless integration between trainings and actual conditions of the Company.

In 2008, the Company developed four training courses, namely *Cyclic Economy and Sustainable Development of Baosteel, Energy Management of Baosteel, Baosteel Technology for Comprehensive Utilization of Solid Industrial Wastes and Baosteel Environment Management*. A complete set of training outlines, teaching materials and relevant plans containing the four courses was released. The development of these courses is of great importance for improving trainings of the Company on energy conservation and emission reduction.

In 2008, Baosteel provided 10 training sessions on energy conservation and emission reduction at company level, attended by 428 trainees. The trainings covered low-level management, techniques and equipment operation. Trainees were from environment and energy managers and field operators.

# Environment and Energy Solutions

We paid due attention to energy and environment problems arising from the steel making process and provided the most effective solutions. We closely tracked production and shipment of raw materials and adopted the green procurement strategy; we attached much importance to our production and operation activities by promoting cleaner production processes and technologies; we paid due attention to our products by providing environment-friendly products and value-added services to users; we paid due attention to employees and adjacent residents by creating comfortable working and living environments.

## 1. Source Management

### (1) Green Procurement

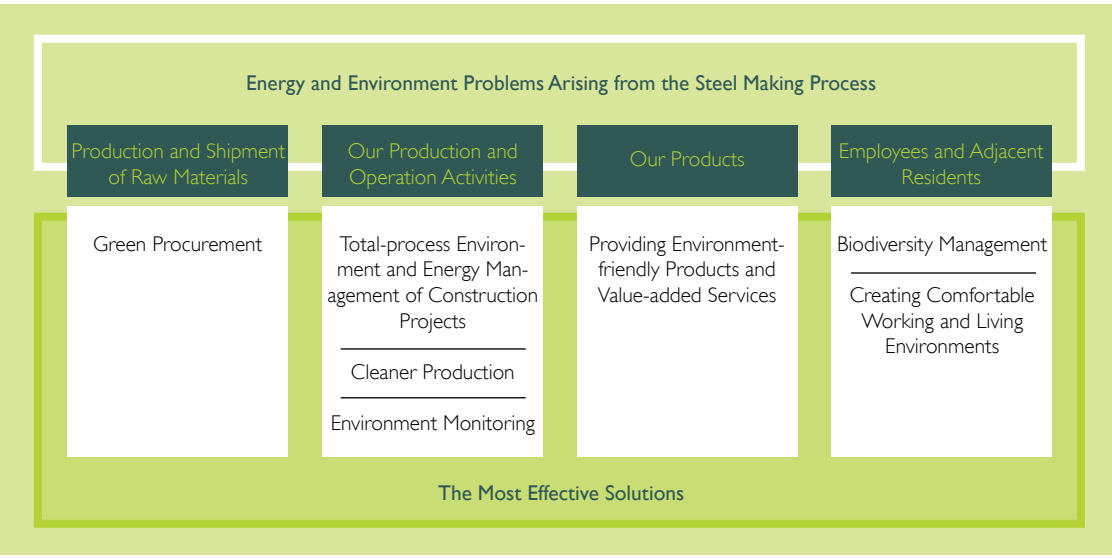
Baosteel has implemented the green procurement strategy and taken the lead to launch the *Green Procurement Initiative* for procurement of materials and spare parts in the domestic steel industry.

Baosteel will progressively enrich the meanings of green procurement, expand the business scope of green procurement, and convey the concept of green procurement along the supply chain to relevant entities.

### (2) Total-process Environment and Energy Management of Construction Projects

Baosteel developed the *Administrative Measures for Assessment and Review on Energy Conservation of Fixed Asset Investment Projects*, which extends energy conservation management to the earlier design stage of projects. The design code for technical revamp projects of the Company sets out detailed requirements on energy conservation and environmental protection technologies and actions to be used and taken in project design, and the targets of energy conservation and environmental protection. When a project proceeds to acceptance upon competition, the energy conservation and environmental protection indicators are taken as measures for "four compliance's" assessment, and the project will be rejected if these indicators do not meet targets.

*The Uniform Technical Specifications for Project Design of Baoshan Iron & Steel Co., Ltd.* (Environmental Protection Section; Energy Conservation Section) sets out the technical codes and requirements to be observed in projects in respect of environmental protection and energy conservation design, and imposes pollutant discharge limits more stringent than existing national and local standards, and states that "the pollutant discharge in plant design must meet the air and water pollutant discharge limits of Baosteel in addition to compliance with national and local standards".



# Environmental Protection



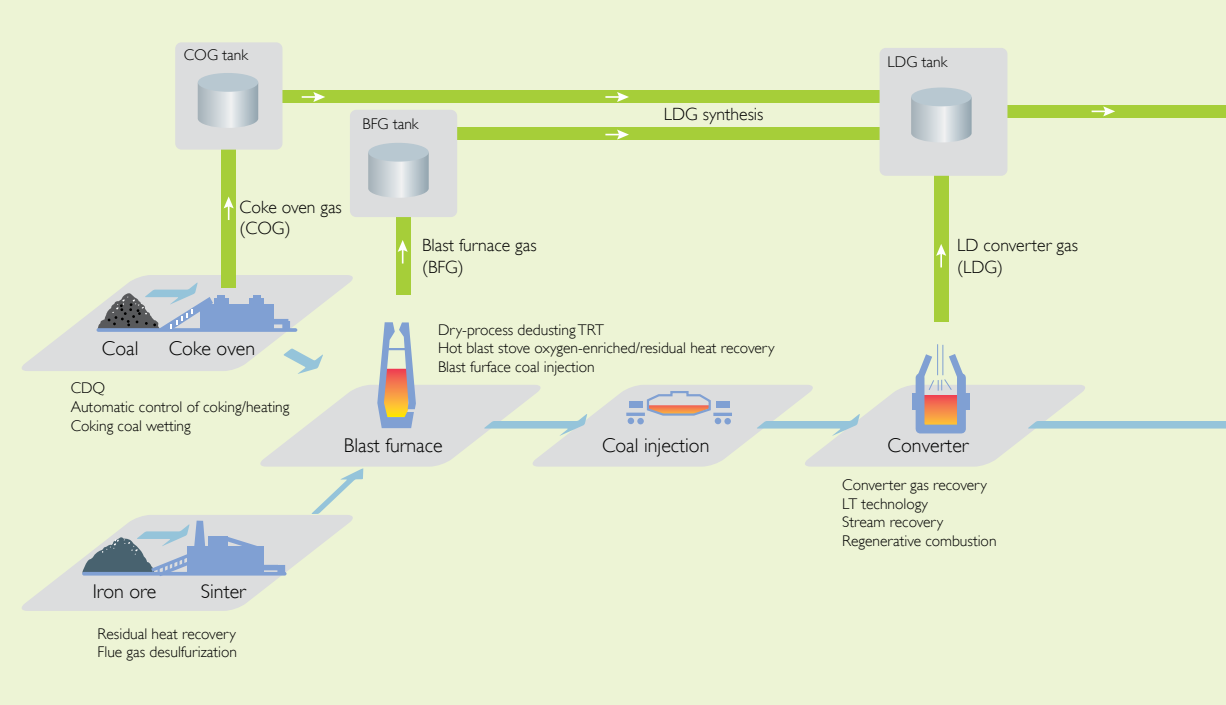
## 2. Cleaner Production

In 2008, Baosteel acquired the Luojing project assets of Baosteel Group, including the largest COREX system in the world, which is also the first one in China. It produces molten iron directly using coal and iron ores without coking or sintering process, a marked advantage in environmental protection.

Blast furnace gas dry-process dedusting, converter gas dry-process dedusting, CDQ, TRT, blast furnace coal injection, BOF steel-making process, hot-charging and hot-transporting for continuous casting slabs and direct rolling, energy center and other key energy conservation and environmental protection technologies in the steel industry have been applied in Baosteel.

