

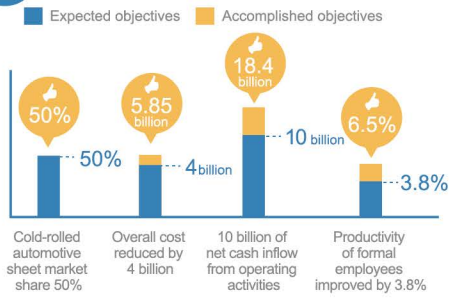
# 2016 ANNUAL REPORT





# BAOSTEEL'S PERFORMANCE IN ONE CHART

## 01 Fulfillment of Overall Business Objectives for 2016



## 02 Best-in-Class Performance

### PERFORMANCE OVERVIEW



As the difference between purchasing price and selling price was basically the same as in the previous year, the Company made a profit of **11.52 billion yuan** in 2016, up **553%** yoy, through cost reduction, structural optimization and productivity improvement.

### CONTRAST IN THE INDUSTRY



## 03 Cost Reduction

First-time implementation of the performance assessment incentive mechanism strongly correlated with cost reduction

All costs can be reduced

A total reduction of **5.85 billion yuan** in cost in 2016



- Changes in processing cost
- Service cost
- Maintenance cost
- Cost of sales, management and factory affairs
- Net interest expense
- Purchasement and logistics of raw material and fuel
- Reduced spot goods loss
- Other expenses

## 04 Zhanjiang Steel



- No.2 blast furnace was ignited smoothly on July 15, 2016, two months ahead of schedule, and Zhanjiang started full production in Nov. 2016.
- Technical economical indexes and environmental indexes continued to trend up, with business performance exceeding the Company's expectation.

## 05 Merger of Baoshan Iron & Steel (Baosteel) and Wuhan Iron and Steel

### SCHEDULE



After merger, among the world's listed iron and steel companies, Baowu became:

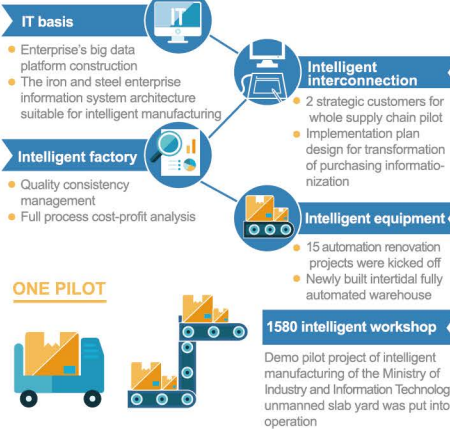
- No. 3 in terms of the output of crude steel
- No. 3 in terms of the output of automotive sheet
- No. 1 in terms of the output of oriented silicon steel

## 06 R&D

- Global premiere of three products: high magnetic induction grain-oriented silicon steel B27R080, B30R090, and continuous tubing CT110
- The Project of "Thin Strip Continuous Casting and Rolling Process, Equipment and Control Engineering Technology Integration and Product Development" won special award of Metallurgical Science and Technology award
- The result of "Secondary Cold Rolling Products and Core Technology Research" won first prize of Shanghai Municipal Science and Technology Progress

## 07 Intelligent Manufacturing

### FOUR MAIN LINES



## 08 E-commerce

Ouyeel had an annual e-business volume of **14.87 million tons**, achieved sales revenue of **38.69 billion yuan**, and its logistics platform outperformed the "thousands of warehouse layout".

Category	Trading volume	Settled volume	Number of users
Ouyeel	38.76 million tons	16.95 million tons	55000+
Ouyeel Logistics	Ouyeel cloud warehouse	Warehouses covered by the system	Franchise warehouses managed
	Ouyeel yunbang	Forwarding agents on the platform	Cumulative trading volume on the platform
Ouyeel Finance	Balance of wealth management	Scale of payment	Financing balance
	1.5 billion yuan	120.9 billion yuan	4.9 billion yuan

## 09 Energy Saving and Emission Reduction

- Golden Sun phase II photovoltaic power generation project was officially completed. The annual total power generation of phase I and phase II projects was **60 million kWh**, equivalent to saving **19,000 tons** of standard coal and reducing **47,000 tons** of carbon dioxide emissions
- New technologies saved **15,000 tons** of standard coal
- Completed the ecological greening of **318,000 square meters** of the factory

## 10 Customer Recognition

The Company's EVI plan covered nearly **60 EVI projects** in **six major industries**, including automotive, home appliances and electronics, transmission and distribution, metal packaging and containers, engineering/machinery and construction, energy and transportation

- ### HIGH RECOGNITION FROM USERS
- "Regional Contribution Award" from Toyota HQ
  - "Good Quality Award" from GAC Toyota
  - "Excellent Supplier" award from SAIC-GM
  - "Best Supplier" award from FAW-Volkswagen
  - "Outstanding Supplier" award from GAC Motor
  - "Outstanding Environmental Supplier" honor from Dongfeng Honda
  - "Best Strategic Cooperation" award from Changan Ford
  - "Golden Cube Award" from Haier
  - "Best Cooperation" award from Dalkin
  - "Outstanding Supplier" honor from Hisense
  - "Outstanding Supplier" honor from TBEA Shenyang Transformer
  - "Excellent Supplier" award from Embraco

## 11 Objectives for 2017

### OVERALL BUSINESS POLICY

- One body with two wings, four-place coordination, reform and innovation for further development
- Differentiation competition, cost reform, green and lean for success

### ANNUAL OBJECTIVES

- Remain **No. 1** domestically in terms of business performance
- Reduce cost by over **6 billion yuan**
- Over **1 billion** of synergy benefit from Baowu
- Among **Top 3** globally in terms of profit per ton of steel
- Zhanjiang Iron & Steel achieves overall **profitability**
- Increase productivity of formal employees by **more than 6%**

## Important Notice

- (I) The Board of Directors and the Board of Supervisors of Baoshan Iron & Steel Co., Ltd. (hereinafter “the Company”), along with their directors, supervisors and senior executives, hereby guarantee that the Annual Report is free from false statement, misleading information or grave material omission, and assume relevant separate and joint responsibilities in regard to the truth, the accuracy and the integrity of the contents of the Report.
- (II) All members of the Board of Directors of the Company attended the board meeting.
- (III) Deloitte Touche Tohmatsu Certified Public Accountants LLP (special general partnership) gave standard unqualified audit report for the Company.
- (IV) Dai Zhihao, Chairman of the Company, Wu Kunzong, CFO in charge of the accounting affairs, and Wang Juan, Director of the Finance Department, attest to the truthfulness, correctness and completeness of the financial statements in this Report.
- (V) Proposed Profit Appropriation Plan and Capitalizing of Reverses Plan for the Reporting Period Reviewed by the Board of Directors.

