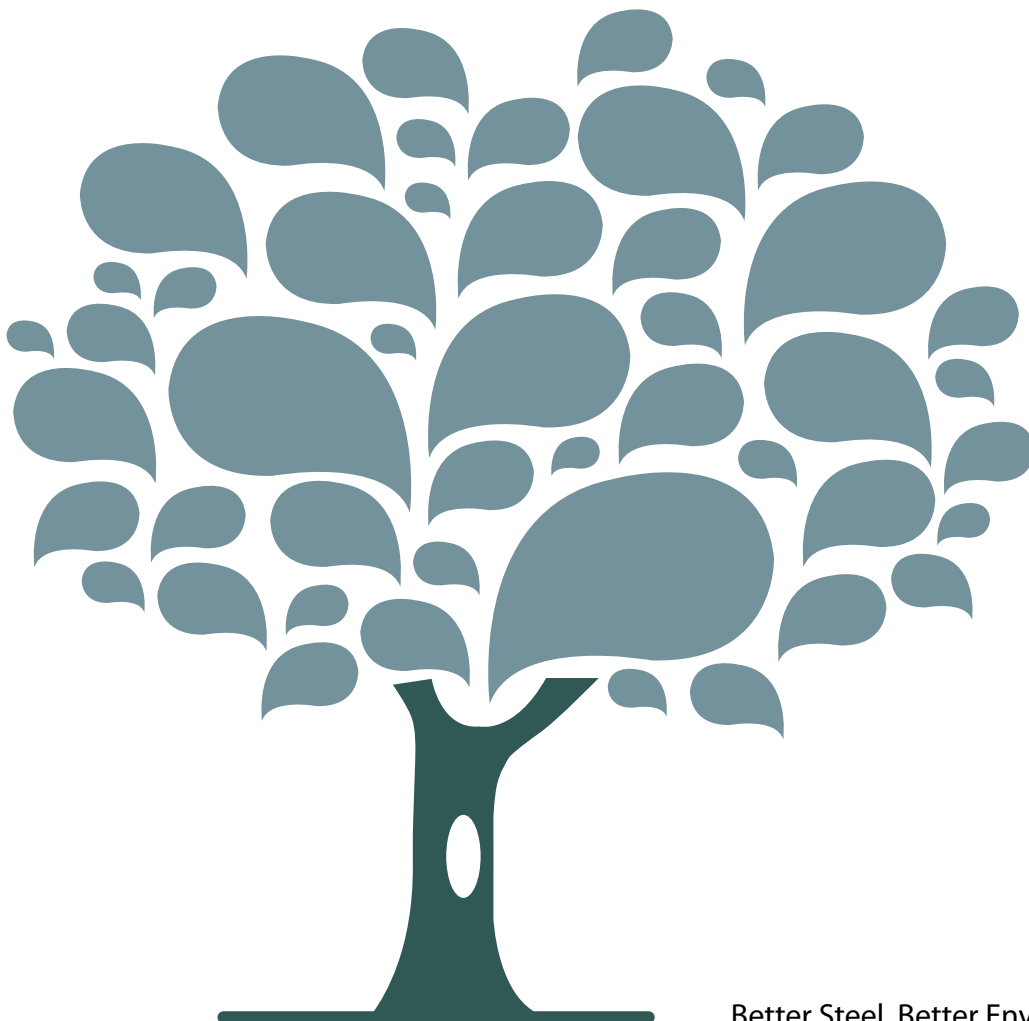


中国2010年上海世博会全球合作伙伴
Global Partner of Expo 2010 Shanghai China

2009

Sustainability Report

BAOSHAN IRON & STEEL CO., LTD.



Better Steel, Better Environment, Better Life

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Our Commitment

The board of directors of the Company and all its members guarantee that this Report is free of any false representation, misleading statements or material omissions and are jointly and severally responsible for the 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 CNY1.264 in 2009:

	Basic earnings per share:	CNY0.330
+	Taxes paid in the reporting year per share:	CNY0.406
+	Salaries and wages paid to employees per share:	CNY0.431
+	Interest on borrowings paid to banks and other creditors per share:	CNY0.095
+	Outward donations and values created for other stakeholders per share:	CNY0.002
-	Other social costs arising from environmental pollutions and other incidents per share:	CNY0.000
	Social contribution per share:	CNY1.264

Note:

We consider pollutant discharge fees as a type of economic compensation. Enterprises that discharge pollutants into the environment during production will cause damages or losses to the environment. Pollutant discharge fees are compensation paid by enterprise discharging pollutants to State Treasury for environment rehabilitation in accordance with environment protection laws and regulations of the State. Thus pollutant discharge fees paid to State Treasury have been included in the production cost of enterprises, and should be excluded from 'other social costs arising from environmental pollutions and other incidents'.

As no environmental accidents occurred in 2009, the foregoing 'other social costs arising from environmental pollutions and other incidents' is zero.

The foregoing 'outward donations and values created for other stakeholders' only include outward donations.

About This Report

Basis

This Report is the annual *Sustainability Report* published by Baoshan Iron & Steel Co., Ltd. (hereinafter referred to as "Baosteel" or "the Company") for the fifth consecutive year.

This Report was prepared in accordance with the GRI *Sustainability Reporting Guidelines* (G3) and in reference to the *2009 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, the Guidelines on Preparation of *Corporate Social Responsibility Report* and the Notice on Strengthening Social Responsibility of Listed Companies and Issuance of the *Notice of Shanghai Stock Exchange on Disclosure of Environmental Information*.

Range

From 1 January 2009 to 31 December 2009, unless otherwise stated, this Report mainly addresses economic, environmental, social and other activities of the branches and subsidiaries of Baosteel (production facilities directly controlled by the Company, Medium and Heavy Plate Branch, Stainless Steel Business Unit, Special Steel Business Unit, Bars & Tubes Business Unit, Shanghai Meishan Iron & Steel Co., Ltd, Baosteel Nippon Auto Plate Co., Ltd. and Baogang Huangshi Coating Sheet Co., Ltd.) of Baosteel as well as Baosteel Research Institute, Shanghai Baosteel International Economic and Trading Co., Ltd., Shanghai Baosteel Chemical Co., Ltd., and Shanghai Baosight Software Co., Ltd. Compared with the last report, this Report remains unchanged in respect of reporting standards and range.

The financial data in the report is stated in Renminbi Yuan (CNY). For convenience, the following exchange rates are used in the report: USD1 = CNY6.8282 (or CNY1 = USD0.1465) (as announced by the People's Bank of China on 31 December 2009), and the Euro exchange rate used is EUR1 = CNY9.7971 (or CNY1 = EUR0.1021).

Language and Publishing Format

This 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 question about this Report, please contact us by phone or letter at the following address:

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This Report is available to readers in printed and PDF formats. The PDF document is downloadable from Baosteel website at <http://www.baosteel.com/>. For environmental protection, we advise readers to download and read the electronic version as far as possible; we will also reduce printed copies over years.

This Report is printed on recycled paper. To save paper, we control the document size at the minimum level possible. For any further information, please browse Baosteel website or read our annual financial statements.

01

Honors & Awards

Baosteel was widely recognized across all segments of the society in 2009. Below are selected honors and awards won by Baosteel in 2009.

Honors & awards	Issued by
"World's Most Admired Companies" 2009 (Baosteel was ranked second in the global metal industry)	Fortune magazine, U.S.
The World's 2000 Largest Public Companies 2009 (Baosteel was ranked the 263rd)	Forbes
"China's Top 20 Listed Companies 2009-Corporate Governance" (Baosteel was ranked the 8th)	Corporate Governance Research Center; Institute of World Economics & Politics, Chinese Academy of Social Sciences; Officials Assessment Research Center; Chinese Academy of Governance; Protiviti
China's 100 Best Listed Companies 2009-Market Value Management	China Center for Market Value Management; the "Third Summit Forum on Market Value Management of Chinese Listed Companies" hosted by The Economic Observer
"Most Popular Websites of Listed Company in China"; "Best Websites of Listed Companies in China-Information Disclosure"; "Best Websites of Listed Companies in China-Innovative Communication"; "China's Top 10 Listed Companies 2008-Social Responsibility"	"First Contest for the Most Popular Websites of Listed Companies in China" jointly hosted by SecuritiesTimes and its website
Ranked the 220th in Fortune 500 List	Fortune magazine, U.S.
Ranked the third on WDS' list of "World-Class Steelmakers"	World Steel Dynamics (WSD)
"Boards of Directors of the Year Awards 2009"	The "Eighth China Corporate Governance Forum" organized by Shanghai Stock Exchange and co-organized by the State-owned Assets Supervision and Administration Commission of the State Council and the Organization for Economic Cooperation and Development (OECD)
The "Best Social Responsibility Reports" of Share-A Listed Companies 2009-Metals and Non-metals	Organization Committee of the 2009 Summit Forum on Social Responsibility Reports of Share-A Listed Companies
"IT-driven Enterprises Award 2008"; "Outstanding Business IT Development Award"; "The Best Overall IT Architecture Award"; "The Best Supply Chain Management Application Award"; "The Best E-commerce Application Award" and "The Best Decision Making Support Application Award" in the rankings of China's top 500 IT-driven enterprises 2008 organized in 2009	National Information Evaluation Center
Strategic Partner & Core Supplier	China International Marine Containers (Group) Co., Ltd.
Best Suppliers Award at the Eighth Conference of Suppliers	Shanghai General Motors Co., Ltd.
The Best Exhibition Stand Award at the Fourth All China-International Tube & Pipe Industry Trade Fair	CPP
The Best Steelmakers	Bombardier Sifang (Qingdao) Transportation Co., Ltd.
Recognition & Appreciation	Universal Metal Coating Co., Ltd. (Saudi Arabia)
Superior Suppliers 2009 of Panasonic Wanbao Compressor (Guangzhou) Co., Ltd.	Panasonic Wanbao Compressor (Guangzhou) Co., Ltd.
Superior Suppliers 2009	CPMC Holdings Limited
Superior Suppliers 2009	Dongfeng Nissan Passenger Vehicle Co. Ltd.
Superior Suppliers 2009	SAIC GM Wuling Automobile Co., Ltd.
Supervisor Suppliers of Accessories 2009	Dongfeng Liuzhou Motor Co., Ltd.
Superior Suppliers 2009	Changan Ford Mazda Engine Co., Ltd.
Collaboration Award	Changan-Suzuki

02

Message from Management



Chairman of BOD: Xu Lejiang



President: Ma Guoqiang

2009 was "quite an extraordinary year" for the steel industry of China: iron ore negotiation, trade war, overseas acquisitions, phase-out of outdated capacities and "switchback" of steel prices, all imbued with the smoke of gunpowder.

In the face of the once-in-a-century financial crisis, volatile steel prices and ever-changing market conditions, Baosteel people worked together closely and concentrated their efforts on weathering difficulties, turning pressure to driving force and seeking opportunities from challenges. With highlighted priorities of products and operations, wide-ranging cost cutting initiatives and management reforms, the Company fulfilled all business objectives set for 2009 and delivered unrivaled performance in the domestic steel industry, driving sustained development of Baosteel.

In 2009, the Company produced 21.47 million tons of iron and 23.86 million tons of steel and sold 22.82 million of commodity blanks, of which 9.68 million tons were proprietary or leading products. The gross revenue of the Company was CNY148.5 billion and profit amounted to CNY7.29 billion in the year.

In 2009, the Company continued to increase investment in technological innovation at a R&D spending rate of 1.75%. Development efforts were focused on 116 new grades, including high-strength cold-rolled steel, pipeline steel, machinery steel, welded structure steel, ultra-high-strength alloy petroleum pipe steel and super pure medium-chromium ferrite stainless steel. New products sold accounted for 19.8% of total sales. 939 patent applications were filed and 659 patents granted.

Management of energy conservation and emission reduction was enhanced as one of the four key business objectives of the year. Thanks to efforts of employees, the annual energy consumption was 3% below the annual target. All steel making units of the Company have been certified for ISO14001 in respect of the environmental management system. Environmental indicators saw continuous improvements, with pollutant discharges dropping by 17.46% from the 2008 level. The Company established a dynamic energy and environment control system, conducted self-diagnosis of energy and environment management through energy conservation and emission reduction audits, created an energy efficiency management network characterized by cascade management of "key energy efficiency factors" and "energy consumers", implemented the three-year action plan of Shanghai Municipality and Baoshan District, prepared the *Welcome World Expo Environment Protection Plan*, promoted continuous improvement in the Company's energy and environment management, equipment technology and performance indicators, and embraced challenges posed by the "low carbon economy" era.

02

Message from Management

To meet the backflush costing requirements, the task of increasing efficiency at lower cost was carried out at the frontline through management by objectives and project-based activities, backed by strong organization and motivation. Internal cost benchmarking was introduced to tighten target cost control; molten iron was made cheaper due to increased coal injection ratio of blast furnaces, optimized coal blending and optimized ore blending for sintering. Particular attention was paid to inventory management enhancement. The Company established inventory management systems and procedures, created the inventory indicator model, and designed the inventory risk warning mechanism. Production organization was optimized to cut inventory, a 45-day cycle was applied to accelerate inventory turnover, and the real turnover was controlled within 30 days. These efforts helped reduce inventory and cut tied-up capital. All employees were involved in equipment maintenance, with maintenance modes optimized in line with loads and capacities of different production lines. Requests for purchase of spare parts and demand plans were controlled more stringently. Initiatives were launched for utilization of stored and used parts, sharing of spare parts and localization of spare parts to reduce consumption of materials. Internal defect reduction initiatives were carried out to improve quality indicators and slash quality cost; energy efficient technologies were promoted to cut the cost of energy consumption; byproduct resources were reused at a higher rate to reduce the consumption and further cut the cost of raw materials; spending was strictly controlled to reduce expenses in the reporting period. In 2009, the Company fulfilled 135% of the annual target of cost reduction.

Management efficiency was increased through reforms focused on defining and identifying business participants, streamlining management hierarchy and downsizing management bodies and staff. Based on efforts made in 2008 to enhance product management, product Business Units were established to clearly define product operational responsibility and increase the responsiveness of products to the market. Vertical consolidation of management bodies was implemented under the "simple and efficient" principle. As a result, Baosteel Branch was cancelled and the Company directly manages activities of the former Baosteel Branch. With reduced management bodies, streamlined management hierarchy, simplified management processes and lowered center of gravity of business management, managers are able to respond more quickly to the site and markets. Flat management of the marketing system was brought forward to cancel the Sales Center; instead, the Company directly manages marketing to increase market responsiveness of the marketing system.

Development of various talent teams were enhanced, focused on the improvement of practical skills. The "Managers Thematic Drill" training was provided in support of the Company's key management initiatives; technical versatility was fostered beginning with the nurturing of total-process engineers under the mechanism of "product oriented, project-based, double-way education and three-year capability enhancement program". In support of the Group's "Golden Apple" program, 21 high-calibre technical professionals with a strong potential for versatile development were selected to head up core teams and R&D teams in their respective areas. Nurturing of operators and maintenance personnel were boosted, additional disciplines were introduced to the training and assessment of operators and maintenance personnel, and 915 operators and maintenance personnel were provided with technician and senior technician trainings.

Environment management means integrating environmental protection into the entire process of operation and management of a company and represents an activity that combines environmental protection and corporate development. It is to create value through environment management, reflected by reduction of production cost and identification of new value added points.

The ultimate force to fight crisis comes from the bottom of the corporate ladder. The Company paid particular attention to the needs of employees. Supervisors went to frontlines to listen to what employees said and overcome their difficulties, creating a sound environment for versatile development of employees. In 2009, in response to the once-in-a-century financial crisis, a program aimed at identifying, fostering and disseminating the “best practices” was launched in order to spur employee passion and creativity and find bright points in routine activities of employees. A wide range of best practices were identified among employees who were committed, self-disciplined, dedicated to users and worked together with the Company to combat challenges. Meanwhile, the “Inspiring Employees and Users” stories and initiatives were introduced to disseminating stories that demonstrated “Truth, Goodness and Beauty” in humans in respect of “serving employees, serving users”. models were selected to motivate more people and help create a favorable atmosphere of loving the Company and being loved by the Company, playing a crucial role in crisis response and endeavors towards the best performer in the industry.

The Company was widely recognized for its fruitful efforts. In 2009, the Company was honored as the “World’s Most Admired Companies” by the Fortune, ranked second in the global metal industry; ranked 263rd on the Forbes list of “World’s 2000 Largest Public Companies 2009”; and awarded the titles of “Boards of Directors of the Year Awards 2009” by Shanghai Stock Exchange and “National Superior Enterprises at the 30th Anniversary of Total Quality Management”.

In 2010, macro-economic conditions and the steel industry landscape remain complicated and largely uncertain. The era of low-carbon economy has arrived, and steel industry is not an exception. We only have one Earth. We have no choice but to work together in respect of the issue of global warming, for which we all share the responsibility. Focusing on “technical innovation” and “team building”, the Company will seek to its uniqueness in “developing the service-led manufacture business, building digital Baosteel and becoming the driver of a green industry chain based on leading technologies”. The Company will also fully implement its new strategic plan to reinforce product management, press on with cost reduction initiatives, further management reforms, boost environment management, sharpen its overall competitiveness and continue to deliver “best-in-the-industry” results in the intensely competitive market and become the most competitive steelmaker.

Chairman of BOD: Xu Lejiang



President: Ma Guoqiang



04

Capital Stock Change and Shareholders

- ▶ Securities Issuing and Listing
- ▶ Shareholders

Securities Issuing and Listing

Upon approval by China Securities Regulatory Commission (CSRC) in its document (ZJXK [2008] No. 739), the Company issued CNY10 billion convertible corporate bonds with detachable stock options and bonds at par value (CNY100 each) on 20 June, 2008 ("detachable convertible bond"). The term of the detachable convertible bond is 6 years at a coupon rate of 0.80%. On 30 June 2008, the detachable convertible bond was split into 100 million (CNY10bn) corporate bonds and 1.6 billion warrants.

