

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



# 2010

## Sustainability Report

BAOSHAN IRON & STEEL CO., LTD.

Better Steel, Better Environment, Better Life

## 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. They are jointly and individually 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. was CNY1.713 in 2010:

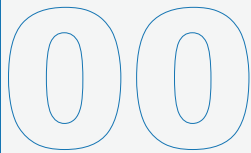
	Basic earnings per share:	CNY0.740
+	Taxation paid in the reporting year per share:	CNY 0.423
+	Salaries and wages paid to employees per share:	CNY 0.458
+	Interest on borrowings paid to banks and other creditors per share:	CNY 0.091
+	Outward donations and values created for other stakeholders per share:	CNY 0.001
-	Other social costs arising from environmental pollutions and other items per share:	CNY 0.000
	<b>Social contributions per share:</b>	<b>CNY 1.713</b>

Note:

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

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## About This Report

### Basis

This Report has been 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 the 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 the Shanghai Stock Exchange on Disclosure of Environmental Information*.

### Range

This Report mainly addresses economic, environmental, social and other activities from 1 January 2010 to 31 December 2010 (unless otherwise stated), conducted by the various production units of Baosteel (including: the headquarters in Luojing District, the Stainless Steel Business Unit, the Special Steel Business Unit, the Bars & Tubes Business Unit, Shanghai Meishan Iron & Steel Co., Ltd. and Baosteel NSC/Arcelor Automotive Steel Sheets Co., Ltd.) as well as Baosteel Research Institute, Shanghai Baosteel International Economic and Trading Co., Ltd., and Shanghai Baosteel Chemical Co., Ltd.

The financial statistics in the Report are stated in RMB Yuan (CNY). For conveniences, the following exchange rates are used in the Report: USD1 = CNY6.6227 (or CNY1 = USD0.1510, as announced by the People's Bank of China on 31 December 2010), and the Euro exchange rate is EUR1 = CNY8.8065 (or CNY1 = EUR0.1136).

### 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 post at the following address:

Energy & Environmental Protection Department, Baoshan Iron & Steel Co., Ltd.

3F, Baosteel Administrative Center, No. 885 Fujin Road, Baoshan District, Shanghai, China

Post code: 201900

Tel.: 0086-21-26643172

Fax: 0086-21-26643433

E-mail: [sustainability@baosteel.com](mailto:sustainability@baosteel.com)

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

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

## 01

## Honors &amp; Awards

Baosteel was widely recognized across all segments of society in 2010. Below are some of the honors and awards won by Baosteel in 2010.

Honors & awards	Issued by
First National "Enterprise Innovation Prize"	Ministry of Science and Technology of PRC.
2009 Most Caring Domestic Enterprise	Ministry of Civil Affairs of PRC
the First Energy Efficiency China Top 10 Outstanding Contribution Enterprise Award	China Energy Conservation Association and CHITEC China Energy Strategy Summit
Top 3 of "2010 Chinese Enterprises' Independent Innovation TOP100"	China Enterprise Evaluation Association
"Gold Prize of Round Table" of the Board of Listed Companies	" <i>Directors &amp; Boards</i> " Magazine
2010 Excellent Company in Legal Risk Management among Chinese Listed Companies	Organizer of the 2010 Summit of Legal Risk Management of Chinese Listed Companies
"Best Board of Directors" at "Top 20 Board of Directors of the Central-enterprises-holding listed companies", "Best Board of Directors in Assuming Social Responsibilities" (Top 20), "Best Board of Directors in Management" (Top 20)	<i>Moneyweek</i>
The "Best Social Responsibility Reports" of Share-A Listed Companies 2010-Metals and Non-metals	Organizing Committee of the 2010 Summit Forum on Social Responsibility Reports of Share-A Listed Companies, Runling Global Responsibility Rating
No. 9 of the Fifth Competition of Top 100 Chinese Companies Excelling in IR Management "2010 Best Listed Company in IR Creativity"	School of Management and Engineering Nanjing University, Financial Engineering Research Center Nanjing University, Research Center on the IRM of Listed Companies in China
(Baosteel Group) included in the Fortune 500 List for successive seven years, ranked the 276th in Fortune 500 List in 2010	<i>Fortune</i> magazine, U.S.
"Best International Supplier"	Impress Company
"Strategic Partner"	Embraco Group, Beijing Embraco Co., Ltd.
"Best Strategic Partner"	Haier Group
"Gold Supplier"	Guangdong Meizhi
Excellent Supplier for Sichuan-East Gas Pipeline Project	National Sichuan-East Gas Pipeline Project Department
Meisteel: Innovative Enterprise in Nanjing	Nanjing Municipal People's Government
Huangshi Coating: Green Enterprise	Huangshi Municipal People's Government

## 02

## Message from Senior Management



Chairman of BOD: He Wenbo



President: Ma Guoqiang

2010 marked the final year of the “Eleventh Five-year Plan” of China. Confronted with a complicated and volatile market environment as well as intense competition, all the employees of Baosteel were motivated to press ahead and made successful achievements for the Company in 2010. The Company maintained its excellent position of enterprise with an unrivaled performance among the industry, achieving good results in energy conservation and emission reduction through technological innovation and management optimization. Despite the great difficulties in the first half of 2010, the Company fulfilled the objective of energy conservation and emission reduction set out in the “Eleventh Five-year Plan”, which was ahead of the schedule. In the meantime, the Company continued to push forward systematic reformation, make further cost improvement efforts, and consolidate the foundation for development by focusing on human-oriented employee development. 2010 was also an unforgettable year for the successful Shanghai World Expo. Baosteel took an active part in supporting the Expo and contributed to the success of the grand event. Baosteel employees have impressed visitors from the world with their high quality and great achievements.

In 2011, the economic conditions and the steel industry landscape will remain complicated and largely uncertain. Baosteel sees this as both an opportunity and a meaningful challenge. It is determined to enhance its sustainable core competitiveness by strictly following the requirements put forward by Baosteel Group: “Positioning itself on capacity advancement, initiating a second round of exploration, and constructing a strong and superior Baosteel”. Aiming at continuing to deliver “best-in-the-industry” results in 2011, the Company will focus on product management, cost improvement, capacity enhancement and environmental management so as to act proactively to new demands, and develop its sustainable core competitiveness.

In product management, initiatives will be taken to address changing market demands so as to satisfy customers’ needs. Guided by the profitability of products, the Company will continue to optimize its product structure to secure a high profitability. Measures will be taken to accelerate product development for sheet metal, in particular, auto plates, and steel products for nuclear power plants and TMCP hull plates. Exploration and application of new products of silicon steel will be sped up, the competitive power of such products as cold rolling auto plates, home appliance plates, and engineer steel will be consolidated, and the sales of such exclusive leading products will be increased.

The Company will lay its emphasis on technological development to further reduce costs and enhance its cost control ability. Such measures as maintaining a steady blast furnace production while reducing molten iron costs, enhancing manufacturing capacity while cutting quality costs, optimizing procurement pattern to lower the costs of purchasing materials, fuels, and spare parts will all be taken for cost improvement. Furthermore, more efforts will be made to cut the costs of equipment maintenance, and improve energy cost performance. Examination of the management will be carried out to eliminate any possible loophole, and explore other possibilities for cost improvement.

The priority of the year's work is "adhering to the principle of positioning itself on leading technologies, and developing the service-led manufacturing business". The Company will highlight the significance of R&D in its overall technological innovation system and will continue to improve its customer-centered operational system. In other words, the Company will carry out product management which is centered on customers' needs. The Company is to enhance coordination over the whole process by implementing cross-unit, cross-production-line and cross-region cooperation and coordination. Market and onsite coordination will also be enhanced to increase customer satisfaction.

Environmental management is of strategic importance to Baosteel's differentiation competition. By promoting the construction of the energy and environmental management systems, the Company will integrate energy conservation and emission reduction, as well as clean production and operation. In terms of environmental management, the Company will step up the efforts in technical marketing, and press on the research and application of key technologies featuring low carbon, energy conservation, and environmental protection.

The Company will strengthen the construction of its security system to ensure a safe onsite production. Pertinent training will be arranged to improve employees' skills and work efficiency will be enhanced by furthering the reformation of the three systems. The Company continues to pursue mutual development for both the enterprise and the employees. It attaches great importance to the employees' interest and continues to meet employees' demand for development so as to establish the concept of "Baosteel People", and cultivate a group of first-class and independent employees with well-developed skills, a good spiritual and physical health, and above all, a passion for development. It is the Company's vision to become a model enterprise that enables "mutual development of the enterprise and the employees".

We're thankful for the successful achievements we have made through hard work. Looking into the future, we're confident that the Baosteel people will continue to join hands in their pioneering efforts in building Baosteel into the world's most competitive steelmaker!

Chairman of BOD:



President:



## 03

## Capital Stock Change and Shareholders

- ▶ Status of Authorization for Shareholdings' Movements
- ▶ Status of Transfer for Shareholdings' Movements
- ▶ Shareholders

### Status of Authorization for Shareholdings' Movements

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 was 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 the Shanghai Stock Exchange, the corporate bonds in the CNY10bn detachable convertible bonds were traded at the 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 will be the fifth trading day following the date of maturity as of 19 June 2014.

Upon approval by the 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 the Shanghai Stock Exchange (Name: "Baosteel CWB1"; Code: "580024"), with the warrant duration from 4 July 2008 to 3 July 2010, and the exercise period of trading days was between 28 June 2010 to 3 July 2010 (trade to be suspended during the exercise period).

### Status of Transfer for Shareholdings' Movements

The new shares of the shareholders were all registered in the Shanghai Branch of China Securities Depository and Clearing Corporation Limited after the "Baosteel CWB1" warrants were exercised. The total volume of shares was 48,088.



## Shareholders

As of the end of 2010, the Company had 17,512,048,088 shares outstanding in total, all of which were non-restricted.

### 1. Number of Shareholders and Top 10 Shareholders

Unit: Share

Total number of shareholders	606,180
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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	0.86	151,111,102	0	None
Bank Of Communication— E Fund 50 Index Securities Investment Fund	Others	0.41	71,275,729	0	None
Ubs Ag	Others	0.41	70,928,393	0	None
National Council for Social Security Fund— 0 Combo	Others	0.37	65,090,535	0	None
Rugao Changrong Ore Storage Limited	Others	0.33	57,229,512	0	None
Industrial And Commercial Bank of China— Shanghai Stock Exchange 50 Etf Fund	Others	0.31	53,497,602	0	None
China Resources Sztic Trust Co., Ltd— Chongyang No. 3 Securities Investment Collection Fund Trust Program	Others	0.28	49,392,628	0	None
Zhangjiagang Free Trade Zone Rixiang International Trade Co., Ltd.	Others	0.21	36,631,921	0	None
Guotai Junan Securities Co., Ltd— Client Credit Transaction Guarantee Security Account	Others	0.20	35,486,560	0	None
Relations or action in concert with the foregoing shareholders		Unknown			

## 03

## Capital Stock Change and Shareholders

Status of Authorization for Shareholdings' Movements

Status of Transfer for Shareholdings' Movements

► Shareholders

## 2. Controlling Shareholder and Effective Controller

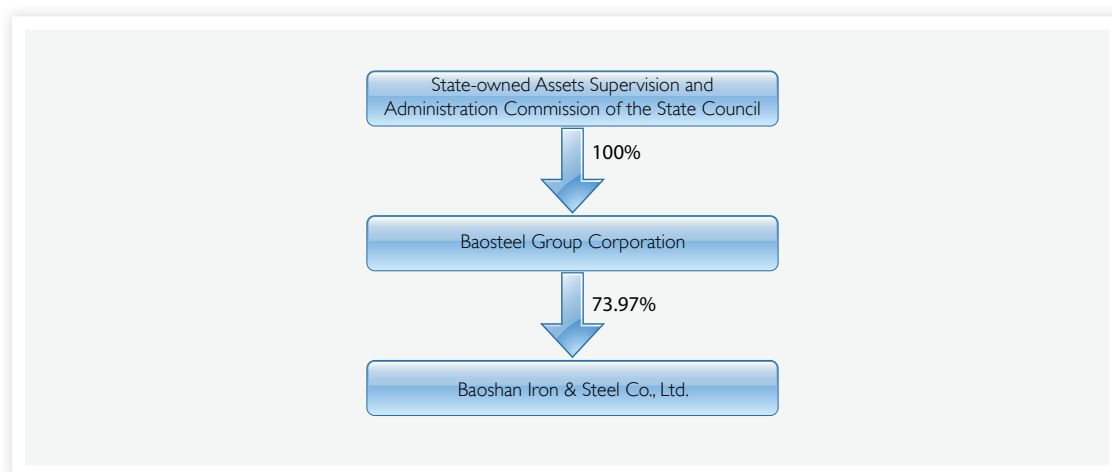
## (1) Controlling shareholder

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 the 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 the State-owned Assets Supervision and Administration Commission of the State Council.

## (3) Relationship between the Company and the effective controller



## 04

## Governance Structure

## ► Current Directors, Supervisors &amp; Executives

Annual Compensation of Directors, Supervisors and Senior Management  
Appointment or Dismissal of Directors, Supervisors and Senior Management Personnel

## Current Directors, Supervisors &amp; Executives

Name	Position	Gender	Age	Term of Office
He Wenbo	Chairman of Board of Directors	Male	55	03.2010-04.2012
Ma Guoqiang	Director, President	Male	47	04.2009-04.2012
Liu Zhanying	Director	Female	55	04.2010-04.2012
Fu Zhongzhe	Director	Male	50	04.2009-04.2012
Dai Zhihao	Director	Male	47	04.2009-04.2012
Wu Yaowen	Director	Male	67	04.2009-04.2012
Buck Pei	Independent Director	Male	53	04.2009-04.2012
Katherine Tsang	Independent Director	Female	53	04.2009-04.2012
Sun Haiming	Independent Director	Male	54	04.2009-04.2012
Edward C.Tse	Independent Director	Male	54	04.2009-04.2012
Li Li	Chairwoman of Board of Supervisors	Female	57	04.2009-04.2012
Lin An	Supervisor	Male	54	04.2010-04.2012
Zhou Guiquan	Supervisor	Male	55	04.2009-04.2012
Zhang Pijun	Supervisor	Male	52	04.2009-04.2012
Zhu Keping	Supervisor	Male	36	04.2009-04.2012
Li Yongxiang	Vice President	Male	50	04.2009-04.2012
Zhu Junsheng	Deputy secretary of CPC committee	Male	50	03.2010-
Jiang Licheng	Vice President	Male	52	04.2009-04.2012
Chen Ying	Vice President, Secretary to Board of Directors	Female	39	04.2009-04.2012
Lou Dingbo	Vice President	Male	48	04.2009-04.2012
Pang Yuanlin	Vice President	Male	47	04.2009-04.2012
Zhou Jianfeng	Vice President	Male	47	04.2009-04.2012
Wang Jing	Vice President	Female	47	08.2010-04.2012

- Note:
- (1) The expiration of office is on the date of the annual meeting of shareholders of 2012.
  - (2) As at the end of the reported period, Mr. He Wenbo, Mr. Ma Guoqiang, and Mrs. Chen Ying purchased some shares of the Company at the secondary market during the period, and respectively owned 80,000 shares, 60,000 shares, and 60,000 shares of the Company. Mrs. Li Li owned 30,000 shares of the Company, without any change in amount during the period.
  - (3) Mr. Lou Dingbo purchased 30,000 shares of the Company at the secondary market on 24 February 2011 at the average price of 6.88RMB/share.

## 04

## 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) was CNY20.2183 million, particularized as follows:

Unit: CNY 10,000

Name	Position	Whether to receive compensation from the Company or other affiliates <sup>(Note 1)</sup>	Compensation received from the Company (pretax)
He Wenbo	Chairman of BOD	Yes	—
Ma Guoqiang	Director, President	No	195.5
Liu Zhanying	Director	Yes	—
Fu Zhongzhe	Director	Yes	—
Dai Zhihao	Director	Yes	—
Wu Yaowen	Director	No <sup>(Note 2)</sup>	2.40
Buck Pei	Independent Director	No	25.00
Katherine Tsang	Independent Director	No	25.00
Sun Haiming	Independent Director	No	25.00
Edward C. Tse	Independent Director	No	25.00
Li Li	Chairwoman of Board of Supervisors	No	25.00
Lin An	Supervisor	No	152.2
Zhou Guiquan	Supervisor	Yes	—
Zhang Pijun	Supervisor	No	129.1
Zhu Keping	Supervisor	Yes	—
Li Yongxiang	Vice President	No	167.9
Zhu Junsheng	Deputy secretary of CPC committee	No	173.9
Jiang Licheng	Vice President	No	169.4
Chen Ying	Vice President, Secretary of BOD	No	175.0
Lou Dingbo	Vice President	No	196.5
Pang Yuanlin	Vice President	No	168.9
Zhou Jianfeng	Vice President	No	168.9
Wang Jing	Vice President	No	168.8
Xu Lejiang	Retired Chairman of BOD	Yes	—
Han Guojun	Retired Supervisor	Yes	—
Zhao Zhouli	Retired Vice President	Yes <sup>(Note 3)</sup>	28.33

Note 1: "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 2: According to "Interim Measures for the Remuneration and Treatment of the Board of Directors of a Central Enterprise in the Pilot Program on Board of Directors", Director Wu Yaowen stopped receiving his yearly pension from Baoshan Iron & Steel Co., Ltd. from January 2010. Instead, he will be paid meeting allowance, according to the standard set by the state-owned Assets Supervision and Administration Commission of the State Council.