According to the Company’s policy that the annual divided distribution should not be lower than 50% of the net profit in the consolidated statements attributable to the shareholders of the parent company audited in the current year, with the total cash dividend not less than RMB 4,482,757,045.43 in 2016. Whereas the Company always attaches importance to rewarding shareholders and adheres to the long-term cash dividend policy, the Company intends to allot the cash dividend at RMB 0.21 per share (incl. tax). Total cash dividend to be distributed was RMB 4,641,557,954.25(incl.tax), accounting for 51.77% of the net profit in the consolidated statements attributable to the shareholders of the parent company.

- (VI) Risk Disclosure on forward-looking Statements

Applicable  Not applicable

The proactive future plans and developing strategies in this Report do not constitute actual promises to investors. Investors are kindly reminded that investment involves risks.

- (VII) Was capital found in the Company to be occupied by the controlling shareholder and its related parties?

None

- (VIII) Was guarantee found in the Company to be provided in any manner that is against the stipulated decision-making procedures?

None

- (IX). Major Risks Warning

Applicable  Not applicable

In 2017, the Company’s operation and production will face great challenges and pressure. Firstly, the oversupply contradiction of steel market is difficult to be changed radically in the short term, with an influence of steel price recovery, the steel investment rises, the steel capacity has a quick release, but the objective to dissolve the hundreds of millions of tons of excess steel production capacity remains a daunting task. With the official establishment of Baowu group, Baosteel exchanged shares by the absorption merger of Wuhan Iron and Steel Co., Ltd., so it is urgent to play a strong synergy and scale effect of the powerful combination and is urgent to rapidly increase the sustainable profitability. Thirdly, along with increasingly strict national environmental protection, the urban steel mill must focus on the mill environment renovation and complete all kinds of plans coordinated and coexisted with the city in advance in order to effectively dissolve the risk of production organization difficulty and environmental protection cost hereof.

- (X). Others

Applicable  Not applicable

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## Section I Definitions

### I. Definitions

The following terms in this report shall have the meanings as shown below unless the context requires otherwise:

#### commonly-used words definition

CSRC	Refers to	China Securities Regulatory Commission
SSE	Refers to	Shanghai Stock Exchange
Baowu Steel	Refers to	China Baowu Steel Group Corp., Ltd.
Baosteel Group	Refers to	Baosteel Group Corporation(abbreviation:Baosteel Group),predecessor of China Baowu Steel Group Corp., Ltd.( abbreviation: Baowu Steel)
WISCO	Refers to	Wuhan Iron and Steel Co., Ltd. (WISCO)
Wugang Limited	Refers to	Wuhan Iron and Steel Ltd, wholly-owned subsidiary of WISCO
Deloitte	Refers to	Deloitte Touche Tohmatsu Certified Public Accountants LLP (special general partnership)
EVI	Refers to	Early Vendor Involvement.
Carbon steel	Refers to	An alloy of iron and carbon. Generally speaking, its carbon content between 0.04% and 2%, while most of it less than 1.4%. Steel with no other alloy elements but iron, carbon, silicon, manganese, sulphur and phosphorus as well as silicon content no more than 0.4%, manganese no more than 0.8%.
Oriented silicon steel	Refers to	Silicon steel with certain rules and directions in crystal arrangement. Silicon content usually about 3%, low iron loss and high magnetic induction, with nominal thickness of 0.20mm, 0.23mm, 0.27mm, 0.30mm, 0.35mm etc. Used in various transformers and others aspects for electric power industry.
Double Cold Reduction(DCR)	Refers to	Double Cold Reduction is a way of producing thin and high strengthened galvanized plate where cold-strip steel is double cold reduced after annealing.

## Section II Company Profile and Financial Highlights

### I. Company profile

Chinese Name	宝山钢铁股份有限公司
Chinese Abbreviation	宝钢股份
English Name	Baoshan Iron & Steel Co., Ltd.
English Abbreviation	Baosteel
Legal Representative	Dai Zhihao

### II. Contact information

	Secretary to Board of Directors	Representative of Securities Affairs
Name	Wu Yiming	Yu Hong
Address	Board of Directors' Secretary Office of Baoshan Iron & Steel Co., Ltd., Baosteel Administration Center, 885 Fujin Rd. Baoshan District, Shanghai	Board of Directors' Secretary Office of Baoshan Iron & Steel Co., Ltd., Baosteel Administration Center, 885 Fujin Rd. Baoshan District, Shanghai
Tel.	86-21-26647000	86-21-26647000
Fax	86-21-26646999	86-21-26646999
E-mail	ir@baosteel.com	ir@baosteel.com

### III. Basic information

Registered Address	Baosteel Administration Center, 885 Fujin Road, Baoshan District, Shanghai
Zip Code of Registered Address	201900
Office Address	Baosteel Administration Center, 885 Fujin Road, Baoshan District, Shanghai
Zip Code of Office Address	201900
Internet website	<a href="http://www.baosteel.com">http://www.baosteel.com</a>
E-mail	ir@baosteel.com

### IV. Company Announcements or Disclosures & Copies of the Report

Company Announcements or Disclosures published in:	China Securities News, Shanghai Securities News, and Securities Times
Annual Report Website Designated by China Securities Regulatory Commission	<a href="http://www.sse.com.cn">www.sse.com.cn</a>
Copies of the Annual Report of the Company available at:	Baosteel Administration Center, 885 Fujin Road, Baoshan District, Shanghai

### V. Profiles of stocks of the Company

Company Stock				
Type of stock	Stock listed at	Abbreviation of stock	Stock code	Abbreviation of stocks before alteration
A-share	Shanghai Stock Exchange	宝钢股份	600019	G 宝钢



## Section II Company Profile and Financial Highlights

### VI. Other relevant information

Accounting Firm (Mainland China)	Name	Deloitte Touche Tohmatsu Certified Public Accountants LLP
	Office address	30th Floor, Bund Center, 222 East Yan An Rd, Shanghai, China (200002)
	Signing Accountants	Xu Yusun Dou Chengming

### VII. Major accounting data and financial indicators of the Company for the latest three years

#### (I) Major Accounting Data

Unit: Million Yuan Currency: RMB

Major Accounting Data	2016	2015		Increase or Decrease (%) over the Same Period of Last Year	2014	
		After restatement	Before restatement		After restatement	Before restatement
Operating revenues	185,459	163,790	163,790	13.23	187,414	187,414
Net profit attributable to shareholders of listed company	8,966	944	1,013	849.33	5,349	5,792
Net profit attributable to shareholders of the listed company less non- recurring gains and losses	8,994	1,085	1,085	711.29	5,794	5,794
Net cash flows from operating activities	16,373	21,177	21,177	-22.69	28,280	28,280
	The end of 2016	The end of 2015		Increase or Decrease (%) over the same period at the End of Last Year	The end of 2014	
		After restatement	Before restatement		After restatement	Before restatement
Net assets attributable to shareholders of listed company	121,266	112,803	112,803	7.50	114,258	114,258
Total assets	267,983	234,123	234,123	14.46	228,653	228,653

Note: Please refer to Section V, (XIII) 2 for information detail of previous annual financial data.