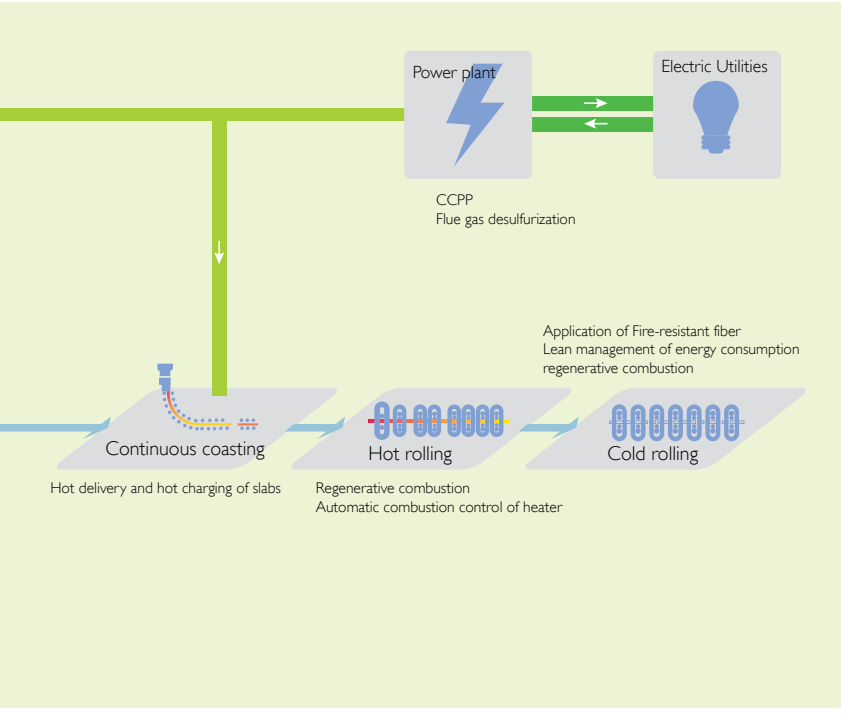
On basis of the above technologies, Baosteel continued to develop and apply new energy conservation and emission reduction technologies, refine and deepen energy conservation technology management and invest heavily in technical revamp for energy conservation and emission reduction each year. In 2008, the Company arranged 126 technical revamp projects for energy conservation and environmental protection, totaling RMB4.344 billion in investment. In 2008, 20 energy conservation projects and 50 environment protection projects were completed and put into operation, totaling RMB1.27 billion in investment.

The main energy conservation and emission reduction technologies used by the Company are listed below.



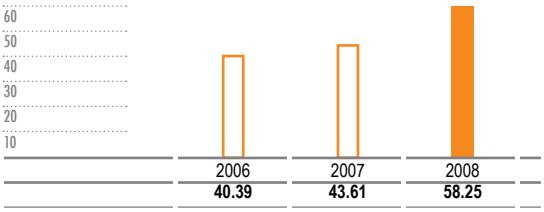
The Company recovers by-product gases. See the following table for reuse rates of by-product gases:

| Description | Unit | 2006 | 2007 | 2008 |
|---|---|---|---|---|
| COG reuse rate | % | 100 | 100 | 99.84 |
| BFG reuse rate | % | 97.70 | 97.83 | 97.61 |
| COREX gas reuse rate | % | - | - | 97.33 |
| LDG reuse rate | $m^3$/t-s | 95.28 | 94.86 | 95.40 |



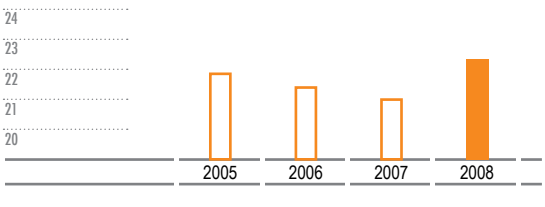

The Company recovers and reuses fume residual heat of industrial furnaces, sensible heat of red-hot coke, and BFG residual pressure and other residual heat/pressure. Residual energy recovered in recent years increased over years, and is listed as follows:

Total residual energy recovered
(PJ)




Despite expanding capacity, production line extension and product diversification, the Company has continuously optimized energy consumption indicators through enhancement of energy management and implementation of energy conservation technologies. In 2008, affected by the financial crisis that broke out in the fourth quarter, the Company could not arrange production to the annual plan, resulting in fluctuation in energy consumption indicators.

Energy consumption per ton of steel
(GJ/t-s)



## 3. Environment Monitoring

### (1) Environment Monitoring Organization

Baosteel has an independent environment monitoring organization under Shanghai Baosteel Industry Inspection Corporation. It is responsible for monitoring and analyzing plant area environment quality, pollution source control and other environmental aspects of Baosteel (Shanghai area).

The Baosteel environment monitoring lab has a floor area of over 2,000 m2, equipped with ICP-AES instrument, GC-MS instrument, graphite oven atomic absorption spectrometer, Fourier transform Infrared spectrometer, fume tester, dust tester and other large monitoring equipments. The lab monitors 297 parameters (in 15 categories) in respect of discharged water, surface water, potable water, industrial recycling water, air and exhaust gas, indoor air, organism, occupational health, noise, solid wastes and hot working. Now monitoring work has been extended to analysis on ecological environment in water at the Yangtze River Estuary.

### (2) Automatic Environment Monitoring

Baosteel started planning the automatic environment monitoring system in 2005 and completed the phase I project at the end of 2007. The phase I project of the system provides online search of information on automatic environment monitoring, online reporting and summarization of and inquiry about environmental protection data within the company, and information inquiry and sharing in relation to laws, regulations and technologies concerning environmental protection. In 2008, Baosteel started the Phase I project of the automatic environment monitoring system. The project extended from Baosteel Branch, the stainless steel branch, Special Steel Branch and the Chemical Company in Phase I to the Medium and Heavy Plate Branch and Nanjing-based Meisteel. The Phase II project will be completed in June 2009, according to the plan.

## 4. Biodiversity Management

Baosteel gives considerable weight to biodiversity in local areas, pays due attention to impacts of production and operations on bio-diversity in surrounding environment and makes a wide range of efforts to increase local biodiversity, including enclosed production facilities, maintaining and expanding greening, constructing dedicated farms for over ten types of animals, such as deers and peacocks, strengthening pollution control and reducing direct discharge of wastewater into main watercourses, thereby protecting the habitats of animals and plants in adjacent areas.

According to the principle of ecological greening, the Company adjusted the mix of trees by adding multi-tier plant varieties and increasing greening coverage to improve environmental benefits. In the case of removing existing greening facilities and constructing new ones, the Company retained existing plant varieties and density as much as possible, so as to ensure continuous development of the existing microenvironment. Baosteel paid extra attention to protection of aquatic organisms. The impact on aquatic organisms was taken into full account in determination of the intakes of industrial water, and all wastewaters were properly treated to standards before discharge.

Baosteel lays much stress on proper management of plant area greening. It worked with East China Normal University to study the plant area greening of Baosteel, and further explored the application of ecological theories in steel makers. A series of investigations, tests and analyses were conducted to lay a scientific basis for further greening of Baosteel plant areas.

Baosteel contributed to greening of local communities by actively participating in afforestation in communities and local areas and taking part in tree-planting program organized by the government. The Special Steel Branch invested RMB15.8 million in the phased construction of a 66,000 $m^2$ (1,000 m in length and 60-100 m in width) green belt along the inside of the enclosing wall at Tongji Road.

### 2008 Media Coverage Summary

- Baosteel Environment Monitoring Lab passed the global proficiency testing of the US-based APG, the first environment monitoring lab in China passed the global proficiency testing.