Note 3: Mr. Zhou Zhaoли received his remunerations from Baosteel Group since he stepped down from the position of Vice President.

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

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As approved by the fourth meeting of the fourth Board of Directors held during 30-31 March 2010, Mr. He Wenbo was elected and appointed Chair of the Board of Directors of the Company to replace Mr. Xu lejiang, who had requested to resign from the position of Chair of the Board, while remaining Chair of the Group. Mr. Zhao Zhouli resigned from the position of Vice President.

As approved by the fifth meeting of the Third Employee Congress held from 6 to 12 April in 2010, Mr. Lin An was elected as an supervisor of the Fourth Board of Supervisors. Mr. Han Guojun, for the reason that he has been transferred to be the Vice Chairman of the Labor Union of Baosteel Group, ceased the position in Baoshan Iron & Steel Co., Ltd., and stopped being a supervisor.

As approved by the 2009 General Shareholders' Meeting held on 29 April 2010, Ms. Liu Zhanying was elected as a new member of the fourth Board of Directors.

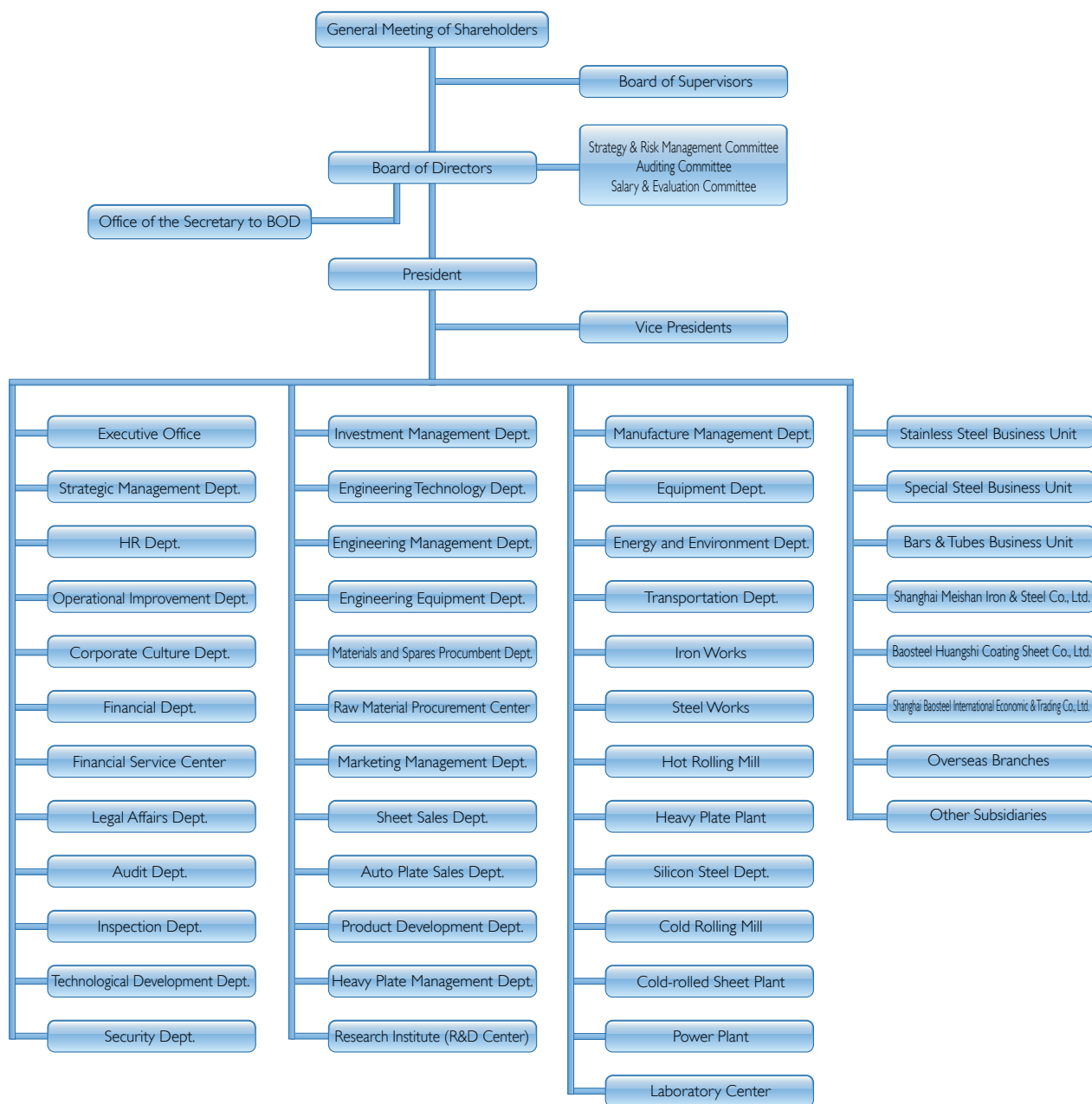
As approved by the eight meeting of the fourth Board of Directors held on 27 August 2010, Ms. Wang Jing was hired as the Vice General Manager of the Company. Mr. Zhu Jun has resigned from the position of Vice General Manager due to the reason of work, but he continues to be the Deputy Secretary of the CPC committee of the Company.

## 05

## Management Improvement

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

## Organizational Structure



## Major Events in Organization Reconstruction

To streamline the management hierarchy, create a simple and efficient management framework and bring the advantages of management and technology in the production facilities directly controlled by the Company into full play, the Medium and Heavy Plate Branch was dissolved on 1 April, 2010. The Company consolidated vertically regarding the similar functions of the medium and heavy plate production. As a result, the related business and operation were streamlined and optimized.

## Management Innovation

### 1. Introduction of Comprehensive Management System

The first version of *Baosteel's Comprehensive Management Handbook* in accordance with the basic principle and overall requirements for business operation, after the Company's reform and integration was completed, was issued. The handbook provides detailed descriptions about the rules, division of work and overall requirements regarding the governance of different regions, industries, and business units.

According to the GB/T23331-2009 *Energy Management System-Requirements and Rules on the Implementation of Energy Management System Attestation in the Iron and Steel Industry*, the Company included the energy management system construction into the headquarters' operational management handbook. All units pushed forward the construction in accordance with the stipulated requirements regarding energy management system and passed the energy management system examination in December 2010.

### 2. Risk Management and Risk Control

Abiding by the principle of "integrating proactive risk estimation into business operation and business procedure", the Company finalized 14 key risk-management projects in the year after a meticulous study of such factors as price fluctuation of raw materials and fuels. Special project teams were set up to deal with risk indicators and mitigation strategies. As a result, good control was exerted as regards to various risks. For example, the "Nickel Price Fluctuation Risk Project" closely followed the changes of stainless steel market and the nickel raw material market on a monthly basis; and the "Raw Material and Fuel Price Fluctuation Risk Project" provided strong support for the raw material procurement planning.

The Company established a regular risk monitoring mechanism involving risk forecast and warning. Management appraisal on the risk management concerning such projects as operational financial risks and nickel price fluctuation risks was conducted from four perspectives: risk analysis, system design, working out indicators, and finding solutions. The risk management system will continue to be improved based on the appraisal. Since July 2010, the Company had started the practice of formally publishing its "Quarterly Report of Risk Monitoring".

### 3. Performance Evaluation Focusing on Key Performance Indicators

The performance evaluation in 2010 followed the principle of "Simplification and Focusing on Key Performance Indicators (KPIs)". There were 13 KPIs. Among them, great importance was attached to the total volume of profit and the target cost with a view to direct the focus onto business benefits and cost reduction. Based on the quarterly analysis and assessment of KPIs, positive incentives were applied. In addition, 21 key projects were set up in line with the three major tasks of product management, cost improvement, as well as management reform and system capacity advancement. By pushing forward each one of the 21 projects, the Company witnessed a continued improvement in its operational performance.

In order to ensure the fulfillment of the target of saving 1 million tons of standard coal as set out in the "Eleventh Five-year Plan", the Company carried out the energy conservation work on a project base. The objective of energy conservation was broken down into work packages and distributed to specific units. In the meantime, the Company carried out dynamic follow-up, analysis, and evaluation to monitor the progress. As a result, the Company met the goal of energy conservation of the "Eleventh Five-year Plan" ahead of the schedule.



## 05

## Management Improvement

Organizational Structure  
Major Events in Organization Reconstruction  
► Management Innovation

#### 4. IT Construction

The IT construction was centered on the main thread of “Constructing a customer-centered enterprise mechanism” and the requirement of “Digital Baosteel”, and the focus was on the core procedures of manufacturing and sales.

In 2010, under the guidance of “Responding to market changes, sustaining governance reform, enhancing manufacturing capacity, promoting knowledge management, developing environmental management, and improving digital warehouse”, the Company continued developing the major-customer access and the EDI<sup>[Note1]</sup> application, realized the on-line site revision, and promoted the use of electronic bills and documents. Along with the integration of the former Medium and Heavy Plate Branch, the Company completed the adaptive revision of related systems. The Company also carried out the IT support plan for engineering projects, such as the L3 Silicon Steel Project, and the Luojing Phase Two Project. The Company constructed a platform facilitating the sharing of technology, and upgraded the archive information management system. It also promoted the solid waste reusing management, improved the automatic monitoring, surveillance, and management of environment. The IT system provided important support to the analysis and decision-making processes for the following areas: product profitability, procurement, market value, cost, and resources. In the year, Baosteel realized the digital warehouse for production facilities directly controlled by the Company, which is an important technical upgrade.

#### 5. Enhancing the Onsite Management

Sticking to the concept of “PDCA<sup>[Note2]</sup> + Earnestness”, the Company continued to intensify the management at lower levels, and fully exert the function of the management based on the lean Six Sigma in solving hidden issues and realizing a leap-forward of performance indicators. Aimed at finding the fundamental solution to problems, the Company adopted such measures as tutorship from masters of black belt, mid-term appraisal, and pushing forward the project on a department basis. The Company had integrated the lean Six Sigma Management into 105 operational projects and the 159 projects set up by its business units and subsidiaries. These efforts brought about obvious business benefits.

An important part of self-management is onsite management which mainly includes environmental protection, production quality, and security management. In the year, there were 70 JK<sup>[Note3]</sup> groups that won the title of “Excellent Quality Management Group” issued either by the country, by the metallurgy industry, or by Shanghai. The Company was honored as “2010 Model Enterprise in Organizing Quality Management Group Activity”.



The Energy-Saving JK Team in the No.1 Plant of the Silicon Steel Department actively carried out technology innovation. They established and implemented the project of ‘reducing water consumption per unit for 1550 acid-mill groups’, generating an annual income of CNY3.193 million for the enterprise. The excellent outcome has gained the team the first prize of the JK Group Challenge Cup of Shanghai. The photos show the on-site energy-saving work the JK Team members were carrying out.

Note1: EDI: Electronic Data Interchange.

Note2: PDCA: P(Plan), D(Do), C(Check), A(Action).

Note3: JK: The initials of Japanese words, literally meaning ‘Self-management’.



## 06

## Anti-Corruption

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

## 1. System Establishment

Focusing on the task of establishing a system of punishment and prevention, the Company carried out work set out in the five-year planning of the system establishment, and continued to improve five mechanisms including: education, system construction, supervision, case investigation, and fundamental cause control. It stepped up the efforts to assign responsibilities to specific units and persons, and carried out key anti-corruption work in earnest. The Company defined key tasks in line with the 22 key projects in six categories to enhance the anti-corruption system and promote probity rules. Breakdown of tasks and assignment of responsibility were stepped up, and the anti-corruption responsibility agreement was made with persons-in-charge at different level. By taking such measures as performance evaluation, punishment by the organization, warnings and communications, and transfer among posts, the Company maintained an honest and pure production environment.

The Company furthered the establishment of a cadre style and improved the multi-channeled supervision mechanism. Those who were involved in key and sensitive business and posts were required to make a public oath of being honest and faithful. Persons-in-charge were held responsible if any corruption occurred. Major efforts were made in the supervision of the management process, 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 engagement.

## 2. Anti-corruption Education

Anti-corruption education, caution education, model education, clean post education, and risk informing education were carried out for the employees. 335 simulation cases were compiled for the purpose of education. In accordance with the idea of being "simple, feasible, focused, and effective", training programs were divided into several categories and the cases were divided accordingly. The simulated cases were effective because they were highly relevant, and the teaching methods were diversified. Through these training programs, persons-in-charge at different levels became more aware of their responsibilities and were better at considering the overall situation, and thus, increased their anti-corruption capacities.

## 3. Project-based Treatment and Efficiency Supervision

According to the requirements of Baosteel Group, the Company continued to press on efficiency supervision in such fields as cost reduction, environmental management, and capital disposal. For engineering projects, the Company initiated the project-based management mechanism to deal with key problems. The Company also examined potential risks in various fields including the production management, financial management and asset management, enhanced the legal management structure, regulated the business flow, and improved the internal control system. Effective measures were taken to prevent any "small coffer", and a mechanism was established for a steady development in the long run. In 2010, 186 efficiency supervision projects were completed as scheduled, 181 supervision reports were produced, 584 suggestions were made, and 422 items of the management system were revised and improved.

## 4. Root Cause Control

The Company promoted the transparent management under "sunlight", intensified the monitoring of various fields including sales, procurement, and engineering project construction, and enforced the online supervision for online transactions. Coupled with the activity of "Double Excellence"<sup>[Note1]</sup> in the engineering projects, the Company furthered the project-based treatment and continued to construct projects under the "sunlight". In 2010, the Company revised 21 articles of the management system related to the engineering projects. More efforts were made to supervise public bidding and procurement, so as to weed out the root for corruption, prevent irregular and corrupted behavior; and promote the "Five Sunlight"<sup>[Note2]</sup> management work. Baosteel adhered to the control policy of commercial bribery via normalizing operation, and purifying the business environment. As for those suppliers that were engaged in unfair competition activities when doing business with Baosteel, the Company would regularly release lists of no-entry individuals and no-trading companies inside the Company.

Note1: Double Excellence: Excellent Project, and Excellent Leaders.

Note2: Five Sunlight: Talent recruitment, payment management, utilization of the public money, procurement and engineering construction.

# 07 Innovation Development

- ▶ Establishment and Improvement of Technical Innovation System
- ▶ Promoting Technology Innovation to Sustain Environmental Management
- Enhancing Systematic Planning and Special Subject Advancement
- Promoting the Implementation of Intellectual Property (IP) Strategy
- Advancing Knowledge Management in an All-round Way
- Technology Transfer
- Industry-Academy-Research Strategic Cooperation
- R&D in New Products

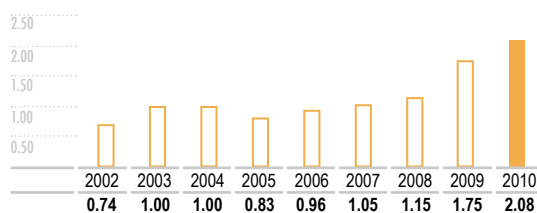
## 5. Report and Investigation

The Company emphasized the Report and Investigation measures and insisted on a strict handling of cases violating the law and discipline. A linkage mechanism between report and investigation was built to ensure a quick response to the report and a standard operation according to the stipulated process. The Company also paid attention to the orientation analysis of the problems reported, combines the orientation analysis with the informing education, and cultivates the ability of recognizing problems promptly. Through carrying out in-depth analysis, the Company was better at fundamentally resolve a problem, attaching more importance to the preventive measures and the system construction. All of these measures helped battle against corruption by eliminating the fundamental causes.