#### (II) Major Financial Data

Major Financial Indicators	2016	2015		Increase or Decrease (%) over the Same Period of Last Year	2014	
		After restatement	Before restatement		After restatement	Before restatement
Basic earnings per share (Yuan/ share)	0.55	0.06	0.06	850.32	0.32	0.35
Diluted earnings per share (Yuan/ share)	0.55	0.06	0.06	850.32	0.32	0.35
Basic earnings per share less non- recurring gains and losses (Yuan/ share)	0.55	0.07	0.07	729.50	0.35	0.35
Weighted average return-on-equity (%)	7.68	0.84	0.90	Up by 6.84 ppts	4.78	5.16
Weighted average return-on-equity less non-recurring gains and losses (%)	7.70	0.96	0.96	Up by 6.74 ppts	5.17	5.17

Major accounting data and financial indicators of the Company for the latest three years at the end of the report.

 Applicable  Not applicable

### VIII. Major financial data of each quarter 2016

Unit: Million Yuan Currency: RMB

	First quarter (Jan.-March)	Second quarter (April-June)	Third quarter (July-Sept.)	Forth quarter (Oct.-Dec.)
Operating revenues	35,273	42,719	55,443	52,023
Net profit attributable to shareholders of listed company	1,529	1,940	2,129	3,368
Net profit attributable to shareholders of the listed company less non- recurring gains and losses	1,520	2,162	1,905	3,407
Net cash flows from operating activities	7,401	876	1,145	6,951

## IX. Non-recurring Gains and Losses

√ Applicable □ Not applicable

Unit: Million Yuan Currency: RMB

Non-recurring Gains and Losses Items	2016	2015 (after restatement)	2015 (before restatement)	2014 (after statement)	2014 (before restatement)
Profits and losses arising from disposal of non-current assets	-439	100	100	46	46
Government subsidy calculated in current gains and losses, except closely related to normal operating activities, consecutive ration and quantitation government subsidy in lines with national policies, rules and certain standards	343	506	506	637	637
Gains and losses from change of fair value for holding trading financial assets and liabilities, investment income by the disposal of trading financial assets and liabilities, and available-for-sale financial assets, except effective hedging operations related to the Company normal operation business	626	252	252	26	26
Other gains and losses items in lines with the definition of non-recurring gains and losses items (other non-current assets depreciation reserves)	-563	-944	-852	-1,129	-538
Other net non-operating income and expenditure other than the above items	21	41	41	-46	-46
Effect of minority interest	-28	-15	-15	-6	-6
Effect of income tax	12	-82	-105	26	-121
Total	-28	-141	-73	-445	-2

## X. Projects Using Fair Value Measurement

√ Applicable □ Not applicable

Unit: Million Yuan Currency: RMB

Items	Initial Balance	Closing Balance	Change in the reporting period	Amount affecting balance in the reporting period
Financial assets measured by fair value and gains/losses from its change	873	1,123	250	133
Available-for-sale financial assets	1,331	3,529	2,197	30
Financial liability measured by fair value and gains/losses from its change	4	35	32	-15
total	2,208	4,687	2,479	148

## Section III Summary of the Company's Business

### I. Main business, business model and industry situation of the Company during the reporting period

#### 1. Main business, business model of the Company during the reporting period

The Company is a modernized globally leading integrated iron and steel company and the core enterprise of China Baowu Steel Group Corporation Limited, which ranks among Fortune Global 500. Dedicated to its mission to change people's life through creativity, Baosteel is devoted to providing high-quality products and service for customers and creating best value for shareholder and the society for the joint development with stakeholders.

In November 2016, Zhanjiang project was fully put into operation. In February 2017, the Company absorbed and merged shares of Wuhan Iron and Steel Co., Ltd.. By now, the Company owns major production bases including Shanghai Baoshan, Nanjing Meishan, Zhanjiang Dongshan, Wuhan Qingshan etc. and owns world-renowned brands, world first-class technical levels and service capabilities, becoming one of the world's iron and steel enterprises with the most complete carbon steel varieties.

The Company continued the premium product development strategy characterized by technological leadership and paid close attention to the rapid growth of China's high-end manufacturing industry. The main products have been widely used in industries including automobile, home appliances, petrochemicals, machinery manufacturing, energy transportation etc. The Company has been in the leading position in the domestic market in six strategic product areas as automotive steel, silicon steel, tin plate, energy and pipeline steel, high-grade heavy plate, other high-grade sheet products. Based on the advanced technologies such as modern iron and steel smelting, hot and cold processing, hydraulic sensing, electronic control, computer and information communication etc., the Company's overall technology and equipment is characterized by its large-scale, continuity and automation. Thus, the Company has been in a leading position in the world steel industry.

The Company always adheres to take the road of development of "innovation, coordination, green, opening, sharing", pays attention to the cultivation of innovative capability, fully grasps the core technology of steel manufacturing, actively develops and applies the advanced energy saving and environmental protection technology, establishes nationwide and worldwide marketing networks and processing centers, and actively seeks green development and low-carbon solutions of the whole industry chain. The high-end products independently developed by the Company such as new generation of automotive high-strength steel, oriented silicon steel, high-grade home appliance steel, oil and gas pipes, bridge steel, hot rolling heavy rail is in international advanced level. Since 2002, Baoshan Iron & Steel Co., Ltd. has been awarded the "National Science and Technology Progress Award" for 14 consecutive years, which is the only enterprise to receive this award in China.

Taking the platform service for intelligent manufacturing and ouyeel's iron and steel ecology as two wings, the Company builds a new impetus to its development, strengthens five capabilities as "cost innovation, leading technology, service first, intelligent manufacturing and urban steel mills", and strives to achieve the strategic objectives to become "the world's most competitive steel enterprises" and "listed companies with the most investment value".