As approved by Document (SZSZ [2008] No. 81) of Shanghai Stock Exchange, the corporate bonds in the CNY10bn detachable convertible bonds were traded at Shanghai Stock Exchange on 4 July 2008 (Bond Name: "08 Baosteel Bond"; Bond Code: "126016") The trading duration is from 4 July 2008 to 19 June 2014, and the payment date was the fifth trading day following the date of maturity 19 June 2014.

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

Shareholders

As of the end of 2009, the Company had 17,512,000,000 shares outstanding in total, all of which were non-restricted.

1. Number of Shareholders and Top 10 Shareholders

Unit: Share

Total number of shareholders	558,388
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Top 10 shareholders

Name of shareholder	Nature	Shareholding (%)	Total shares held	Restricted shares	Pledged or locked-up shares
Baosteel Group Corporation	State-owned	73.97%	12,953,517,441	0	None
China Construction Bank-Yinhua Selected Core Value Securities Investment Fund	Others	0.77%	135,649,789	0	None
UBS AG	Others	0.39%	68,961,565	0	None
Industrial Bank Co., Ltd.-Industrial Trend Hybrid Securities Investment Fund	Others	0.39%	67,875,590	0	None
International Finance-Standard Chartered-Citigroup Global Markets Limited	Others	0.35%	61,087,110	0	None
Industrial and Commercial Bank of China-Shanghai Stock Exchange 50 ETF	Others	0.32%	55,635,580	0	None
Shenyin Wanguo-ABC-BNP Paribas	Others	0.31%	54,598,199	0	None
China Construction Bank-Bank of Communications Schroders Blue Chip Equity Fund	Others	0.31%	53,760,559	0	None
China Construction Bank-Bank of Communications Schroders Prudent Hybrid Fund	Others	0.25%	43,999,798	0	None
Morgan Stanley & Co. International PLC.	Others	0.24%	42,247,476	0	None

Relations or action in concert with the foregoing shareholders	China Construction Bank-Bank of Communications Schroders Blue Chip Equity Fund and China Construction Bank-Bank of Communications Schroders Prudent Hybrid Fund are funds managed by Bank of Communications Schroder Fund Management Co., Ltd.
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04

Capital Stock Change and Shareholders

▶ Securities Issuing and Listing
Shareholders

2. Controlling Shareholder and Effective Controller

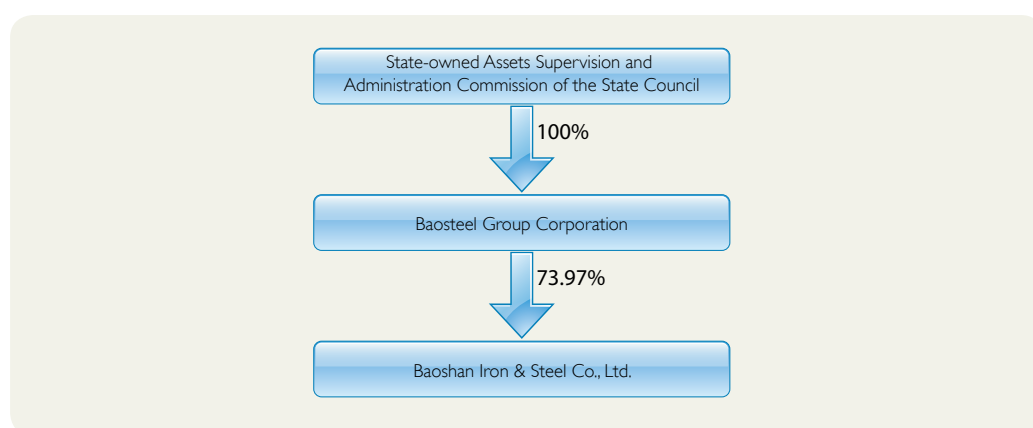
(1) Controlling shareholder

Name:	Baosteel Group Corporation
Legal representative:	Xu Lejiang
Date of establishment:	17 November 1998
Registered capital:	CNY51,082,620,998.89
Principal Activities:	As a State-controlled company and State-authorized investment organization, Baosteel Group Corporation is mainly engaged in operation of state-owned assets within the scope authorized by the State Council and carrying out related investment activities in the fields of iron and steel, metallurgy and minerals, chemicals (except for dangerous articles), electric power; wharf, warehousing and transportation relating to iron and steel; technological development, technology transfer, technical services, and technology management consultation services; import and export activities approved by the Foreign Trade and Economic Cooperation Ministry; domestic and foreign trade (except for items subject to separate regulations) and its services.

(2) Effective controller

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

(3) Relationship between the Company and the effective controller



05

Governance Structure

- Current Directors, Supervisors & Executives
 Annual Compensation of Directors, Supervisors and Senior Management
 Appointment or Dismissal of Directors, Supervisors and Senior Management Personnel

Current Directors, Supervisors & Executives

Name	Position	Gender	Age	Term of Office
Xu Lejiang	Chairman of BOD	Male	50	2009.04-2012.04
He Wenbo	Vice Chairman of BOD	Male	54	2009.04-2012.04
Ma Guoqiang	Director; President	Male	46	2009.04-2012.04
Fu Zhongzhe	Director	Male	49	2009.04-2012.04
Dai Zhihao	Director	Male	46	2009.04-2012.04
Wu Yaowen	Director	Male	66	2009.04-2012.04
Bei Kewei	Independent Director	Male	52	2009.04-2012.04
Zeng Jingxuan	Independent Director	Female	52	2009.04-2012.04
Sun Haiming	Independent Director	Male	53	2009.04-2012.04
Xie Zuchi	Independent Director	Male	53	2009.04-2012.04
Li Li	Chairman of BOS	Female	56	2009.04-2012.04
Zhou Guiquan	Supervisor	Male	54	2009.04-2012.04
Han Guojun	Supervisor	Male	54	2009.04-2012.04
Zhang Pijun	Supervisor	Male	51	2009.04-2012.04
Zhu Keping	Supervisor	Male	35	2009.04-2012.04
Zhao Zhoulì	Vice President	Male	53	2009.04-2012.04
Li Yongxiang	Vice President	Male	49	2009.04-2012.04
Zhu Junsheng	Vice President	Male	49	2009.04-2012.04
Jiang Licheng	Vice President	Male	51	2009.04-2012.04
Chen Ying	Vice President, Secretary to BOD	Female	38	2009.04-2012.04
Lou Dingbo	Vice President	Male	47	2009.04-2012.04
Pang Yuanlin	Vice President	Male	46	2009.04-2012.04
Zhou Jianfeng	Vice President	Male	46	2009.04-2012.04

- Note:
- (1) The expiration of office is on the date of the annual meeting of shareholders of 2012.
 - (2) As of the end of the reporting period, Ms. Li Li held 30,000 shares in the Company with no changes in the number through the reporting period. No other directors, supervisors or senior management held shares in the Company.
 - (3) Mr. Ma Guoqiang bought 30,000 shares in the Company in the secondary market on 26 January 2010; Ms. Chen Ying bought 30,000 shares in the Company in the secondary market on 29 January 2010.

05

Governance Structure

- ▶ Current Directors, Supervisors & Executives
- ▶ Annual Compensation of Directors, Supervisors and Senior Management
- ▶ Appointment or Dismissal of Directors, Supervisors and Senior Management Personnel

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 CNY122.41 million, particularized as follows:

Unit: CNY 10,000

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 BOD	Yes	-	
He Wenbo	Vice Chairman of BOD	Yes	-	
Ma Guoqiang	Director; President	No ^(Note 1)	96.84	2009.05-2009.12
Fu Zhongzhe	Director	Yes ^(Note 1)	21.09	2009.01-2009.04
Dai Zhihao	Director	Yes	-	
Wu Yaowen	Director	Yes	25.00	
Bei Kewei	Independent Director	No	25.00	
Zeng Jingxuan	Independent Director	No	25.00	
Sun Haiming	Independent Director	No	25.00	
Xie Zuchi	Independent Director	No	25.00	
Li Li	Chairman of SC	No	25.00	
Zhou Guiquan	Supervisor	Yes	-	
Han Guojun	Supervisor	Yes ^(Note 1)	16.14	2009.01-2009.04
Zhang Pijun	Supervisor	No	72.6	
Zhu Kebing	Supervisor	Yes	-	
Zhao Zhouli	Vice President	No	103.9	
Li Yongxiang	Vice President	No	103.9	
Zhu Junsheng	Vice President	No	103.9	
Jiang Licheng	Vice President	No	103.9	
Chen Ying	Vice President, Secretary of BOD	No	103.9	
Lou Dingbo	Vice President	No	129.8 ^(Note 2)	
Pang Yuanlin	Vice President	No	103.9	
Zhou Jianfeng	Vice President	No ^(Note 1)	88.73	2009.05-2009.12
Ouyang Yingpeng	Retired Chairman of BOD	Yes	-	
Li Haiping	Retired Director	Yes	-	
Shi Meilun	Retired Independent Director	No	8.33	2009.01-2009.04
Liu An	Retired Supervisor	Yes	-	
Peng Junxiang	Retired Supervisor	Yes	-	
Cui Jian	Retired Vice President	No ^(Note 1)	17.17	2009.01-2009.04
Total			1224.1	

Remark: "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.

Note 1: President Ma Guoqiang and Vice President Zhou Jianfeng received compensation from Baosteel Group Corporation from January 2009 through April 2009. Director Fu Zhongzhe received compensation from Baosteel Group Corporation after retirement from President of the Company in May 2009. Supervisor Han Guojun has been receiving compensation from Baosteel Group Corporation since May 2009. Mr. Cui Jian has been receiving compensation from Baosteel Group Corporation after retirement from Vice President of the Company in May 2009.

Note 2: Vice President Lou Dingbo received from the Company CNY200,000 in recognition of his special contribution as a part of his compensation in 2009.

Appointment or Dismissal of Directors, Supervisors and Senior Management Personnel

Name	Position	Gender	Age	Term of Office
Ouyang Yingpeng	Vice Chairman of BOD	Male	59	2006.05-2009.04
Li Haiping	Director	Male	59	2006.05-2009.04
Shi Meilun	Independent Director	Female	60	2006.05-2009.04
Liu An	Supervisor	Male	48	2006.05-2009.04
Peng Junxiang	Supervisor	Male	44	2008.04-2009.04
Cui Jian	Vice President	Male	49	2006.05-2009.04

At the 2008 annual general meeting of shareholders of the Company held on 28 April 2009, Mr. Xu Lejiang, Mr. He Wenbo, Mr. Ma Guoqiang, Mr. Fu Zhongzhe, Mr. Dai Zhihao, Mr. Wu Yaowen, Mr. Bei Kewei, Ms. Zeng Jingxuan, Mr. Sun Haimin and Mr. Xie Zuchi were appointed directors of the fourth Board of Baoshan Iron & Steel Co., Ltd.; Mr. Ouyang Yingpeng, Mr. Li Haiping and Ms. Shi Meilun retired from the posts of directors of the Company.

Ms. Li Li, Mr. Zhou Guiquan and Mrs. Zhu Keping were appointed supervisors of the fourth Board of Supervisors of Baoshan Iron & Steel Co., Ltd.; Mr. Han Guojun and Mr. Zhang Pijun were appointed employee supervisors; Mr. Liu An and Mr. Peng Junxiang retired as supervisors of the Company.

At the first meeting of the fourth Board of Directors held on 28 April 2009, Mr. Ma Guoqiang was appointed and Mr. Fu Zhongzhe was removed as President of Baoshan Iron & Steel Co., Ltd.; Mr. Zhao Zhouli, Mr. Li Yongxiang, Mr. Zhu Junsheng, Mr. Jiang Licheng, Ms. Chen Ying, Mr. Lou Dingbo, Mr. Pang Yuanlin and Mr. Zhou Jianfeng were appointed Vice President of Baoshan Iron & Steel Co., Ltd. and Mr. Cui Jian was removed as Vice President of the Company.

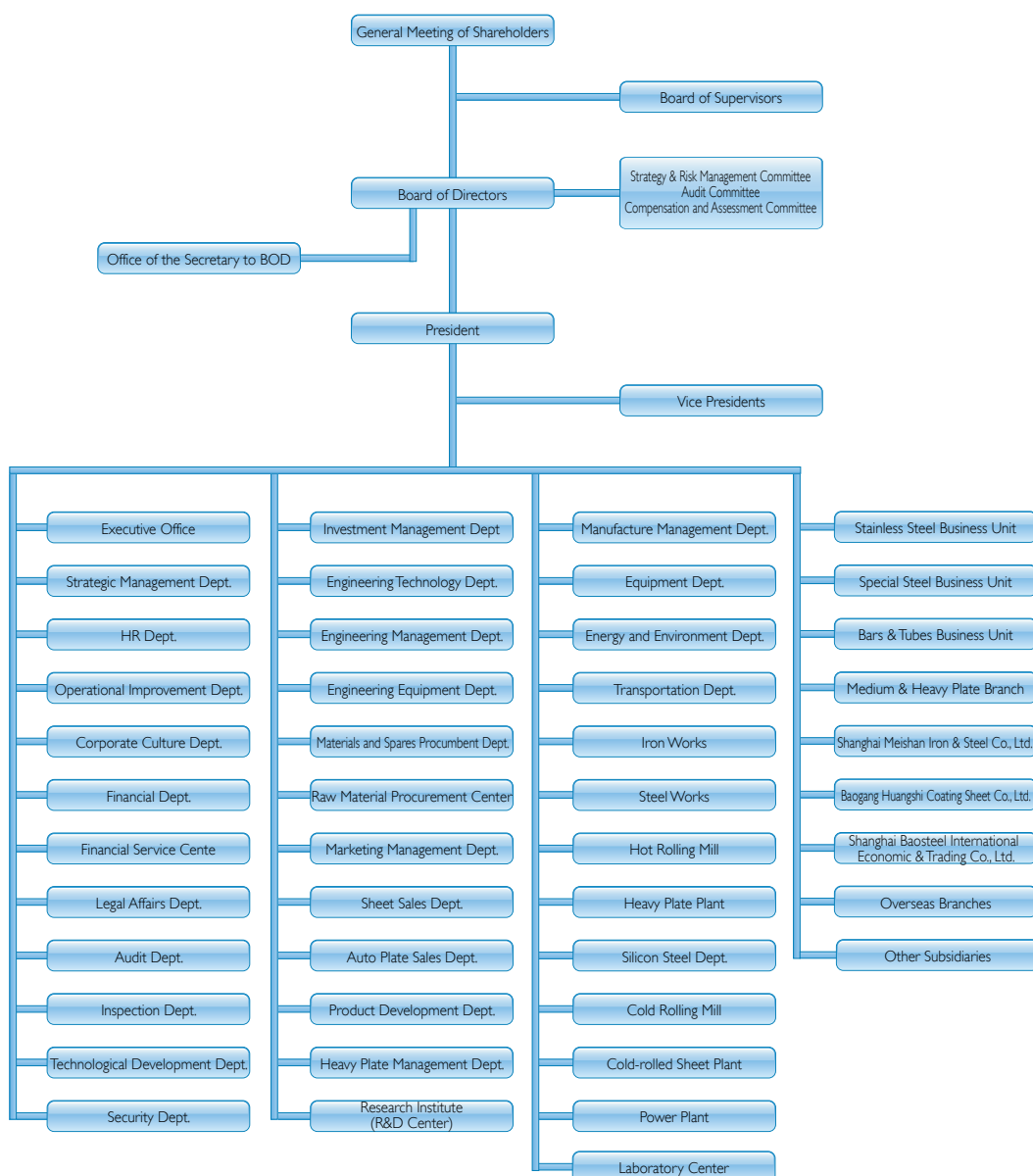
At the 2008 annual general meeting of shareholders of the Company held on 28 April 2009, the *Proposal on Amendments to the Articles of Association of Baoshan Iron & Steel Co., Ltd.* was reviewed and adopted; in Paragraph 3, Article 133 of the *Articles of Association of Baoshan Iron & Steel Co., Ltd.* "President, Vice Presidents, Chief Financial Officer, Secretary to the Board and President Assistant are senior management members of the Company" was changed to "President, Vice Presidents, Chief Financial Officer and Secretary to the Board are senior management members of the Company".

06

Management Improvement

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

Organizational Structure



Major Events in Organization Reconstruction

1. Product Business Units Established

To further differentiate market segments and assign product responsibilities, Stainless Steel Business Unit and Special Steel Business Unit were set up in late March 2009, Bars & Tubes Business Unit in early July. Separate management teams were created for major categories of products to increase market responsiveness, enhance product responsibility and strengthen competitiveness of the products.

2. Functions of Management Bodies Consolidated Vertically

To streamline the management hierarchy and create a simple and efficient framework for the head office, Baosteel Branch was canceled in April 2009, with its activities directly managed by the Company and similar functions of Baosteel Branch and the Company consolidated vertically; the manufacturing plants and the silicon steel department of the former Baosteel Branch were put under direct management by the Company. 10 department-level bodies were cancelled as compared with the double-tier structure comprising the Company and the former Baosteel Branch before consolidation.

3. Flat Management of the Marketing System Implemented

To flatten management structure of the marketing system and shorten the reporting line, a strong focus was placed on accelerating the sheet product marketing system's responsiveness to markets and users. The Company cancelled the Sales Center in June 2009 and directly managed Marketing Management Department, Sheet Sales Department and Auto Plate Sales Department of the former Sales Center. In addition, Product Development Department was established to reinforce planning of sheet products, user services as well as development and planning of new products.