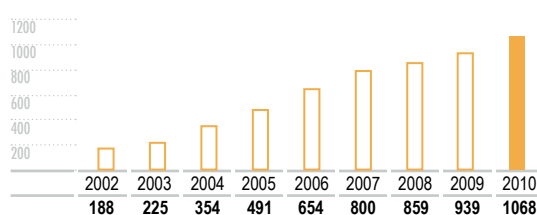
According to its 2010-2015 technological innovation planning, the Company in 2010 pushed forward the annual technological work in an orderly manner. Innovation was made to the technological management and the "Technological Team of a Field" was launched. In response to the environmental management, a product life-circle evaluation system was established to facilitate systematic research into energy conservation and environmental protection, and to continuously improve the cost competitiveness. Focusing on the national key industries, the Company accelerated the R&D of new products, provided package solutions regarding some materials. The Company also made plans to push forward a series of special research programs in some key areas, bringing about new technological breakthroughs in some key areas. Exploration on Baosteel's technology and knowledge management framework was made with a view to establish a platform enabling technological sharing and providing technological support to the Company's second round of pioneering work.

In 2010, the Company's R&D investment rate, new product sales rate, and environment-friendly new product rate reached 2.08%, 18.7% and 87.9% respectively. Its patent applications reached 1,068, exceeding 1000 applications for the first time. Among them, 40% are patents of invention. The increased business benefits that were directly generated by research totaled CNY1.607 billion, the business benefits brought by technological promotion totaled CNY295 million, and the contracted amount of technological trading totaled CNY94.85 million.

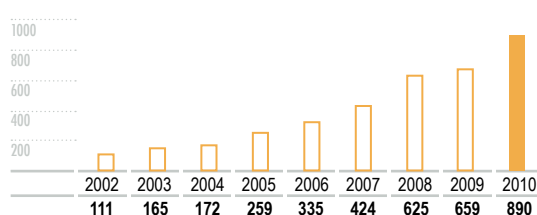
**R&D Investment Rate (%)**



**Patent Applications Accepted**



**Patents Granted**



## Establishment and Improvement of Technical Innovation System

In 2010, the Company launched the pilot program of "Technological Team of a Field", providing professional services to research teams including speeding up the approval process of research projects, patent application and BES online procedure, and facilitating the technological promotion and inquiries about special projects. By carrying out the three-year plan, many teams have achieved periodic results in many projects, and completed 17 patent applications. Currently, the steel-making team has made breakthroughs in the third-generation oxide metallurgy technology, and the tenacity of the heat affected zone has reached the world's leading standard. The auto plates team carried out international collaboration, initiated the third-generation high strength QP Steel lab research and trial mass production, completed the trial mass production of 1000MPa and 1200MPa cold rolling and hot galvanization, making Baosteel the very first in the world to have produced such samples. The hot rolling team has completed the third-generation TMCP technological R&D platform and created the material in the lab that is close to the world's leading standard.

To reach the standard and ensure the efficient management of the new products, the Company has set up a detailed information management system covering the whole process of R&D in new products. This system recognizes the advantage of the sales section in detecting market needs and customer preference, and stresses the importance of meeting the market demands. The system optimizes the procedures including defining new product needs, product design, and signing trial use agreement. New modules such as new product needs, trial production, profitability analysis, and cycle management, have laid a solid foundation for the detailed management and quick responses to the market needs in the new product R&D.

## Promoting Technology Innovation to Sustain Environmental Management

In 2010, the Company integrated technological innovation into environmental management and devised a clear idea of technology-driven environmental management. The digital platform and the appraisal system for the Life Cycle Assessment (LCA) were created under the guidance. The product R&D gradually changed from a traditional mode to an ecological mode, with a view to eventually realize a green production featuring low energy consumption, low emission and low cost. The Company also took the lead in advocating the idea of green procurement and green utilization of steel products, and made breakthroughs in environmentally-friendly technologies.

The Company planned and promoted a series of key research programs including "Research on the digital platform and the appraisal system for the Life Cycle Assessment (LCA)". The LCA appraisal system of the Company has reached the international leading level, and is able to produce a set of national standards in this area. The Company has completed the LCA appraisal for 77 steel products of Baosteel, and 13 energy related products. The LCA appraisal system is also applicable to the internal procedure analysis and external product environmental performance analysis. The market exploration for the medium-chromium ferrite stainless steel products went on well. Breakthroughs have been made in technologies for the control of dioxin emission, waste gas heat utilization and solid waste utilization. A virtuous interaction between environmental management and technological innovation has come into form in the Company.

## 07

## Innovation Development

- Establishment and Improvement of Technical Innovation System
- Promoting Technology Innovation to Sustain Environmental Management
- ▶ Enhancing Systematic Planning and Special Subject Advancement
- ▶ Promoting the Implementation of Intellectual Property Strategy
- ▶ Advancing Knowledge Management in an All-round Way
- ▶ Technology Transfer
- ▶ Industry-Academy-Research Strategic Cooperation
- R&D in New Products

## Enhancing Systematic Planning and Special Subject Advancement

In 2010, the Company compiled the *2010-2015 Technological Innovation Planning*. The plan focused on the following points: a) implementing a leading product strategy that would feature leading technologies, and creating differentiating competitive advantages; b) introducing a total-process lowest-cost manufacturing technology, and increasing cost competitiveness; c) accelerating green manufacturing and continuously enhancing environmental management; d) strengthening research on future-proof technologies, cultivating and incubating key technologies for Baosteel and leading a technological development of the steel industry. For major projects, the Company implemented the manager-responsible mechanism to pursue development in national key industries and areas. 10 research projects in different fields were launched, including "Environmentally-friendly coating technology," "Welding technology for special plates and straps". The Company also planned and promoted the research program of "Package solution for Yanshan Petrochemical's equipment material" and made significant progress.

## Promoting the Implementation of Intellectual Property Strategy

In accordance with the Company's requirement of technological innovation, continuous efforts were made to improve the management of and service for intellectual property rights, and set up regulations and procedures to facilitate technological innovation. The detailed work was as follows: a) improving the intellectual property right management regulations, and revising the patent and technological know-how management rules in line with the *PRC Patent Law Implementing Rules* (Revised); b) constructing a legal affairs communication mechanism for intellectual property rights, in particular for patents and trademarks involved in disputes and lawsuits, and defining work contents for the intellectual property management and the legal affairs, so that a mutual platform is created for effective interaction of both parties; c) implementing the patent recommendation mechanism for key competitors in China, understanding the competitors' development trends in technological innovation, submitting analytical reports to relevant experts and executives about the competitors' patent applications so as to detect patent applications that might form a "hindrance" for the Company and take measures to solve the conflicts promptly; d) carrying out analysis on patent structure, patent product application and patents not in use, and promoting a high-quality patent development.

In 2010, the Company was honored as the model unit for Intellectual Property Right Construction by the State Intellectual Property Office of PRC.

## Advancing Knowledge Management in an All-round Way

In 2010, the Company put emphasis on special work focusing on the accumulation, continuation, and sharing of technologies, with a aim to create a new environment for talent cultivation and strengthen the Company's soft power in technological innovation. Methods and evaluation criteria for the technological knowledge management were issued to facilitate the technological accumulation, continuation and innovation and provide technological support to the Company's second round of pioneering exploration. The Company accelerated the establishment of the platform for technological sharing, and established a platform based on the "three databases and two communities" design. The three databases were knowledge database, expert database and benchmark database, and the two communities were project community and practice community. The platform was formally launched on December 31, 2010.

In response to the Company's requirement of dividing the production lines and enhancing the overall manufacturing capacity, on the basis of the successful completion of the 22 integration projects, the Company launched another 5 integration projects, including hot rolling low carbon Bainite steel, hot rolling high strength IF steel, and Martensite stainless steel. In addition, to ensure efficient sharing of the integration technology and the control of the procedure, the technological integration management modules were formally launched onto the Company's BES information system.

## Technology Transfer

In view of the market demands of Baosteel Xinjiang Bayi Iron & Steel Co., Ltd., and the production capacity of the company, the Company carried out technology transfer for Bayi Steel, and enforced the procedure management and quality management at the same time. As a result, Bayi steel developed 25 new products and obtained the capacity of mass production of key products. Technical support was provided to Ningbo Steel for its newly started projects, and the successful operation of these facilities including No.1 cock oven, the roller slag processor, and the spray print machine. In line with the technical support need of Guangdong Shao-guan Steel Group in areas ranging from production, manufacturing to equipment, procurement, energy as well as engineering management, the Company designed and organized various onsite studies and exchanges.



In response to the needs of steel enterprises both at home and abroad, the Company introduced these technologies including sintering gas desulfurization, comprehensive reutilization of high endurance materials, slab-casting control model, pinhole check, and quality control, realizing new economic growth for the Company. Based on the engineering platform of Baosteel Group, the Company also provided technical services to other enterprises in areas such as slag treatment, RH refining, spray printing, and the hood type furnace with pure hydrogen.

## Industry-Academy-Research Strategic Cooperation

In 2010, the Company compiled its mid-term scheme of an industry-academy-research cooperation laying emphasis on “project promoting, coordination and planning”, promoted the coordination and integration of resources in research and production, and accelerated the directory projects of the cooperation. On the international front, in line with the cooperation mechanism of “driven by needs, linked by projects and implementing integrated management”, the Company pushed forward the international cooperation with three major overseas parties.



“Baosteel Professors” have been playing a significant role in the technological innovation of the Company. They have not only promoted R&D in key products and technologies within the Company, but also widened the channels for international cooperation and advanced the high-tech talent cultivation. In order to further promote the role of “Baosteel Professors”, the Company has employed a new round of “Baosteel Professors” to meet the needs of the Company. The expertise of these professors covers a wide range including product development, metallurgy, energy conservation and environmental protection. This measure will lay a solid foundation for the Company’s future plan of increasing the industry-academy-research cooperation with enterprises in such regions as Asia-Pacific, Europe, and North-America.

## 07

## Innovation Development

- Establishment and Improvement of Technical Innovation System
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## R&amp;D in New Products

The 2010 new product development focused on the national key industry and concentrated on identifying new substitution steel materials with new features. New types of steel materials with high tenacity, high anti-corrosion, easy welding, and easy bending qualities were developed. An ecological design was made to the new product development, and the "Package material solutions" continued to be promoted. With these measures, the Company built its environmental value chain and formed its differentiation competitiveness. In 2010, the Company completed the trial production of 494 types of products in five categories including carbon steel sheets, carbon steel heavy plates, stainless steel, special steel, steel tubes and bars, with a volume of over 1800 kiloton, and a sales volume of over CNY12 billion. Among these trial productions, 87% of were environmentally-friendly products.



1. The Company obtained a small batch production capacity in these products: 780, 980MPa double-phase auto steel, and high strength Martensite steel as well as TRIP steel. The Martensite steel was widely used for the carriage floor. Its self-developed hydraulic pressure forming and hot pressure forming technologies for auto parts were successfully commercialized.
2. The Company realized the batch supply in high magnetic induction grain-oriented silicon steel sheets for large-scale transformers, with its various quality indicators satisfying the customers' needs and the production techniques continuing to stabilize and the comprehensive finished product rate greatly enhanced.
3. The OA finger-print-proof steel sheets were accepted by the high-end users of duplicating and printing machines, contributing enormously to substituting imported ones. The Company successfully developed the low welding crack susceptibility high strength tempered steel for hydroelectric power stations, whose welding performance, obdurability, and strength-plasticity all reach the international standard, ending China's dependence on the importation of this product.
4. The Company succeeded in supplying 5000 tons of high strength R5 mooring chain steel to China National Offshore Oil Corp for its first deepwater petroleum drilling platform, marking the beginning of package supply for offshore platform materials.





5. The high strength anti-corrosion and anti-weathering steel products for lorries, including S350HW and S450HW, were the first to have been approved by the Ministry of Railways with a batch-supply production capacity.
6. The self-developed high and medium-chromium ferrite stainless steel products were successfully used to construct the main stadium for the Guangzhou Asian Games, marking the beginning of using high-end stainless steel for large-scaled building facades in China.
7. The Company succeeded in the production of the 9Ni steel plates for liquid natural gas storage tanks, the so-called "diamond of steel", and also made products of four specifications, making Baosteel the No. 1 enterprise in terms of the number of specifications for this product.
8. The Company successfully completed the pilot production of the Ni-based alloy oil-well tubing in its 6000-ton hot pressing unit, becoming the first in China to have obtained the production capacity of the whole process. The pilot production of the Inconel690 alloy U-shaped heat transfer tubes was completed, which met the second-generation requirements. The Company was issued the License of PRC for the Manufacture of Civil Nuclear Security Machinery and Equipment by the State Nuclear Safety Bureau. The first batch of 1000 tubes was produced and delivered to users.



#### Auto Steel National Key Laboratory (Baosteel)

In order to lead R&D in auto-used steel and meet the needs of the fast developing auto industry, Baosteel applied for the "Auto Steel National Key Laboratory" in 2009. In June 2010, after the feasibility study was carried out by the Ministry of Science and Technology, the construction of the lab was started. This is China's first National Key Laboratory in the field of auto steel.

The laboratory will support and meet the needs of the rapid development of China's automobile industry and develop new auto steel products. Special efforts will be made to achieve breakthroughs in these areas including: forming, welding, coating, anti-corrosion, and protection. The Company aims at providing package solutions for the automobile industry, which will contribute greatly to raising the level of domestic auto steel against the international standard, and hence, increasing China's competitiveness in steel-making at the international stage.

## 08

## Technological Exchange

- ▶ The Fourth Baosteel Biennial Academic Conference (Baosteel BAC 2010)
- ▶ 2010 China Stainless Steel Industry Annual Conference
- ▶ Supporting the World Steel Association



Comments on the Fourth Baosteel BAC 2010 by experts at home and abroad

**Weng Yuqing, Academician, President of the Chinese Society for Metal:** "Baosteel BAC is the highest of its kind in China. It has provided a platform for international exchange. To my knowledge, most of the international experts in the industry attended this conference. The conference received about 500 to 600 research articles, which attests to the level of this conference. Baosteel is long-sighted in holding the conference. Although holding the conference increases the expenditure, the benefits are worthwhile. Young technical members have good opportunities to polish their foreign language proficiency, exchange with others in the technical fields, and understand the state-of-art development in this industry. I hope Baosteel will continue to hold the conference and promote such exchanges and communications."

**Liu Li, Dean of the China Association for Science and Technology:** "I am deeply impressed by the theme and atmosphere of this conference. It has reminded me of the Annual Meeting of the China Association for Science and Technology."

**Anthony J. DeArdo, Professor from University of Pittsburgh, USA:** "I'm among the few who have participated in every one of the Baosteel annual conferences. I've witnessed the development of this conference from a regional level to an international level. Personally, I think this is one of the best conferences in the world. I think Baosteel annual conferences have made great progress in quality. The conference organization is incomparably good. I'm very happy to be here."

**John W. MORRIS, Professor from University of California, Berkeley, USA:** "This is my third time to participate in a Baosteel annual conference. I can feel the progress of the conference has made. This conference is rich in content and activities, and efficient in organization."

**Markus DIENER, Professor from ETH H nggerberg, Switzerland:** "This is my first time to participate in a Baosteel annual conference. I'm impressed that there are many young people involved in the conference organization. I'm hoping that that I can give some guidance to the young engineers of Baosteel regarding their work in Zurich."

**C.H. Ou, President of Chinasteel, Taiwan:** "I believe the Baosteel conference enjoys a high status in the industry. There are not many conferences of such kind in the industry in terms of the scale and influence. The Baosteel conference involves experts from 23 countries and regions. With the attendance of many world-known engineers, the Baosteel annual conference is no wonder a treasure for the technological advancement of the industry."

In 2010, the Company attended 65 important academic conferences at home and abroad, and successfully held the Fourth Baosteel Biennial Academic Conference (Baosteel BAC 2010), China Stainless Steel Industry Annual Conference, as well as the National Conference on Titanium and Titanium Alloy.

## The Fourth Baosteel Biennial Academic Conference (Baosteel BAC 2010)

Themed on "Green Steel, Green World", the Fourth Baosteel Biennial Academic Conference was convened from 16 to 18 November 2010, and over 500 experts from home and abroad participated in the conference.

The Baosteel BAC has been listed in the ISSI, the World Steel Association, and the German Steel Federation (VDEh), and has gradually become an important platform for academic exchanges and friendship in the steel industry both at home and abroad.

## 2010 China Stainless Steel Industry Annual Conference

On 18 June 2010, Baosteel hosted the 2010 China Stainless Steel Industry Annual Conference, welcoming over 200 representatives from the steel industry. In the conference, participants reviewed China's stainless steel industry in the past decade, exchanged extensively on metallurgy technologies, and approved the *Draft Revisions of the Management of the Stainless Steel Branch of China's Special Steel Enterprise Association*. Baosteel was elected as the chair enterprise for the Stainless Steel Branch of the Fourth China Special Steel Enterprise Association, and Mr. Lou Dingbo, Vice President of Baosteel was elected the Chair of the Council.