In 2016, the Company, under the unified arrangements of the group, set up a resolving excess capacity leading group and a resolving excess capacity work contact team to declare the situation of the proposed capacity to resolve. In August, the Company and the group signed the "Target Responsibility Book on Resolving the Excess Capacity of Steel of Baosteel". In November, the State Council SASAC sent national reducing excess steel capacity acceptance group to Baosteel for acceptance. The acceptance group thought that Luojing project and Baotong Iron and Steel of Baosteel successfully completed the task of reducing excess capacity after overcoming many difficulties such as equipment disposal, personnel placement, debt disposal etc.. In December, after the State Council SASAC's acceptance and the National Development and Reform Commission's review Baosteel was confirmed to have completed ahead of schedule the target task of reducing excess capacity of 4.65 million tons assigned to Baosteel in "Target Responsibility Book on Resolving the Excess Capacity" signed by the group and SASAC in 2016, including reducing excess capacity of 3.45 million tons of Luojing project, reducing excess capacity of 1.2 million tons of Baotong Iron and Steel.

#### 2. Company's Industry Development Stage, Cyclical Characteristics and the Company's Industry Status during the Reporting Period

Year 2016 is the start year of "the 13th Five-year". Thanks to the growth of infrastructure, real estate and auto industry, throughout the year, crude steel production is 810 million tons with a year-on-year increase of 1.2%; crude steel apparent consumption is 710 million tons with a year-on-year increase of 2.0%.

Under the background of implementation of policy on promotion of structural reform of the supply side of steel industry, strict implementation of environmental protection limited production and investigation and prosecution of "ground bar steel", domestic steel prices has successfully reversed the unilateral downward trend since 2011 and has increased significantly, leading to the decrease of China's steel exports. In 2016, China exported 110 million tons of steel with a year-on-year decrease of 3.5%. Based on the market recovery, steel price rise, quality and efficiency improvement of iron and steel enterprises through structural adjustment, transformation and upgrading, in 2016, domestic steel industry reversed the unfavorable situation of industry-wide loss in 2015 at one stroke, 99 large and medium-sized steel enterprises achieved profits of 30.38 billion yuan with a year-on-year increase of 94.91 billion yuan, turning from deficits to profit.

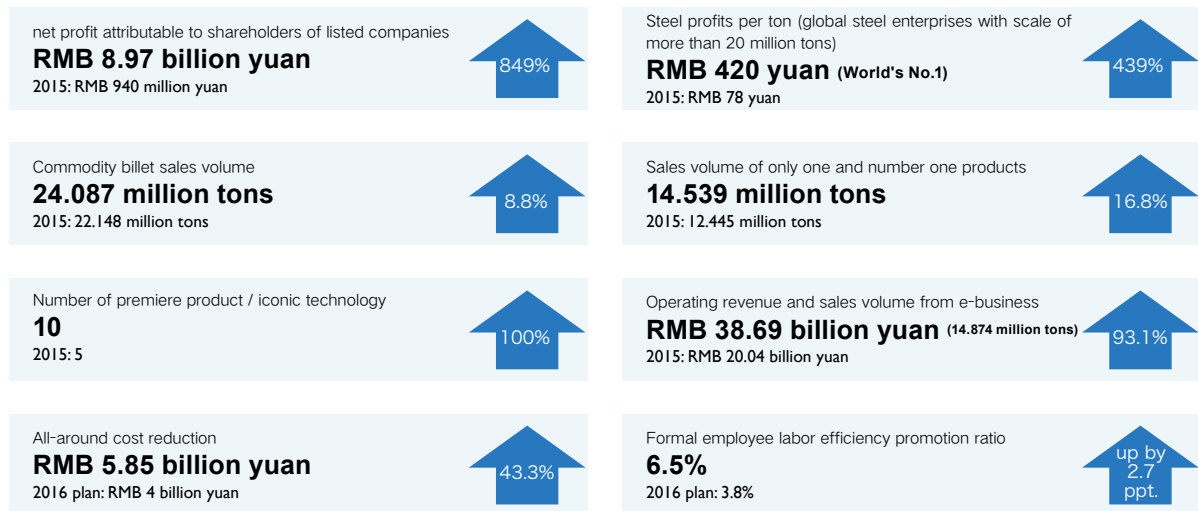
However, China's steel industry is still facing a number of challenges, such as excess capacity, low capacity utilization rate, low industry concentration, uneven development level, unreasonable industrial layout, insufficient innovation and is still in a critical period of transformation



and upgrading, poverty shaken-off and development.

In 2016, the Company adhered to the premium product development strategy, actively maintained differentiation competitive advantage of the domestic high-end product market and accelerated the manufacturing capacity increase of Dongshan base, product certification and market development, having an annual sales volume of unique leading products with a year-on-year increase of 16.8% and of strategic product with a year-on-year increase of 8.6% respectively and continuing to maintain more than 50% of the market share of cold rolled auto sheets. The Company actively expands marketing capabilities on overseas high-end markets, having an annual export volume with a year-on-year increase of 35.6%. The Company also continued to enhance the competitiveness of products by means of full range of cost reduction, further consolidating its competitive position on domestic and foreign markets.

### 3. Key Data



### 4. Highlights of the Company during the Reporting Period

- Annual total profit of 11.52 billion yuan, an increase of 553% over the same period last year, ranked second in profits and first in steel profits per ton in the global steel enterprises with scale of more than 20 million tons.
- Curing of cost reduction results. Cost reduction totaled 5.85 billion yuan for the year, exceeding the expected annual targets.
- Significant achievements in technological innovation. Project "Thin Strip Continuous Casting and Rolling Process, Equipment and Control Engineering Technology Integration and Product Development" won special award of metallurgical science and technology award; Result "Secondary Cold Rolling Products and Core Technology Research" won first prize of Shanghai Municipal Science and Technology Progress; Products such as oriented silicon steel B30R090, ultra-high strength continuous tubing steel CT110 etc. has accomplished the world's premiere.
- Zhanjiang Iron & Steel project is going smoothly. No.2 blast furnace was ignited smoothly on July 15, 2016, marking the completion of phase of the project two months ahead of schedule and the beginning to enter the operating stage. Technical and economic indicators and environmental protection indicators continued to improve and operating performance was better than the annual target.
- In February 2017, Baoshan Iron & Steel Co., Ltd. absorbed and merged Wuhan Iron and Steel Co., Ltd.. After the merger, its crude steel output, auto sheets output and oriented silicon steel output ranked third, third and first respectively in the listed global steel enterprises.
- Synchronous promotion of two wings construction. Ouyeel had an annual e-business volume of 14.874 million tons, achieved sales income of 38.69 billion yuan and its logistics platform has outperformed the "thousands of warehouse layout". Wisdom manufacturing path layout and 1580 slab library unmanned transformation has been put into operation.
- Energy saving and emission reduction during the whole process. The amount of energy saving by new technology is 15,000 tons of standard coal, 318,000 square meters of ecological green of the plant has been completed and photovoltaic power generation phase II project has been officially completed and conducted a trial run.
- In 2016, three major credit rating agencies, Standard & Poor's, Moody and Fitch honored the Company with a long-term enterprise credit rating and outlook of BBB+ (stable), Baa1 (negative) and A- (stable) respectively, the Company continued to enjoy the highest credit rating in global iron and steel industry.