# Environment Investment and Cost System

## 1. Environment Investment

Baosteel launched 80 environmental protection projects in 2008, with a total investment of RMB2.846 billion. Specifically, 50 projects were completed and put into operation, including the additional desulphurization plan for the No. 1 unit of the power plant of Baosteel Branch, revamp of the No. 4 and No. 5 converter dry dedusting system of the steel works, revamp of the secondary dedusting system of the second steel works, additional desulphurization unit for the electrostatic dedusting system of the third sintering plant, and flue gas desulfurization of Meisteel No. 3 sinter. Other projects have proceeded into the preliminary design or construction stage, including the additional flue gas desulfurization plant for No. 3 unit of Baosteel Branch power plant, expansion of the dedusting system of the first steel works, downstream revamp of stainless steel wires and spent acid reuse of the Special Steel Branch, Meisteel domestic wastewater treatment and technical revamp of phenol-cyanogen wastewater system of Baosteel Chemical. These projects will dramatically improve local environment quality after completion.

## 2. Environmental Cost System

Baosteel put environmental cost statistics into trial use in 2003. After years' exploration and practices, a relatively complete environmental cost statistics system has basically come into shape. The composition of environmental cost of Baosteel is shown in the following table. Baosteel incurred a total environmental cost of RMB2.78 billion in 2008.

Composition of Environmental Cost of Baosteel

| Item | Description |
|---|---|
| Pollutant discharge fee | Fee paid to the State for emissions of pollutants |
| Environment monitoring fee | Fee paid for daily monitoring of pollution sources in the plant area |
| System auditing fee | Fee paid for system audit |
| Facility operation expense | Energy cost, chemicals cost and maintenance cost of facilities |
| EP facility depreciation charge | Depreciation cost of the environmental protection facilities |
| Investment in environment improvement | Environment-related investment in research on pollution prevention/control, environment improvement and comprehensive utilization that directly serve production and are cutting-edge. |
| Solid waste disposal charge | Cost arising from disposal of solid wastes |
| Hazardous material transport cost | Cost of transporting hazardous materials |
| Greening charge | Cost of plant area greening and daily maintenance |
| EP labor cost | Wages and benefits of workers engaged in environmental protection management and EP facility operation. |
| EP R&D expenses | Environment-related investment in research on pollution prevention/control, environment improvement and comprehensive utilization that directly serve production and are cutting-edge. |
| Other expenses | Other costs and expenses arising from environment management |

# Environment Management Performance

Baosteel always stresses management of supply chain, keeps close track of any possible environmental impact of the supply chain, and takes a variety of actions to improve efficiency of the supply chain; fully abides by the national and local laws and regulations governing environment protection, and discharges pollutants in concentrations and total quantities better than relevant national and local standards; devotes itself to source control of pollutants, and applies stringent pollutant control standards to any new project; takes various actions to increase recovery and reuse of secondary resources, comprehensively utilizes solid by-products, saves energy and resources and reduces discharge of wastes.

## 1. Consumption of Raw and Auxiliary Materials

Baosteel strictly controls the quality of all raw materials and energies used and uses scrap steels for smelting to improve efficiency of the whole supply chain. The Company always uses refined materials to reduce consumption of natural resources and cuts energy consumption and slag generation in the smelting process. The ores used are mainly supplied by the three major miners in the world to ensure the grade of raw materials. The sulfur content of coals purchased is strictly controlled to reduce the $SO_2$ content of flue gas. The Company continuously improves relationship with strategic suppliers and maintains solid cooperation with strategic suppliers through medium- and long-term purchase agreements, and thus ensures good quality of raw materials and fuels used.

Consumption of Main Resources of the Company in 2008

| Type | Unit | Total Consumption |
|---|---|---|
| Iron ore and finished ore | 10,000t | 2914 |
| Coal | 10,000t | 1684 |
| Scrap steel | 10,000t | 506 |
| Natural gas | 100m $m^3$ | 3.6 |
| Purchased electricity | 100m kW.h | 47.16 |
| Raw water | 100m $m^3$ | 1.2 |

The ore and raw material used in Baosteel's production mostly come from Australian, Brazilian and Indian mining companies, by sea transport. The fuel consumed in Baosteel production mainly comes from the domestic market and its products are also mainly sold in the domestic market.

Baosteel stresses use of renewable materials. In 2007, Baosteel signed a long-term scrap steel purchase agreement to ensure the security of scrap resource supply and expected to continuously raise the proportion of scrap steel used. Meanwhile, the Company also attaches much importance to recovery and reuse of internal solid by-products.

## 2. Total Pollutant Control

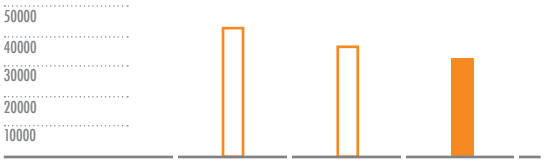
IIn 2006, Baosteel enterprises entered into the letter of responsibility for energy conservation and emission reduction objectives with Shanghai Municipality, Nanjing City and Nantong City, whereby the Company undertook to control energy consumption and total pollutants discharged.

For that end, Baosteel undertook to complete flue gas desulphurization for existing sintering facilities by 2010. In 2007, Baosteel formally launched the sinter flue gas desulfurization project and now has completed upgrading of three sinters. Meanwhile, Baosteel pushed forward the coal-fired power plant flue gas desulfurization project, planning to complete the flue gas desulfurization project for all coal-fired power plants in 2009.

Since 2007, Baosteel has fulfilled its commitment to energy conservation and emission reduction by huge investment in environment projects. Currently, the objectives of total pollutant discharge control have been met ahead of schedule.

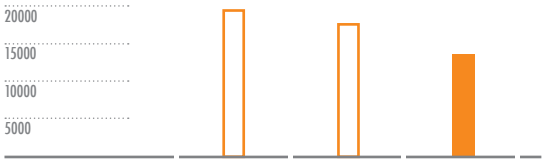
Schedule of Pollutant Discharges of Baosteel in the Past Three Years

$SO_2$
(ton)



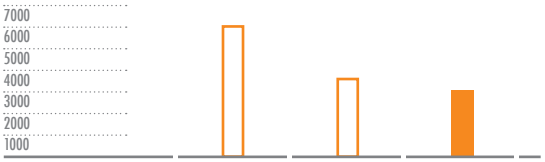

| 2006 | 2007 | 2008 |
|---|---|---|
| 43135 | 37210 | 33023 |

Smoke dust
(ton)



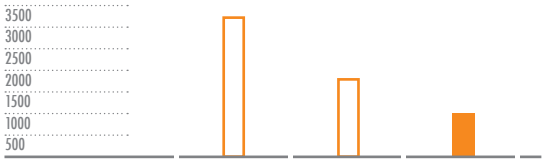

| 2006 | 2007 | 2008 |
|---|---|---|
| 19425 | 17626 | 13611 |

Wastewater
(10,000t)



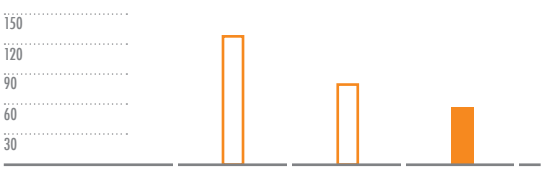

| 2006 | 2007 | 2008 |
|---|---|---|
| 6049 | 3665 | 3071 |

COD
(ton)



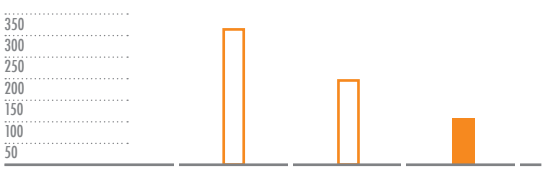

| 2006 | 2007 | 2008 |
|---|---|---|
| 3268 | 1836 | 1047 |

Oil
(ton)




| 2006 | 2007 | 2008 |
|---|---|---|
| 128 | 80 | 58 |

Ammonia nitrogen
(ton)




| 2006 | 2007 | 2008 |
|---|---|---|
| 315 | 200 | 111 |

## 3. Industrial Water Intake and Wastewater Discharge

Baosteel gives considerable weight to reasonable use and protection of water resource and strictly control pollutants contained in wastewater discharged, so as to reduce adverse effect of water intake and discharge on habitats in water bodies.

The industrial water of Baosteel is also taken from surface water. The Yangtze River is a major source of the Company's industrial water. The industrial water intake of Baosteel is very little compared with the total water resources and thus will not affect the local ecological environment.