## Supporting the World Steel Association

In 2010, the Company strengthened its "World Steel Association-Baosteel Profession Committee" virtual team establishment, optimized the committee member structure in alignment with the units, clearly defined the objective, and devised the plan of Baosteel's participation in the work of the World Steel Association. The "Management Methods for Baosteel's Participation in the World Steel Association Activities" was compiled and issued.

In 2010, the Company dispatched a total of 30 members for 13 times to participate in the activities organized by the World Steel Association, including projects for technological, economic, environmental, raw material, and safety improvement, Conference for steel for non-civil constructions, ISSF Annual Conference, and meetings for council and committee members. Through these exchanges and communications, Baosteel has achieved a dynamic overview of the global steel industry, including the technological development, market research, and steel demand estimation. The Company has also shared the latest information and promoted the advanced ideas through such journals as *Association for Science and Technology Brief*, *Innovation Forum*, as well as through the Company's website. During the process, Baosteel has been improving its interaction with international counterparts.



09

Harmonious Development

- ▶ Profile of Employees
  - Employees' Rights and Benefits
  - Growth of Employees
  - Protection of Employees' Rights and Benefits
  - Listening to Employees' Voices, Fulfilling Employees' Needs
  - Elevating the Establishment of the Employee Congress and Promoting Democratic Management
  - Occupational Health and Safety

Profile of Employees

At the end of 2009, the Company had 42,308 employees in total, of whom 25,804 were operational and maintenance staff, 12,522 were technical staff, and 3,982 were management staff.

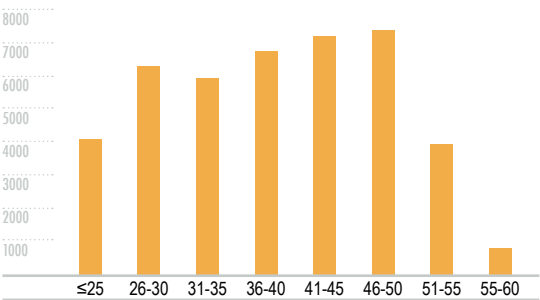
- There were 27,692 persons, or 65.55% of the total employees, holding a degree equivalent to diploma or above..
- 6,915 persons, or 41.9% of the total of technical staff and management staff, had an intermediate or above professional title..
- 14,992 persons, or 58.1% of the operational and maintenance staff, had an advanced-worker or above work certificate.
- The Company's employees were mainly from Shanghai, Jiangsu, Zhejiang, Shandong, Hubei and some overseas regions.

The Company provides equal job opportunities to people, regardless their gender and age. Due to characteristics of the steel industry, the Company has 5,258 female workers, 12.4% of the total employees. The female employees mainly hold management and technical positions.

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

In 2009, 595 employees resigned from the Company, representing 1.41% of the total employees. The Company fully respected their personal choice of the employees. Each employee that resigned was interviewed individually to identify reasons for their resignation, and resignation procedures were handled without any delay.

Structure of Employee Ages  
Unit: Person



## 09

## Harmonious Development

- ▶ Profile of Employees
- ▶ Employees' Rights and Benefits
- ▶ Growth of Employees
- Protection of Employees' Rights and Benefits
- Listening to Employees' Voices, Fulfilling Employees' Needs
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## Employees' Rights and Benefits

### 1. Harmonious Industrial Relations



The Company consistently sets a good example in abiding by the *Employment Law*, the *Labor Contract Law*, the *Trade Union Law* as well as other laws and regulations and in self-discipline.

The Company has implemented an employee labor contract system, a collective contract system and an employee congress system in earnest. Through improving the labor union, the labor dispute mediation system, the supervision in accordance with labor laws, as well as the supervision and inspection of labor protection, the Company has brought the Employee Congress System to its full play, which in turn helps to maintain a stable and harmonious environment for the enterprise.

### 2. Adhering to the Principle of Equal Opportunity

The Company always adheres to the principle of "equal opportunity", offers equal pay to men and women for equal work, and promotes equal treatment in all policies and planning without any discrimination in respect of gender, age, race, religion and political orientation. In the meantime, people returning from overseas studies are encouraged to join Baosteel. Their information has been collected and specific attractive packages for talents have been developed.

### 3. Caring for Special Groups

The Company pays particular attention to those employees from ethnic minorities, who are granted additional allowances, and in some cases, appointed to important posts.

The Company pays due attention to special groups. For example, the Company gives consideration to the health needs of female employees by implementing policies on leave entitlements of female employees in pregnancy and lactation. Special subsidies are given to employees with special difficulties.

## Growth of Employees

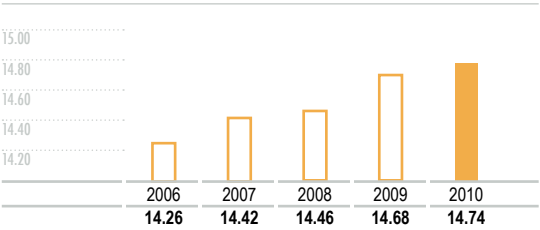
### 1. Continuous Improvement in Employee Skills

Talent cultivation provides an ultimate drive for the Company's progress. The Company offers its employees training opportunities to facilitate their skill building and career development. 143,823 persons were trained in 2010. 86 hours of training were provided per capita. Years of education received by employees increased over years. By the end of the reporting period, employees received 14.74 years of education on average.

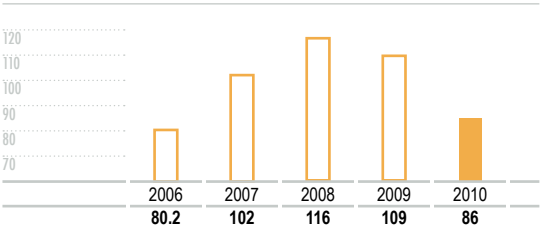
### 2. Cross-functional Job Rotation Program

To adapt to the cross-base, cross-region and cross-production-line management mode, and enable "mutual understanding, co-operation, trust and appreciation and knowledge expansion" among the employees, the Company continued to carry out the cross-functional job rotation program, and over 400 persons had been rotated by the end of 2010.

Years of Education per Capita



Hours of Training per Capita



### 3. Deepening the Cultivation of Whole-Process Engineer Training

To cultivate comprehensive talents "having a specialty while being versatile", based on the success in training the first group of whole-process engineers, the Company designed and launched the second round of whole-process engineer training work. In this second round, 26 trainees were selected from a wide range, covering such sectors as production, R&D, sales, as well as the business units and subsidiaries, and 12 categories of products were involved in the training.

#### "Whole-Process Engineer Training Program"

In order to broaden the knowledge structure and horizon of technical people, and cultivate a group of comprehensive talents "having a specialty while being versatile", the Company in 2009 initiated a "product-oriented, project-based" whole-process engineer training program. The program "adopted a two-way training method and was based on a three-year capability enhancement plan". The first trial training for 12 engineers was successful as these trainees exhibited an all-rounded knowledge structure, as well as an enhanced ability in dealing with onsite difficulties and in cooperation with others. In 2010, the Company launched the second round of the training program, which covered 12 categories of products and recruited 26 trainees.

## 09

## Harmonious Development

- Profile of Employees
- Employees' Rights and Benefits
- ▶ Growth of Employees
- ▶ Protection of Employees' Rights and Benefits
- Listening to Employees' Voices, Fulfilling Employees' Needs
- Elevating the Establishment of the Employee Congress and Promoting Democratic Management
- Occupational Health and Safety

#### 4. Constructing a Communication Platform for Technical Employees

To better address the practical needs of its employees and resolve major problems faced by the Company, the Company organized TOP10 thematic learning programs on quality improvement throughout the year. Over 200 employees from various production facilities directly controlled by the Company, the institute and business units, as well as subsidiaries, participated in the thematic learning programs, laying a solid ground for further talent training.

#### 5. Promoting Self-management among the Employees

In order to deepen the innovation among the employees, the Labor Union of the Company has set up an evaluation system for innovation, which has helped create an innovative work environment. In 2010, there were 531 innovation groups, 50 innovation associations, and over 5,000 innovation members in the Company. The innovation groups submitted 481 patent applications and 1,162 technical know-how applications. The employees' participation rate in making rational suggestions reached 83%, and the group participation rate in JK self-management reached 90%. The Company was honored as the "Model Basis of Innovation" by the General Labor Union of Shanghai.

### 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 its employees are competitive in the industry and in the local region, and provides fair wages and benefits based on performance and competency of its 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 a harmonious development of both the employees and the Company.

#### 2. Well-Developed Insurance and Benefits System

To encourage its employees and increase cohesiveness, the Company fulfills corporate social responsibilities and protects legitimate rights and benefits of its employees according to the laws, makes social contributions at required moments and amounts, including basic pension insurance, medical insurance, unemployment insurance, work-related injury insurance, maternity insurance and housing provident fund. These address employees' concerns of retirement and accidents. In addition, Baosteel also provides physical checkups, corporate pension and other benefits.

Its employees are entitled to take leaves as regulated by the state law and the corporate rules. They also have the legal right for public holidays, paid annual leaves, family visit vacation, and other holidays. When the employees work overtime and during holidays, the payment will be made in accordance with the national and corporate rules.

## Listening to Employees, Fulfilling Employees' Needs

### 1. Designing an Annual Survey

In order to obtain an overview of the Company's work on its key programs and understand its employees' concerns, the Company in 2010 designed an annual survey. The survey was conducted in several forms, including online questionnaire, symposiums and interviews with individuals. 3600 employees were randomly selected to answer the online questionnaire, 23 symposiums were held, and 60 individuals were interviewed. Based on the replies to the questionnaire and the in-depth talks, an annual survey report was produced and submitted to relevant department. The survey report provided an important reference for the Company's 2011 planning.

### 2. Paying Attention to the Employees' Suggestions During the Management Reform

During the process of business integration of the former Medium and Heavy Plate Branch, the Company paid close attention to the employees' opinions, concerns and suggestions, and provided relevant information to the relevant department. Such measures have been proved very helpful for the success of the integration.

### 3. Employees' Needs and Their Concerns

To identify the effectiveness of the existing information channel, the relevant functional department of the Company paid visits to some units, and held meetings regarding the following three aspects: management, technology and operation. In the meetings, participants analyzed the effectiveness of the Company's existing information channel, reviewed the employees' needs and concerns, and looked into the highlights of each unit's work in 2010.

### 4. Enforcing Management of the Intranet, and Maintaining Unobstructed Communications with Employees

In line with the Company's reform, the intranet was optimized. The revised website now contains more information and new modules including "Reading and Exchanging", "Information Briefing", "Best Practice", and "Stories in Baosteel". The online platform at work has enabled a smooth information exchange. The Company has also compiled the Intranet Management Procedure to optimize the business procedure, define the requirements and carry out meticulous website maintenance.

#### Pay Attention to the "Three Issues that Concern the Employees most"

BNA sticks to its practice of gathering information about the employees' thoughts every other month. In 2010, the company collected 20 pieces of information regarding the "Three issues that concern the employees most", compiled three issues of "Employees' State of Mind", addressed the problems pointed out by employees. As regards to external problems, BNC promptly communicated with departments concerned, and then gave feedback to the employees regarding the treatment of the problems raised. The Labor Union carried out the "Home Visit and Individual Talk" in earnest and visited 108 employees experiencing hardships.

## 09

## Harmonious Development

Profile of Employees  
 Employees' Rights and Benefits  
 Growth of Employees  
 Protection of Employees' Rights and Benefits  
 Listening to Employees' Voices, Fulfilling Employees' Needs

- ▶ Elevating the Establishment of the Employee Congress and Promoting Democratic Management
- ▶ Occupational Health and Safety

## Elevating the Establishment of the Employee Congress and Promoting Democratic Management

The Company has set the principle of "ensuring work safety, and supervising management behavior" for protection and supervision at work. 33 concrete supervision items for nine factors in three major areas have been formed and compiled into the *Labor Union Work Protection and Supervision Card*. The labor unions of all units have actively carried out supervision of the high-temperature work zones, the dust emission posts and have closely supervised the transfer of employees with occupational contraindication.



In promoting the basic democratic management system, 139 management documents, management standards and association constitutions were reviewed.

The multi-level employee congress system was further strengthened. It is stated that any proposal that concerns the employees' interest can only be implemented after being approved by the employee congress. In 2010, the Employee Congress of the headquarters was established. The headquarters approved the *Employee Work Accumulation Rules*, and *Management Procedures for Employees Leaving the Post and for People to be Employed*. The Employee Congress also elected employee supervisors in accordance with the laws and rules.

For the draft of the 2011 collective contract, it was required that all units should endeavor to quantify the contents closely related to employees' interest, such as work payment, additional insurance and welfare, occupational training, work safety and hygiene.. After discussions and negotiations, the Company's 2011 collective contract added 3 new articles that deals with employees' interest and welfare, and two major articles were revised. The *2011 Collective Contract (Draft)* was, thus, formed and submitted to the Employee Congress for approval.

## Occupational Health and Safety

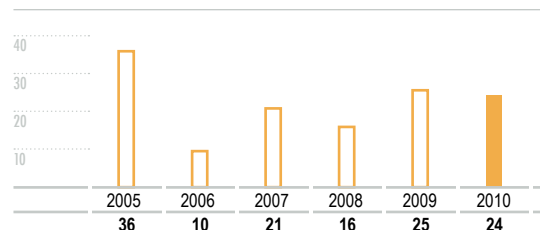
In 2010, the Company continued to carry out the "Safety Production Year" activity, with a view to fully implement the idea of "people-centered safety development". To protect employees' health and safety, the Company takes the scientific outlook as its guidance in conducting the safety production management. In 2010, the Company's safety work was centered on the "Safe Expo, Safe Production". The OHSAS18001 occupational health and safety management was implemented, and overall planning for work safety was made. In the year, 24 employees were injured in work, representing an injury frequency of 0.29 (injured persons per 1 million hours of work) and a serious injury rate of 167 (lost workdays per 1 million hours of work). The overall work safety situation was stable and under control.

In 2010, the Company stepped up safety training on the following areas: a) by organizing learning sessions for safety managerial staff, making video programs for safety education, and promoting other self-learning methods, improved the effectiveness of safety education for onsite work; b) continued to conduct safety supervision for special programs, enforced the examination for potential hazards, compiled the *Safety Evaluation Methods for Special Programs*, and optimized the evaluation pattern for safety process management; c) took measures to identify the sources for dangers at work and reviewed the rules and regulations about work safety, with a view to eliminate or minimize hazards for occupational health and safety; d) studied laws and regulations about work safety and incorporated feasible laws and rules into the Company's rules for work safety, which lays a foundation for the safety training work and annual appraisal of safety work.

The Company and its subsidiaries have all established and passed the certification of OHSAS18001 occupational health and safety management system, and have been making steady progress in the management work.

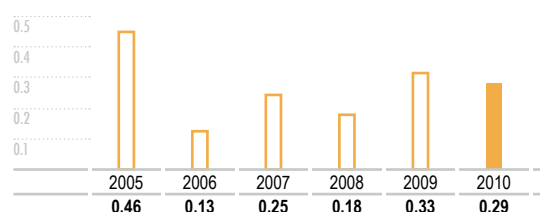


Number of Injuries



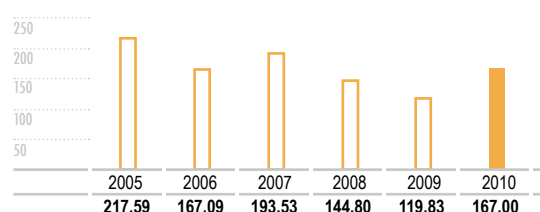
Frequency of Injuries

(number of injured persons per million working hours)



Serious Injury Rate

(number of lost working days per million working hours)



## 10

## Creating Value for Investors

- ▶ Full and Transparent Information Disclosure
- ▶ Fine and Interactive Relation with Investors
- ▶ Effective Protection of Investors' Interests
- ▶ Reasonable and Sustainable Investment Returns

Baosteel attaches great importance to interaction with investors. Under the philosophy of "creating value for investors", Baosteel created a full-dimensional communications mechanism to ensure quick responses to investors' expectations and needs, protect their interest and achieve a win-win result with investors.

### Full and Transparent Information Disclosure

During the year, the Company combined as usual the compulsory and voluntary disclosures of information, treated all the shareholders on the principle of openness, impartiality, and justice, and increased its transparency through the timely disclosure of sensitive information about its stock price, following the relevant rules strictly.

In 2010, the internet platform was effectively used to enhance the fair disclosure of information. Browsing by sub-categories was added and email subscription was enabled to provide instant messages. During the period, the Company filmed the analysts' meeting for the first time, uploaded the video with slides to the IR column of the Company's website. This has facilitated the fair information disclosure because those who could not attend the meeting for various reasons could watch the video.