4. Financial Service Center Established

To increase the efficiency and quality of financial information sharing, the Financial Service Center was established in June 2009 to centralize processing of similar and standard financial activities and providing commonly shared of financial management services.

Management Innovation

1. Introduction of Comprehensive Management System

Based on management reforms, the management framework of the Company was defined as follows: The Company makes planning as an integral system and lays down general operational principles in the *Comprehensive Management Handbook*; adopts reasonably centralized management based on the corporate organizational structure by setting up management sub-systems, including the head office, business units, branches and subsidiaries; management sub-systems develop their own respective *Operations Management Handbook* and plan and implement a comprehensive management system within their sub-systems.

At the end of September 2009, the Operations Management Handbook of the head office was completed and published. It provides an overview of the head office's comprehensive management system and the framework of management, serving as a necessary guideline document for management system certification. The *Comprehensive Management Handbook* of the Company is being prepared as planned with strong supports and cooperation from all functions. In addition, the review and consolidation of management documents and standards were substantially completed. On 30 October 2009, the head office was successfully re-certified to ISO/TS16949: 2009 and ISO9001: 2008 for quality management.



2. Risk Management Capability Enhanced

The Company implemented the risk management responsibility system, established the risk management enhancement system and defined its enhancement mechanisms, aimed at studying and solving major issues and problems encountered during risk projects and embedding risk control requirements into every activity ranging from manufacture to marketing and cost reduction. During development of the comprehensive management system, major risk points were identified and included in internal controls as key control activities; compliance of activities was checked through audits, reviews and inspections to promote effective PDCA cycling.

Five risk management task forces and twelve cross-functional risk management project teams were set up to lay down objectives of risk identification, assessment and control and define key risk indicators as well as develop and implement the risk response plan. The credit risk management project has delivered a package of risk management strategies and risk response solutions; the *Detailed Rules on Credit Risk Management of Carbon Steel Sales and the Credit Management Standards for Product Sales* were issued successively to regulate credit business; the corporate credit assessment model was optimized taking into account characteristics of prospective strategic users, directly-supplied users and agents; the nickel procurement risk management project was launched to create an early warning and response system against nickel procurement risks; the reasonableness of nickel equivalent measures for the stainless steel inventory was improved to enable quantitative assessment; a regular reporting system was established for effective risk control, including weekly reports on finished product inventory and monthly reports on the nickel equivalent of stainless steel inventory.

PDCA Cycle

It was introduced by Edwards Deming, a US expert in quality management. "PDCA" standards for Plan, Do, Check and Act. Appropriate actions are taken to address check findings, successful experience is affirmed and disseminated and standardized, lessons learnt from failures are analyzed, and open issues are carried over to the next PDCA cycle. The four steps move in cycles. Some issues are closed in a cycle, while some others are brought to the next cycle, representing an upward spiral. The PCDA cycle is in fact a logical process to effectively address any work, in particular performance management.

3. Performance Assessment Furthered

In 2009, performance management of the Company combined key performance indicators (KPIs) and key work evaluation with market development and cost reduction incentives. Based on quarterly analysis and assessment of KPIs, positive incentives were applied to market development and cost reduction in areas in need of breakthroughs, which effectively pushed up performance in respect of the gross profit of commodity blanks and sales volume of proprietary leading products, brought down the costs of maintenance, collaboration, marketing and administration, energy and quality, and effectively controlled the size of investments in construction in the reporting period.

To keep in line with the setup of divisions, vertical consolidation of management bodies, setup of the Financial Service Center and budget realignment, adjustments were made to KPIs and performance assessment elements for 2009 to ensure effectiveness. Meanwhile, the *Organizational Performance Management Procedures* were revised and issued to improve the closed-loop performance management process; the IT-supported performance management plan was prepared, basic data of performance indicators were collated, and the project requirements of the performance management support system were analyzed and finalized. The project is currently at the programming phase, expected to be put into operation in early January 2010.

4. IT Support and Management Boosted

In 2009, the Company successfully executed the "later invoicing" program aimed at timely and accurate reporting of operating results. The Company also extended application of the procurement E-commerce platform; set up the procurement service hotline, the customer call center platform and the customer and marketing information sharing platform; promoted the electronic bill of lading and warranty and created a new large customer channel. The market-oriented SRM and CRM frameworks have taken their initial form.

To support management reforms and make adaptive improvements in the Company's integrated management system, the Company carried out and completed the IT support plan for the three business units divisions: the integrated financial system covered the head office of Tubes Business Unit, the tube cost system was successfully upgraded; the collaborative office system (including the key work management platform) covered the Research Institute, Special Steel Business Unit, Huangshi Coating Sheet, Lubao Steel Tube, manufacturing facilities directly managed by the Company and Tubes Business Unit; in support of construction projects, the integrated system also covered Special Steel Business Unit and Yantai Pipe. The integrated system provides a platform for integration and sharing across functions of the Company, improves soundness of management and transparency of collaboration, and increases the effectiveness of managerial activities.

In 2009, at rankings of China's Top 500 IT-driven Enterprises 2008, the Company won the "IT-driven Enterprises Award 2008", "Outstanding Business IT Development Award", "The Best Overall IT Architecture Award", "The Best Supply Chain Management Application Award", "The Best E-commerce Application Award" and "The Best Decision Making Support Application Award".

SRM:

Supplier Relationship Management

CRM:

Customer Relationship Management

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.

The prevention and punishment system was improved to cater for corporate development. The prevention and punishment system was embedded into internal control and risk management processes and integrated with the corporate management system. A sound five-year prevention and punishment plan was developed to set out overall requirements, objectives and main tasks and provide a detailed description of 86 tasks. Prevention and punishment tasks were regarded as crucial elements of the anti-corruption responsibility system. The role of the leadership group was fully exerted, breakdown of tasks and assignment of responsibility were stepped up, the anti-corruption responsibility agreement was made with heads of tier-2 organizations, and key anti-corruption work was carried out in a project-based manner, forming a responsibility system featuring clear duties, well-defined objectives and all-level involvement.

Anti-corruption education was enhanced to establish long-term effectiveness. Leading member anti-corruption procedures were included in the training of party committee central groups of the Company and tier-2 organizations. Anti-corruption education, leading member crime prevention education and anti-corruption lectures were provided, with the focus placed on senior leaders. Professional risk education, case studies and “no pass under three conditions” education were provided to staff members in sensitive positions or having discretion on business. New officers were interviewed collectively for anti-corruption talks. Officers were educated to “follow rules and be loyal, diligent and clean” by setting examples, commenting on principle issues and discussing typical cases. Over 90% of employees received anti-corruption education and training; 100% of managerial personnel and employees having discretion on business received anti-corruption education; line supervisors and those high managerial levels of the management ladder conducted self-examination against the “Seven Requirements” on anti-corruption and 100% of them made an open commitment to anti-corruption.

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-making principles strictly in accordance with the “Three Importance with One Greatness”; implements “Procurement under Sunlight”; launches activities such as “Commitment Declaration to Be Honest and Faithful” and “Dual-signature for Honesty”. 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 regulation of ethnic risk and operation risk. The Company has improved the supplier self-recommendation and automatic supplier reference system to determine admission, evaluation and removal of suppliers and publish results. As for suppliers engaged in unfair competition activities in businesses with Baosteel, the Company released two lists of no-entry individuals and no-trading companies; Prohibited issue inspection was carried out in the Company to investigate and punish non-compliances.

Note

The “No Pass under 3 Conditions” education: It refers to no pass for unknown cause or responsibility of significant cases; no pass for failure to enforce investigation and rectification measures; no pass for persons concerned and other employees who received no education.

“3 Majors & 1 Large”: Major decisions, major appointments and dismissals, major project arrangements and large-value funds shall be subject to collective discussions other than at the discretion of individuals or a small group.

08

Innovation Development

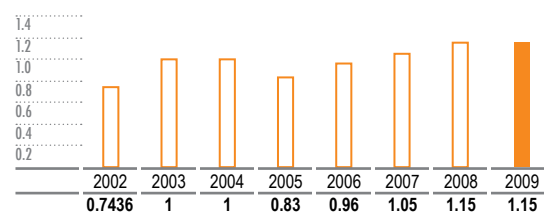
In 2009, the Company implemented and further improved the technological innovation plan towards the annual business objectives and under the new development strategy, placing the focus on key technologies, creating a quick response mechanism and reinforcing the innovation system. New breakthroughs were made in technological innovation measures, such as investment in researches and patent applications.

1. Improving the Framework of Technological Innovation System Development and Preparing the New Technological Innovation Plan

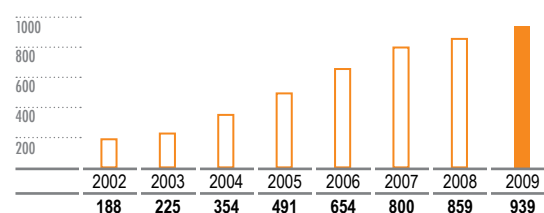
In response to sharp changes in the business environment and deepening internal management reforms, the *Baosteel Framework of Technological Innovation System Development* was revised to stress the increase of cost competitiveness, core staff incentives, diverse industry collaboration, focus on major projects as well as implementation of IP and standard strategies, and place greater weight on creating an innovative culture atmosphere and aligning the innovative system with times.

The new technological innovation plan focuses on: (a) placing emphasis on product R&D, implementing the leading product strategy that features leading technology, and creating differentiating competitive advantages; (b) furthering technology-driven cost reduction, introducing the total-process lowest-cost manufacturing technology, and increasing cost competitiveness; (c) stepping up development of environment friendly technologies, accelerating green manufacturing and continuously enhancing environment management; (d) strengthening researches on future-proof technologies, developing and commercializing major Baosteel technologies and leading technological development of the steel industry.

R&D Investment Rate (%)



Patent Applications Accepted

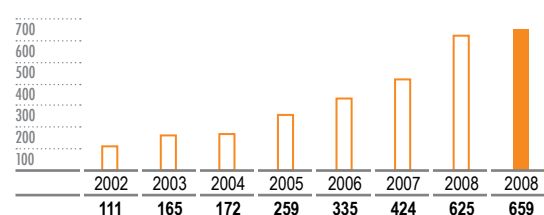


2. Enhancing Self-integration and Innovation Capabilities in Major Projects

The self-integrated Meisteel cold rolling project, and tandem cold rolling, hot galvanizing, continuous annealing and tin plating units were brought on stream; the self-developed plate shape control system has provided a precision (≤ 61) of 96.90%, representing an international leading level.

The alloy strip project has developed sophisticated continuous cast slabs, including dual-phase stainless steel, low-carbon steel, 800H and Ni36, integrating Steckel hot rolling with steel-making and continuous casting.

Patents Granted



The double-stand multi-plate rolling mode for heavy plates was introduced to allow the two stands to work at full capacity and reach the global leading level in flexibility and functions.

3. Placing Focus on Generic Technologies of the Company, Extending Core Technology Chain

Significant progress has been made in the oxide metallurgy technology. Developed steel plates have met the requirements on general mechanical performance. The joint performance has remained stable and provided adequate allowance relative to the shipbuilding standards after high heat input welding. Based on the researches of medium-chromium ferrite stainless steel technologies, the BN stainless steel smelting, hot rolling, hot annealing and pickling processes are all ready for commercial operation and able to support massive, stable supply of BN white coils. The fine-grain low-impurity GH4169 forged alloy bars have been successfully developed, laying a solid foundation for the national "11th Five-Year Plan" breakthrough project-"Fine-grain Low-impurity Bars for Aero-engine and Forging Development".

4. Carrying Out Frontier Technology R&D to Keep in Line with Global Trends

The strip surface inspection system has been successfully applied to cold rolling, pickling, hot galvanizing, continuous annealing and tin plating with good results delivered. In particular, the edging pass/pinhole instrument developed for the continuous and tin plating unit of Meisteel is able to detect pinholes $\geq 15\mu\text{m}$, with a dead zone of 1mm, representing an international leading level.

The industrial test of thin strip continuous casting achieved a successful casting rate of 90% and a successfully casting and coiling rate of 70%. The commissioning of the entire continuous casting and rolling line has been successfully carried out.

The cost efficient coal and ore blending technology was studied for the new COREX iron making process, with coal blending solutions developed for industrial application of new coals. Studies were conducted on performance of lump ores and pellets in cold and hold conditions, forming a new assessment system and technical indicators of lump ores appropriate to Baosteel COREX-3000.



Based on the research on microstructure and mechanical performance of nano-grains, the nano-enhanced straightening roller was developed and proved to have a service life 3 times the initial one.

5. Enhancing Technical Supports to Create a Technology Sharing Platform

Technical support was provided for product migration, quality improvement, cost efficiency enhancement and new projects in line with needs of production units. The annual support framework agreements were entered into with Xinjiang Bayi Iron & Steel Co., Ltd. ("Bayi Steel") and Ningbo Iron & Steel Co., Ltd. to provide technical support in the form of projects and job orders. Benefiting from researches of the Company's technical staff, Bayi steel increased its coal blending ratio of blast furnaces from 20-30% to a maximum of 59%, adding CNY800 million to its earnings.

Focused on two-dimension-products and production lines, a technology sharing platform, which includes target customers, platform operation, knowledge buildup, incentives and confidentiality, was structured. The information platform for the iron making and electric furnace expert team was commissioned in the year, promoting sharing of knowledge within the Company and allowing quick response to field problems.



Technical Exchange and Industry-Academy-Research Strategic Cooperation

1. Involvement in World Steel Association (WSA) Activities

In 2009, Baosteel attended meetings of the Executive Board and technical, economic, environment, packaging, automotive and raw material committees of the World Steel Association and the International Stainless Steel Forum (ISSF); followed up and participated in the Living Steel project, steel byproduct project and other key projects identified by WSA. These activities helped improve Baosteel performance in market and economy analysis and forecast as well as environment management; the Living Steel project yielded immediate improvement and market development of Baosteel's living steel technologies; the Life Cycle Assessment (LCA) project provided a strong support for environment management and environment friendly products of Baosteel.

Baosteel was widely recognized by the WSA and its members for positive involvement in WAS activities. In 2009, Vice President of the Company Lou Dingbo took office as Chairman of the ISSF Committee on Economics and Statistic; Assistant to the President, Zou Kuan headed the "Clean Air" Program of WSA; Fellows assigned to WSA Ms. Jiang Li, Ms. Liu Yinghao and Ms. Yang Yiwen received letters of commendation from the Secretary General and division heads of WSA; the World Steel-Baosteel Committee of Economics and its liaison representative, Mr. Ding Zhiqiang received letters of commendation from WSA for their outstanding work; in the Worldsteel steeluniversity.org Challenge, three Baosteel representatives got the 6th and the 79th places, respectively.

2. Involvement in Academic and Technical Exchanges

Nearly 3,000 persons of the Company attended over 250 academic and technical exchange meetings in the year, including the "Iron and Steel Technology Conference and Exposition 2009" in the U.S., the "Asia Steel Forum 2009" and the "Asia-Pacific Galvanizing Conference 2009" in South Korea, the "5th European Rolling Conference" in London, the "6th International Conference on Processing and Manufacturing of Advanced Materials" in Germany, the "6th International Stainless Steel Expo" and the "5th International Congress on the Science and Technology of Iron making" in China, and the "7th CSM Annual Meeting" in Beijing.

In addition, production units of the Company organized a variety of technical exchanges, such as the "Innovative Approach-TRIZ Training" of Meisteel; the large commercial aircraft materials R&D exchange organized by the Special Steel Business unit attracted over 20 experts from Beijing Institute Aeronautical Materials, Commercial Aircraft Corporation of China, University of Science and Technology Beijing, the Central Iron and Steel Research Institute, Northwestern Polytechnical University, Shenyang Liming Aero-Engine Group Corporation and Xi'an Aero-engine (group) Co., Ltd. These experts gathered formed an industry-academy-research team in R&D, application research and assessment of large commercial aircraft materials.

3. Promoting Steel Technology Development Across the Straits

On 1 December 2009, Baosteel-Taiwan CSC 11th Scientific and Technological Exchange was held at Baosteel. A 25-member CSC delegation led by General Manager Chen Yuancheng attended the meeting. At the three-day event, Baosteel and China CSC contributed 36 and 16 papers respectively for publication and exchange at five sub-venues (for iron making, steel making, cold rolling, equipment and energy/environment). Management and technical representatives from the two sides also made wider exchanges on issues they were interested in.

The scientific and technological exchange between Baosteel and Taiwan CSC began at the symposium on iron making and refractory material technology across the Straits held in April 1995. The previous 10 scientific and technological exchanges covered the entire process of iron and steel making.

4. Industry-academy-research Cooperation

The Company has been pressing forward with key strategic cooperation guidance projects with domestic strategic partner universities and furthering industry-academy-research cooperation. The annual meeting on Baosteel-Shanghai Jiaotong University cooperation was held to identify key areas of cooperation at the next stage; exchanges on the cooperation guidance project were conducted with the Northeastern University and other universities; the interim review of the industry-academy-research strategic cooperation was conducted to further cooperation on subsequent projects.

The international technological cooperation mechanism was improved, and efforts were stepped up to promote international technological cooperation. Management procedures were developed for international technological cooperation projects; the total-process project management was introduced; the three-tiered project management system was implemented for disciplined and systematic management in line with the technical innovation needs in respect of new products, processes, technologies and equipment through enhancing the "demand-driven, centralized planning and project linkage" project mechanism.

The platform role of "Baosteel Professors" was further exerted in the areas of technology, information and human resources; advanced planning was boosted; cooperation was discussed based on characteristics of each "Baosteel Professor" to meet systematic objectives of project cooperation, talent nurturing and capability enhancement.