Baosteel has developed a full package of water treatment technologies ranging from intake from Yangtze River to water use control in production and to wastewater discharge. The single research on "Cascade Utilization and Development and Application of System Water Saving Technology" has resulted in eight patents and 41 technical secrets, and brought down Baosteel Branch's fresh water consumption to 3.64 t/t-s. Baosteel also launched such research projects as "Constructed Wetland Process for Coking Wastewater".

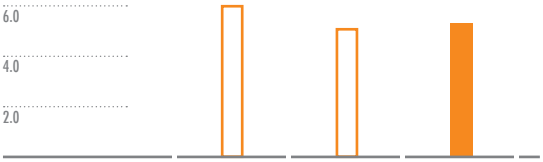
The Baosteel research on "Chloride Ion Kinetic Relation of Yangtze River Water Intake" predicates the salt tide of Yangtze River to an accuracy level of hours and tackles the chloride ion pollution caused by sea water encroachment at the Yangtze River estuary. The Baosteel-developed "Reservoir Preservation Technology" employs ecological process to ensure long-term stability of the water quality of Baoshan Lake. In innovation of water treatment technology, Baosteel conducted research on "Assessment on Circulating Water Quality Testing Chemicals" and "Environment-Friendly Chemicals with High Concentration Factor", and successfully developed water treatment chemicals suitable for high concentration factor of circulating water that can raise the concentration factor of industrial circulating water from 1.5 to 2.6. As a result, the water discharge from the circulating cooling water system of the Company has dropped by 50%. In addition, a type of environment-friendly water treatment chemical was developed that can kill bacteria in pipes and tubes to the maximum extent. The variable-frequency and constant-pressure supply technology was used for the industrial water and pure water supply pipework, with water supply pressure properly adjusted and optimized.

In comprehensive utilization of water resources, Baosteel employs "water balance test", "cascade industrial water utilization process", "field water quality stabilization technology" and "constant-pressure water supply technology". These measures enable Baosteel to maintain a leading position in terms of fresh water consumption per ton of steel across the industry in China, and the recycling rate of industrial water stays at over 98%.

The majority of Baosteel wastewater is recycled for reuse after preliminary treatment, and the remaining wastewater is discharged to the wastewater treatment plant for treatment. The treated water is partly used for sprinkling at plant area roads, raw materials and waste yards to reduce fly ash, and partly discharged to receiving water bodies. The wastewater of Baosteel is mainly discharged to Yangtze River without any significant impact on the ecological environment of the receiving water bodies.

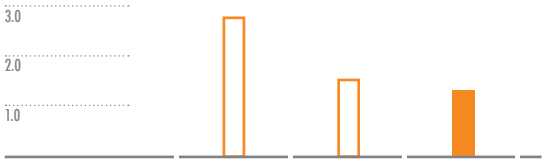
Baosteel pays due attention to the quality of wastewater discharged to outside to reduce environmental load of the receiving water bodies. In 2008, the wastewater discharge rate per ton of steel decreased by 14.61% compared with that of 2007, the COD discharge rate per ton of steel dropped by 41.87%, the oil discharge rate per ton of steel declined by 25.60%.

Fresh water per ton of steel ($m^3$/t-s)



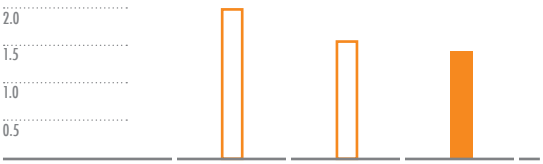

| 2006 | 2007 | 2008 |
|---|---|---|
| 6.00 | 5.08 | 5.20 |

Wastewater discharged per ton of steel (t/t-s)



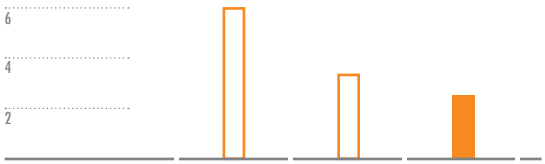

| 2006 | 2007 | 2008 |
|---|---|---|
| 2.79 | 1.56 | 1.33 |

COD per ton of steel (kg/t-s)




| 2006 | 2007 | 2008 |
|---|---|---|
| 0.15 | 0.078 | 0.045 |

Oil per ton of steel (g/t-s)




| 2006 | 2007 | 2008 |
|---|---|---|
| 5.93 | 3.38 | 2.52 |

## 4. Air Pollution Control

Baosteel maintains implementation of the air pollution control projects. On-going technical revamp is conducted for existing production units, and a series of projects have been completed for flue gas desulfurization and dry dedusting, thereby improving local ambient air quality.

Baosteel reduces $CO_2$ emission primarily by applying advanced energy conservation technologies to reduce energy consumption.

**Schedule of Air Pollution Control Actions**

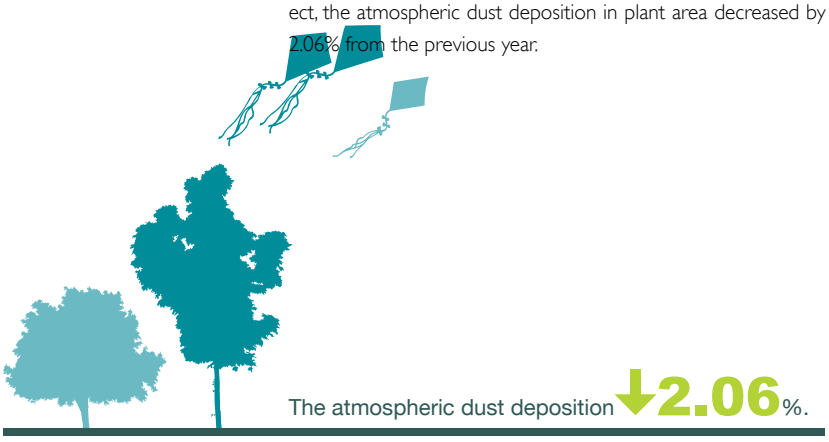
| Pollutant | Control Actions |
|---|---|
| Dust | Use of high-efficient bag dust collector and electrostatic precipitator for emission reduction and organization of dust emissions; adopted effective measures, like road sprinkling, windbreak net, etc., to control fugitive dust. |
| $SO_2$ | Controlling the sulphur content of raw fuel, and installing flue gas desulphurization facilities in the sintering factory and power plants. |
| NOx | Employing low NOx combustion technology. |
| $CO_2$ | Adopting advanced energy saving measures to cut down fuel consumption. |

In 2008, Baosteel focused on the flue gas desulfurization project for $SO_2$ emission reduction.

The flue gas desulfurization at coal-fired power plants and sinters not only reduced the $SO_2$ emission per ton of steel, but also dramatically eased dust pollution. In 2006, the desulfurization plant for No. 2 unit of the power plant of Baosteel Branch started operation; In June 2008, the desulfurization plant for No. 1 unit of the power plant of Baosteel Branch started operation; In February 2008, the desulfurization plant for No. 3 unit of the power plant of Baosteel Branch started operation.

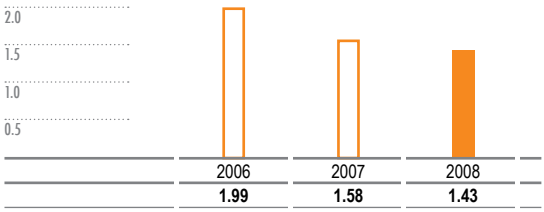
In 2008, Baosteel conducted flue gas desulfurization revamp on No. 3 sinter of Baosteel Branch, No. 1 sinter of the stainless steel branch, No. 3 sinter of Meisteel using the proprietary sintering flue gas desulfurization technology. In 2010, all existing sinters of Baosteel will achieve full desulfurization of flue gas.

Baosteel pays due attention to fly ash control and takes such actions as road surface rinse, sprinkling, closed transportation and wind-proof and dust control mesh. Since launch of the project, the atmospheric dust deposition in plant area decreased by 2.06% from the previous year.