## Section III Summary of the Company's Business

### II. Explanation of Significant Changes in the Company's Major Assets during the Reporting Period

√ Applicable □ Not applicable

#### 1. Changes in Equity Assets

(1) Formation of Shanghai Baosteel Asset Management Co., Ltd., specialized in the asset disposal work resulting from supply side reform

In order to respond positively to the requirements of the national supply side reform to resolve steel capacity and to withdraw inefficient and ineffective assets, to seek disposal channels at home and abroad of the assets within the joint stock company to be disposed and to increase the intensity of disposal of the Company's Luojing area and Baotong Iron & Steel downtime assets, to improve asset recovery value, the Company invested 1 billion yuan in December 2016 to set up wholly-owned Shanghai Baoshan Iron & Steel Asset Management Co., Ltd.

(2) Increase of capital to Shanghai Ouyeel Financial Information Services Co., Ltd.

In April 2016, Shanghai Ouyeel Financial Information Services Co., Ltd. issued additional 1.1 billion shares, the Company and its subsidiary Ouyeel Co., Ltd. subscribed for 500 million shares by 290 million yuan and 210 million yuan (totally 500 million yuan) respectively. Upon completion of the issuance, the share capital of Shanghai Ouyeel Financial Information Service Co., Ltd. was 1.4 billion yuan. The Company held 20.9% of its equity, and Ouyeel Co., Ltd. held 34% of its equity, totally 54.91% of its equity.

(3) In March 2016, Baosteel International completed the liquidation and closing of its wholly-owned subsidiary Baosteel Group Guangzhou Free Trade Zone International Trade Co., Ltd., taking back investment of 30 million yuan.

#### 2. Changes in Fixed Assets and Construction in Progress

Fixed assets increased by 27.5 billion yuan compared with the beginning of the year, of which 39.2 billion yuan was transferred from construction in progress (of which 31.5 billion yuan was transferred from Zhanjiang Iron and Steel project), 11.83 billion yuan from depreciation.

The construction in progress decreased by 24.32 billion yuan compared with the beginning of the year, mainly due to the effect of transfer to the fixed assets of Zhanjiang Iron and Steel Construction in progress.

#### 3. Situation of Foreign Assets

As of the end of 2016, the Company had foreign assets of 156.3 (unit: 100 million yuan Currency: RMB), accounting for 5.8% of the total assets.

##### (1) Development of Foreign State-owned Assets

In 2005, the Company acquired, through additional offering, the equity of overseas marketing companies such as Baosteel Europe, Baosteel America etc. and shipping company such as Bao-Trans and Bao-Island, and the preferred equity of BaoVale Mine Company held by Baosteel Group. Since the beginning of 2011, in order to expand the capacity of overseas manufacturing and processing services, the Company has set up one after another 7 wholly-owned companies or joint ventures such as Bao Li Steel Pipe, Baosteel India etc. in foreign countries. As of the end of 2016, the Company has owned 15 overseas subsidiaries at all levels and 6 overseas shareholding companies at all levels set up in countries and regions such as the United States, Japan, Germany, Singapore, Thailand, Hong Kong etc. As of 2016, the Company's direct investment in subordinate first-class overseas companies is 81.005 million US dollars and the investment area is steel trade and deep processing business. All funds are from the Company's own funds.

##### (2) Operation Status of Foreign State-owned Assets

Foreign trade subsidiaries mainly include: Howa, Baosteel America, Baosteel Singapore and their subsidiaries; overseas shipping service subsidiaries include Bao-Trans; foreign steel manufacturing and processing service subsidiaries mainly include Bao Li Steel Pipe, BGM, India Cutting Center and Indonesia Steel Processing Center.

##### (3) Overall Situation of Foreign State-owned Assets

As of the end of 2016, the assets of the Company's subordinate first-class overseas totaled 15.63 billion yuan, operating income totaled 46.19 billion yuan and owner's interests totaled 4.45 billion yuan. In 2016, first-class overseas subsidiaries totally have achieved a total profit of 630 million yuan with a net profit of 510 million yuan and a net assets income ratio of 11.6%.

### III. Analysis of Core Competitiveness during the Reporting Period

√ Applicable □ Not applicable

The core competitiveness of the Company is mainly reflected in technological innovation, manufacturing capacity, cost control, customer service, brand building, sustainable development capacity and so on.

#### 1. Technological Innovations

The Company continued the premium product development strategy characterized by technological leadership. In 2016, Baoshan Iron & Steel Co., Ltd. increased investment in technological innovation and made continuous progress in the aspects of product development, technological progress and so on with R&D investment rate of 2.0%, proportion of invention patent applications of over 70% and new test unique ratio of over 71%; Three products as high magnetic sense oriented silicon steel B27R080, B30R090, continuous tubing CT110 have accomplished the world's premiere.

#### 2. Manufacturing Capacity

In 2016, Zhanjiang Iron and Steel has put into operation projects such as cold rolling, heavy plate, No. 2 blast furnace etc.. Phase I project has been fully into capacity climbing period. Thanks to its existing manufacturing base and the use of various forms of mutual feed, the Company not only effectively alleviates the contradiction between supply and demand of some varieties and enhances user support capabilities, but also maximizes its overall efficiency.

In 2016, the company provided a strong guarantee for user certification and industrial production of new varieties of strategic products by means of its stronger manufacturing capacity.

Automotive steel: cold rolling ultra-high strength steel sales volume increased by more than 40% on a year-on-year basis. High elongation cold rolling steel QP980, QP1180 have successfully passed Nissan materials certification, becoming world's fourth, China's first Nissan supplier of such products.