10

Intellectual Property (IP) Strategy

1. Building of the IP Defense System

IP defense was focused on product development and new processes/technologies. Timely search and analysis of major competitors' patent applications in China were conducted for early identification of and response to patents that might emerge as a "hurdle" before Baosteel products and technologies.

2. Taking IP Protection Measures

Comparative analysis was conducted mainly on stainless steel, carbon steel and continuous casting of thin strips in an innovation perspective to reinforce IP arrangements and protect the Company's technological innovation outputs.

Everyone engaged in IP management of the Company was fully involved in large research projects to assist in overall planning and process guidance for IP, thereby creating major proprietary core technologies of Baosteel at a faster pace.

3. Taking IP Risk Precautions

As the Company goes deeper in proprietary integration and innovation and the "industry-academy-research" cooperation projects and technical trade, these activities may cause risks in the ownership of technological outcomes and IP. Thus the Company took precautions by signing agreements, pre-packaging and defining rights.

In the dissemination process, the Company emphasized on specifying IP-related legal responsibilities and liabilities in the form of contractual terms and reserved the right to lodge a lawsuit to alert relevant persons to IP protection.

4. Improving IP Value Management

The typical "Baosteel slag disposal technology" was selected in 2009 for the assessment of intangible asset value, paving the way for charging a license fee on the technology in the future.

5. Furthering IP Education and Training

The "Sharing Your Value-added Ideas" program was carried out on the "World Intellectual Property Day" (26 April) using the Baosteel employee platform for economic and technological innovation. Executives, experts, worker inventors and other employees gathered, interacted and shared ideas at the meeting.

IP management personnel and experts of the Company reached out to organizations under Baosteel and the Group to disseminate IP knowledge and expertise in the forms of lectures, training, introduction to innovative approaches, interpretation of the Company's IP strategies and summarization of IP abstraction and application skills. These moves helped increase employees' IP sense and implement IP-related work.

6. Prohibiting Use of Unlicensed Software

Baosteel always places emphasis on IP protection and prohibition of unlicensed software. In 2009, as required by Baosteel Group, all employees of the Company signed a formal Undertaking promising to use licensed software and checked software applications on their office computers for elimination of any unlicensed software.



Harmonious Development

- ▶ Profile of Employees
- Protection of Employees' Rights and Benefits
- Harmonious Industrial Relations
- Growth Together with the Company
- Opportunity Equalization and Diversification
- Listening to Employees' Voices, Fulfilling Employees' Needs
- Occupational Health and Safety

Profile of Employees

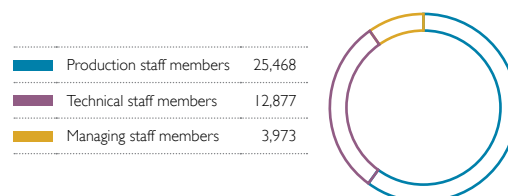
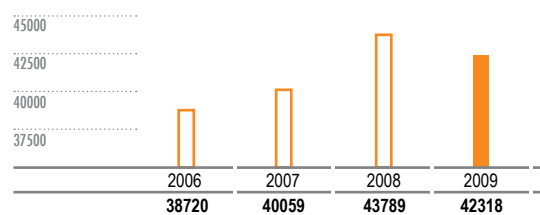
At the end of 2009, the Company had 42,318 employees in total, 1,471 less than one year ago. Of them, 25,468 are production staff members, 12,877 are technical staff members, and 3,973 are managing staff members. There are 26,848 employees with an academic degree above associate degree.

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

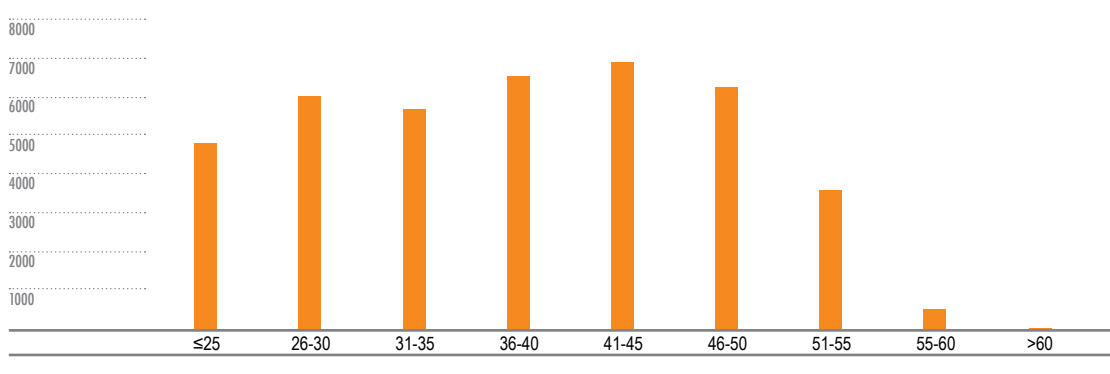
Due to characteristics of the steel industry, the Company has a gender ratio of 6.86:1 (male to female). Our female employees mainly hold managing and technical business posts.

Our employees are young and vigorous. The age structure is rational, with the majority being under the age of 45, making up 74.31% of all employees.

Total Employee Headcount



Structure of Employee Ages



In 2009, 595 employees resigned from the Company, representing 1.41% of total employees. The Company fully respects the personal choice of employees. Each resigning employee was interviewed individually to identify reasons for resignation, and resignation formalities were handled without delay for him or her.

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Harmonious Development

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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 the strategic development of the Company, creating a link between income and performance and achieving harmonious development of employees and the Company. In addition, the Company closely followed up changes in CPI and average local wages and other factors to ensure employees enjoy benefits derived from social advancement and corporate development.

2. 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 the laws, 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 accidents. In addition, Baosteel also provides physical checkup, corporate pension and other 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, intended to minimize financial loss of employees. To encourage increased physical exercises for health enhancement among employees, the Company provides employees with benefits under the employee health scheme that allows employees to use designated sports or recreational facilities free of charge.



Harmonious Industrial Relations

As one of the "National Model Enterprises in Harmonious Industrial Relations", the Company consistently set a good example in abiding by the Employment Law, the *Trade Union Law* as well as other laws and regulations and in self-discipline. The Company updated and revised the *Employment Contract Management Procedures*, the *Employment Management Procedures*, *Employment Contract Management Procedures-Employees under Confidentiality Obligations*, *Candidate Management Procedures*, *Employment Contract Management Procedures-Employees in Probationary Period*, *Employment Attendance Management Procedures*, *Employee Leaves Management Procedures* in accordance with national laws and regulations, forming an employment management system that meets legal requirements. Compliance of employment was thus ensured to lay a solid foundation for harmonious industrial relations.

Growth Together with the Company

1. Continuous Improvement in Employee Skills

The Company offers each employee training opportunities to facilitate their skill building and career development. Trainings are tailored to specific characteristics of the there teams: management, technical services and operation/maintenance. 124,891 persons were trained in 2009, including 10,349 from the management, 51,233 for the technical service team, and 63,309 for the operation/maintenance team. 109 hours of training was provided per capita. Years of education received by employees increased over years. By the end of the reporting period, employees received 14.7 years of education on average.

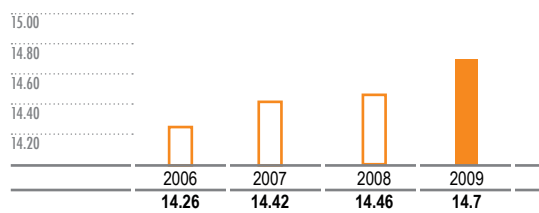
2. Cross-functional Job Rotation Program

The Company emphasizes work-based approaches to learning and introduced cross-functional job rotation. A 1,000-per-son annual rotation plan involving all functions was developed to cover four types: experience buildup, expertise expansion, job capacity enhancement, and management skills. 1,036 persons were rotated by the end of the reporting period, aimed at procuring "mutual understanding, cooperation, trust and appreciation and knowledge expansion".

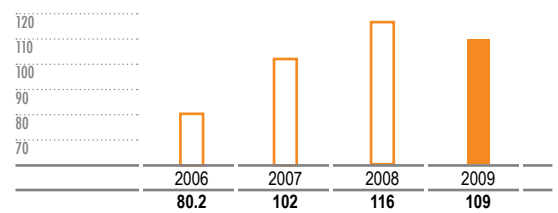
3. Exploration of Approaches to Enhancing Technical Competencies

To create a Baosteel-specific technical talent growth system, the Company endeavors to build a "high-caliber" and "versatile" technical team that meets the strategic development needs of the Company. Knowledge structure and horizon of technical people are broadened; technical personnel in production, marketing and research fields are encouraged to collaborate better to break "bottlenecks" on product quality and increase competitiveness of core products. A total process engineering training mechanism was designed to be a "product-oriented, project-based, through double-way training and based on three-year capability enhancement program", which has been carrying out on a trial basis.

Years of Education per Capita
(Unit: year)



Hours of Training per Capita
(Unit: learning hour)



4. Diversified Special Training Programs

To increase forefront insights and learning capacity of employees, the Company organized thematic learning programs (such as TOPI0 thematic learning) aimed at specialized teams comprising chief workers and their alternates to address major problems emerging in the "premium manufacturing" process, such as quality defects and technical bottlenecks. Employees' systematic thinking ability and professional skills were enhanced in the problem-solving process.

Learning and training programs carried out included the *Resource Reuse Technologies and Environment Management*, *Corporate Social Responsibility and Sustainable Development*, *Environment Audit*, *Energy Audit* and *Energy Manager Training*.



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- ▶ Occupational Health and Safety

Opportunity Equalization and Diversification

The Company always adheres to the principal of "equal opportunity", offers equal pay to men and women for equal work, and promotes equal treatment in all policies and schemes without any discrimination in respect of age, sex, race, religion and political orientation. In addition, the Company pays due attention to health needs of female employees by implementing policies on leave entitlements of female employees in pregnancy and lactation. Discrimination has never occurred in the Company in respect of sex, job and groups.

The Company pays particular attention to employees from ethnic minorities, who are granted additional allowances as required by the State and, in some cases, appointed to the management to take important roles.

The men-women ratio in the management was lower than the company-wide level.

To increase international perception and diversity of the Company, people returning from overseas studies are encouraged to join Baosteel. Their information has been collected through websites and specific attraction plans have been developed.

Listening to Employees' Voices, Fulfilling Employees' Needs

The Company maintains unobstructed communication with employees, places emphasis on psychological counseling and tracks concerns and difficulties of employees through the "5.4" youth hot line, "Bridge" forum, the Company's website, surveys and follows up on what employees think, and then takes reasonable steps to address such concerns and difficulties.

To meet growing recreational needs of employees, the Company provided current employees with off-hour training programs, including vocality, instrumental music, digital photo processing, Taijiquan, calligraphy and belly dance with over 2,000 persons trained in 2009. These activities provide employees with a happier off-hour experience and contribute much to physical and mental health of Baosteel people.

The "Employee Health Enhancement Scheme" is carried out to expand and better manage sports and recreational spaces for employees, support and guide the operation of sports and recreation teams, organize a broad range of colorful and diverse programs, including trainings, competitions, lectures and solons, to enhance overall qualities of employees. Based on the "Employee Spare-time School", lectures were given on traditional Chinese culture, literature, economy and health in line with actual needs of employees, further increasing the versatility of employees.

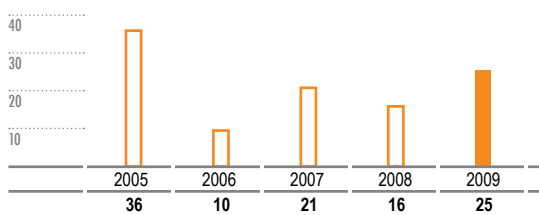
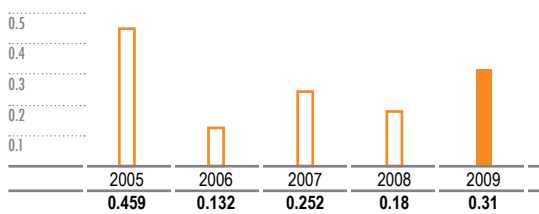
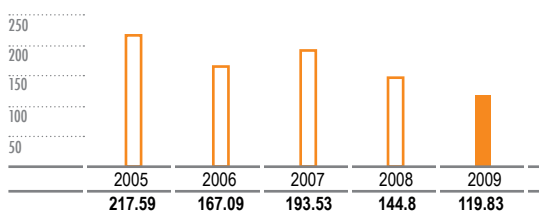
Occupational Health and Safety

In 2009, Baosteel implemented the "Year of Production Safety" program and the "Three Initiatives" for production safety under the principle of "safety-based development and care for people" and the philosophy of "Safety First, Zero Non-compliance and Zero Accident". To the ultimate end of ensuring occupational health safety of employees, safety responsibility was assigned to each level of the corporate ladder, reinforced by well-focused safety education and training. Safety technologies were leveraged to identify and eliminate potential risks, boost intrinsic safety and increase the effectiveness of the occupational health safety management system at every level. Overall, production safety remained consistently good in the reporting year. In 2009, 25 employees were injured in work, representing an injury frequency of 0.31 (injured persons per 1 million hours of work) and a serious injury rate of 119.83 (lost workdays per 1 million hours of work).

1. Setup of the Safety Manager Development Association

The Safety Manager Development Association was set up on 27 September 2009. The association is responsible for managing safety within the Company and composed of safety management staff. It causes internal bodies of the Company to share, benchmark and improve together through review, summarization and dissemination of the best practices in site safety management. Its mission is to study issues on site safety management, improve work on safety management and increase the effectiveness of site safety management. Under the association are the secretariat and seven committees: iron making, hot rolling, cold rolling, energy media, maintenance and technical revamp. The association encourages safety managers to manage safety under the "care for people" principle and with a

Number of Injuries

Frequency of Injuries
(number of injured persons per million working hours)Serious Injury Rate
(number of lost working days per million working hours)

scientific view of development in their daily work. Topics of studies shall be sourced from employees and outcomes of studies shall be applied in the interest of employees. Studies are conducted to identify problems that undermine safety from the safety mechanism, system and culture dimensions and develop reasonable solutions. The association serves as a driver and extension of the "Safety Partner Scheme". Its committees have carried out studies on safety management in respect of steel making cranes, LP CO₂ fire extinguishing system, cold roller cleaning, gas operation and belt operation.

2. Improvement of the Production Safety Assessment System

The Company took the opportunity of management reforms to review and optimize the overall requirements of the safety management system, strengthen examination and assessment of the safety system effectiveness of branches and subsidiaries, continuously improve management processes and approaches, help all units of the Company streamline the safety management system and improve the effectiveness of their safety systems. In 2009, the production safety assessment of Baosteel was perfected to systematically and objectively assess all units' safety management performance in respect of production, fire, transportation and security. With the focus placed on safety performance, key work execution and system management, the assessment has helped drive continuous improvement in production safety as well as prevention and control of production safety incidents.

3. Safety-related Technical Support

Safety diagnosis was conducted on new units put into operation in accordance with the guide to production safety readiness; safety audits were conducted in line with prevailing safety circumstances; special surveys were conducted on areas where tendentious issues emerged. The *Safety Examination Assessment Plan* was developed base on the PDCA management mode. Specialty modules were established; targeted examinations were carried out in the form of internal audits and led by the regional liaison persons to assist all units in systematic review and improvement of their safety management, identify deficiencies and correct deviations on a timely basis.

4. Dissemination of Baosteel Nippon Experience in Safety Management

Baosteel Nippon Auto Plate Co., Ltd. (shortened as Baosteel Nippon) introduced "communication, simplicity and practicality" as the philosophy of safety management. It has three implications: first, the priority of problem solving is to identify root causes other than to determine liability; second, simple and practical approaches to safety management should be used; third, adequate respect and trust in employees should be built to encourage employees to involve themselves in and contribute to site improvements. Pilot dissemination of Baosteel Nippon best practices in safety management was carried out at the cold rolling mill of the facility directly managed by the head office. Five dissemination plans were developed respectively for safety plate examination management, safety pin management, SST training, hazard source downgrading and elimination, and control of major hazard sources, with the scope of application clearly defined. Team members were motivated to meet milestones. Safety management measures were explored through employee involvement, communication and discussion, taking into account physiological and psychological characteristics of people, demonstrating that safety management involves all other than only managers.

12

Investors

- ▶ Intensifying Communication with Investors to Provide an Objective And Complete View of Corporate Image
- ▶ Executives Highly Recognized for Active Communication with Investors
- ▶ Emphasis on the Internet Platform to Increase the Efficiency of Information Transmission
- ▶ Dividend Policy

In 2009, the State introduced a series of economic stimulus policies to spur a strong recovery of downstream industries, such as automobile and household appliances, and strengthen the demand for high-end plates. In such a context, the Company delivered the best-in-class operating results in 2009 benefiting from its competitive edge built up during its long-term dedication to the manufacturing of high-end plates.

Under the philosophy of “creating value for investors”, Baosteel created a full-dimensional communication platform for investors to ensure transparency and integrity and achieve a win-win result with investors.

Intensifying Communication with Investors to Provide an Objective and Complete View of Corporate Image

In 2009, the IR team provided professional services for 645 fund managers and securities analysts visiting the Company in 147 batches, up 15.7% over one year ago; 51 batches of investors were shown around manufacturing facilities and 50 conference calls were made, up 15.9% and 51.5% from one year ago. In addition, the Company was invited to 13 large investor relation meetings organized by UBS, Morgan Stanley, Merrill Lynch and other international investment banks, including 10 speeches, 13 group discussions and 31 one-to-one meetings, to provide investors with an objective and complete view of the Company and conduct in-depth information exchange.

The Company was increasingly recognized by investors for its competitiveness and investment worthiness. The Company attracted more and more attention in the capital market, demonstrated by the fact that over 29 international investment banks and domestic securities firms issued periodical research reports on the Company.