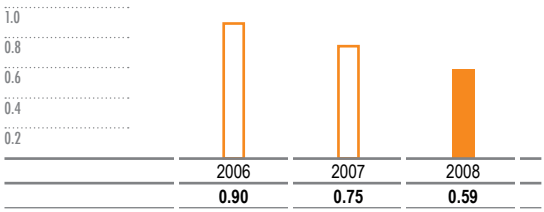



**Schedule of Baosteel Air Pollutants Discharges**

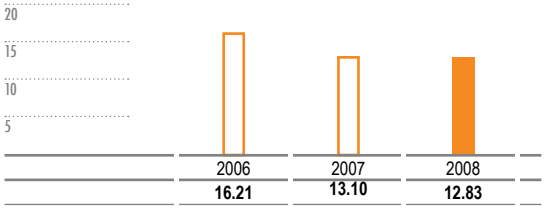
$SO_2$ per ton of steel (kg/t-s)




Dust per ton of steel (kg/t-s)




Atmospheric dust deposition in plant area (t/km²·month)



## 5. Solid Wastes

Secondary resources (or "by-products", generally known as "wastes") produced in steel making mainly include blast-furnace slag, steel slag, fly ash, iron-containing sludge and industrial wastes. The industrial solid secondary resources of Baosteel are large in quantity, diverse in types and complicated in compositions. Except a small part directly recycled for production, most of them should be treated, disposed of or comprehensively utilized.

According to the State's requirements on cyclic economy development and cleaner production, Baosteel uses domestic and foreign cutting-edge processes and facilities for treatment of industrial solid secondary resources on a less-discharge, waste-to-resource conversion and harmless basis. In particular, after the development in recent years, Baosteel made great achievements in reuse of industrial solid secondary resources, thanks to its ongoing efforts to develop and apply new technologies and processes and improved allocation of resources and reasonable division of work. The comprehensive resource utilization industry has been preliminarily formed, a batch of proprietary technologies have been developed, and the management system, technologies, human resources, process equipment and marketing are all ready for large-scale production. Baosteel especially has a sharp competitive edge in new construction materials and magnetic materials.

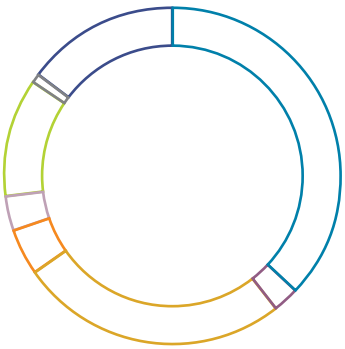
The treatment and use of industrial solid secondary resources of Baosteel have evolved from earlier simple storage, disposal and dispatch for external use to the current new treatment technologies, internal reuse and high value-added utilization, thereby effectively preventing secondary pollution, turning wastes to useful resources and saving huge primary resources. Baosteel has made great efforts in creating an ecosystem with virtuous circles and delivered marked social, environmental and economic benefits.

14,874,700 tons of industrial solid secondary resources were generated by the steel making unit of Baosteel in 2008, of which 14.63 million tons were utilized comprehensively at a rate of 98.33%, and 3.49 million tons were recovered and reused for internal production (accounting for 23.47% of the total industrial solid secondary resource generated), producing a substitute benefit of about RMB1.02 billion.

Baosteel attaches much importance to safe disposal of hazardous wastes. Hazardous wastes are disposed of in full accordance with national rules and regulations. By now, 100% of hazardous wastes of Baosteel have been safely disposed of.

**Solid Wastes Generated by Baosteel in 2008**
**(10,000 t)**

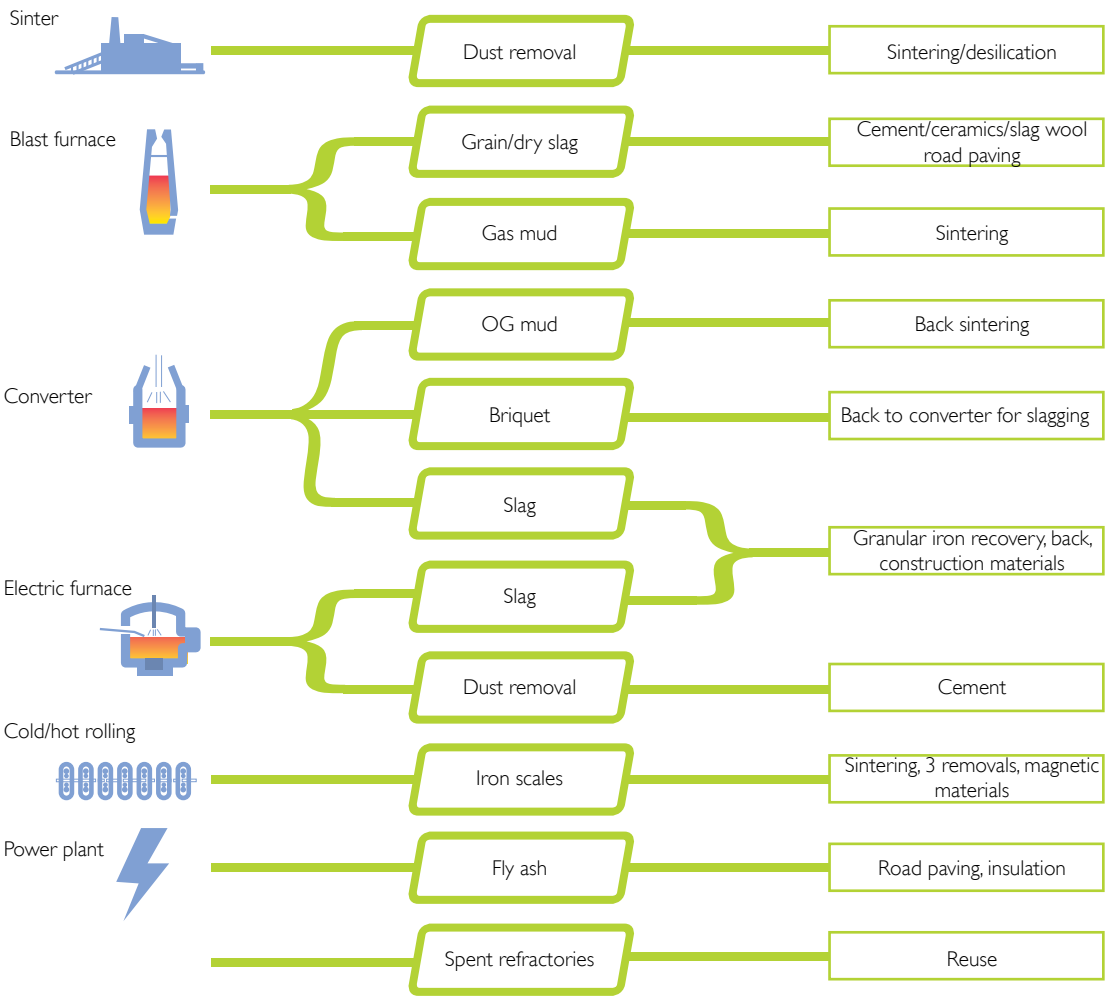
| Item | Quantity |
|---|---|
| **Industrial solid wastes** | **1487.47** |
| Blast furnace slag | 552.07 |
| Corex slag | 36.92 |
| BF slag | 384.49 |
| Iron slag | 64.01 |
| Furnace slag and fly ash | 51.08 |
| Iron-containing dust slime | 171.25 |
| Hazardous waste | 8.80 |
| Other industrial solid wastes | 218.87 |



Schedule of Baosteel Solid Waste Indicators

| Item | Unit | 2006 | 2007 | 2008 |
|---|---|---|---|---|
| Comprehensive utilization rate | % | 98.32 | 98.48 | 98.33 |
| Recycling production utilization rate | % | 22.48 | 22.67 | 23.47 |
| Safe Disposal Rate of Hazardous Wastes | % | 100 | 100 | 100 |