Silicon steel: non-oriented silicon steel has passed BYD new energy vehicle certification and has begun to be ordered in bulk replacing imported materials for the manufacturing of new energy vehicle drive motor. Low noise transformer steel products have been used in bulk for the manufacturing of power transformers, distribution transformers, reactors and so on.

Heavy plate: Marine 2205 duplex stainless steel + DH36 rolling composite plate have passed BV Classification Society certification, becoming world's first manufacturer of 2205 duplex stainless steel composite plate passing the Classification Society certification. The Company has completed smoothly SA738Gr. for CAPI400 nuclear power plant 2 # containment and B steel sheet first contract. LPG marine ultra-low temperature steel has passed main Classification Societies' certification and acquired a certificate from authoritative Classification Society ABS, marking all-round supply capacity in the field of Baosteel.

Hot rolling: Bridge shell steel BQT800 has passed German Daimler plate spring type bridge shell certification. The actual use effect of product BW300TP has been fully recognized in the concrete mixer industry and at downstream users, its comprehensive finished product rate was more than 90%, increasing significantly compared with the amount of contract in 2015.

Cold rolling: The Company has achieved technology, equipment, on-line detection technology industrialization of coated iron new products. The Company has completed the first industrial trial production of zinc, aluminum and magnesium and has completed the first industrial trial production of the low-aluminum zinc-aluminum-magnesium and high-aluminum zinc-aluminum-magnesium coating respectively. The Company has also completed zinc-aluminum-magnesium coating color coated plate trial production and initially mastered zinc-magnesium coating hot-dip plating and color coating technology.

Steel pipe: The Company supplied, for the first time and in bulk, the ultra-high strength coiled tubing CT110 to North America, Iran and other markets, achieving a milestone breakthrough in overseas markets. A scale application of the on-line cold control technology of the international premiere seamless steel pipe has been achieved.

#### 3. Cost Control

Cost reduction is the core strategy for the Company to enhance its competitiveness. In 2016, the Company improved the agile operation, management and control system cored on cost reduction, organized and carried out cost fine management and cost benchmarking in Baoshan base, continuously optimized the financing strategy and reduced capital use cost.

Technological cost reduction: In 2016, the Company mainly carried out work in three aspects: First, reducing cost from the perspective of the whole process, cored on product consistent manufacturing technology. Second, for mature main category products, optimizing product composition, optimizing and simplifying the process, stabilizing manufacturing and improving the finished product rate, achieving low-cost

production from design to production, focused on three dimensions as "specification expansion, cost reduction, manufacturing stability", optimize product composition. Third, giving full play to the role of plant integration, enhancing technological cost reduction effectiveness from the dimensions such as "ability upgrading, structural optimization, process optimization, energy saving and consumption reduction," etc.

#### 4. Custom Service

In 2016, the Company actively explored the research and application of wisdom manufacturing in the supply chain collaboration. Wisdom supply chain collaboration, taking auto sheet users as pilot, established full supply chain intelligent collaboration model, implemented "driving organization of production on demand", improved delivery accuracy, shortened the delivery cycle, reduced supply chain inventory, achieved supply assurance collaboration solutions characterized by low inventory costs, low capital occupation, high efficiency response, stability and reliability, consolidated and continued to enhance Baosteel's competitive advantage in the aspects of supply chain security and assurance. In 2016, the wisdom supply chain system selected 2 pilots, accurately calculating the order according to user needs and inventory, guaranteeing the manufacturing unit's weekly delivery and tracking the contract management and inventory break-point early warning management.

Based on the "customer-centered" business philosophy, focused on differentiated competitive strategies, and according to strategic requirements of transformation from manufacturing to service, the Company actively explored and expanded EVI project, institutionalized EVI project management process and built EVI team. In 2016, the Company's EVI plan covered nearly 60 EVI projects in six major industries, including automotive, home appliances and electronics, transmission and distribution, metal packaging and containers, engineering/machinery and construction, energy and transportation.

#### 5. Brand Building

The Company continued to deepen and improve its brand by taking "creates a change in life" as the starting point for brand building. From November 2014, the Company has advertised for 2 consecutive years by selecting position of Pudong Airport T1 domestic gateway channel light box and Hongqiao Airport T2 security area channel light box; gradually built Baosteel product brand social media platform matrix based on WeChat platform "Hello Baosteel"; continued to carry out three-dimensional brand communication activities, promote the development of "automotive steel overall solution" and promote Baosteel electrical steel product brand themed on "create a life, green travel" and "create a life, bright city".

Focused on its core brand value, the Company further strengthened enterprise brand image spreading by taking "innovation leading", "value sharing", "urban steel mills", "social responsibility" as the basic connotation, shaping and enhancing its brand value.

#### 6. Sustainable Development Capacity

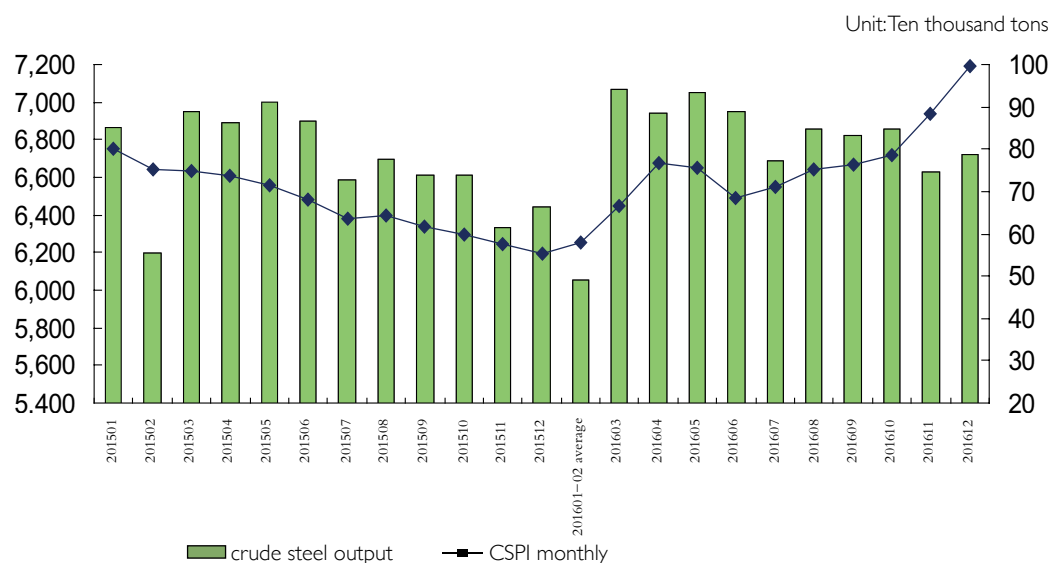
The Company has been committed to work together to create a green industry chain, becoming a best environmentally friendly practitioner. In the aspect of main energy, environmental protection indicators, the Company continued to maintain the world's advanced level and to be an environmental protection leader in China's steel industry. In 2016, the main initiatives and effects of the Company in improving the environment and building green factories were as follows: ① increasing investment in environmental protection technology improvement, implementing the transformation of stockyard, the denitrification of sintered flue gas, the flue gas clean emission transformation of coal-fired units of the power plant, effectively controlling the standard pollutant discharge ② increasing the green area, completing green transformation area of 206,000 square meters such as forest belt construction around the factory, of which the new green area was 144,000 square meters; ③ strengthening the pollution source emission monitoring management, adding on-line monitoring facilities to key emission sources such as steel-making, electric stove, sintering machine tail respectively and so on; ④ expanding photovoltaic power generation. Golden Sun phase II photovoltaic power generation project was officially completed on March 29. The annual total power generation of Phase I and phase II projects was 60 million kWh, equivalent to saving 19,000 tons of standard coal and reducing 47,000 tons of carbon dioxide emissions.