### Fine and Interactive Relation with Investors

In 2010, the Company took the initiative to improve its investor relationship (hereinafter referred to as IR), proactively communicating with investors. During this period, the Company received a total of 632 domestic fund managers and securities analysts in 135 batches who came to the Company for investigation and research. The Company also arranged for 43 batches of investors to visit the factories, hosted teleconferences for 36 times. Meanwhile, the Company attended 15 large-scaled investor exchanging meetings upon invitation hosted by such international investment banks as UBS AG, CREDIT SUISSE, and MERRILL LYNCH. The IR team satisfactorily completed its regular IR activity plan, hosting four online news conferences on performances during the year and two onsite exchanging meetings of analysts.

The Chair of the BOD, President, and Secretary to BOD continued to take an active part in communicating with investors. Through meetings and telephone conversations, they had frank and sincere communications with domestic and overseas institutional investors on such issues of concern as the industrial development, corporate management, and future planning. Through the online news conferences on performances, they had efficient and effective interaction with a wider range of investors.

The Company was honored as the Best Listed Company for IR in China by the National Investor Relations Institute.



## Effective Protection of Investors' Interests

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Recognizing the fact that the individual investors may know very little about warrant and thus, may encounter a great loss in purchasing or exercising the warrant, the Company issued 25 notices regarding warrant transaction two month ahead of the exercising period, published over 20 articles about warrant transaction in major newspapers and websites, and published these article on the three major stock exchange software including Great Wisdom in the form of pop-up information. These measures were taken to fully explain the risks of warrant transaction. Meanwhile, the investors' hotline dealt with questions from the investors carefully and reminded the investors of the risks in warrant transaction.

## Reasonable and Sustainable Investment Returns

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The Company is always trying its best to "create value for investors". Since it was listed, its annual cash dividends have been taking up at least 40% of the net profit of each year and have maintained a steady tendency of increase. The Company never forgets to return its proceeds to investors while developing its main business. The 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 dividends, the Company has stabilized the expectation of investors, and guaranteed sound returns for them. Since December 2000 when the company was listed to 31 December 2010, the Company has distributed a total dividend of CNY37.941 billion.

# 11

## Bulk Raw Material Procurement

- ▶ Mutual Development on the Basis of Honesty and Trust
- ▶ Authentication of the Suppliers' Environmental management System (ISO14001)
- ▶ Reutilization of Clean Waste Steel, and Implementing Green Procurement
- ▶ Implementing Digital Procurement to Create an Open and Transparent Environment for Procurement

In 2010, faced with a raw material market with increasing fluctuation, the Company chose to stabilize its raw material supply by establishing a long-term supply relationship, and propelling a win-win cooperation with suppliers. Under this cooperative mode, Baosteel and the long-term suppliers have shared the benefits and risks and pursue a common development.



### Mutual Development on the Basis of Honesty and Trust

Holding fast to the Company's core concept of "Honest Operation", the Company standardized its supplier selection rules and established a scientific appraisal system. As a result, the Company strengthened the cooperative ties with its suppliers. In evaluating its suppliers, major considerations were given to these capabilities: delivery, cost, manufacturing, quality control, service, and cooperation. In 2010, the supply of some raw materials was under pressure. Other impacts on supply were caused by the holding of Shanghai World Expo, seasonal factors such as floods and typhoon, and contingent factors. In response to these challenges, the Company strengthened the cooperative ties with supplier, managed to find a balance between the wharf reception, material sites, and the shipping power, and ensured the timely supply of raw materials.

### Authentication of the Suppliers' Environmental Management System (ISO14001)

Suppliers were further encouraged to attain the certification of ISO14001 for environmental management. When looking for new suppliers, priority was given to those certified for environmental management. In 2010, 7% of the suppliers held the certification of ISO14001. As for the carriers, the Company chose to work with those who had passed the ISM/NSM certification. In 2010, 100% of the carriers used by the Company had passed the ISM/NSM certification.

### Reutilization of Clean Waste Steel, and Implementing Green Procurement

The Company promoted an integrated waste steel procurement, and achieved the consolidated management of the waste steel logistics in Shanghai. The pilot work of delivering the waste steel directly to the production base achieved good results and reduced the "exterior circulation" of the waste steel. This in turn pushed forward the waste steel reutilization. In 2010, the Company stepped up the efforts of purchasing domestic waste steel and setting up standards for quality examination. In addition, it took rigorous measures to explore the waste steel suppliers and supply channels. The utilization rate of clean waste steel was greatly increased, contributing to the environmental protection.

### Implementing Digital Procurement to Create an Open and Transparent Environment for Procurement

In 2010, the E-procurement platform was further improved and more coordination with suppliers in online transaction was realized. The Electronic Procurement System (EPS) developed the function of automatic invoice recording. Currently, above 95% of the invoices regarding waste steel and alloy were issued by suppliers through the online invoice recording system, greatly enhancing efficiency. The bidding management was also improved and more attention was paid to the product types during the procurement. More competition was introduced into the procurement process including bidding, enquiry, quotation, and comparing prices. The volume of both bidding and the volume for online enquiry, quotation and procurement increased obviously as compared with the previous year.

## 12

## Procurement of Materials and Spare Parts

- ▶ Supplier Management
- ▶ Green Procurement
- ▶ Recycle and Utilization of Waste Materials

## Supplier Management

The Company has elevated its requirements for suppliers in terms of environmental protection and social responsibilities. In 2010, the Company investigated the environmental performance of its high consumption suppliers such as the high endurance material suppliers. The onsite examination by an external party was made for 18 suppliers, coupled with an environmental investigation. The Company made clear requirements for suppliers regarding environmental protection and social responsibilities.

The management of material and spare part suppliers was also elevated, with the establishment of a two-dimensional supplier evaluation system. The supplier management was conducted by category based on the result of the two-dimensional evaluation. Emphasis was given to the management of strategic suppliers. The Company endeavored to develop a stable long-term tie with the strategic suppliers. Through the production-supply-research activity, the Company encouraged suppliers to strive for an outstanding quality and high customer satisfaction. The supplier performance evaluation results were effectively conveyed to the suppliers in written forms, helping them improve their performances.

The Company continued to improve the supplier selection system, based on collective examination and appraisal with strict supervision. The new selection system will promote a fair and objective supplier selection. In 2010, two collective examination and appraisal were organized. 33 suppliers, including some self-recommended ones, were accepted through the two collective appraisals. The list of the suppliers was published on the Company's online e-procurement system.

More work was done to enhance the synergy among the material and spare part suppliers and enforce the online supervision, with a view to guarantee the standard operation, transparency, efficiency, and controllability of related transactions. Currently, 85% of the suppliers, 98% of the e-orders and 36% of the electronic inquiries are now included in the online synergy.

## Green Procurement

To better implement the strategy of environmental management, the Company compiled its first *Handbook for Green Procurement*, expounding on the Company's green procurement policy for the current phase and stating concrete requirements. The handbook is planned to be published in 2011. As for material and spare part procurement, specific schemes were stipulated for green procurement. In May 2010, an onsite Baosteel green procurement meeting was held and attended by some suppliers. The pilot procurement program for fire-resistant materials was initiated as a part of the efforts to urge suppliers to get involved in green production. The Company also stipulated green procurement standards and started to make a green procurement catalog. It completed the review of 150,000 codes, or 40% of the currently valid codes, and 11,657 items of the green procurement catalog. 36 green procurement production-supply-research programs were finalized. The cooperation with suppliers in promoting green procurement obtained concrete results. The Company made clear requirements for key suppliers regarding environmental protection.

## Recycle and Utilization of Waste Materials

Baosteel recollected more than 130,000 tons of waste materials and spare parts in 2010, including 5,070 tons of zinc slag and tin sludge, 650 tons of waste oil, amounting to more than CNY80 million. The zinc slag was sold directly to manufacturers so as to avoid the irresponsible treatment by agents in a manner that might cause pollution to the environment. In the meantime, the Company requested that the Baosteel Development Co., Ltd should increase its use of zinc slag so as to raise the utilization rate by Baosteel itself. The Company classified the waste oil into several categories and endeavored to reduce the cost for waste oil reclaim.

## 13

## Green Sales

- ▶ Enhancing Product Competitiveness
- ▶ Remolding Brand Image

In line with the trend for environmental protection, the Company took the environmental management as its core and customer needs as its orientation and devised a plan for green sales, addressing the legal requirements for environmental protection and users' demands from green products proactively. Concrete measures for green sales include: a) defining environmental protection evaluation process, and establishing the evaluation guarantee mechanism; b) investigating and guiding the market needs for green products, and designing new products accordingly; c) promoting green products based on the product LCA, and conducting a series of product LCA; d) systematically investigating users' evaluation of steel products, finding solutions to the quality issues put forward by users such as enhancing environmentally-friendly features, and simplifying the processing procedure for users; e) promoting Baosteel's environmentally-friendly products in both domestic and international markets.

### Enhancing Product Competitiveness

The Company optimized its product structure oriented by product profitability. It laid more emphasis on exploring the market for exclusive leading products. By responding swiftly to the changing market, it strengthened its competitiveness in the domestic market and enhanced the market share of its key products. As a result, the Company in 2010 sold 11.9 million tons of exclusive leading products, 23% higher than the previous year. The sales of cold rolling auto plates took up 50% of the domestic market. The high magnetic induction grain-oriented silicon steel sheets won the silver prize at the 2010 China Industrial Exposition, marking the beginning of China's independence from importation of this product. In 2010, the high grade non-oriented silicon steel products passed the review of Three Gorges Project Construction Committee. The products were considered stable in technical indicators and were able to completely replace imported products to be applied in 700 MW or above hydro generators of Three Gorges Project. This was another major breakthrough achieved by Baosteel following the oriented silicon steel passing the review of the State Council Three Gorges Project Construction Committee Executive Office in 2009. Baosteel provided steel products for the large-scaled hydraulic turbine-driven synchronous generators and transformers of the Three Gorges Project. The Baosteel DI material and steel cans contributed greatly to the environmental protection and a low-carbon economy. The sales of the DI material in 2010 totaled 76,000 tons.

### Remolding Brand Image

Bringing to play its total-set service, Baosteel participated actively in a range of major projects in China in 2010. While focusing on the material supply for major projects, the Company also promoted its technical services. For the 100,000-square-meter Zhenhai Lingshan Project and the 150,000-square-meter Baishawan Oil Reserve Base Project, Baosteel realized the total-set services, with products ranging from common steel plates to tempered high strength steel plates. A series of new products developed by the Company, including anti-seawater-corrosion Q345C-NHY3 steel, oil tank plate B610E, ball tank steel B610CF-L2, weather-enduring steel Q420GJCW, and ultra-low yield strength steel BLY225, were widely used in the following projects: the Yangshan Deep-water Port, the National Strategic Oil Reserve Base, the China National offshore Oil Corp, Huizhou Refinery, and the New Guangzhou TV Tower, marking China's independence from importation of large-project-used steel products. The Shenzhen Kingkey Center which was topped in 2010 used the package service from Baosteel, involving "steel material supply, steel structure design, as well as steel structure processing". This package service was made possible by exerting Baosteel's cluster advantage in terms of region, quality and service. The site construction of the Shanghai Expo was an extraordinary project because of its super-large scale, diversified needs of steel products, limited timeframe, frequently changing needs, relationships with many departments, and complicated procurement procedure. The Company set up a special Expo supply team to ensure the efficient supply for the Expo project, delivering about 100,000 tons of steel products.



## 14

## Green Logistics

- ▶ Choosing the Energy Conservation Ship for Transportation
- ▶ Optimizing the Interior Logistic Organization
- ▶ Intensifying the Environmental Factor Control in the Process of Logistics
- ▶ Green and Simplified Packing

## Choosing the Energy Conservation Ship for Transportation

When choosing ocean shipment, the Company takes a comprehensive consideration of logistic costs and gives priority to the new energy-saving ships. This is considered an effort to reduce the energy consumption during shipment to protect the environment. In 2010, 43% of the shipment of the Company was performed by the new energy-saving ships built in and after 2005.

## Optimizing the Interior Logistic Organization

The following measures were taken by the Company to optimize the logistics for production: a) endeavoring to fully exert the dynamic control system for the steel product transportation, and enhance the coordination among the port, the lorry and the warehouse; b) looking for optimizing methods for the logistic procedure, raising the accuracy of GPS orientation, and reducing the empty mileage caused by vehicle transfer and ineffective transportation; c) setting down transportation plans according to the actual needs, shortening waiting time at the port, and improving efficiency in loading and framework utilization.

The Company also built a logistic model in line with the fixed production procedure and management, carried out analysis on the discrepancy between the standard logistic plan and the actual logistic performance, and gradually promoted an integrated management for transportation and production.

## Intensifying the Environmental Factor Control in the Process of Logistics

Based on its recycle and reutilization platform, the Company endeavors to recycle and reuse waste materials such as belts, steel wire, nylon belts, and auto wheels. It also works together with the carrier and the cooperative supplier to recycle the wood used for reinforcement in transportation.

Great emphasis was made on the treatment of waste oil from engineering machinery and vehicles, as well as the dust from the dust-removal system. Emergency plans were made, for example, the water discharge at the port and the oil leaking of vehicles in transportation..

In regards to dust controlling, the Company conducts daily supervision and special project examination in logistic management. When a problem is discovered, it will draw inferences about other cases from this instance. In 2010, the utilization rate of the Majishan Port machinery interior water spray system, and the water dripping installation, as well as the interior water spray installation in the raw material port reached 98.5% of the annual target.

## Green and Simplified Packing

Starting from the fourth quarter of 2010, Baosteel canceled packing for the high grade non-oriented silicon steel products. Instead, the products were delivered in rolls. This has reduced the cost and the material serving time for users. For Baosteel, canceling the packing saves both manpower and packing material.

The methylnaphthalene products made by Baosteel Chemical used to be packed in metal barrels and would usually become cold and solidified when arriving at destinations. In order to save the reheating and fluidifying process for the customer so as to cut costs, save energy, and improve production efficiency, Baosteel revised the packing service and designed a type of liquid heat preservation trough to transport the product. The "green travel" of this product has not only saved transportation space and raised the transportation efficiency by 50%, but also saved the packing cost for Baosteel Chemical.

The Company took the initiative in minimizing packing materials and exploring new packing materials without negative features. Pilot programs were launched regarding new packing materials such as wooden brackets, new-type anti-rust membrane, and PE plastic boards which were used as substitution for steel planks. The new materials are expected to enhance packing quality, reduce packing cost, use fewer laborers, and lower unpacking risks. The pilot programs have received positive feedback from customers: the new packing materials were performing better in damp proof, endurance, and appearance. Baosteel will extend the use of new packing materials in future.

## 15

## Social Responsibility

- ▶ Poverty Alleviation, Care for Employees Experiencing Hardships
- ▶ Donations • Sponsorships
- ▶ Inspiration • Contribution
- ▶ A Good Host to Welcome the Shanghai World Expo

## Poverty Alleviation, Care for Employees Experiencing Hardships

To step up its care for employees with serious illnesses, the Labor Union of the Company, through communications and coordination with the management and the functional departments of the Company, has set up standardized Aid Implementation criteria. In 2010, 30 employees with illnesses benefited from this policy. The total volume of this aid was CNY1.0427 million. In the meantime, the Company also gave aids to 10,616 employees experiencing hardships, totaling CNY5.8879 million.

On both the New Year's Day and the Chinese New Year's Day, the Company carried out the "One-day Donation" activity, collecting CNY4.8622 million.