Process Flow & Disposal and Utilization Methods of Industrial Solid By-products of Baosteel



# 17 Operating Results

- Economic Value Created and Distributed
- Tax Credit and Financing Support
- Product Sales
- Indirect Economic Impact

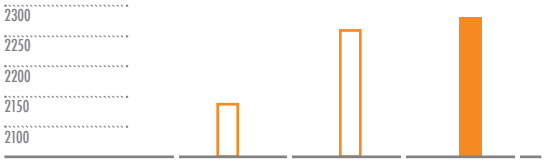


## Economic Value Created and Distributed

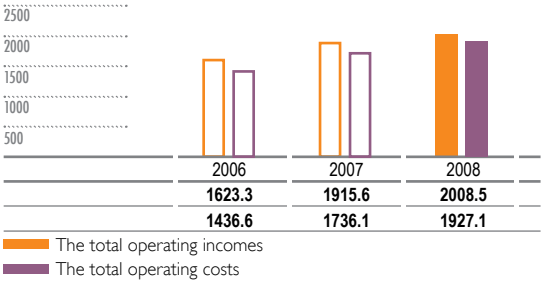
### 1. Operating Income and Operating Cost

In 2008, the Company made good results in sales of commodity billets and total operating income. 22.813 million tons of commodity billets were sold, up 0.9% over last year; the total operating income stood at RMB200.85 billion, representing an increase of 4.9%.

The sales volumes of commodity billets
(10000 ton)



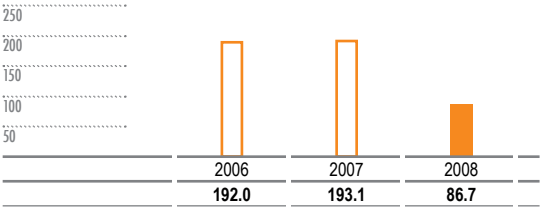

The total operating incomes and the total operating costs
(100 Million Yuan)




### 2. Profit

In 2008, the domestic and foreign steel markets suffered sharp price drops amid the international financial crisis. In the face of considerable volatility of the steel market and prices of raw materials and fuels, the Company took effective actions to ease the shock of the international economic crisis. In the year, the Company generated a gross profit of RMB8.67 billion, an decrease of 55.1% compared with that of last year, and a net profit of RMB6.99 billion, an decrease of 47.9% compared with that of last year.

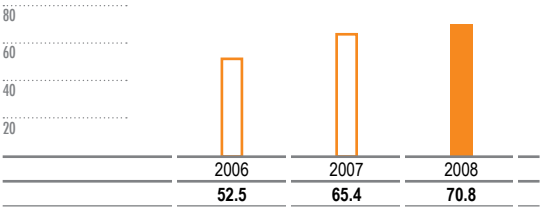
The gross profits
(100 Million Yuan)




### 3. Compensation of Employees

In 2008, the Company paid RMB7.08 billion in cash to or for employees in the form of wages and benefits.

The compensation of employees
(100 Million Yuan)

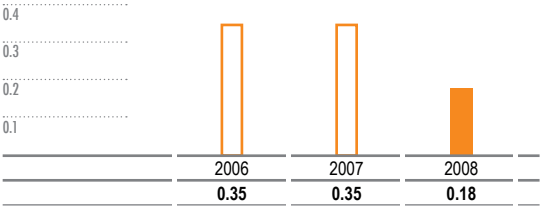



### 4. Retained Earnings and Dividend Distribution

According to the Articles of Association of the Company, the allocation order of the after-tax profit is as follows: making up losses, drawing statutory common reserve fund, setting aside statutory welfare reserve, drawing optional common reserve fund and paying the dividend of common stocks. The statutory common reserve fund equals to 10 percent of the Company's after-tax profit and may not be drawn when it's accumulated amount reaches 50 percent of the Company's registered capital. In accordance with the national laws, administrative regulations and the Company's operating performance and development needs, determines the percentages of statutory welfare reserve and common share dividend, and submit them to the shareholders' general meeting for approval. The Company shall not allocate dividend before the loss is made up and the statutory common reserve fund and statutory welfare reserve is withdrawn.

In 2008, the Company produced a net profit of RMB6.99 billion. To meet the goal of long-term and continuous development and demonstrate the business philosophy of "creating maximum value for shareholders", the Company proposed a cash dividend of RMB0.18 for each share in accordance with the Company Law and the Articles of Association of Baoshan Iron & Steel Co., Ltd.

The cash dividends per share
(Yuan)



## 5. Capital Suppliers

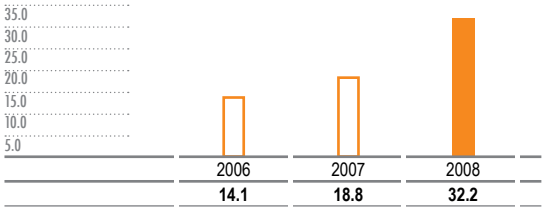
The Company follows the principle of prudent capital structure, prioritizes capital resources by synthetic financing cost rate, dynamically optimizes capital structure, further pushes forward building of the diverse financing system integrating direct financing approaches including additional offerings in the capital market and bond issue, home and foreign currency loans, discount on notes receivable, discount on interest buyer-bearing notes, outward and inward bills financing and overseas payment on an agency basis and other foreign currency trade finance, reviews the purchase-sale trade settlement modes and seeks low-cost financing in the trade chain.

In 2008, the Company issued RMB10 billion detachable convertible corporate bonds at a coupon rate of 0.8%, a warrant exercise price of RMB12.5 per share and a lot-winning rate of 0.61%. The warrant and bond were traded at Shanghai Stock Exchange on July 4.

In the year, the Company expanded the US dollar financing at exposures when Renminbi rose unilaterally in value against the US dollar in line with the trends of US dollar. When the values of Renminbi and US dollar both fluctuated in the third quarter, the Company re-started the forward forex purchase in support of US dollar financing to hedge the exchange rate risks, and prepaid some US dollar loans not hedged. The net exchange rate gains amounted to over RMB1 billion.

In addition, the Company values relationship with banks. The Company entered into cooperation agreements with major commercial banks, overall facility agreements and easy loan agreements, thereby assuring the financing channels and amount of the Company.

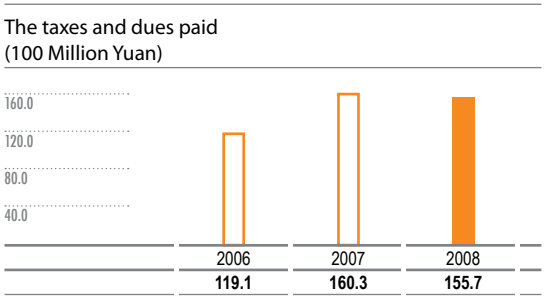
The interest expenditures
(100 Million Yuan)




## 6. Taxes

Repaying the society with integrity and good operating results, the Company paid RMB15.57 billion taxes and dues in 2008. The good tax-paying performance won the Company the "Shanghai Class 'A' Taxpayer" and made it one of the top 500 taxpayers in China in 2007.

The taxes and dues paid
(100 Million Yuan)




## Tax Credit and Financing Support

The Company strictly observed tax laws and regulations of the State and reasonably used preferential policies to make tax plans. The tax reduction and exemption of the Company in 2008 were described below:

1. Covered by the preferential policy on corporate income tax of comprehensive resource utilization projects, RMB34 million of corporate income tax was exempted in 2007 and RMB20 million exempted in 2008.
2. Covered by the R&D cost deduction policy, RMB200 million of corporate income tax was deducted in 2007 and RMB220 million deducted in 2008.
3. Covered by the policy on deduction of special equipment investment from corporate income tax, RMB50 million of corporate income tax was deducted in 2008.
4. Covered by the tax refund policy for high-tech achievement commercialization project, RMB81 million of taxes were refunded in 2007 and RMB95 million refunded in 2008.