Executives Highly Recognized for Active Communication with Investors

Executives of the Company regularly participated in investment relation activities to interact with investors in the Company efficiently, directly and fairly as they had done before. In 2009, the Company held four online announcements of operational results and two analyst forums attended by the chairman, the president and the secretary of the board. They shared opinions with investors on the industry updates, the Company's operations and other concerns of investors and listened to suggestions and comments of investors, and were applauded by the investors of the Company.



Emphasis on the Internet Platform to Increase the Efficiency of Information Transmission

Since the "Investors" homepage was upgraded in 2006, the IR team has continuously optimized its website. Full-timers were designated to update web pages promptly to ensure timely and effective information available on the website; functions of modules were continuously improved. In 2009, the full-text announcement search engine and online roadshow playback features were introduced; more information was available on the website and IR web pages became more user-friendly. In June 2009, the IR module of the Company's website won the "Most Popular Websites of Listed Company in China", "Best Websites of Listed Companies in China-Information Disclosure" and "Best Websites of Listed Companies in China-Innovative Communication" at the "First Contest for the Most Popular Websites of Listed Companies in China" hosted by the Securities Times.

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 31 December 2009, the Company has distributed a total dividend of CNY34.44 billion.

13

Suppliers

- ▶ Procurement Policy
- ▶ Implementing E-procurement to Create an Open, Transparent Atmosphere for Procurement
- ▶ Improving Supplier Management to Build a Sustainable Supply Chain
- ▶ Promoting Green Procurement to Lay the Groundwork for Green Baosteel

In 2009, the top five suppliers of the Company accounted for 26.9% of its total annual purchases.

Procurement Policy

In 2009, the procurement policy of the Company was realigned as follows:

Under the strategic goal of "becoming the most competitive steelmaker worldwide", procurement shall be aimed at "safeguarding supply, controlling cost and improving management", thereby establishing a disciplined, open, collaborative and most competitive and influential procurement system via implementing strategic procurement management and attracting the best suppliers.

Under the core philosophy of "creating more value for shareholders, users, employees, society and suppliers" and the core values of "integrity, cooperation, innovation and pursuance of the maximum corporate value", procurement shall be arranged based on integrity and cooperation to maintain good relations with suppliers; procurement activity shall be carried out efficiently and transparently by a professional team, without compromising social responsibility and environmental friendliness; a global perspective shall be introduced to optimize allocation of resources, stabilize quality and improve cost collaboratively to improve the overall competitiveness of the supply chain and attain user satisfaction.

Implementing E-procurement to Create an Open, Transparent Atmosphere for Procurement

As a crucial approach to transparent procurement, the E-procurement architecture was planned as a whole and e-procurement was steadily implemented stepwise to make the procurement process more disciplined and transparent and improve collaboration with suppliers. Thus, e-procurement has become a platform for Baosteel to create harmonious relations with suppliers and increase procurement efficiency.

The Electronic Procurement System (EPS) has gone live. The EPS supplier management module enables online information exchange, online quotation, bidding and procurement as well as online collaboration in respect of contract, order, delivery and invoice. In addition to providing paperless office, it also increases transparency and efficiency of procurement.



Improving Supplier Management to Build a Sustainable Supply Chain

On May 10, the Baosteel procurement hotline was put into service. Either suppliers or internal user could have access to inquiry and complaint handling services through the hotline (400-820-1688) and the E-mail (baobuy@baosteel.com), providing a more "open, fair and impartial" procurement environment.

A supplier self-recommendation mechanism was established to provide a more open-ended supplier management system. The procurement portal (eps.baosteel.net.cn) added the online supplier self-recommendation feature to offer opportunities to more prospective suppliers of goods and services. In the year, over ten self-recommended suppliers were accepted. The Company offered equal opportunities to small and medium enterprises. Every self-recommendation was answered online.

In addition to the online self-recommendation, suppliers may also be included in the supplier base of Baosteel via recommendation and competitive bidding.

On July 17, the Company held the first supplier conference with a view of working with suppliers to achieve a win-win result and create a valuable supply chain. Baosteel hopes to build the procurement system into a transparent, responsibility-shared system comprising many excellent suppliers through consistently disciplined management, thereby making Baosteel an innovation park for downstream and upstream supplier-buyer collaboration, a venue for suppliers to demonstrate their strengths, and a birthplace of renowned supplier brands. To that end, Baosteel needs to purify the procurement environment, introduce innovative approaches to collaboration and support development of suppliers, and will meet these objectives through: (a) establishing a real partnership with suppliers; (b) the transparent procurement initiative, which has been implemented; and (c) performing social responsibility together with suppliers and making due contributions to increase social benefits.

With regard to strategic resources including iron ores, coal and ocean shipping, the Company reinforced high-level communication and entered into long-term strategic cooperation agreement with suppliers, aimed at achieving optimal procurement efficiency and a win-win result between the supply and the demand sides; with regard to materials and spare parts, all open and selective biddings were delegated to Shanghai Baohua International Tendering Co., Ltd. to ensure transparency and fairness; with regard to equipment procurement, the *Equipment Supplier Management Procedures* were developed to drive supplier management to a higher level of standard.

"Anti-corruption Agreement" and "Safety Agreement" were entered into with suppliers to ensure corruption-free operations and production safety.

Promoting Green Procurement to Lay the Groundwork for Green Baosteel

Suppliers were further encouraged to attain the certification of ISO14001 for environment management. Procurement staff communicated to suppliers the Company's environment management policy and requirements on the suppliers' environment management policy. The management procedures were optimized in respect of supplier entry and exit. When looking for new suppliers, priority was given to those certified for environmental management. Supplier relation classification and supplier performance assessment takes into account whether the suppliers' environment management system is certified and operates effectively, thereby causing existing suppliers to make improvements in environment management.

When developing the new development plan, the Company required that suppliers be certified for environment management, the catalogue of green procurement be developed, and the "green procurement percentage" be included in the procurement performance management.

14

Users

- ▶ Enhancing Product Competitiveness
- ▶ Remolding Brand Image
- ▶ Increasing Customer Service Capability

In 2009, the Company's income from the top five customers accounted for 12.2% of its total operating income.

Enhancing Product Competitiveness

Market demands swung sharply in 2009. The Company pushed for transition of the marketing and production organization modes on a market-oriented basis towards optimizing product structure and increasing the sales share of proprietary leading products. Contracts of auto plates were made with priority given to market share and benefits; deep drawing and high-strength steel products accounted for a higher percentage of sales; profitability of products was increased. Pickled plates were certified for multiple parts of Dongfeng Nissan; auto steel with a 60 kg tensile strength was available in massive supply; 80 kg-class products were produced as futures. Electro galvanized products made presence in the high-end OA market. High-grade electrical steel broke the foreign manufacturers' dominance in the steel for DC variable frequency compressors. The high magnetic induction grain-oriented silicon steel was approved for large transformers of the Three-Gorge Project. Grain-oriented silicon steel for 500 kV transformers or above are available in massive and stable supply; the annual output of non-oriented silicon steel topped 1 million tons, the highest nationwide.

Remolding Brand Image

The Company supplied steel for a range of major projects in China, including the Line 2 of the West-to-East Gas Transmission Project, World Expo, Asian Games, Yangshan Deepwater Port, Zhoushan Island-Land Project, Sinopec and CNPC crude oil tank projects, nuclear power projects, Hongqiao traffic hub, Shenzhen KingkeyFinance Center, Taizhou Yangtze River Bridge, MOC foreign aid projects and post-disaster recovery projects. The Company fully leveraged its strengths in integrated production, marketing and research to strengthen R&D of high-tech products and improve its overall competitiveness. Development efforts were focused on 116 new grades, including high-strength cold-rolled steel, pipeline steel, machinery steel, welded structure steel, ultra-high-strength alloy petroleum pipe steel and super pure medium-chromium ferrite stainless steel. New products sold accounted for 19.8% of total sales. 939 patent applications were filed, 659 patents granted. For example, the low yield point steel BLY225 applied in the Expo Center and the maglev station of Hongqiao traffic hub is a product with proprietary intellectual rights; the steel for 150,000 m³ crude oil tanks is only available from Baosteel; the high-strength weatherproof steel plate Q420GJCW applied at the Guangzhou TV & Sightseeing Tower has provided a reliable basis for the development of international standards and specifications on domestic high-strength weatherproof steel.





Increasing Customer Service Capability

Customer service quality was improved through "Strengthening Product Planning", "Enhancing Technical Services" and other measures. The Company reviewed finished product dispatching activities and user needs and revised the logistical service agreement and assessment standards to ensure full communication of the Company's and users' needs to service providers. Service providers were guided in the forms of "Onsite Activity Examination + System Review" towards improving their efficiency. A Large customer management mode was introduced to improve user services; customer representative services were optimized; the quick-response overseas technical service team was established; the closed-loop management of satisfaction investigation was improved; the service hotline management was boosted.



Baosteel non-oriented electrical steel made breakthroughs in hybrid car applications

As an increasingly popular new energy concept, hybrid cars pose an expanding demand for non-oriented electrical steel in the motor manufacturing process. Baosteel designed the 22t high-efficiency non-oriented electrical steel tailored to the traction motor of hybrid cars. Supply of that steel means that Baosteel's high-efficiency non-oriented electrical steel has made significant progress in hybrid car motor applications, representing another output of its efforts to develop environment-friendly products.



Baosteel provides an ultra-high strength steel solution package for auto refitting

Baosteel has successfully developed the ultra-high strength steel as an alternative to conventional steel, creating a new segment of the auto refitting industry. An energy conservation and emission reduction solution package was provided to an automaker, helping reduce the truck weight by 1 ton, cut steel consumption by 1.3 tons, bring down the cost and provide trucks with new attractive features: lower oil consumption, higher transportation rate and higher durability.

15

Social Responsibility

- ▶ Poverty Alleviation in Yunnan
- ▶ Care for Employees Experiencing Hardships
- ▶ Inspiration • Contribution
- ▶ Donations • Sponsorships

Poverty Alleviation in Yunnan

In February 2009, Baosteel, Baosteel International and Meisteel donated CNY8.8 million in cash and CNY10,000 in kind to 34 poverty alleviation projects in Ning'er, Mojiang, Jiangcheng and Zhenyuan counties, Puer City, Yunnan Province. Of these projects, there were eighteen village-wide development projects, one relocation project, seven education and training projects, two industry development projects and six "I+I" aid and needy undergraduate subsidy projects. In August when leaders of the Company visited Puer City to investigate poverty alleviation, additional 1 million was donated to the accessibility project of Wenquan Village, Ning'er County as well as the rehabilitation center equipment of Puer Federation of Handicapped People and the training center project of Puer Poverty Alleviation Office. The Company carried out phase II of the "Eternal Love & Eyesight Initiative", including CNY1.5 million donated to finance surgeries of 1,500 financially stressed cataract patients.

With a view to contributing to a harmonious society, Baosteel targeted its poverty alleviation efforts at securing adequate food and clothing for the absolutely poor and increasing earnings of low-income population. Poor villages were the main subject of aids. To promote village-wide development, priority was given to rural infrastructure, ecology and utilities. In 2009, poverty alleviation projects were aimed at:

1. Improving livelihood and production conditions in poor regions; Village-wide development included the water diversion project to provide access to drinking water; biogas, piggery and solar energy development, road surface pavement and electric power supply to improve living environment; the relocation project to provide better residential conditions for people originally residing in high-cold areas.
2. Industry support. Improving sustainability of development in less developed rural areas, supporting peasants there to grow tea, tobacco, sugar cane, walnut and other industrial crops, shifting from "transfusion" to "haemopoiesis".
3. Education support. Improving local educational conditions by financing educational infrastructures including school buildings, dining rooms and dormitories.
4. One-to-one educational assistance and the aid for needy undergraduate students to help them through school years.
5. Improving the educational level of local peasants. Building cultural centers to expand the educational and cultural dimension of villagers' lives; providing job and expertise training programs to help local residents increase their scientific and technological knowledge.
6. Supporting the disabled. 1,500 cataract patients financed by the "Eternal Love & Eyesight Initiative" improved their vision and recovered their ability to work.

Care for Employees Experiencing Hardships

Baosteel maintains a multi-tier, full dimensional and long-term employee aid mechanism covering livelihood, education and health care in accordance with the *Guidelines on Establishing and Improving the Long-term Employee Aid Mechanism and the Employee Aid Implementation Procedures*. The mechanism sets out four principles: "supplementary security, timeliness assistance; diverse funding, mutual help; following procedures, dynamic adjustments; combining centralization and decentralization, multi-level management".

Inspiration • Contribution

The “Inspiring Employees and Users” stories and initiatives were introduced to disseminating stories through website and speeches that demonstrated “Truth, Goodness and Beauty” in humans in respect of “serving employees, serving users”, thereby communicating the corporate culture of Baosteel.

The “Welcome the World Expo” program was organized in celebration of the World Expo 2010 Shanghai, China. The 5th day each month is set as the “Model Service Date”, on which every employee is required to provide receptions and services under the requirement of “standard and honest services”. The 15th day each month is set as the “Housekeeping Day”, on which the working staff of all manufacturing facilities are required to clean their areas in line with the grid-based environment management. The 25th day each month is set as the “Public Order Day”, on which employees are required to get on and off commuting buses in good order to demonstrate courtesies.

Many employees participated in a wide variety of “volunteer” programs or initiatives, such as youth volunteers, Beijing Olympics volunteers, Expo Shanghai volunteers, Wenchuan earthquake recovery volunteers and blood donation. More employees are providing voluntary services in their daily life and routine work, unknown to the public.

Donations • Sponsorships

In 2009, despite the difficult business environment and shrinking profit, the Company (including its branches and subsidiaries) made donations and sponsorships amounting to CNY38.8139 million, not lower than the 2008 level.

Donations and sponsorships made in 2009 were mainly for three purposes. The first was to construct the automatic environment monitoring station co-financed by Baosteel and Baoshan Government. The second was to finance poverty alleviation projects in Yunnan, one-to-one aid programs in Chongming Village, and poverty alleviation in Fenghua, Ningbo, amounting to CNY10.31 million. The third were donations to educational organizations and charities.

16

Environmental Protection

- ▶ Crisis • Responsibility • Reform
- ▶ Response to Global Warming and Reduction of CO₂ Emissions
- ▶ Environment and Energy Management
- ▶ Environment and Energy Solutions
- ▶ Environmental Protection Costs
- ▶ Environment Management Performance

Our goal is to build a global leading clean steelmaker.

Crisis • Responsibility • Reform

The financial crisis sweeping the world since the second half of 2008 dragged on the rapid growth of Baosteel that had continued for over 20 years. As a result, the company experienced a great hardship and broad contraction. However, farsighted leaders of the Company did not weaken the efforts dedicated to energy conservation and emission reduction or cut the spending on environmental protection. Under the Company's overall arrangements for crisis response and management reforms, the Company consolidated energy and environment management organizations in the first half of 2009. A new energy and environmental protection department was set up to provide broader energy and environment management. In the past year, the new management mode worked effectively to integrate energy management and environmental protection. Initial effectiveness of broader energy and environment management has appeared.

The Company included energy conservation and emission reduction in the four annual key objectives that were subject to tightened management. A dynamic energy and environment management system was established to introduce self-diagnosis of energy and environment management through audits on energy conservation and emission reduction. An energy efficiency management network featuring cascade management of "key energy efficiency factors" and "energy consumers" was established. Four energy conservation teams comprising employees with a professional background were set up. The supervision, assessment and continuous improvement system of environment protection facilities was improved; the cost effectiveness of environment protection facilities was studied; the coverage of the automatic environment monitoring and management system was continuously increased, with functions improved, to significantly boost the Company's capability of environment management; steel making units were all certified to ISO14001 for environment management. A professional team was established for resource reuse. Total-process review was conducted on sources of spent resources, classification of resources, disposal methods and reuse processes. A lean management system for resource reuse was set up under the total logistics control mode. The resource reuse management system phase I project was completed using computer and information technologies. It is the first computer-aided management system for resource reuse, providing a strong support for lean, efficient management of waste resources.

To fight global warming and keep the Company competitive sustainably, Baosteel fully follows the Group's new philosophy of "environment management" to actively review and plan energy conservation and carbon reduction projects, develop low-carbon development roadmaps for high-carbon sectors, and embrace challenges posed by the "low-carbon economy" era.

Response to Global Warming and Reduction of CO₂ Emissions

As major sources of CO₂ emissions, steelmakers discharged about 4-5% of global emissions. The State has included response to global warming in the national program for economic and social development, which is aimed at significantly reducing CO₂ emissions per unit of GDP by 2020 as compared with 2005 and increasing the percentage of non-fossil energy to about 15% in primary energy consumed. Thus steelmakers are facing with a big pressure of carbon emission reduction in response to global warming.

Baosteel has been paying particular attention to global warming and CO₂ emission reduction since the end of the last century. Increasing energy and resource efficiency and reducing fossil energy consumption are always the major direction of Baosteel efforts to fight global climate change. Taking into account circumstances of the country and the steel industries, the Company is dedicated to applying advanced processes, technologies and equipment; substituting efficient and clean energy; implementing energy conservation and emission reduction measures; conducting researches on recovery, absorption and solidification of CO₂; conducting research and basic management of CO₂ emission data; participating in CDM and the Asia-Pacific Partnership on Clean Development and Climate (APP). The Company has made significant contributions to CO₂ emission reduction.

As the national objectives on climate change response have been published, Baosteel will further reinforce its management of climate change response and CO₂ emission reduction at the level of corporate strategy. The Company has laid down the low-carbon development strategy in the new development plan and will conduct statistics and management of CO₂ emission data, carry out R&D of low-carbon processes and technologies, use green energy, and further promotion of advanced energy conservation and emission reduction technologies, thereby making further contributing to easing global warming and reducing CO₂ emissions.