## Donations • Sponsorships

In 2010, the Company made donations and sponsorships reaching CNY12.7725 million, accounting for 2.2% of the 2009 audited annual net profit attributed to the parent company, mainly for poverty alleviation, environmental protection, educational cause, and donations for charities. The detailed information is listed as follows:

No.	donator	Program	Amount (CNY)	Receiver
1	Baosteel Headquarters	Expo tickets for the disabled in Baoshan District	18,000.00	Baoshan Office of Shanghai Disabled Welfare Fund
2	Baosteel Headquarters	Endowment to "Workshop on Corporate Governance"	136,534.00	Yale School of Management
3	Baosteel Headquarters	Poverty-relief for Yunnan	10,000,000.00	Poverty Relief Office of Yunnan Provincial Government
4	Baosteel Headquarters	Poverty-relief for Yunnan (Recovering Eyesight Activity)	600,000.00	China Disabled Welfare Fund (Pu'er Disabled Persons' Federation)
5	Stainless Steel Business Unit	Pair-up poverty-relief	108,000.00	Villagers Committee of Yongle Village, Miao Town, Chongming County
6	Huangshi Coating	Donation for China Huangshi First International Metallurgy Cultural Tourism Festival and the 60th Anniversary for the Establishment of Huangshi City	100,000.00	The Organizing Committee of China Huangshi First International Metallurgy Cultural Tourism Festival and the 60th Anniversary for the Establishment of Huangshi City
7	Huangshi Coating	Donation for China Huangshi First International Metallurgy Cultural Tourism Festival and the 60th Anniversary for the Establishment of Huangshi City	100,000.00	The Organizing Committee of China Huangshi First International Metallurgy Cultural Tourism Festival and the 60th Anniversary for the Establishment of Huangshi City
8	Huangshi Coating	Donation for the new countryside construction in Huangshi city	300,000.00	Countryside Accounting Service Center, Dawang Town, Yangxin County, Huangshi City
9	Huangshi Coating	Huangshi City Sending Warmth and Love Activity	30,000.00	Huangshi Charity
10	Ningbo Baoxin	2010 pover-relief donation for Minkeng Village, Fenghua City	50,000.00	Minkeng Village, Banzu Town, Fenghua City, Zhejiang Province
11	Ningbo Baoxin	Donation to China 8th Disabled Games	10,000.00	Zhejiang Province Disabled Welfare Fund
12	Howa Trading	Donation to Qinghai Yushu through the Embassy of China in Japan	JPY3 million	Embassy of China in Japan
13	Suzhou Baohua Carbon Black Co., Ltd., a subsidiary of Baosteel Chemical	Charity donation	500,000.00	China Disabled Welfare Fund
14	Meisteel	Donation for the construction of standardized factory in Chaizhuang Community	600,000.00	Government of Donggou Town, Liuhe District, Nanjing
Total			12,772,534.00	

The Company also donated CNY4.3848 million through the "One-day Donation" for "Yushu Earthquake Relief".

## Inspiration • Contribution

On 12 March 2010, responding to the call of the Huangshi City Youth League Committee, the Youth League Committee of Huangshi Coating organized a tree-planting activity. More than 20 young employees from the company came to the Yangtze levee in Huangshi and planted trees in the area named "Corporate Youth Ecological Forest of Baosteel Huangshi Coating Zone". They will also be responsible for the follow-up tree care for at least a year. In April, July and August of 2010, the company's employees participated in the 10,000-volunteer service activity named "Advocate civilized behavior, and beautify Huangshi".

Youth League members of Meisteel carried out a public welfare activity themed "Environmental-protection and Low-carbon Volunteer Activity for Xuanwu Lake". Volunteers picked trash along the lake to raise people's awareness of environmental protection and the harmonious human-nature coexistence.

## A Good Host to Welcome the Shanghai World Expo

To welcome the World Expo as a good host, the Company made the initiatives among the whole employees: encouraging them to make joint efforts to create a secure, beautiful, harmonious and courteous Expo, and taking full responsibilities to host a successful, exciting and memorable Expo.

Since being selected as an industrial tourist spot during the Shanghai World Expo period, the Company had been making preparations to welcome visitors from home and abroad. The Company reviewed all the environmental-protection facilities and solved problems. Two schemes—*Environmental Protection Scheme in Preparation for the Expo*, and *Environmental Protection Scheme during the Expo*—were made. In preparing for the Expo, the Company improved the landscape along the tour route, and completed the landscaping of about 105,000 square meters. The supervision on the environment was stepped up during the running period of the Expo, and measures were taken promptly to deal with environment-related problems.

During the running period of the Expo, the Company designed and organized the photography contest named "Image Expo" around such themes as Expo and Shanghai, Expo and Baosteel, Expo and Humanity, and Expo Moment. The contest gave expression to the urban evolvement, the passion for the Shanghai World Expo, and the beautiful life brought by the Expo. People were inspired to recapture the city's development and the beautiful Expo with photos. The contest received 524 pieces of works from Baosteel employees and employees from cooperative enterprises. The excellent works were displayed on *Baosteel Daily* and on tour exhibitions.





## 16

## Environmental Protection

- ▶ Management Guidelines
- ▶ Management Structure and Responsibilities
- Management System
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Our goal is to build a global leading clean steelmaker.

### Management Guidelines

- (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, and continuously reduce energy consumption and environmental impact on the production and use of products;
- (3) Improve manufacturing processes, optimize energy structure, reduce energy consumption and cut energy costs;
- (4) Alter new production units to meet energy conservation and environmental protection requirements, 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 climate change, actively participate in domestic and international communications and cooperation in energy conservation and environmental protection, push forward R&D and promotion of energy conservation and environmental protection technology, and improve ecological environment; and
- (9) Increase employees' awareness and capability of and engage all employees in energy conservation and environmental protection.

### Management Structure and Responsibilities

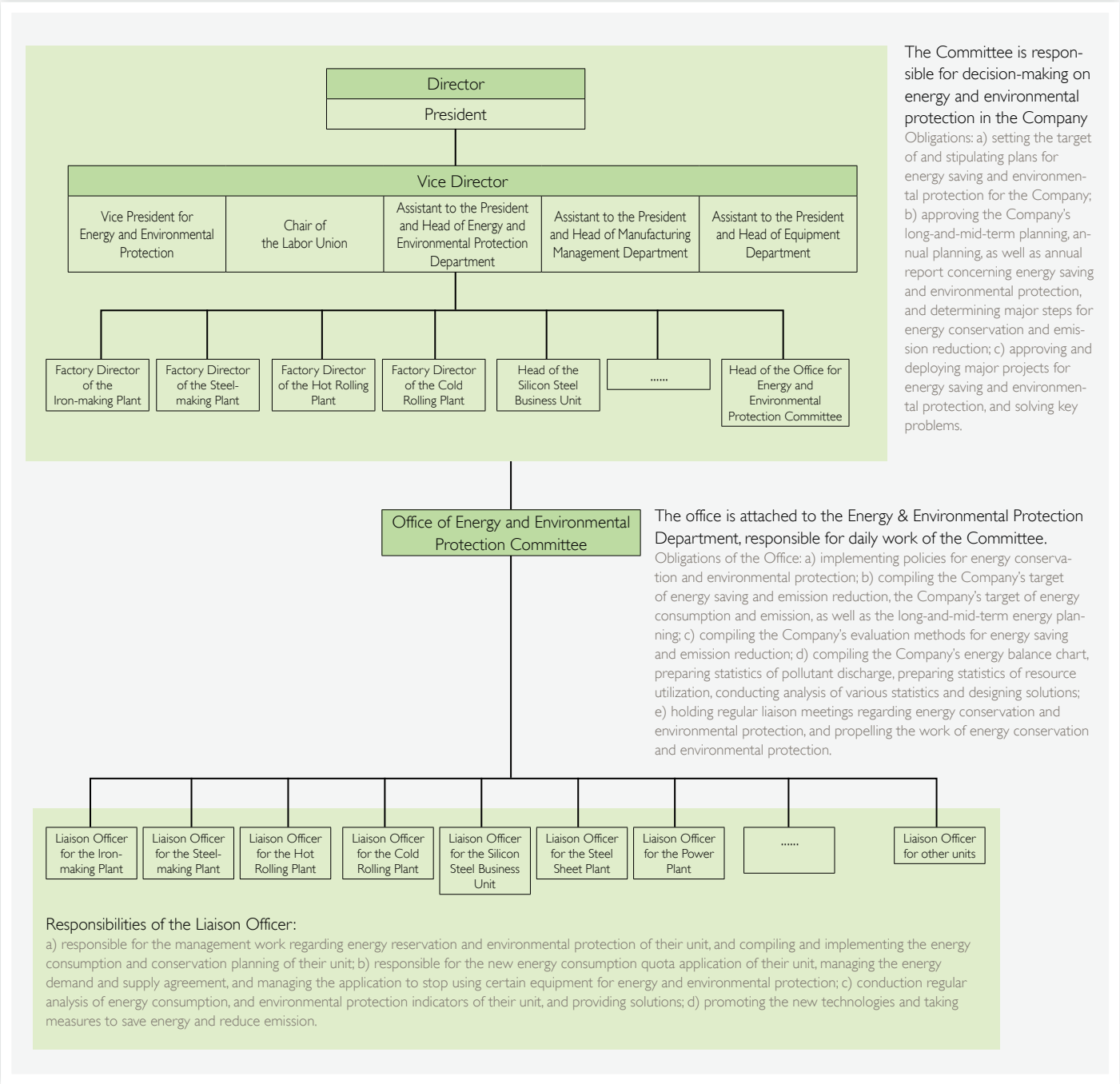
The Company has set up the Energy and Environmental Protection Committee, which is responsible for developing the Company's policy on environmental protection and resource utilization; directing, studying and defining the development plans and programs for environmental protection and resource utilization; coordinating resource allocation among branches, subsidiaries and divisions; and making decisions on major projects of energy conservation, environmental protection and resource utilization. The President of the Company acts as the Director of the committee, Vice Presidents and Head of the Energy and Environment Dept. as the Vice Directors of the committee, and the deputy managers of all business units and divisions as the members of the committee. The committee has a special office attached to the Energy and Environment Dept.

The Company practises integrated management of clean production, energy saving and consumption reduction, pollutant reduction, and reutilization. The responsibilities of the Energy & Environmental Protection Department are listed as follows:

- 1) Fulfilling the target of energy saving and environmental protection: responsible for the energy saving and environmental protection work with a view of fulfilling the national target. Reporting to and communicating with the Government. Breaking down the target, distributing smaller targets to various departments, and conducting examination and appraisal of the work by departments.
- 2) Providing guidance and supervision regarding the policy of energy and environmental protection: explaining and implementing relevant governmental policies regarding energy saving, environmental protection and resource utilization, relaying requirements on these areas from the Government, and Baosteel Group, and checking the actual work of each unit.
- 3) Managing plans for energy saving and environmental protection: organizing the compiling of plans for energy saving, environmental protection and resource utilization, and conducting statistic studies about the implementation of the plans.
- 4) Providing guidance and supervision of the examination and evaluation of energy saving and environmental protection work: stipulating evaluation indicators for energy conservation, environmental protection, and resource utilization, and conducting evaluation accordingly.
- 5) Managing the technical support for energy and environmental protection: sharing good experience and common technologies in energy saving, environmental protection and resource utilization; and facilitating the technical support for these areas.
- 6) Managing communications and cooperation in energy and environmental protection: communicating with the Government, and promoting communications and cooperation among the industry and related enterprises.
- 7) Managing investigation into severe environment-related incidents: organizing or working with the Government in the investigation into major incidents of environmental pollution; providing guidance for environmental complains.
- 8) Taking measures to deal with severe emergencies concerning energy and the environment.



Organization of the Company's Energy and Environmental Protection Committee



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

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## Management System

### 1. Environmental Management System

Baosteel is the first in China's steel industry to have been certified to ISO14001 for environmental management. Over the years, the Company has continuously reinforced environmental management by promoting certification to ISO14001 within the companies acquired in recent years. As a result, the Company witnessed a steady growth in the standard and benefits of its environmental management. Currently, all steelmaking units of the Company have been certified to ISO14001 for environmental management.

### 2. Energy Management System

In view of the national energy management policy and Baosteel's strategic environmental management, the Company has taken proactive measures to elevate its energy management system. In 2010, it initiated the pilot program of applying for energy management system certification.

According to the GB/T23331-2009 *Energy Management System-Requirements and Rules on the Implementation of Energy Management System Attestation in the Iron and Steel Industry*, the certification of the energy management system follows the principle of "enhancing energy control, and reducing energy consumption", and lays emphasis on the management of and the use of energy saving technologies in energy procurement, storage, processing and transfer; transport, utilization, as well as residue heat and energy recycling.

Baosteel's Energy Management System certification applies to Baosteel headquarters and BNA. After examination, the attestation authority, Beijing Grand Honour Management System Certification Co., Ltd. attested that: a) Baosteel's "three flows (energy, manufacturing, and value) and one status (equipment)" energy management system is in line with the features of energy management in the steel industry; b) its recognition and evaluation of energy consumption sources have been reflected in its energy utilization and the efficiency of the energy system has, thus, been guaranteed; c) the energy performance indicators of the Company are good and its key performance indicators meet the requirements stipulated in the Rules on the Implementation of Energy Management System Attestation in the Iron and Steel Industry; d) the energy center of the Company is in an effective operation, the IT system for the energy management facilitates the dynamic real-time supervision, warning, and tele-operation of the Company's energy resource; in the meantime, the support system for the energy management provides strong support to the improvement of energy management in the Company.

The attestation authority has testified that Baosteel's Energy Management System has met the requirements stipulated in GB/T23331-2009 *Energy Management System-Requirements and Rules on the Implementation of Energy Management System Attestation in the Iron and Steel Industry*. Baosteel became the first in the steel industry to have passed the national certification for an energy management system.

In 2011, Baosteel will promote its successful experience of the certification and help all of its steel production units pass the national certification before 2012.

### 3. Energy and Environment Education and Training

To develop the energy management team, and enhance the qualification and expertise of energy managers at all levels, support the Company's efforts in lowering costs, and elevate the overall energy management system, the Company provided 18 training programs in 2010, including GB/T23331-2009 *Energy Management System-Requirements, Rules on the Implementation of Energy Management System Attestation in the Iron and Steel Industry*, clean production, environmental management, environmental accounting, and qualifications for managerial staff in energy management. In the year, 21 classroom teaching programs were completed, involving 923 trainees.

## Environment and Energy Solutions

In 2010, the Company took these measures to save energy and reduce emission: a) promoting an environmental economy by laying emphasis on energy saving and emission reduction as well as comprehensive use of resources; b) strictly controlling the gross increase of energy consumption, reducing pollutant discharge, and enhancing the efficiency of resource reutilization; c) continuously furthering the energy cost improvement, improving the operation of the macro-energy-system, and greatly reducing the cost for energy; d) stepping up investment in projects of energy saving and environmental protection, promoting technological innovation to achieve energy saving and emission reduction, and pursuing a sustainable development; e) enforcing the energy management system, supervising the fulfillment of responsibilities, and meeting the target for energy saving and emission reduction.

### 1. Elevating Capability of the Energy Management System



The “three flows and one status” energy management system was applied to major steel units of the Company. The Company organized training programs on relevant rules and regulations related to the six modules of the management system, and on technical criteria. Emphasis was laid on the management regarding “energy consumption sources” and “key energy-efficiency factors”. The energy management was integrated into the management of production, equipment and cost. The Company compiled the *Energy Consumption Index and Benchmarking*, which describes the energy consumption index based on the process energy consumption and major recovery index, and the classification in benchmarking.

The information system for energy measurement was launched online. The new version of the *Company's General Technical Specification (Measurement)* was published, giving details of energy measurement.

According to the Company's *Management Measures of Energy Audit*, the Company completed the audit work for purchasing primary energy resources. The *Comprehensive Management Guide (Energy)* was compiled, and relevant rules and standards for production units were completed.

In response to the clean production auditing for industries and enterprises carried out by the Ministry of Industry and Information Technology, the Company organized training sessions for internal auditors of clean production, and set up a team to take charge of relevant work, so as to ensure that all of the Company's steel units in Shanghai can pass the auditing in the first half of 2011.

In order to put key environmental factors under control, the Company set up goals, index and management schemes pertinent to these key factors. For the newly built units in operation, measures were taken to review the environmental factors and controls were implemented for key environmental factors. Starting with the rule-based assessment for hazardous waste management, the Company conducted an overall rule-based assessment in accordance with the environmental laws and regulations and other requirements, and standardized the disposal and management of hazardous waste. The Company urged all units to implement strict control of key environmental factors, carry out self-examination and special program examination, and propel the operation of the energy management system. The Company continues to push forward the three-year program of Elevating Systematic Competitiveness by “an intensive development”, and endeavors to build a complete scientific management system encompassing environmental protection and environmental control.

The Company compiled the *Manual for Energy Conservation and Emission Reduction in Metallurgy* (Environmental protection and comprehensive utilization), and *Management Measures for Construction Waste Disposal*, defining disposal procedures for construction waste.

The Company continued to integrate the work of energy saving and emission reduction, environmental protection, and comprehensive resource utilization into the Company's environmental management, established the indexes and system of assessment to reinforce the continued reduction in energy consumption, greenhouse gas emission, and pollutant discharge, and raise the utilization rate of waste resources.

More statistical and analytical work was carried out in the environmental cost and environmental accounting system. The environmental management was integrated into the Company's operational activities encompassing green procurement, and green supply chain and other areas, reflecting the Company's strong awareness of and commitment to social responsibilities.