# Product Sales

## 1. Sales by Products

### (1) Carbon Steel

Carbon steel includes hot rolled products such as hot rolled heavy plates, cold rolled products such as common cold rolled, hot dip galvanized, electro-galvanized, color-coated, tinplates, silicon steel products, as well as tubular, wire rods, and steel billet products.

9.145 million tons of hot-rolled products were sold in 2008, accounting for 42.9% of total carbon steel commodity billets of the Company sold, including 864,000 tons of pipeline steels, taking up 31.4% of the domestic markets, and 167,000 tons of high-strength steels for construction machines, taking up 34.3% of the domestic market.

1.71 million tons of wide and heavy products were sold in 2008, accounting for 8.0% of total carbon steel commodity billets of the Company sold, including 906,000 tons of shipbuilding plates (inclusive of exported ones), taking up 6.4% of the domestic market.

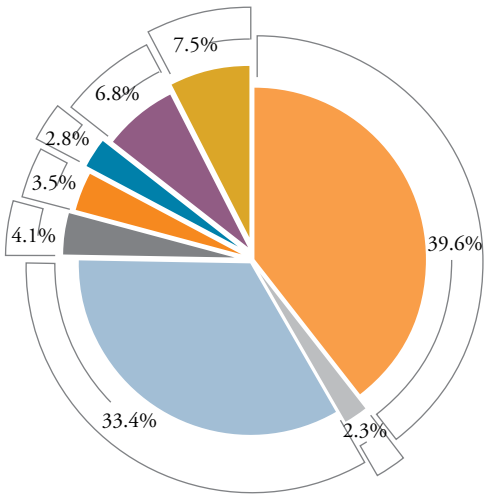
7.884 million tons of cold-rolled products were sold in 2008, accounting for 37.0% of total carbon steel commodity billets of the Company sold, including 2.6 million tons of cold-rolled auto plates, taking up 50.4% of the domestic market; 2.35 million tons of household appliance plates were sold, taking up 37.3% of the domestic market; 968,000 tons of non-oriented electrical steels were sold, taking up 17.6% of the domestic market.

1.47 million tons of steel tube products were sold in 2008, accounting for 6.9% of total carbon steel commodity billets of the Company sold, including 106,000 tons of tubes for alloy high pressure boilers, taking up 22.2% of the domestic market, and 483,000 tons of oil well tubes were sold, taking up 20.6% of the domestic market.

532,000 tons of hot-rolled products were sold in 2008, accounting for 2.5% of total carbon steel commodity billets of the Company sold, including 71,000 tons of steel curtain wires, accounting for 8.8% of the domestic market.

592,000 tons of billet products were sold in 2008, accounting for 2.8% of total carbon steel commodity billets of the Company sold.

Sales by Products in 2008




| | |
|---|---|
| Steel billet | 2.8% |
| Carbon steel tubular | 6.8% |
| Carbon steel wide plate | 7.5% |
| Carbon steel hot-rolled sheet | 39.6% |
| Carbon wire rod | 2.3% |
| Carbon steel cold-rolled sheet | 33.4% |
| Stainless steel products | 4.1% |
| Special steel products | 3.5% |

### (2) Stainless Steel

The hot-rolled stainless steel products (including plate billets) including austenite, ferrite, martensite and dual-phase stainless steels. They are mainly used as hot strips for cold rolling, manufacturing industry (nuclear power, railway, chemicals etc.) and consumer goods industry (dishware, etc.) In 2008, the Company developed low-Ni Austenite stainless steel series and high-strength Austenite stainless steel series for pressure vessels and nuclear power, typically B316L and 304N, with proprietary intellectual properties.

Cold-rolled stainless steel products mainly include Austenite and ferrite cold-rolled sheets or coils with surface finishing levels of 2B, 2D, NO.3, NO.4, HL and BA, widely used in elevators, automobiles, household appliances, cookware and building decoration. In 2008, the Company extended to the downstream fields of stainless steel and released the high-quality SS industrial welded pipes and auto tubes in the year.

The Company sold 965,000 tons of stainless steels in 2008, accounting for 4.2% of the total commodity billets sold by the Company and taking up 16.9% of the domestic market.

### (3) Special Steel

Baosteel has become an important base for R&D of new high-tech metal material in the country.

The special steel products consist of special metallurgy series, stainless steel series and structure steel series, including rods, seamless steels, wires, cakes, rings, discs and profile materials, applied widely in industries like spaceflight, aviation, energy, automobiles, railway, ship-building, machinery, electronic apparatus, power station, petroleum, chemical industry, etc. Baosteel has developed a series of competitive products in the world, of which the intellectual property rights are owned by Baosteel itself, after years of research, development and technology innovation. Baosteel has become an important base for R&D of new high-tech metal material in the country.

In 2008, 824,000 tons of special steels were sold, accounting for 3.6% of the total commodity billets sold by the Company, including 247,000 tons of auto steels (taking up 14.7% of domestic market), 128,000 tons of bearing steels (taking up 6.1% of domestic market), 54,000 special materials (taking up 16% of domestic market), and 52,000 tons of high-end stainless steels (taking up 20% of domestic market).

## 2. Overseas Sales

In 2008, the Company exported 2.565 million tons of steel products. See the following table for export of commodity billets by regions.

**Export of Commodity Billets by Regions**

| Area | 2008 | 2007 |
|---|---|---|
| East Asia | 45.1% | 43.3% |
| Southeast Asia | 21.1% | 19.2% |
| America | 16.0% | 15.4% |
| Europe and Africa | 17.7% | 22.1% |
| Total | 100.0% | 100.0% |

# Indirect Economic Impact

## 1. Significant Indirect Impact

In 2008, the Company has no indirect economic impacts including major actions, arbitrations, asset acquisition or sale or merger by absorption.

However, with increasing concerns about global warming, shortage of resources, environmental pollution and other issues across the world pose both risks and opportunities to the Company and will inevitably indirectly affect operations of the Company.

## 2. Risks

### (1) Carbon Tax

$CO_2$ is the most important greenhouse gas causing global warming. Caron tax is considered as a cost-efficient tool to reduce carbon emission. Early in 2008, the Taxation Department of the Ministry of Finance, the Local Tax Department of the State Administration of Taxation, and the Policies & Regulations Department of the Ministry of Environmental Protection jointly launched the "environment tax" research project. Currently the basic theoretical framework of "environment tax" containing environment tax items, types and piloting of environment tax system has come into shape and will proceed to the stage of discussion and decision-making stage. The "carbon tax" may be included into the "environment tax" in China.

### (2) Increase in Energy and Resource Costs

Given limited energies and resources and increasingly tight supply, the prices of ore, coal, electricity, natural gas and water resources kept rising over years and added to the cost of business entities.

### (3) Rise in Discharge Fees

On December 22, 2008, Shanghai Municipality adjusted the rate of SO2 discharge fee (HFGJF [2008] No. 007) from RMB0.63 to RMB1.26 per kilogram, effective as of January 1, 2009.

Other discharge fees also rose in recent years.

## 3. Opportunities

### (1) Clean Development Mechanism

Baosteel is always committed to greenhouse emission reduction and, in recent years, uses the clean development mechanism to introduce foreign capital and cutting-edge technologies to improve resource efficiency and cut greenhouse gas emission.

### (2) Policy Supports of the State for Energy Conservation and Emission Reduction

In recent years, China introduced a series of policies and measures in the form of tax credit, financial subsidies and tax reform to encourage enterprises to use advanced energy conservation and emission reduction technologies. These efforts have worked well in causing enterprises to conserve energy and cut emission. In the future, China will further support energy conservation and emission reduction, steadily push forward the paid use of resources system and the ecological environment compensation mechanism reform, establish a sustainable mechanism of energy conservation, and finally promote energy and resource conservation and environmental protection.