Environment and Energy Management

1. Management Policy

- (1) Fully observe national laws, regulations and standards governing energy conservation and environmental protection, and perform international environmental conventions;
- (2) Apply more stringent internal control standards, continuously reduce energy consumption and environmental impact on production and use of products;
- (3) Improve production processes, optimize energy structure, reduce energy consumption and cut energy cost;
- (4) Alter 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;
- (5) Reduce consumption of wastes, reuse and turn wastes to resources, improve the recycling rate in production;
- (6) Respect opinions and requirements of stakeholders, continuously improve environmental quality of communities;
- (7) Promote continuous improvement of partners in energy conservation and environmental protection management and performance;
- (8) Pay due attention to weather changes, actively participate in domestic and international communications and co-operation in energy conservation and environmental protection, push forward R&D and promotion of energy conservation and environmental protection technology, and improve ecological environment; and
- (9) Increase employees' awareness and capability of and involve all employees in energy conservation and environmental protection.

2. Management Framework and Responsibility

The Company set up the Environment Protection and Resource Utilization Committee responsible for developing the Company's policy on environmental protection and resource utilization; directing, studying and defining the development plans and programs for environmental protection and resource utilization; coordinating resource allocation among branches, subsidiaries and divisions; and making decisions on major projects of environmental protection and resource utilization.

Branches, subsidiaries and divisions have their respective management committees and bodies taking charge of environment and energy management in accordance with ISO14001, the *Management System for Energy - Requirements* (GB/T23331-2009) and other national standards, laws and regulations.

3. Environment Management System

In 1998, Baosteel was certified to ISO14001 for environment management, the first in the steel industry of China. Thereafter, the Company has continuously reinforced environment management by promoting certification to ISO14001 within the companies acquired in recent years. Currently, all steelmaking units of the Company have been certified to ISO14001 for environment management.



16

Environmental Protection

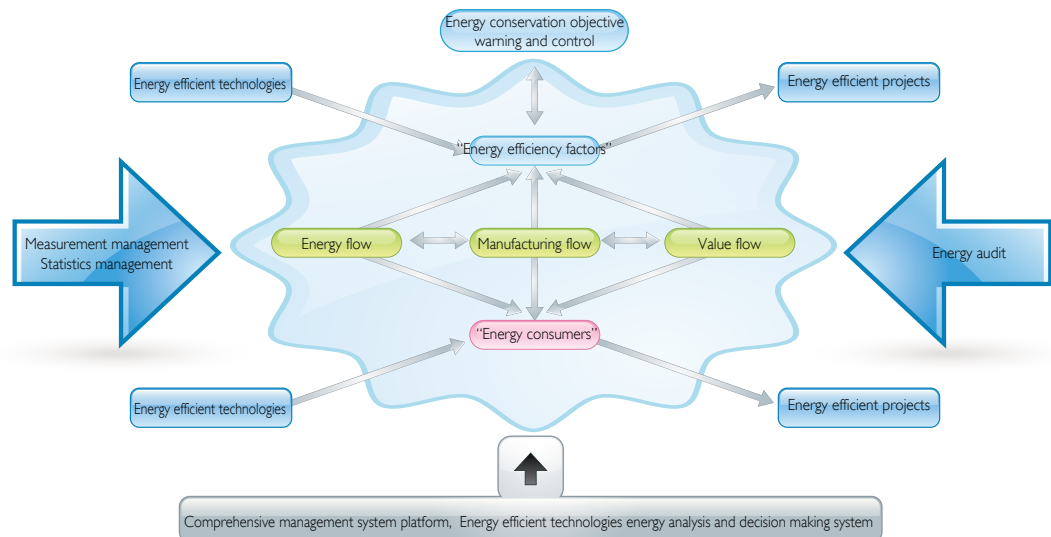
- ▶ Crisis • Responsibility • Reform
- ▶ Response to Global Warning and Reduction of Co₂ Emissions
- ▶ Environment and Energy Management
- ▶ Environment and Energy Solutions
- ▶ Environmental Protection Costs
- ▶ Environment Management Performance

4. Energy Management System

The Company's energy management has lasted for over 20 years since Baosteel started operation. The Company has made marked progresses in the security of energy production and supply, the management of energy demand and supply, the dissemination of energy efficient technologies and energy measures, and accumulated managerial skills and experience. Energy management, as a crucial part of Baosteel management, provides a strong support for development and continuous improvement of Baosteel. In recent years, Baosteel has furthered energy management and reinforced control of energy, material and value flows as well as equipment condition in line with the nationwide situation of energy conservation and emission reduction. Overall, the energy management system of Baosteel meets the *Management System for Energy - Requirements* (GB/T23331-2009) issued by the State and even exceeded the national standard in respect of the management breadth and depth.

The energy management system of Baosteel consists of six relatively independent functional modules falling at two levels. There are five modules at the corporate level: the energy conservation objective warning and control module, the energy efficiency factor identification and control module, the energy measurement and statistics management module, the energy audit module, and the energy efficient technology and project management module. There is one module at the secondary level: the energy consumption identification and control module. The six modules support and interact with each other to ensure the increase in energy efficiency and the accomplishment of energy conservation objectives of the Company.

Baosteel Energy Management System Architecture



5. Energy and Environment Education and Training

In 2009, the Company carried out energy conservation and environment management training in line with the needs of energy conservation and emission reduction, environment management as well as the development of the energy and environment management team. Training was focused on further development of energy management technologies; application of energy efficient and environment-friendly technologies; development of byproduct utilization; increase in the social responsibility awareness and enhancement of employee capabilities. Training was provided in the forms of classroom teaching, lectures, salons and site visits. In the year, 13 classroom teaching programs and 16 training sessions were completed, involving 889 trainees.

Energy Manager Qualification Training

The Company plans to provide energy managers at all levels with comprehensive, systematic qualification training for two years, so as to introduce a disciplined approach to developing the energy management team of the Company, enhancing expertise and skills of energy managers, increasing efficiency at lower cost and improving the energy management capability. The training takes the forms of lecturing, thematic discussions, onsite communication and hands-on practice. In the year, four training sessions were provided for 198 trainees. Another two sessions covering 100 trainees have been planned for 2010. During the implementation of the training, 14 curricula were developed. Training resources included curriculum outlines, textbooks and exercises, instructions, trainers and test library. The training process control and assessment procedures were developed, laying a solid foundation for similar trainings within Baosteel Group and the nationwide steel industry.

Environment and Energy Solutions

We have paid due attention to energy and environment problems arising from the steel making process and provide the most effective solutions. We have been carrying out green design using the total-life-cycle environment impact assessment method; we have been carrying out green procurement focusing on production and transportation processes of raw materials; we have been promoting clean processes and technologies for our production and operation activities; we are committed to providing users with environment-friendly products and value added services and communicating the philosophy of green consumption to users; we have been encouraging green packaging and logistics; we have been placing emphasis on overall advancement of the industry and disseminating advanced management methods, processes, technologies and equipment of Baosteel via its industry channels; we have been caring for employees and adjacent residents and endeavoring to create harmonious living and working environments.

Green Operation Roadmap of Baosteel



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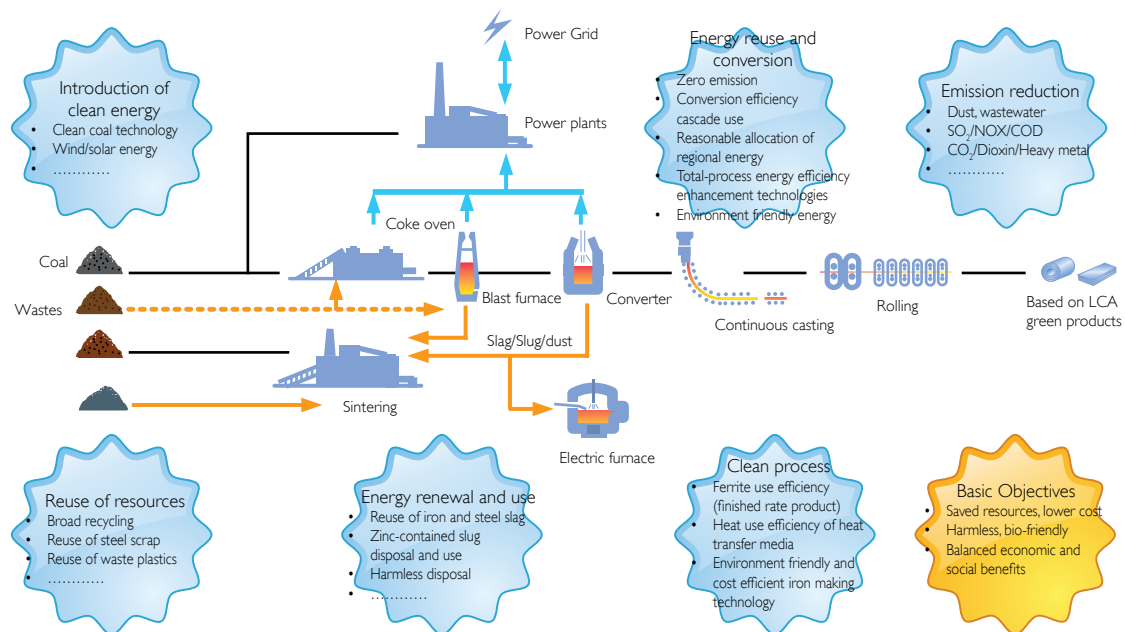
Environmental Protection

Crisis • Responsibility • Reform
 Response to Global Warming and Reduction of CO₂ Emissions
 Environment and Energy Management
 ▶ Environment and Energy Solutions
 Environmental Protection Costs
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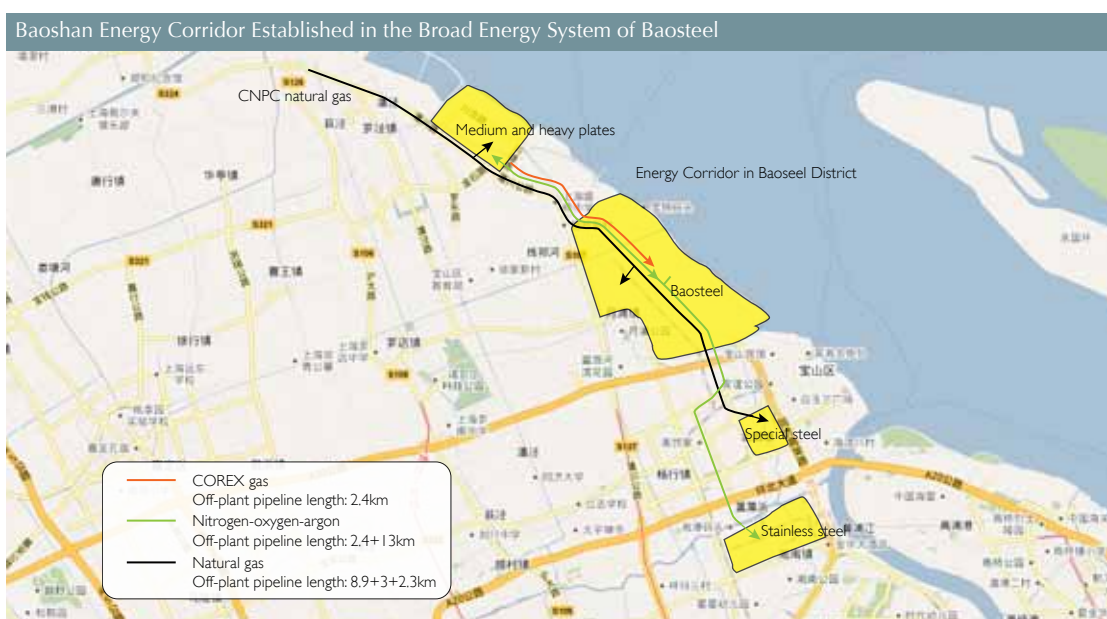
1. Developing the Recycling Economy

Developing the recycling economy is a crucial approach to energy conservation and emission reduction. The State has issued a spectrum of policies encouraging development of the recycling economy in recent years. Attaching consistent importance to the recycling economy since its inception, Baosteel was identified by the State as a pilot enterprise for the recycling economy. The Company arranged production management based energy and material flows in the production process and created a recycling economy mode based on recycling of energy and material flows, thereby diversifying the business functions.

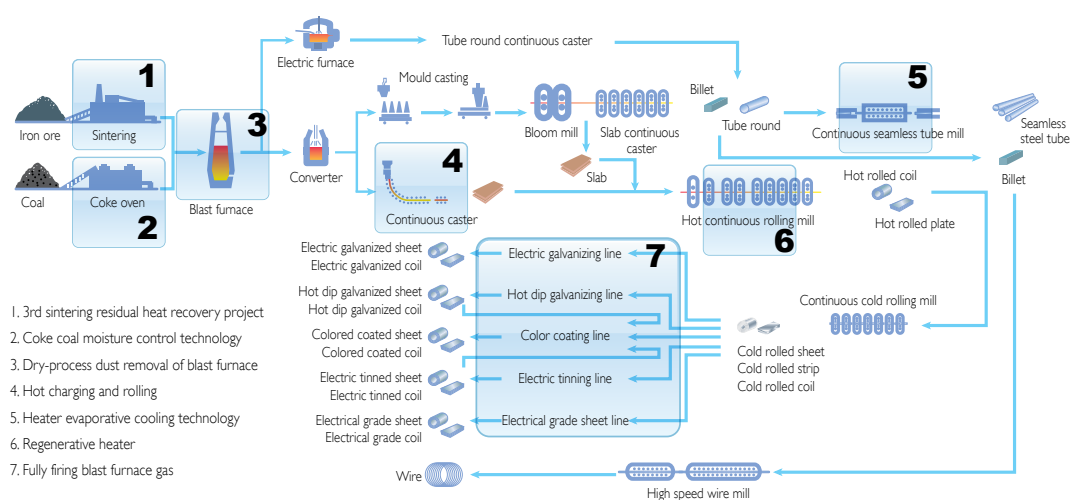
Baoshan Energy Corridor Established in the Broad Energy System of Baosteel



The Company has created a broad energy system and established an energy corridor for Baoshan District as its production units are concentrated in this district. Supply of energy media is well coordinated between production units to ensure that energy is utilized in the broad energy system at the highest efficiency with the best economic benefits. The figure below shows the Baoshan energy corridor; which was put into service in 2009 and will be further improved in the future.



The Company recycles residual heat from the flue gas of industrial furnaces, heat from red coke and residual pressure from blast furnace gas. Energy efficient technologies have been disseminated. The figure below illustrates main energy efficient technologies applied in recent years.



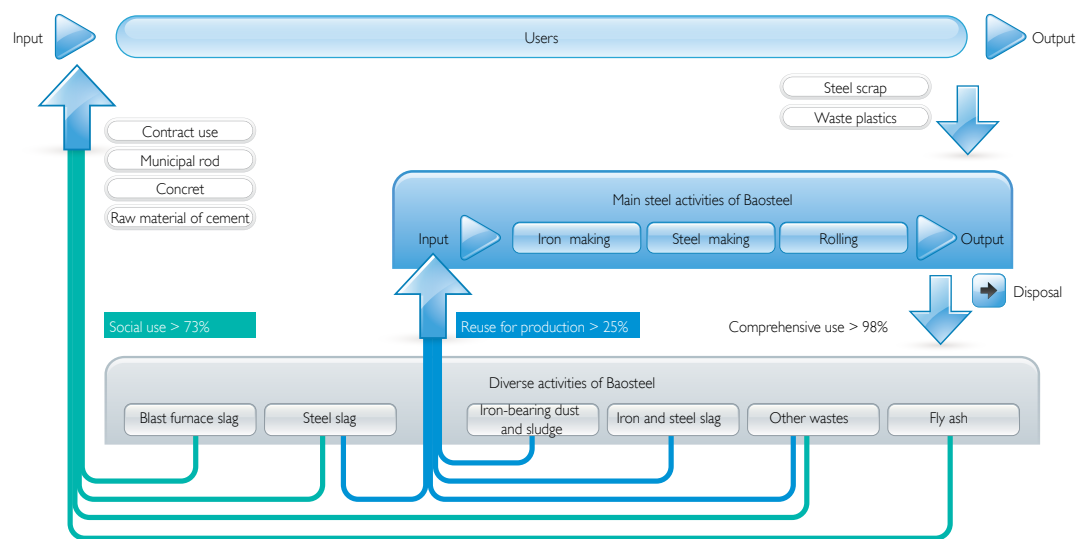
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Environmental Protection

Crisis • Responsibility • Reform
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 ▶ Environment and Energy Solutions
 Environmental Protection Costs
 Environment Management Performance

The Company utilizes secondary resources generated in the iron and steel making process, illustrated in the figure below. With the utilization ratio of secondary resources kept above 98%, the Company has been continuously increasing the percentage of the secondary resources reused for production, with over 25% recycled. In 2009, the Company established the solid waste management system under the total-logistics management mode and completed the first computer-aided resource reuse system (Phase I) using the computer information technology, providing a strong support for digital and IT-based management of resource reuse.

Reuse of Resources at Baosteel



The Company has been consistently reinforcing management of the reuse of spent resources and spares. For convenient recycling, wastes and spent resources are grouped into 55 categories, including zinc slag, spent oil, cable scrap, belt scrap, waste tyres, used containers and copper scrap. Spent spares are grouped into 47 categories, including abandoned rollers, plug scrap, waste grate bars, abandoned core rods, waste bearing and abandoned motors. Recycling partners are required to promptly recover spent resources and spares derived from normal production, regular maintenance and emergent repairs and classify spent resources and spares recovered, thereby maximizing their reuse in new environments. In 2009, about 23,750t of spent resources and spare parts were recovered.