## Section IV Discussion and Analysis about Operation

### I. Discussion and Analysis about Operation

In 2016, China's steel exports started declining for the first time after six times of rising. In domestic market, downstream automobile and home appliances are in growth trend, and the steel market demand rose again slowly. The supply and demand of steel industry have been improved periodically.

It is benefited from the national reforms of supply side, improved market demand and other multiple factors. In 2016, domestic steel price increased in fluctuations. In the term of annual average price compared with the same period in last year, CISA's composite steel price index CSPI rose by 12.9%, 62% iron ore Platts index increasing by 5.3%, and Shanxi Luliang coking coal price was basically unchanged. In the fourth quarter, the raw material market price increased rapidly, 62% iron ore Platts index and Shanxi Luliang coking coal's daily average price increasing by 21% and 101.4% respectively compared with the third quarter, and the price difference between purchase and sale of the Company was basically equal to that in the same period of last year.



Data resource: Wind

By taking advantage of reducing excessive steel production capacity and recovering market, against various difficulties and challenges from the international trade protection, aggravated exchange rate volatility, multi-line business operation, internal construction, etc., the company focused on the three points: lowering costs, streamlining the organization and enhancing the efficiency of human resources, for actively stressing the market exploration and variety structure optimization, along with a series of measures for production and marketing coordination and reform deepening which have achieved tangible results. 24.087 million tons of steel was sold in 2016, with gross revenue of RMB185.71 billion and total profit of RMB 11.52 billion.

### II. Main Operation in the Reporting Period

Main Operation in the Reporting Period is as follows:

#### (I) Analysis of Principle Business

##### Income Statement and Analysis Statement of Change in Cash Flow and Items

Unit: Million Yuan Currency: RMB

Item	Amount in the reporting period	Amount over the same period last year	Change ratio (%)
Operating revenue	185,459	163,790	13.2
Operating cost	161,851	149,258	8.4
Sales expenses	2,268	2,153	5.3
Administrative expenses	7,588	7,287	4.1
Financial expenses	2,186	2,393	-8.6
Net cash flow from operating activities	16,373	21,177	-22.7
Net cash flow from investing activities	-17,765	-21,676	18.0
Net cash flow from financing activities	1,580	-1,119	241.2



## Section IV Discussion and Analysis about Operation

### 1. Analysis of Cost and Revenue

√Applicable □ Not applicable

#### (1) Principle business by industries, products and regions

Unit: Million Yuan Currency: RMB

Principal business by industries						
Industry	Operating revenues	Operating costs	Gross margin(%)	YoY change in revenue	YoY change in cost	YoY Change in gross margin
Steel manufacturing	103,243	85,874	16.8	6.6	-2.7	Up by 8.0 ppt.
Processing and distribution	158,192	153,414	3.0	12.4	12.6	Down by 0.2 ppt.
Information technology	3,956	2,813	28.9	0.5	-1.8	Up by 1.6 ppt.
E-commerce	38,753	38,641	0.3	93.2	92.9	Up by 0.2 ppt.
Chemical industry	7,659	7,142	6.8	0.4	-1.5	Up by 1.9 ppt.
Finance	530	253	52.3	-15.6	-17.3	Up by 1.0 ppt.
Offset between segments	-126,497	-126,025				
Total	185,837	162,112	12.8	13.2	8.4	Up by 3.8 ppt.

Principal business by products						
Products	Operating revenue	Operating cost	Gross margin (%)	YoY change in revenue (%)	YoY change in cost (%)	YoY change in gross margin (%)
Cold-rolled carbon steel sheets and coils	43,033	33,117	23.0	3.3	-7.2	Up by 8.7 ppt.
Hot-rolled carbon steel sheets and coils	28,592	22,262	22.1	24.7	9.9	Up by 10.5 ppt.
Steel tubes and pipes	6,271	6,254	0.3	-15.8	-16.8	Up by 1.2 ppt.
Other steel products	8,581	7,637	11.0	11.6	3.0	Up by 7.4 ppt.
Total	86,476	69,271	19.9	8.5	-2.3	Up by 8.8 ppt.

Principal business by regions						
Regions	Operating revenue	Operating cost	Gross margin(%)	YoY change in revenue (%)	YoY change in cost (%)	YoY change in gross margin (%)
Domestic market	162,083	139,633	13.9	13.6	8.0	Up by 4.5ppt
Overseas market	23,754	22,479	5.4	10.4	11.4	Down by 0.9ppt

Notes of principle business by industries, products and regions

√ Applicable □ Not applicable

Based on the internal organizational structure, the Company is divided into segments of steel manufacturing, processing and distribution, information technology, e-commerce, chemical industry and finance. The steel manufacturing segment includes all steel manufacturing units; the processing and distribution segment includes the trading units such as Baosteel International and overseas company; the information technology segment offers the business of Baosight Software; the e-commerce segment includes Ouyeel etc.; the chemical industry segment offers the business of Chemical Company; the finance segment offers the business of Finance Co.

Due to the influence of steel market recovery, the growth in needs of downstream industries and the cost cut-down in all departments of the Company, the gross margin ratio of major items in 2016 has grown substantially compared to last year.