### (3) Emissions Trading

On August 5, 2008, Shanghai Environment Energy Exchange and Beijing Environment Exchange were established. Tianjin Emissions Trading Exchange was opened on September 25. Market-based approaches are used to cut interfacing cost of emission reduction projects and capital and make emission reduction no longer an activity of "input without output". They help improve the incentive and accountability mechanism in relation to energy and resource conservation and environmental protection, and allow optimal allocation of environmental resources to a broader and deeper extent. These trading platforms will doubtlessly provide new opportunities for Baosteel to apply its cutting-edge energy conservation and emission reduction technologies to the whole industry.

# 18 Appendix



## 1. Introduction to Baosteel

Baoshan Iron & Steel Co., Ltd. ("Baosteel") specializes in producing high-tech and high value added steel products. Baosteel is a major supplier in the Chinese market of automobile steel, shipbuilding steel, steel for oil/gas mining and transmission, household appliance steel, electrical appliance steel, boiler and pressure vessel steel, steel for food and beverage packaging, metalwork steel, stainless steel, steel for special-purpose materials and high-grade steel for construction use. Baosteel also exports products to over 40 countries and regions, including Japan, South Korea, Europe and the USA.

Main products of the Company are certified by internationally recognized organizations. Baosteel passed ISO9001 certification and review of BSI, obtained the US API logo and Japnese JIS certificate, passed QS 9000 certification by GM, Ford, Kreisler and other famous auto makers, and is recognized by ship classification societies in China, French, USA, UK, Germany, Norway and Italy.

The Company has considerable strengths in R&D and endeavors to develop new technologies, new products, new processes and new equipments, which serve as an eternal powerhouse for growth of the Company.

The Company attaches much importance to environmental protection, pursues sustainable development and is the first enterprise in the Chinese metallurgy industry certified according to ISO14001.

## 2. Descriptions of Companies with Controlling or Minority Interests

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

Shortened as Meisteel in this report.

Registered capital and interest held: As of December 31, 2008, the Company had a 74.01% interest in Meisteel, and Meisteel had a registered capital of RMB6.26 billion.

Assets and profit: As of December 31, 2008, Meisteel had total assets of RMB20.26 billion and net assets of RMB11.49 billion, and generated a net profit of RMB340 million this year.

Scope of business: Ferrous metal smelting and calendaring, sale.

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

Shortened as Ningbo Baoxin in this report.

Registered capital and interest held: As of December 31, 2008, the Company had a 54% interest in Ningbo Baoxin, and Ningbo Baoxin had a registered capital of RMB2.85 billion.

Assets and profit: As of December 31, 2008, Ningbo Baoxin had total assets of RMB6.14 billion and net assets of RMB1.93 billion, and generated a net profit of RMB-430 million this year.

Scope of business: Stainless steel plate making, processing and technical guidance and consultation.

### (3) Baosteel Nippon Auto Plate Co., Ltd.

Shortened as Baosteel Nippon in this report.

Registered capital and interest held: As of December 31, 2008, the Company had a 50% interest in Baosteel Nippon, and Baosteel Nippon had a registered capital of RMB3 billion.

Assets and profit: As of December 31, 2008, Baosteel Nippon had total assets of RMB4.74 billion and net assets of RMB3.24 billion, and generated a net profit of RMB220 million this year.

Scope of business: Production and sale of cold-rolled steel plates, hot-dip galvanized steel plates and electro-galvanized steel plates used for automobiles and auto parts, and auxiliary businesses in relation to the foregoing activities.

### (4) Yantai Lubao Steel Tube Co., Ltd.

Shortened as Lubao Steel Tube in this report.

Registered capital and interest held: As of December 31, 2008, the Company had a 79.82% interest in Lubao Steel Tube, and Lubao Steel Tube had a registered capital of RMB100 million.

Assets and profit: As of December 31, 2008, Lubao Steel Tube had total assets of RMB1.18 billion and net assets of RMB790 million, and generated a net profit of RMB150 million this year.

Scope of business: Processing and sale of seamless steel tubes, mainly seamless steel tubes for structures, low and medium pressure boilers, fluid transmission, hydraulic supports, high-pressure boilers, petroleum equipments, geological drilling, petroleum raw pipes and oxygen bottles.

### (5) Baogang Huangshi Coating Sheet Co., Ltd.

Shortened as Huangshi Coating in this report.

Registered capital and interest held: As of December 31, 2008, the Company had a 39.37% interest in Huangshi Coating, and Huangshi Coating had a registered capital of USD8 million.

Assets and profit: As of December 31, 2008, Huangshi Coating had total assets of RMB280 million and net assets of RMB100 million, and generated a net profit of RMB-20 million this year.

Scope of business: Production and sale of cold-rolled plates, alu-

minum coated sheets, color coated plates and other relevant coated products.

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

Shortened as Baosteel International in this report.

Registered capital and interest held: As of December 31, 2008, the Company had a 100% interest in Baosteel International, and Baosteel International had a registered capital of RMB2.25 billion.

Assets and profit: As of December 31, 2008, Baosteel International had total assets of RMB29.45 billion and net assets of RMB7.03 billion, and generated a net profit of RMB150 million this year.

Scope of business: Import and export of commodities and technologies approved by the state for own account and for customers' account; import of steels and scraps, processing with imported materials and three types of processing plus compensation trades.

**(7) Shanghai Baosight Software Co., Ltd.**

Shortened as Baosight Software in this report.

Registered capital and interest held: As of December 31, 2008, the Company had a 55.5% interest in Baosight Software, and Baosight Software had a registered capital of RMB260 million.

Assets and profit: As of December 31, 2008, Baosight Software had total assets of RMB1.8 billion and net assets of RMB800 million, and generated a net profit of RMB180 million this year.

Scope of business: Research, design, development, making and integration of computer, automation, network communication system and software and hardware products.

**(8) Shanghai Baosteel Chemical Co., Ltd.**

Shortened as Baosteel Chemical in this report.

Registered capital and interest held: As of December 31, 2008, the Company had a 100% interest in Baosteel Chemical, and Baosteel Chemical had a registered capital of RMB2.1 billion.

Assets and profit: As of December 31, 2008, Baosteel Chemical had total assets of RMB4.59 billion and net assets of RMB3.33 billion, and generated a net profit of RMB300 million this year.

Scope of business: Production and sale of chemical raw materials and products; technical development, technical transfer, technical consultation and technical services in chemical industry; export of self-made products.

**(9) Nantong Baosteel Iron & steel Co., Ltd.**

The former Baosteel Group Nantong Iron & Steel Co., Ltd. was renamed Nantong Baosteel Iron & steel Co., Ltd. in September 2008, and is referred to as "Baotong Steel" in this report.

Registered capital and interest held: As of December 31, 2008, the Company had a 92.5% interest in Baotong Steel, and Baotong Steel had a registered capital of RMB346 million.

Assets and profit: As of December 31, 2008, Baosteel International had total assets of RMB1.67 billion and net assets of RMB480 million, and generated a net profit of RMB-70 million this year.

Scope of business: Production and sale of deformed steel bars, round steel, structural sections, semi-finished steel products (including billets and ingots) and other iron/steel products and by-products.

**(10) Baosteel Group Finance Co., Ltd.**

Shortened as Baosteel Finance in this report.

Registered capital and interest held: As of December 31, 2008, the Company had a 62.1% interest in Baosteel Finance, and Baosteel Finance had a registered capital of RMB500 million.

Assets and profit: As of December 31, 2008, Baosteel Finance had total assets of RMB12.47 billion and net assets of RMB1.46 billion, and generated a net profit of RMB160 million this year.

Scope of business: Taking deposits from members, granting loans to members, internal transfer settlement between members and relevant settlements, entrusted loans and investments between members, and inter-bank lending.

**3. Overseas Subsidiaries**

As of December 31, 2008, the Company had subsidiaries in the USA, Japan, German, Singapore and Hong Kong. They played an important role in expanding the Company's marketing and procurement network and improving its competitiveness in international markets.

# Reader's Feedback Information Form



Baosteel is greatly concerned about your comments to this Sustainable Development Report. We would appreciate your comments and opinions so we can keep improving.

Please fax the form with your answers to +86-21-2664 3433.

You may also visit our website (http://www.Baosteel.com) and interact with us on line.

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