2. Stable Investments in Environment Protection, Full-scale Clean Production

In 2009, the Company ensured stable investments in energy conservation and environmental protection amid the ongoing financial crisis. 45 key environment friendly technical revamp projects were carried out in the year, of which 29 were completed and put into service. The first steel-making dust removal expansion project, the third environment-friendly hot rolling upgrading project, the Meisteel sinter flue gas desulfurization project and the cyanogen wastewater system upgrading project were successively put into service. In the three-year action plan of Shanghai Municipality and Baoshan District, the Company undertook 29 environmental protection projects, of which 13 were completed, including the additional flue gas desulfurization unit for the third boiler of the power plant, the acid regeneration mill upgrading (acid mist control) of the cold rolled sheet plant, and upgrading of the dust removal facilities for stainless steel blast furnace and sintering. In addition, Baosteel donated the "Baoshan District Environment Monitoring System", fully demonstrating its proactive performance of social responsibility.

In recent years, the Company spent heavily in establishing the automatic environment monitoring and management system. In 2009, the automatic environment monitoring and management system of Baosteel extended its coverage to manufacturing facilities directly managed by the Company, Stainless Steel Business Unit, Special Steel Business Unit, the chemical company, Medium and Heavy Plate Branch and Meisteel. All major sources of pollutants were monitored. Site environment monitoring and online analysis of environment data have been realized. Part of signals have been linked to the governmental environment monitoring system. The Company's capacity of basic environment management has been significantly enhanced.

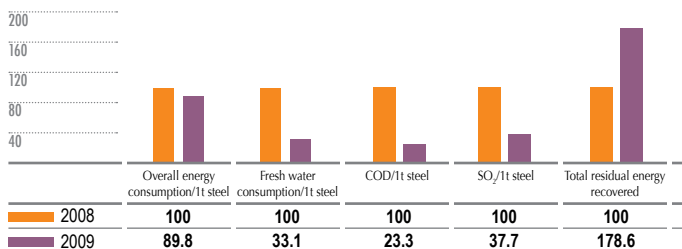


▲ The No. 4 sintering flue gas desulfurization unit of Meisteel employing the dry process - circulating fluidized bed was commissioned at the end of July 2009, with a desulfurization efficiency $\geq 90\%$ and a 6,000 t/y reduction of SO_2 emissions.

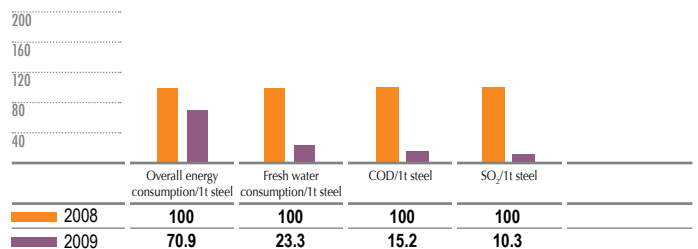
3. Upgrading

Enterprises acquired in 2005 were upgraded extensively to eliminate outdated capacities and ensure adequate investment in energy conservation and emission reduction. In recent years, these production units have been improving their energy and environment indicators continuously.

Stainless Steel Business Unit (%)

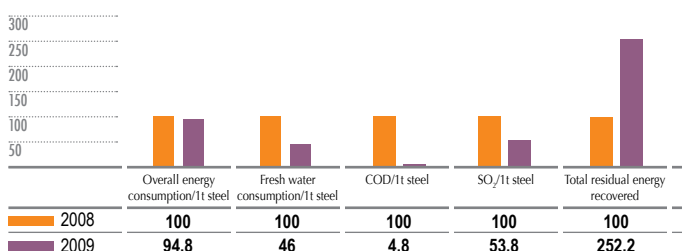


Special Steel Business Unit (%)



Note: Water consumption of Special Steel Division in 2009 included data from the precision tube plant

Meisteel (%)



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4. R&D of Energy-efficient and Emission Reduction Technologies

→ Dioxin data collection technology

Baosteel undertook the *Technological Development and Model Project of the Dioxin-like Pollutant Control*, a key project included in the national "11th Five-Year Plan". Outcomes of the project include a dioxin data collection method suitable for non-vertical flues in the sintering process, which has been put into service for over one year at the three existing flue gas desulphurization units of the Company, with all indicators complying with preset requirements. The Ministry of Environmental Protection highly recognized that achievement stating that "the development, construction and operation of Baosteel's sinter flue gas desulphurization technology have provided a valuable experience for domestic steelmakers".

→ Disposal of molten slag by rotary drums

The disposal of molten slag by rotary drums, as the outcome of ten-year researches, enables reuse of slag from converters, electric furnaces and ladles and leads to the formation of relevant sectors. Products employing the technology have evolved to the fourth generation and been exported to over ten domestic steelmakers as well as international steelmakers in, for example, India and South Korea.



→ Sinter flue gas desulphurization package technology

The XPB sinter flue gas desulphurization package technology developed by Baosteel Research Institute has been successfully applied to the FGD units of the Company's three major sintering systems. Since their successive launch between March and October 2008, these units have been run in parallel with sintering units to deliver a FGD efficiency of above 90% and dust removal efficiency of over 85%. In addition, they also show a good efficiency when removing other gas contaminants. According to measured results, the removal efficiency is 50% for SO₂, 80% for HCl, 90% for HF and 60% for dioxins.

→ New coal blending technology

Five new types of coals were developed for blending. The overall coal blending structure was optimized to reduce blending cost. Productivity was increased by 5%, benefiting from thick-layer research (750mm) and additive-aided sintering research. In combination with the coal moisture control upgrading project, the coking process was optimized to bring down the moisture content of incoming coal by 2.7%, increasing the single-oven coal charging capacity by 0.28t, reducing BFG unit consumption by 1.66% and COG unit consumption by 14.61%. Thanks to the project, the annual coke output could be increased by 18,000t.



⧗ 1.3 million Nm³/h desulphurization project of iron works



⧗ 890,000 Nm³/h desulphurization project of the Stainless Steel Division

→ Steel product LCA research

The project mainly included life cycle assessment (LCA) of Baosteel products, LCA-based environment decision making methods and case studies, and energy efficiency analysis of processes. In the project, the Baosteel product LCA assessment methodologies were developed in line with circumstances of the Company, based on which the matrix-based product life cycle model was established. Baosteel product LCA software was developed using that model. With the software, the life-cycle environmental loads of Baosteel products in 2005 and 2007 were determined quantitatively, explicitly reflecting Baosteel production processes' impact and contribution to the environmental performance of products and helping identify the direction of development. A LCA-based environment decision making platform was established. Eight case studies were conducted, including comparison of environmental performance between the blast furnace-converter process and the electric furnace process; LCA assessment of different converter slag disposal systems; and the product mix optimization taking into account environmental benefits. By creating a virtual plant model for each working procedure of Baosteel, the energy efficiency analysis is to acquire data on the latest, best technologies available in the steel industry worldwide for the relevant working procedure of Baosteel, determine Baosteel's position in the world steel industry in respect of main working procedures and identify the direction of future energy conservation efforts, and propose improvements in energy conservation in working procedures.

In 2009, the Company also significantly improved the heat transmission ratio of continuous casting machines by developing high-speed protective powder and studying the electromagnetic metallurgy technologies and the dynamic soft reduction control model. Progresses have been made in the development of the protective powder for die casting of heavy plates, the development of wet ejection, the recovery of sinter residual heat and the integrated flue gas control, the harmless disposal of heavy metal sludge from stainless steel cold rolling and the recovery of valuable metal, the establishment of the research and the assessment system for heat accumulators for regenerative combustion, the research on the water intake quality assessment and the pretreatment technology for the Zhanjiang sea water desalination project of Baosteel, and the research on the performance test of castable refractory containing CaO.



5. Embracing World Expo Shanghai

Baosteel is a recommended attraction for the industrial tourism of World Expo Shanghai, and also a global partner of World Expo Shanghai. As an enterprise in an energy- and pollution-intensive industry and located in Shanghai, Baosteel will do its best to embrace World Expo Shanghai. To this end, the Company prepared the *"Welcome World Expo" Environment Protection Plan*, established an organizational system and liaison mechanism, developed specific measures for control of key pollutant sources, afforestation and emergency response and exerted every effort to implement these measures.

Baosteel will welcome friends from every corner of the world with the best-in-class performance, good environment, safety travel and warm services.

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Environmental Protection Costs

The environmental protection costs refer to the cost of taking or being requested to take actions to manage the environmental impact of corporate activities and any other cost of meeting environmental objectives and requirements. The Company started calculation and analysis of environmental protect costs since 2003, with continuous improvements made in the environmental protection cost system. In 2009, the composition of the Company's environmental protection costs were shown in the table below, grouped into expenses and capital expenditure that amounted to CNY3,072 million and CNY975 million respectively.

Category of environment protection cost	Item
Expenses	Pollutant discharge fee
	System auditing fee
	Environment monitoring fee
	Facility operation expense
	EP facility depreciation
	EP labor cost
	Hazardous material transport cost
	Greening charge
	Solid waste disposal charge
	Investment in environment improvement of new projects, alterations and expansions
	Environmental R&D cost
	Others
Capital expenditure	Investment in eco-friendly revamp of new projects, alterations and expansions
	Investment in "three simultaneous" auxiliary environmental protection projects

Environment Management Performance

1. Consumption Materials

Consumption of Main Resources in 2009

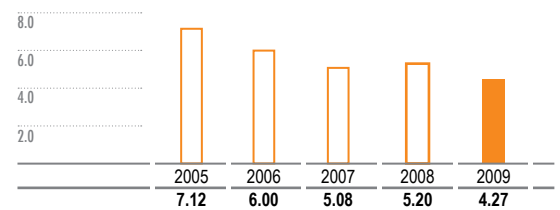
Type of resource	Unit	Amount consumed
Iron ore and finished ore	10,000 ton	2974
Coal	10,000 ton	1540
Steel scrap	10,000 ton	499
Natural gas	100 million m ³	3.46
Purchased electricity	100 million kWh	64.09
Raw water	100 million m ³	1.02

2. Energy Management Indicators

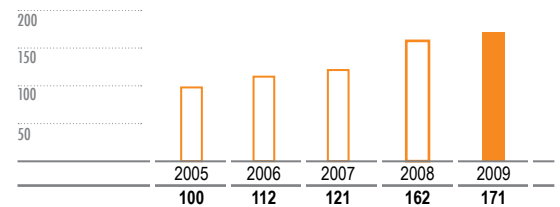
With expanding capacity, extending product line and broadening range of products, the Company has made continuous improvements in energy and fresh water consumption indicators since it started operation, benefiting from reinforced energy management and energy efficient technologies. The recovery of residual energy increased over years. Despite the failure to arrange production in accordance with the annual plan in the second half of 2008 and the first quarter of 2009 as a result of the financial crisis, which caused fluctuations in energy consumption indicators, the Company still made significant improvements in energy consumption indicators in 2009 as compared with 2008.

In 2009, the broad energy system created marked benefits. The blast furnace gas (BFG) emission rate and average monthly emission rate of COREX gas were kept below 1%. In particular, COREX gas emission rate was down 64.0% from the 2008 level. The converter gas recovery per ton of steel stabilized at 100m³. Oxygen emission rate fell by 44.0% from 2008. The broad energy system generated CNY148 million in synergetic benefits through the year.

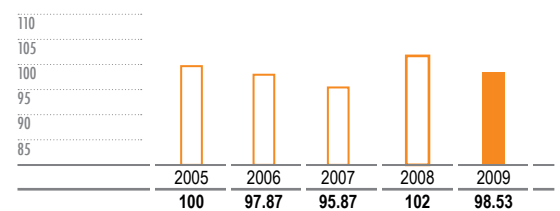
Fresh water consumed per ton of steel (t/t-s)



Total residual energy recovered (%)



Overall energy consumed per ton of steel (%)



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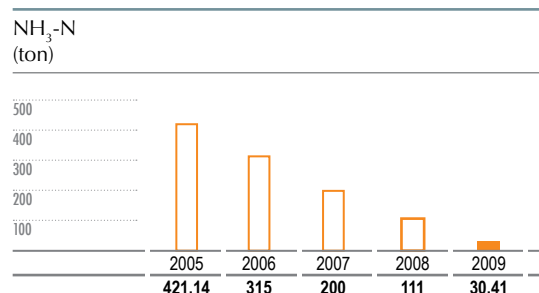
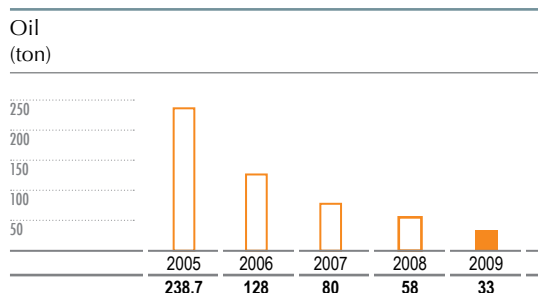
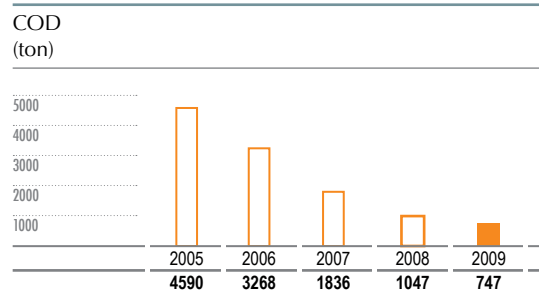
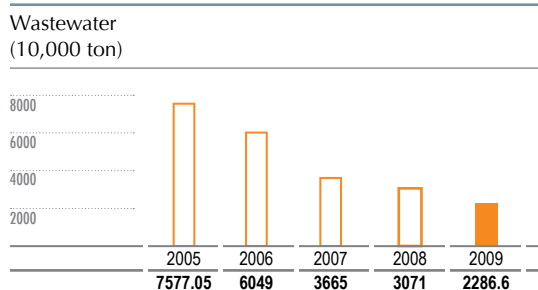
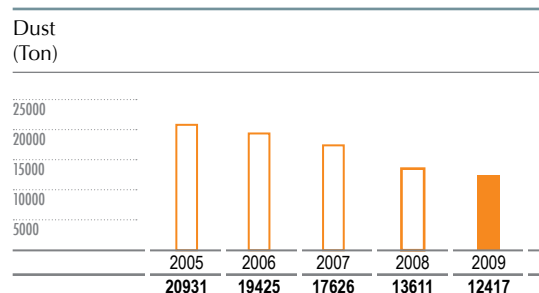
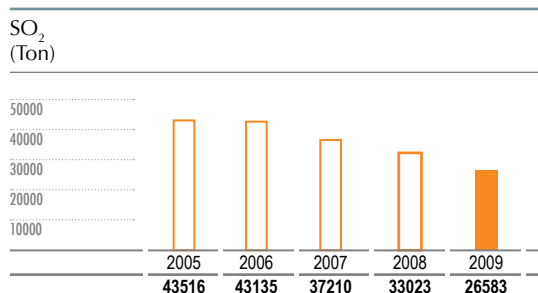
Environmental Protection

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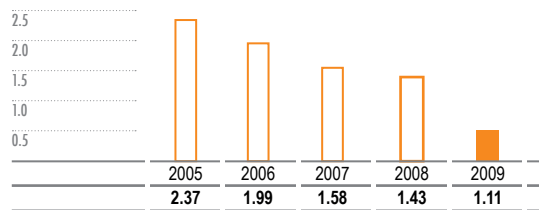
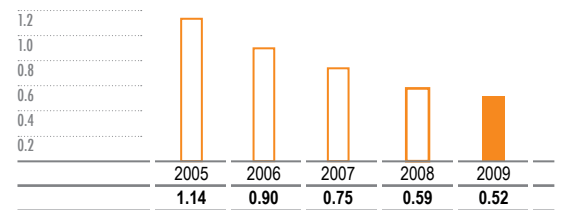
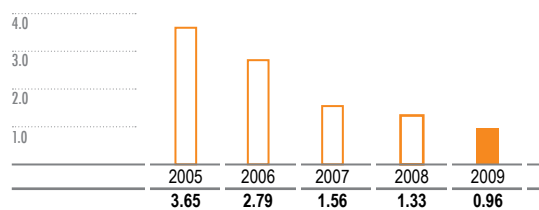
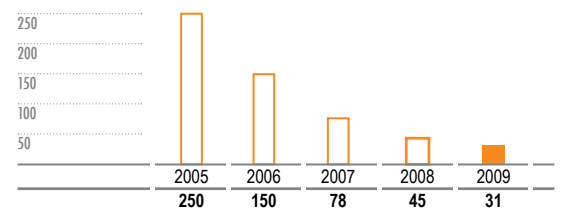
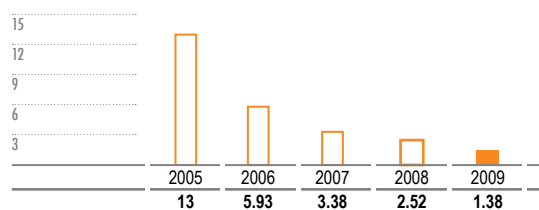
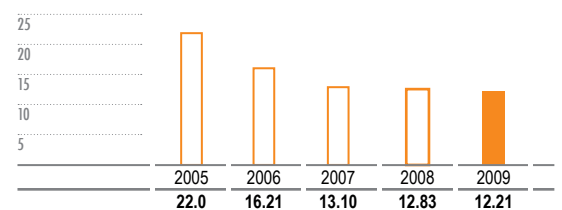
3. Total Emissions Control Indicators

Overall, the Company recorded the best environmental indicators in 2009 since it started operation. Compared with 2008, pollutant emissions as a major measure of plant conditions and community environment quality fell by 17.46%. Specifically, SO₂ emission was down by 19.5%, COD emission down by 28.6%, dust emission down by 8.8%, wastewater discharge down by 25.5% and plant area dust deposition down by 4.8%.