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## 2. Implementing Projects of Energy Saving and Emission Reduction

To speed up the implementation of a series of energy saving projects, raise the efficiency of energy use, and reduce the energy consumption during the production process, the production facilities directly controlled by the Company in 2010 carried out the project-based planning of two projects: the "Energy-efficiency Power Plant" for power reduction, and the "High Efficiency Kiln Furnace" for gas reduction. The two projects proposed energy saving measures on 96 items. The measures will be implemented by phase in the following three years, with a planned investment of CNY580 million. The two projects, after completion, are expected to save 87,000 tons of standard coal and earn a business benefit of CNY220,000 million annually. The two projects have not only set a goal for the headquarters in the following 2-3 years, but also provided a good example for other units to identify their own energy saving measures.

The Company explored new modes of implementing energy saving projects. By adopting a mode similar to EMC, the Company successfully completed the "1580 Hot Rolling Descaling System Power-saving Reform" project, saving a total of 2.82 million kwh power annually. Based on this successful experience, the Company adopted the EMC mode for the "3BF Cast House Primary and Secondary Dedusting System Power-saving Reform" project, saving a total of 5.6 million kwh power annually. These two projects have provided good examples for other energy saving projects of the Company.

### Hot Rolling Plant Kept its Record of Best Performance in Comprehensive Energy Consumption per Ton Steel

2010 was the last year of energy saving and emission reduction in the phase of the "Eleventh Five-year Plan". The Hot Rolling Plant stepped up its efforts in energy saving and emission reduction. While optimizing the management of hot charging and hot delivering, the plant also reformed the hot furnace charging and heating procedures. As a result, the hot charging rate, the group hot charging rate, and the hot charging temperature saw great improvement and reached a record high, saving 12,400 tons of standard coal. The plant reviewed and reorganized the discharging temperature for all types of steel, which helped eliminate the energy consumption caused by the discharging temperature jump. Based on the experience of limited production mode implemented in the previous two years in response to the global financial crisis, the plant compiled a chart of area machine shut-down and integrated it into the energy management system, effectively reducing the power consumption during equipment maintenance and equipment shut-down due to malfunction. Energy-saving reform was also made to the descaling pump frequency conversion control, and the interior adhesive heat preservation fibre in the heating furnace.

The Company stepped up its efforts in key environmental projects, completed the three-year environmental protection planning of Shanghai, and improved the environmental performance in an all-rounded way. The No.1 and No. 2 sintering gas desulfurization construction was finished, the Low Nox combustion of No. 1 and No. 2 units of the Power Plant was reformed, and implemented measures for comprehensive environmental improvement for the sintering area, steel slag treatment, steel-making dedusting, and blast furnace cast house dedusting.

The Company was actively engaged in water saving, waste water recovery, coking water reuse, and collective treatment and reuse of the waste water of a whole plant including "Zero Emission" technology and concentrated salt water treatment technology. With its continued efforts, the Company optimized the systematical reutilization of the production waste water. The Company also conducted a survey on drainage in order to improve the water quality acceptance rate and the water recycle rate.



### Blowdown Water Reuse

The waste water station of BNA was originally designed in such a way that all qualified drainage water would be diverted to the blowdown water network of the Company. With an increasing workload in the network, the drainage water sometimes could not enter the network, causing potential problems to the operation and environmental protection. In order to ease the pressure on the network and reduce clean water consumption, BNA reformed its waste water station. After the reform, the waste water would go through the RO treatment, become cleaner and be sent back for industrial use. This new method does not involve the blowdown water network, and helps save 20 tons of industrial water per hour.

### 3. Enhancing Reclamation of Solid Wastes

The Company maximizes the reclamation of solid wastes through these measures: improving the total logistic control system for solid wastes, and the online operation of the comprehensive use of solid wastes; optimizing solid waste management procedure; exploring channels of solid waste reuse; and reinforcing the management of the solid waste end user.

The Company laid emphasis on the implementation of key projects such as steel slag treatment reform, and the solid waste site relocation, tackled key issues of reclamation technology for solid wastes such as the desulfurization slag, and urged the technological progress in solid waste disposal among the Company. In line with the plan of the Baoshan District Government, the Company carried out the slag disposal work in the Baoshan District.



#### Baosteel Slag Permeable Concrete Used in The Expo Avenue

At the Shanghai Expo Site, over 60% of the concrete and bricks of the roads are made of Baosteel slags. The beautiful and environmentally-protective slag permeable concrete possesses good permeability, ventilation, and wearing capacity. As a substitute of concrete, it may save resource consumption and reduce the exhausting of carbon dioxide to control "UHI". The slag product has a lower price compared to concrete manufacturing costs of the same level. Besides that at the Expo Site, the product is widely promoted and used in the roads of the Songjiang District Special Olympic Games training center, Yan'an green space scenic route, Baoshan Gucun Park, Shuimu Nianhua Community, etc.

### 4. Research and Innovation in Energy Saving and Emission Reduction

The Company completed the simulated experiment of the sintering waste gas reutilization, started the engineering feasible research design for the No. 2 sintering machine that uses waste gas for sintering in the Stainless Steel Business Unit. The model project - low-carbon technological innovation and commercialization for sintering waste gas and residual heat utilization—was listed as "a special project for low-carbon technological innovation and commercialization" by NDRC.

The Company is in charge of the key national program *Technological Development and Engineering Demonstration for Dioxin-like Pollutants Control* in the Steel Industry. It has completed a survey of the dioxin emission from a 132m<sup>2</sup> sintering machine in work, validated the relation between the dioxin and the temperature change of the sintering gas, designed and completed the sintering experiment under a hot wind condition to study the rules of dioxin emission, and organized the industrial experiment on activated carbon adsorption in the treatment of dioxin in the sintering gas.

The Porous Medium Combustion Technology is effective in achieving energy saving, emission reduction, and environmental protection, and is, thus, recognized as the most prosperous combustion technology in the 21st century by the international circle of combustion experts. The Company succeeded in applying this technology to a 2MW heating furnace in August 2010. Baosteel became the first in China to have developed this technology. The experiment showed that this self-developed combustion technique saved 10-15% of energy compared with regular burners, and its emission was within 50ppm.

Through technical reform, the solid waste disposal technique was improved and optimized. The Company carried out research on making mineral wool using the hot blast furnace slag - first phase experiment, and completed the component adjustment for the electric-fusion mineral wool making with the hot blast furnace slag and centrifugal drawing comparative experiment, producing high quality mineral wool fibers. The Company developed a high temperature furnace technique course and a scheme for slag fetching from the blast furnace, and made primary designs to apply the techniques to plant production.



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## 5. Deepening the Product-based LCA Research

Baosteel has been conducting LCA research for steel products since 2004. In 2010, the Company invested over CNY10 million in the research program, aiming at establishing a digital system about the Company's energy consumption and pollutant discharge in making various types of steel products. The digital system was expected to provide solid support to the Company's target of energy saving and emission reduction. Ecological product design was also carried out on major products such as auto plates, tinning plates, and silicon steel.

In 2010, Baosteel distinguished itself among many well-known enterprises and became a partner with UNEP in carrying out green procurement research and practices. The project created a "Maturity Model and Self-evaluation Framework for the Sustainable Development of Medium-small Enterprises" based on the supplier's product life cycle management flow. The project has been helpful for Baosteel to improve systematic management of its supply chain, and also for medium-small enterprises to quickly move to a sustainable development.

In 2010, Baosteel was actively involved in the GHG Protocol testing and made suggestions. The GHG Protocol was jointly developed by WRI and WBCSD, providing methodologies for calculating GHG emission of a single product in relation to the whole value chain. Baosteel's participation in this work means that Chinese enterprises no longer passively accept the international GHG examination; instead, they participate in setting relevant standards.

## 6. Serving the Light-weight Auto Design, Taking the Lead in Fostering A Green Industry

One of Baosteel's visions of the new round of development is "taking the lead in fostering a green industry". Baosteel has been committed to this goal and will push forward the cooperation with all parties on this front so as to promote the overall social sustainability.

On 20 September 2010, Baosteel and Shanghai Auto signed a *Framework Agreement for Strategic Cooperation in Light-weight Auto Production*, agreeing to conduct joint research and application of the light-weight auto steel technology. This has provided a good model for China's light-weight auto steel technological development and also for deepening the cooperation between industries.



## Environmental Protection Costs

In 2010, the Company continued to push forward the energy control by looking into both the energy cost and the energy consumption during production. The Company gained a good understanding of the relationship between energy cost and process energy consumption through comparison and analysis, found ways to reduce energy costs, applied them to production, and effectively reduced the process energy consumption.

Meanwhile, the Company implemented environmental management strategies put forward by Baosteel Group, conducted more statistical and analytical work on environmental costs, and made exploration on establishing an environmental accounting system.

In 2010, the composition of the Company's environmental protection costs was divided into expenses and capital expenditure, which amounted to CNY2.968 billion and CNY0.723 billion respectively.

## Environmental Management Performance

### 1. Consumption of Materials

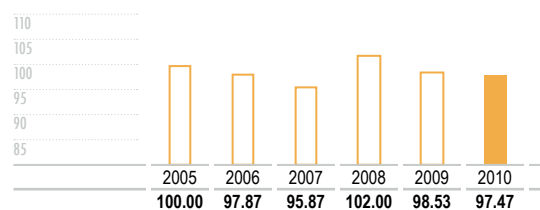
The Company's Major Consumption in 2010

Type of resource	Unit	Amount consumed
Iron ore and finished ore	10,000 tons	3114.4
Steel scrap	10,000 tons	616.5
Coal	10,000 tons	1545
Natural gas	100 million m <sup>3</sup>	4.6
Purchased electricity	100 million kWh	58.7
Raw water	100 million m <sup>3</sup>	1.03

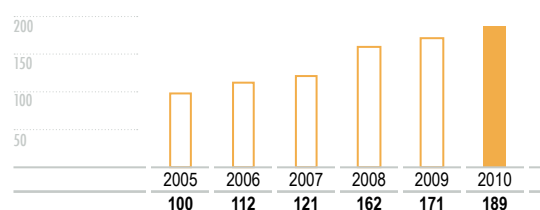
### 2. Energy Management Indicators

In 2010, the Company achieved all energy conservation targets, saving 346,000 tons of standard coal. Baosteel saved 1,116,380 tons of standard coal during the "Eleventh Five-year Plan", exceeding the targeted saving of 1 million tons of standard coal assigned by NDRC.

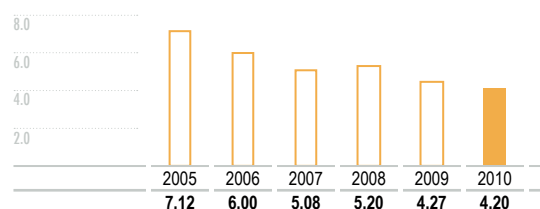
Overall Energy Consumed Per Ton of Steel (%)



Total Residual Energy Recovered (%)



Fresh Water Consumed Per Ton of Steel (t/t-s)





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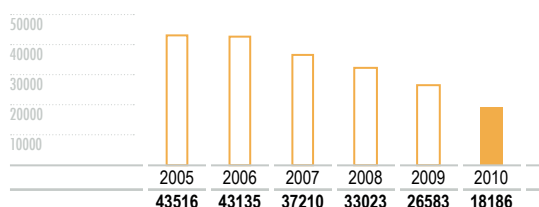
## Environmental Protection

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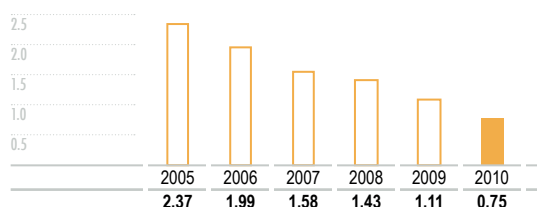
### 3. Total Pollutant Discharge Control Indicators

In 2010, all the Company's core environmental indicators were better than the target. Both the production facilities directly controlled by the Company and the Company saw steady improvement in a number of core performance indicators. For the past few years, Baosteel has stayed at the highest level of the national Cleaner Production Standard in terms of pollutant discharge.

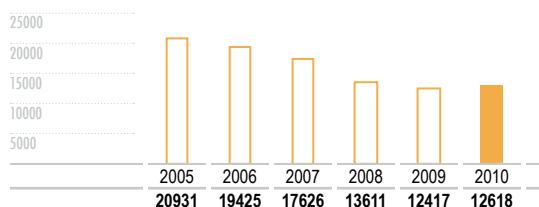
**SO<sub>2</sub> Discharge Amount**  
(Ton)



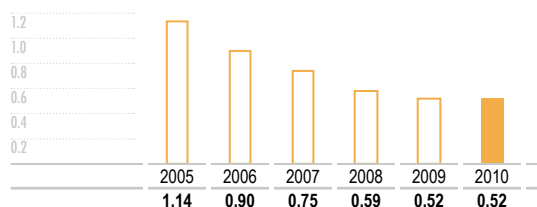
**SO<sub>2</sub> Discharge Level**  
(kg/t-s)



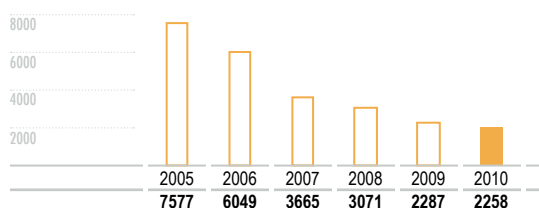
**Dust Discharge Amount**  
(Ton)



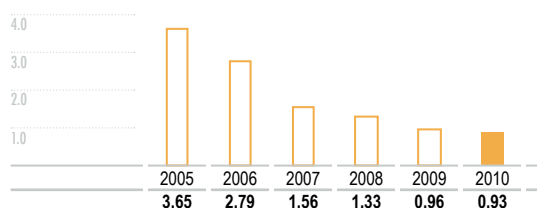
**Dust Discharge Level**  
(kg/t-s)



**Waste Water Discharge Amount**  
(10,000 ton)

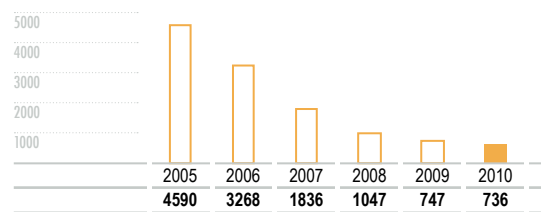


**Waste Water Discharge Level**  
(t/t-s)

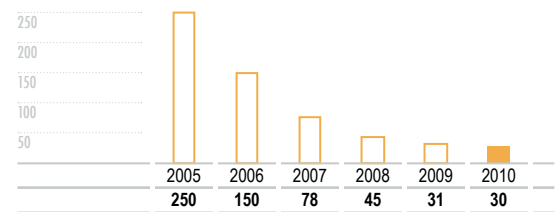




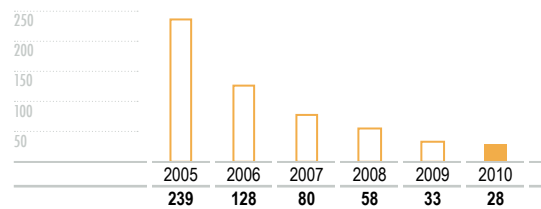
**COD Discharge Amount**  
(Ton)



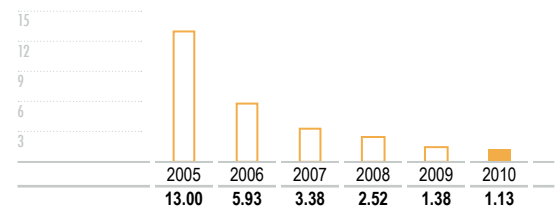
**COD Discharge Level**  
(g/t-s)



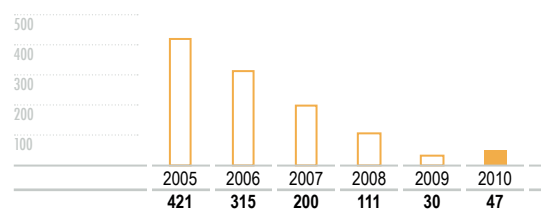
**Oil Discharge Amount**  
(Ton)



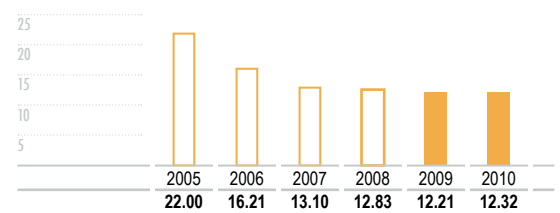
**Oil Discharge Level**  
(kg/t-s)