Schedule of Total Pollutant Discharges of Baosteel in the Past Five Years

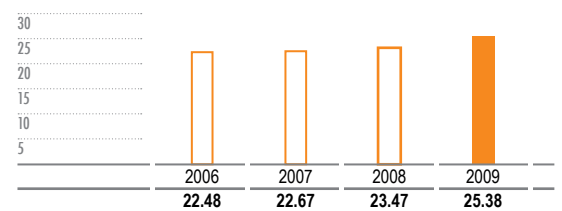


Schedule of Pollutant Discharge Level of Baosteel in the Past Five Years

SO₂
(kg/t-s)Dust
(kg/t-s)Wastewater
(t/t-s)COD
(g/t-s)Oil
(kg/t-s)Atmospheric dust deposition in plant area
(t/km²•month)

4. Secondary Resource Utilization Management Indicators

In 2009, the Company exerted the strongest efforts ever to promote utilization of secondary resources. The Company set up a professional team to review and standardize the entire process including origins of secondary resources, categorization of secondary resources, disposal methods and in-depth utilization process, and leveraged the computer-aided resource utilization system established in the year to carry out efficient management, providing strong supports for cost-efficiency enhancement. Reuse of secondary resources created CNY1.239 billion worth of benefits.

Recycling production utilization rate
(%)

Solid Secondary Resources Generated by Baosteel in 2009 (10,000 ton)

Item	Industrial solid wastes	Blast furnace slag	Steel slag	Furnace slag and fly ash	Iron-containing dust slime	Hazardous waste	Others
Quantity generated	1492	571	457	46	196	6	215

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Operating Results

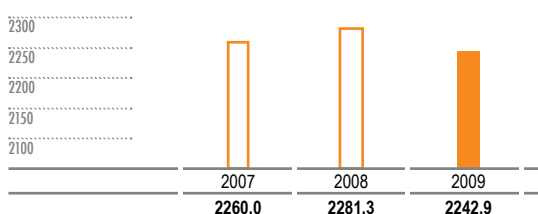
- ▶ Economic Value Created and Distributed
Indirect Economic Impact

Economic Value Created and Distributed

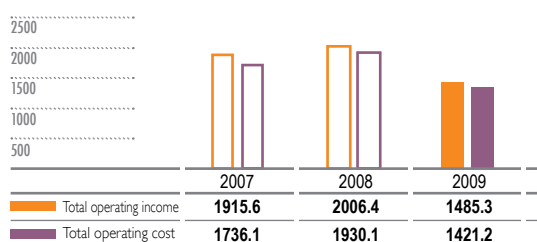
1. Operating Income and Operating Cost

In 2009, the Company placed emphasis on product management, cost improvement, management reform and system capacity enhancement. All employees were mobilized to weather challenges and difficulties by seizing opportunities offered by the economic stimulus package of the State. In the year, 22.429 million tons of commodity billets were sold and CNY148.53 billion of total operating income was generated, meeting the targets preset early in the year.

Sales volume of commodity billets
(10,000 ton)



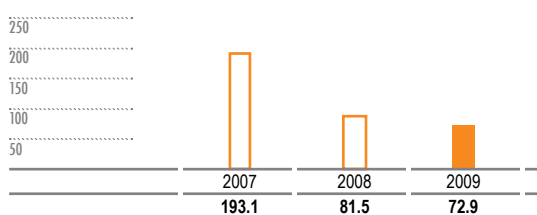
Total operating income and total operating cost
(CNY100 million)



2. Profit

In 2009, the Company fully implemented key tasks identified early in the year amid the international financial crisis. It managed to overcome adverse effects of the sharp decline in average product prices to generate a gross profit of CNY7.29 billion for the year.

Gross profit
(CNY100 million)



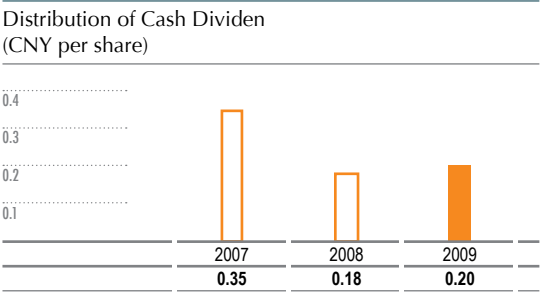
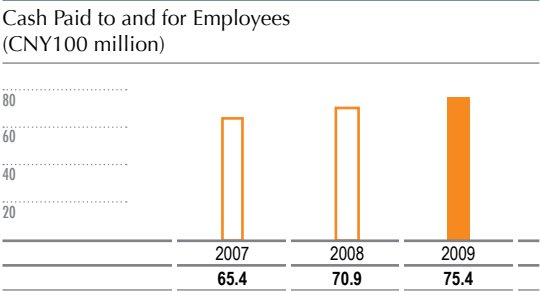
3. Compensation of Employees

In 2009, the Company paid CNY7.54 billion in cash to and for employees.

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: recovery of losses, statutory reserve, discretionary reserve, and common share dividend. The statutory reserve equals to 10% of the Company's after-tax profit, subject to a maximum accumulated amount equal to 50% of the Company's registered capital. In accordance with national laws, administrative regulations and the Company's operating results and development needs, the plan for allocation of discretionary reserve and distribution of common share dividend will be developed and submitted to the shareholders' general meeting for approval. The Company shall not distribute any dividend before the loss is recovered and the statutory reserve is set aside.

In 2009, the Company produced CNY5.816 billion in consolidated net profit attributable to parent company. 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 CNY0.20 (pre-tax) per share for 2009 in accordance with the *Company Law* and the *Articles of Association of Baoshan Iron & Steel Co., Ltd.*



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Operating Results

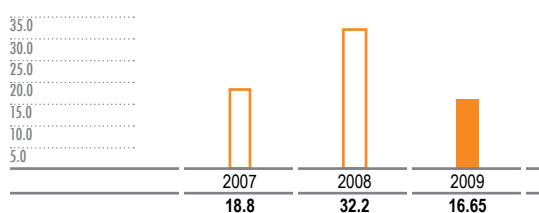
- ▶ Economic Value Created and Distributed
- ▶ Indirect Economic Impact

5. Capital Suppliers

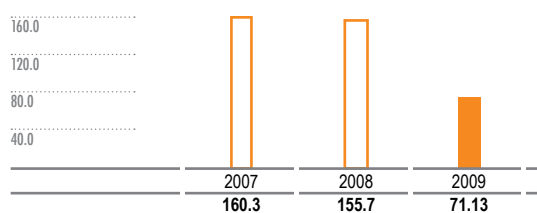
The Company pushed for optimization of debt structure in proactive response to changes in the financial environment. Backed by its strong credit standing, the Company obtained cheap funds through direct financing in the inter-bank market. In 2009, the Company successfully registered CNY10 billion medium-term notes and CNY10 billion short-term financing bills. The CNY10 billion medium-term notes were issued for a maturity of three years at a coupon rate of 2.66%. In addition, the Company adjusted the currency and maturity structures of debts in line with exchange rate movements. In 2009 when the USD interest rate was at its historical low, the Company expanded its USD liabilities to cut financing cost and established a risk warning mechanism to follow up interest and exchange rates. In addition, trade chain finance was leveraged. The Company tapped into trade chain finance resources through optimizing settlement modes and exerted synergistic effects with subsidiaries to obtain equally preferential credit terms and conditions.

Partnering financial institutions were selected based on their credit standing, business strengths and market reputation. Relations with financial institutions were coordinated at an overall level. 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.

Interest Expenditure
(CNY100 million)



Taxes paid
(CNY100 million)



6. Taxes

6.1 Taxes paid in 2009

Repaying the society with integrity and good operating results, the Company paid CNY7.113 billion of taxes in 2009. The good tax-paying performance won the Company the "Shanghai Class 'A' Taxpayers" for consecutive years.

6.2 Tax deductions and exemptions

The Company strictly observed tax laws and regulations of the State and reasonably utilized preferential policies. The tax reduction and exemption of the Company in 2009 were described below:

- Covered by the preferential policy on corporate income tax of comprehensive resource utilization projects, CNY17 million of corporate income tax was exempted in 2008 and CNY15 million exempted in 2009.
- Covered by the R&D cost deduction policy, the CNY220 million of corporate income tax was deducted in 2008 and CNY250 deducted in 2009.
- Covered by the policy on deduction of special equipment investment from corporate income tax, CNY40 million of corporate income tax was deducted in 2008 and about CNY50 million deducted in 2009.
- Covered by the tax refund policy for high-tech achievement commercialization project, CNY95 million of taxes were refunded in 2008 and CNY98 million refunded in 2009.

Indirect Economic Impact

1. Significant Indirect Economic Impact

In 2009, the Company has no indirect economic impacts including major actions, arbitrations, asset acquisition or sale or merger by absorption.

However, the financial crisis sweeping the world after the second half of 2008 has imposed a huge impact on the operations of the Company. Despite its best-in-the-industry results in 2009, the Company saw a marked decline in its profit as the entire industry suffered from an “increased output with shrunk profit” situation.

The international iron ore monopoly has seriously threatened and will continue to threaten the development of the global steel industry. It may directly result in elevated production cost of Chinese steelmakers, including Baosteel.

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, which has brought and will continue to bring indirectly effects on the operations of the Company.

2. Risks Facing Baosteel

The impact of the global financial crisis remains in the domestic steel industry and the ever-changing complicated market conditions pose many uncertainties to the Company. Either the overall overcapacity or the overcapacity of some specific steel products will remain unchanged in the domestic steel industry. Competition will become increasingly more intense due to duplicated efforts across the industry.

The Company’s operating cost will rise continuously as a result of ongoing price inflation of ores, energy, steel scrap, water and other resources as well as rising environmental management costs, including pollutant discharge fee, operation and maintenance costs of environmental protection facilities, fueled by the environmental tax reform that may result in the emergence of environmental or carbon tax in the immediate future.

All sectors of the society have increasingly voiced their concerns over corporate social responsibility. That represents a social progress. It shall be incumbent on business entities to perform their social responsibility in line with their social status and industry characteristics. Baosteel is consistently dedicated to fulfilling its social responsibility. On the other hand, for either Baosteel or its stakeholders, corporate social responsibility will evolve with times to a greater depth and breadth. As shown by Baosteel practice, fulfilling corporate social responsibility is an inevitable approach to sustainable development and will eventually produce positive return to enterprises. However, there is no doubt that, in the short term, performing social responsibility will cause temporary and immediate rise in the operating cost. Thus Baosteel will endeavor to strike a balance between long-term benefits and short-term cost rise.

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Operating Results

▶ Economic Value Created and Distributed
Indirect Economic Impact

3. Opportunities

The Company is well aware of the fact that energy conservation and emission reduction have become a worldwide trend and low-carbon development is a global consensus, with no exceptions to any country or enterprise. In such a context, the steel industry will be set to undergo reforms, and the first mover will outdistance its competitors quickly. Baosteel will take a variety of measures to minimize adverse environmental effects of its steel making activities, cut energy consumption and cost in various ways, extend its technological leadership to more areas through developing energy efficient and environment-friendly products and increasing efficiency of materials, and sharpen its competitive edge in the new steel era by creating a new “environment management” system of Baosteel.

Steel is present everywhere in our daily life. In the world, steel output exceeds the total of all other metals. Steel is an essential part of life that supports our traffic, house, water and food supply as well as energy renewal. Steel is unrivaled in its unique strength, formability and multi-functionality. Steel materials can meet human needs with the lowest weight. These needs require a strong structure to provide strength assurance. To date, there is no alternative material for steel. In many occasions, using non-steel materials to provide the same functions as steel can mean more emissions of pollutants and carbon. That is the most important characteristic of steel materials in respect of environmental protection. Moreover, steel materials are reusable and recyclable, which are not found in many other materials and represent another environment friendly characteristic of steel materials.

Maximum steel recovery, sharing of existing technologies and best practices and breakthroughs in new technologies are the three major steps to energy conservation and emission reduction in the steel industry. In addition to solutions available within the steel industry, Energy conservation and emission reduction also require cross-industry solutions that involve full use of steelmaking byproducts and increase in the efficiency of steel products. The foregoing five steps constitute the major elements of steelmakers’ environment management. Application of byproducts in other industries and increase in the efficiency of steel products do not show their emission reduction effects directly in the steelmaking process, but show their effects in other industries. In the LCA analysis, the use of products is more important than their production stage in respect of CO₂ emissions. Steel products are widely applied in all parts of the national economy. To attain broader energy conservation and emission reduction, it is advisable to focus on the use of steel products, for it also implies market opportunities. Manufacturers in all economic areas are faced with the challenge of reducing greenhouse gas emissions. Steel offers a spectrum of solutions, including selection of steel purposes, substituting steel for other materials and choosing new, advanced, energy efficient products, such as high-strength steel.

That is the most important opportunity for Baosteel.



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Appendices

▶ Profile of the Company and Main Affiliates

Profile of the Company and Main Affiliates

1. Baosteel

Baoshan Iron & Steel Co., Ltd. (shortened as “Baosteel” or “the Company” in this report) 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 Japanese JIS certificate, passed QS 9000 certification by GM, Ford, Kreiser 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 equipment, 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. The Company is one of the first “National Environment-friendly Enterprises”, “Cleaner Production and Environment Friendly Enterprises” in the Chinese steel industry, and the “China Green Companies”.

2. 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 31 December 2009, the Company had a 74.01% interest in Meisteel, and Meisteel had a registered capital of CNY6.26 billion.

Assets and profit: As of 31 December 2009, Meisteel had total assets of CNY23.84 billion and net assets of CNY11.05 billion, and generated a net profit of CNY-450 million this year.

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

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

Shortened as Ningbo Baoxin in this report.

Registered capital and interest held: As of 31 December 2009, the Company had a 54% interest in Ningbo Baoxin, and Ningbo Baoxin had a registered capital of CNY2.85 billion.

Assets and profit: As of 31 December 2009, Ningbo Baoxin had total assets of CNY6.59 billion and net assets of CNY2.18 billion, and generated a net profit of CNY240 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 31 December 2009, the Company had a 50% interest in Baosteel Nippon, and Baosteel Nippon had a registered capital of CNY3 billion.

Assets and profit: As of 31 December 2009, Baosteel Nippon had total assets of CNY5.12 billion and net assets of CNY3.42 billion, and generated a net profit of CNY180 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 31 December 2009, the Company had a 79.82% interest in Lubao Steel Tube, and Lubao Steel Tube had a registered capital of CNY100 million.

Assets and profit: As of 31 December 2009, Meisteel had total assets of CNY1.16 billion and net assets of CNY0.78 billion, and generated a net profit of CNY-1.93 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: As of 31 December 2009, 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 31 December 2009, Huangshi Coating had total assets of BCNY523 million and net assets of BCNY110 million, and generated a net profit of BCNY8.344 million this year.

Scope of business: Production and sale of cold-rolled plates, aluminum coated sheets, galvanized steel sheets, color coated plates and other relevant coated products.

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Appendices

▶ Profile of the Company and Main Affiliates

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

Shortened as Baosteel International in this report.

Registered capital and interest held: As of 31 December 2009, the Company had a 100% interest in Baosteel International, and Baosteel International had a registered capital of BCNY2.25 billion.

Assets and profit: As of 31 December 2009, Baosteel International had total assets of BCNY30.76 billion and net assets of BCNY9.22 billion, and generated a net profit of BCNY1.89 billion 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 31 December 2009, the Company had a 55.5% interest in Baosight Software, and Baosight Software had a registered capital of BCNY0.26 billion.

Assets and profit: As of 31 December 2009, Baosight Software had total assets of BCNY2.01 billion and net assets of BCNY0.98 billion, and generated a net profit of BCNY0.2 billion 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 31 December 2009, the Company had a 100% interest in Baosteel Chemical, and Baosteel Chemical had a registered capital of BCNY2.1 billion.

Assets and profit: As of 31 December 2009, Baosteel Chemical had total assets of BCNY4.82 billion and net assets of BCNY3.5 billion, and generated a net profit of BCNY0.29 billion 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.

Shortened as Baotong Steel in this report.

Registered capital and interest held: The Company injected additional BCNY430 million of capital into Baotong Steel. As of 31 December 2009, Baosteel Chemical had a 95.82 interest in Baotong Steel, and Baotong Steel had a registered capital of BCNY621 million.

Assets and profit: As of 31 December 2009, Baotong Steel had total assets of BCNY1.85 billion and net assets of BCNY0.83 billion, and generated a net profit of BCNY-90 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 31 December 2009, the Company had a 62.1% interest in Baosteel Finance, and Baosteel Finance had a registered capital of BCNY500 million.

Assets and profit: As of 31 December 2009, Baosteel Finance had total assets of BCNY9.18 billion and net assets of BCNY1.52 billion, and generated a net profit of BCNY0.19 billion 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.

(11) Yantai Baosteel Pipe Co., Ltd.

Shortened as Yantai Pipe in this report.

Registered capital and interest held: As of 31 December 2009, the Company had an 80% interest in Yantai Pipe and Lubao Steel Tube had a 20% in it; Yantai Pipe had a registered capital of BCNY2 billion.

Assets and profit: Yantai Pipe is under construction. As of 31 December 2009, Yantai Pipe had total assets of BCNY1.94 billion and net assets of BCNY1.93 billion.

Scope of business: Production, processing and sale of steel tubes, auxiliary products and byproducts; technical consultation services relating to steel tube rolling, warehousing, import and export.

3. Overseas Subsidiaries

As of 31 December 2009, 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.

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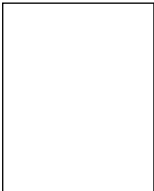
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