**NH<sub>3</sub>-N Discharge Amount**  
(Ton)



**Atmospheric dust deposition in plant area**  
(t/km<sup>2</sup> month)



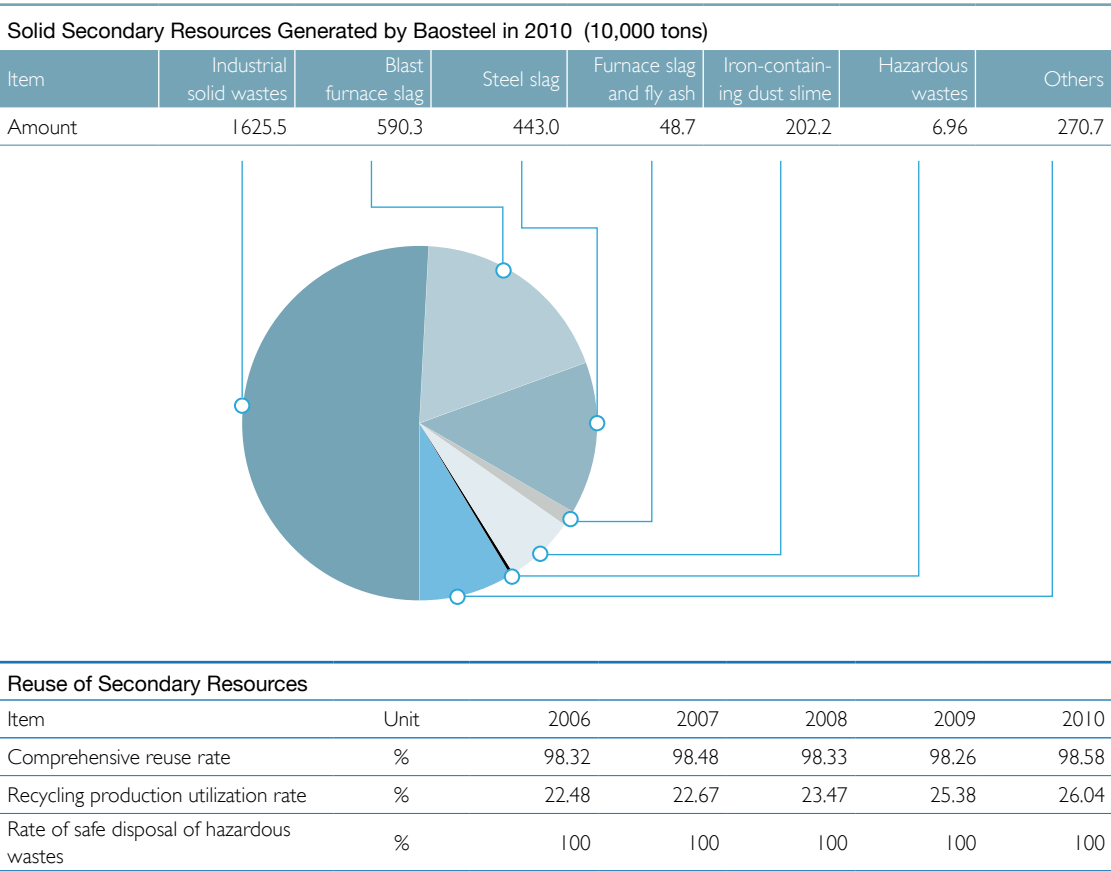
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4. Secondary Resource Utilization Management Indicators

In 2010, the Company's secondary resource utilization rate reached 26.04%, which was its best performance in record.



5. Environment-related Incident

On 9 April 2010, an oil leak incident happened to the Power Plant of the Company, due to equipment malfunction. In about 200 meters along the Company's river bank, the jackstone and reed were stained with heavy oil. But no heavy oil sheen was seen on the surface of the river. Prompt measures were taken and no severe consequence on the environment was caused.

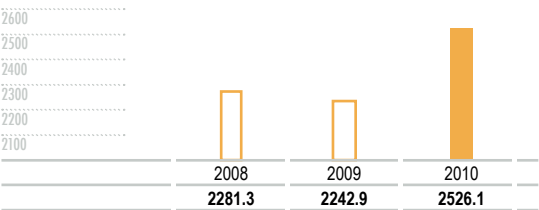
Economic Value Created and Distributed

1. Operating Income and Operating Cost

In 2010, faced with a complicated and uncertain economic situation, the Company placed emphasis on product management, cost improvement, and management reform, and overcame the pressure form price rise in iron ore and other materials. All employees were mobilized to challenges and difficulties by meeting challenges and seizing opportunities. In the year, 25.261 million tons of commodity billets were sold and a total operating income of CNY202.41 billion was generated, which was an excellent operating result.



Sales of Commodity Billets  
(10,000 t)



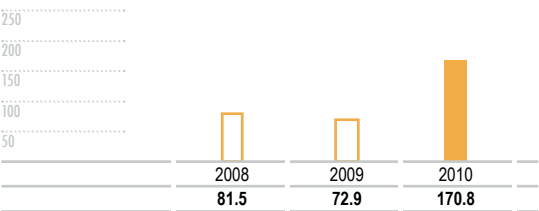
Total Operating Income and Operating Cost  
(CNY100 million)



2. Profit

In 2010, the global economy was recovering. But protectionism in international trade became prominent. The domestic economy was growing at a lower speed, and was faced with more pressure from inflation. The Company adjusted its sales strategy accordingly, laid emphasis on the profitability of products, continued to reduce the cost, and enhanced the overall competitiveness. It maintained the best performance among domestic peers, and managed to generate a gross profit of CNY17.08 billion for the year.

Gross Profit  
(CNY100 million)



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## Operating Results

- Economic Value Created and Distributed  
Indirect Economic Impact

### 3. Employees' Compensation

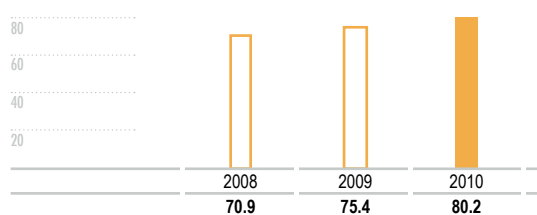
In 2010, the Company paid CNY8.02 billion in cash to and for its employees.

### 4. Retained Earnings and Dividend Distribution

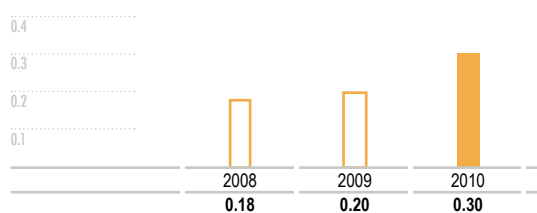
According to the Articles of Association of the Company, the allocation order of the after-tax profit is as follows: recovery of losses, statutory reserve, discretionary reserve, and common share dividend. The statutory reserve equals to 10% of the Company's after-tax profit, subject to a maximum accumulated 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 2010, the Company produced CNY12.89 billion in consolidated net profit attributable to parent company. To meet the goal of a sustainable development and demonstrate the business philosophy of "creating maximum value for shareholders", the Company proposed a cash dividend of CNY0.30 (pre-tax) per share for 2010 in accordance with the Company Law and the Articles of Association of Baoshan Iron & Steel Co., Ltd..

Cash Paid to and for Employees  
(CNY100 million)



Distribution of Cash Dividend  
(CNY per share)

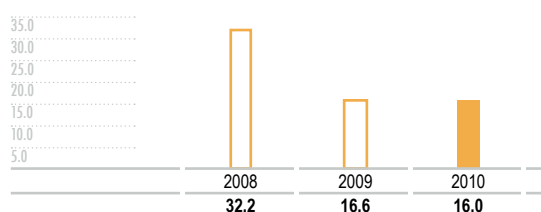


## 5. Capital Suppliers

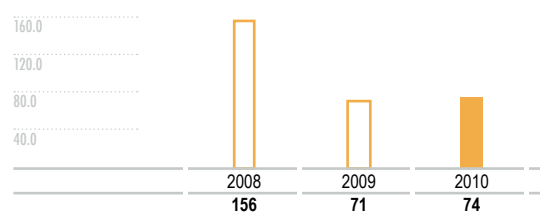
In 2010, the Company adopted the US-dollar financing strategy, ceased the opportunity of low point in the US-dollar financing interest rate, repaid the high-cost RMB financing, and thus, reduced financial expenditure. The Company expanded the financing resource through more negotiations with banks. It also carried out active plans to expand the scale of the US dollar financing through policy financing. It also promoted more cross-border RMB trade settlement. To control the exchange risks, the Company increased its US dollar long-term borrowings, and would perform interest rate swaps at an appropriate time to obtain low cost and achieve stable financing. Through these measures, it managed to maintain a low cash financing cost rate of 2%.

Partner financial institutions were selected based on their credit standing, business strengths and market reputation. Relations with financial institutions were coordinated at a comprehensive level. In addition, the Company values relationships with banks. The Company entered into cooperation agreements with major commercial banks regarding overall facility agreements and easy loan agreements, thereby assuring financing channels and adequate amount of the Company.

**Interest Expenditure**  
(CNY100 million)



**Taxes Paid**  
(CNY100 million)



## 6. Taxes

### 6.1 Taxes paid in 2010

With the vision of returning integrity and good operating results to the society, the consolidated amount of taxes in 2010 for the Company was CNY7.4 billion. The good tax-paying performance won the Company the "Shanghai Class 'A' Taxpayers" for a number of 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 2010 were as follows:

1. Covered by the preferential policy on corporate income tax of comprehensive resource utilization projects, CNY20 million of corporate income tax was exempted in 2010.
2. Covered by the R&D cost deduction policy, CNY360 million of corporate income tax was deducted in 2010.
3. Covered by the policy on deduction of special equipment investment from corporate income tax, CNY40 million of corporate income tax was deducted in 2010.
4. Covered by the deduction of tax for payment for handicapped employees, CNY1 million of corporate income tax was deducted in 2010.
5. Covered by the tax refund policy for high-tech achievement commercialization project CNY58 million of taxes were refunded in 2010.

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## Operating Results

Economic Value Created and Distributed  
► Indirect Economic Impact

## Indirect Economic Impact

In 2010, the Company had no indirect economic impacts including major actions, arbitrations, asset acquisition or sale or merger by absorption.

However, we're still faced with the indirect impacts from resources, energy, environmental protection, and market and other operational risks, and such impacts are becoming more and more intense.

After the implementation of new emission standards in Shanghai, the total emission volume of nitrogen and cyanogen from the Baosteel Chemical, and the emission volume of nitrogen oxide and dust from the Power Plant may exceed the standard volume in a relatively long period.

The new target of energy conservation and emission reduction stipulated by the "Twelfth Five-year Plan" may step up the requirements on reducing the emission of Nitrogen oxide, ammonia nitrogen, and carbon. The "Twelfth Five-year Plan" might also launch new taxes on the environment, resources and carbon. These possible changes will have a great influence on the Company's development.



Community conflicts have always existed between the business units, the production facilities and the local communities. While people are more and more concerned about the environment, such conflicts show a tendency of getting more intense.

However, it is true that from the challenges, good opportunities will arise.

Baosteel has always been committed to developing environmentally-friendly products and has already anchored the differentiation advantage in the steel industry. The modern era sees greater needs for green steel, which presents a great opportunity for Baosteel.

Low-carbon development and green operation are two important experiences Baosteel has learnt from its energy conservation and emission reduction involvement, which will play an important role in the Company's second round of pioneering exploration. Such efforts will put the Company in a leading role of constructing a Green Chain of Industry, and promoting the low-carbon development of the steel industry in China.

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## Appendix

## ► 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 recognized by the international authoritative institutions. They have received attestation and reexamination by BSI IS9001 and ISO/TS16949, obtained the US API logo and Japanese JIS certificate. Baosteel's products have also been recognized by ship classification societies in China, France, 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 will serve as an eternal powerhouse for the growth of the Company.

The Company attaches much importance to environmental protection, pursues a sustainable development and is the first in the Chinese metallurgy to have passed the GB/T23331-2009, the national energy management system authentication. It is also one of the first "National Environment-friendly Enterprises", "Clean Production and Environmentally-Friendly Enterprises" in the Chinese steel industry, and the "China Green Companies".

## 2. Major Holding Companies and Joint Stock Companies

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

Shortened as Meisteel in this report.

Registered capital and interest held: In 2010, the Company increased an investment of CNY1.5 billion in Meisteel. As of the end of 2010, the Company had a 77.04% interest in Meisteel, and Meisteel had a registered capital of CNY7.081 billion.

Assets and profit: As of 31 December 2010, Meisteel had a total asset of CNY26.32 billion and net asset of CNY12.63 billion, and generated a net profit of CNY80.605 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: In 2010, the shareholders made contributions of CNY340 million, including CNY180 million from the Company, to the registered capital of Ningbo Baoxin Stainless Steel Co., Ltd. As of the end of 2010, the Company had a 54% shareholding of Ningbo Baoxin Stainless Steel Co., Ltd., and Ningbo Baoxin had a registered capital of CNY3.19 billion.

Assets and profit: As of 31 December 2009, Ningbo Baoxin Ningbo Baoxin had a total asset of Rmb6.31 billion and a net asset of CNY2.75 billion and reported a net profit of CNY0.23 billion in 2010.

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

## (3) BAOSTEEL-NSC/ARCELOR AUTOMOTIVE STEEL SHEETS CO., LTD.

Shortened as BNA in this report.

Registered capital and interest held: As of 31 December 2010, 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 2010, Baosteel Nippon had a total asset of CNY5.48 billion and a net asset of CNY3.64 billion, and generated a net profit of CNY570 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 2010, 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 2010, Meisteel had a total asset of CNY1.25 billion and a net asset of CNY0.78 billion, and generated a net profit of CNY9.861 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) Baosteel Huangshi Coating Sheet Co., Ltd.

Shortened as Huangshi Coating in this report.

Registered capital and interest: As of 31 December 2010, 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 2010, Huangshi Coating had a total asset of CNY497 million and a net asset of CNY129 million, and generated a net profit of CNY23.03 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.

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

Shortened as Baosteel International in this report.

Registered capital and interest held: As of 31 December 2010, the Company had a 100% interest in Baosteel International, and Baosteel International had a registered capital of CNY2.25 billion.

Assets and profit: As of 31 December 2010, Baosteel International had a total asset of CNY33.91 billion and a net asset of CNY10.26 billion, and generated a net profit of CNY1.86 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 of 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 2010, the Company had a 55.5% interest in Baosight Software, and Baosight Software had a registered capital of CNY0.26 billion.

Assets and profit: As of 31 December 2010, Baosight Software had a total asset of CNY2.49 billion and a net asset of CNY1.13 billion, and generated a net profit of CNY0.22 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 2010, the Company had a 100% interest in Baosteel Chemical, and Baosteel Chemical had a registered capital of CNY2.1 billion.

Assets and profit: As of 31 December 2010, Baosteel Chemical had a total asset of CNY5.11 billion and a net asset of CNY3.83 billion, and generated a net profit of CNY0.54 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: As of 31 December 2010, the Company had a 95.82% shareholding of Nantong Baosteel Steel and Iron Co., Ltd., and Baotong Steel had a registered capital of CNY621 million.

Assets and profit: As of 31 December 2010, Baotong Steel had a total asset of CNY2.54 billion and a net asset of CNY0.82 billion, and generated a net profit of CNY4.58 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 2010, the Company had a 62.1% interest in Baosteel Finance, and Baosteel Finance had a registered capital of CNY500 million.

Assets and profit: As of 31 December 2010, Baosteel Finance had a total asset of CNY11.1 billion and a net asset of CNY1.54 billion, and generated a net profit of CNY0.12 billion this year.

Scope of business: Taking deposits from members, granting loans to members, internal transfer settlement between members and relevant settlements, entrusting 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 2010, 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 CNY2 billion.

Assets and profit: Yantai Pipe is under construction. As of 31 December 2010, Yantai Pipe had a total asset of CNY2.6 billion and a net asset of CNY1.76 billion, and generated a net profit of CNY0.16 billion this year.

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.

**(12) Overseas Subsidiaries**

As of 31 December 2010, the Company had subsidiaries in the USA, Japan, German, Singapore and Hong Kong. They have played an important role in expanding the Company's marketing and procurement network and improving its competitiveness in international markets.



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Contact us at:  
Energy & Environmental Protection Department, Baoshan Iron & Steel Co., Ltd.  
3F, Baosteel Administrative Center, No. 885 Fujin Road, Baoshan District, Shanghai, China  
Postal code: 201900  
Tel.: +86-21-26643173  
Fax: +86-21-26643433  
E-mail: [sustainability@baosteel.com](mailto:sustainability@baosteel.com)

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Energy & Environmental Protection Department,  
Baoshan Iron & Steel Co., Ltd.  
3F, Baosteel Administrative Center, No. 885 Fujin Road,  
Baoshan District, Shanghai, China

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