## (2). Production and sales analysis

√ Applicable □ Not applicable

Unit: Ten thousand tons

Major items	production	sales	inventory	YoY change in production (%)	YoY change in sales (%)	YoY change in inventory (%)
Cold-rolled carbon steel sheets and coils	987	973	121	4.3	3.1	-1.5
Hot-rolled carbon steel sheets and coils	959	1,004	54	7.9	13.6	22.9
Steel tubes & pipes	153	156	29	-6.8	-3.0	16.2
Other steel products	276	275	26	18.8	22.1	32.5
Total	2,374	2,409	230	6.4	8.8	8.9

Notes: Steel products production does not include trial production of Zhanjiang Steel in 2016.

The Company exported 3.324 million tons of steel products in 2016, representing a year-on-year increase of 769 thousand tons, with export channel sales set out as follows:

Region	2016 (ratio%)	2015 (ratio%)
East Asia and Australia	18.5	23.3
Europe and Africa	22.7	24.0
America	9.6	14.4
Southeast Asia and South Asia	49.1	38.4
Total	100.0	100.0

In 2016, Baosteel products were exported to more than 70 countries and regions, the traditional market sales in South Korea and Italy, etc. remained stable and can be deeply developed; the emerging markets in Vietnam, India, Saudi Arabia and Turkey grew significantly on year-on-year basis.

In 2016, the export for six kinds of strategic products (automotive steel, silicon steel, energy and steel for line pipes, high-grade sheet products, tin plate, high-grade ship plate and maritime work steel) of Baosteel carbon steel sheet accounted for 66% of total volume of carbon steel plate export.

Relying on advanced technical advantages and product advantages, global marketing network of serving the customers, Baosteel has established the strategic cooperation relation with many world multinational companies, in order to promote the overseas strategic layout. The company actively deepens the cooperation with overseas strategic users to promote to supply material for GM, Volkswagen and other famous multinational enterprises and has become the global supplier of many multinational companies.

## (3). Cost analysis

Unit: Million Yuan Currency: RMB

Industry	Items	By Industries					Notes
		Amount in the period	Ratio in overall cost(%)	Amount in the same period last year	Ratio in overall cost in the same period last year(%)	Change of amount in this period from the previous period (%)	
Iron & steel manufacturing	Fuel and raw materials	53,005	62.1	52,591	63.7	0.5	
	Others	32,344	37.9	29,974	36.3	2.9	
	Total	85,349	100	82,565	100	3.4	

Note: Only the cost of the iron & steel manufacturing was included. Costs of other sectors such as the processing and distribution, information technology, e-commerce, chemical industry and finance units were not included.

## (4). Major customers and major suppliers

√ Applicable □ Not applicable

The Company's sales to the top five customers was RMB 21.26 billion, making up 11.5% of its annual sales volume; the Company's sales to the related parties of the top five customers was RMB 10.04 billion, making up 5.4% of its annual sales volume.

The Company's procurement from the top five suppliers was RMB 18.4 billion, making up 40.3% of its annual fuel and raw material procurement volume; the Company's procurement from the related parties of the top five customers was RMB 2.48 billion, making up 5.4% of its annual procurement volume.

## Section IV Discussion and Analysis about Operation

### 2. Cost

Applicable  Not applicable

#### (1) Sales expenses and administrative expenses

Unit: Million Yuan Currency: RMB

Items	Amount in the period	Amount over the same period last year	Change of amount in this period from the previous period (%)
Sales expense	2,268	2,153	5.3
Administrative expense	7,588	7,287	4.1

#### (2) Financial expenses

Unit: Million Yuan Currency: RMB

Items	Amount in the period	Amount over the same period last year	Change of amount in this period from the previous period (%)
Interest incomes	-290	-561	-48.3
Interest expenditures	2,231	1,206	85.0
Gains and losses from currency exchange	173	1,685	-89.7
Others	72	62	15.9
Total	2,186	2,393	-8.6

Financial expenses of the year decreased RMB 210 million compared to the same period last year, mainly due to: In August last year, the Central Bank adjusted the RMB exchange rate parity formation mechanism, the RMB was rapidly devalued against the USD, the Company implemented the foreign currency debt conversion to form the exchange loss of RMB 1.69 billion in accordance with the up-and-out principle of "foreign exchange financing rate plus exchange rate lock-in cost" less than RMB financing cost comparison, but because the financing standard currency has been conserved as the RMB this year, the total exchange loss is RMB 170 million with a year-on-year decline of RMB 1.51 billion. With an influence of long-term decrease in principal receivable of Wusong land plot, this year interest income reduced RMB 270 million on year-on-year basis; In order to avoid the exchange rate risk and exchange rate loss, the Company mainly adopted the RMB-oriented financing strategies in 2016, the direct financing scale had a net increase of RMB 13 billion on year-on-year basis in view of the Company's judgment for the direct financing window and the need for liquidity management, the financing interest rate rose slightly compared with the foreign exchange-oriented financing strategy in 2015, and the construction in progress of the subsidiary - Zhanjiang Iron & Steel has been transferred as the fixed asset, the corresponding financing interest is no longer capitalized and included in the financial expense, with an influence of the above multiple factors, this year interest expenditure increased RMB 1.02 billion on a year-on-year basis. Meanwhile, the Company implemented the low risk preservation or appreciation of value for the periodic idle fund, the corresponding revenue shall be confirmed periodically in accordance with expiration date.

### 3. R&D Investment

#### R&D investment table

Applicable  Not applicable

Unit: Million Yuan Currency: RMB

Expenditure of R&D investment	3,662
Capitalization of R&D investment	-
Total R&D investment	3,662
Ratio of total R&D investment to operating revenue (%)	2.0
Amount of R&D personnel	1,060
Ratio of R&D staff to total staff(%)	2.8
Ratio of R&D investment capitalization (%)	-

#### Explanation

Applicable  Not applicable

In 2016, the Company constantly developed steel competitive products, such as high induction grain-oriented silicon steel (B27R080, B30R090) and continuous tubing plate to achieve the first release in the world. The Company's multiple achievements in scientific research won the "Award for Scientific and Technological Advancement" of the State, Shanghai and metallurgical industry, of which Thin-strip Casting and Rolling Process, Equipment and Technology Integration and Product R&D of Control Engineering won the Special Award of Metallurgical Science and Technology Progress, in addition, four achievements respectively won the Second and Third Prize of Metallurgical Science and Technology Progress; Baosteel DCR Product and Core Technology Research won the First Prize of Shanghai Science and Technology Progress, in addition, three achievements respectively won the Second and Third Prize of Shanghai Science and Technology Progress;

#### 4. Cash flow

√ Applicable □ Not applicable

In 2016, the cash and cash equivalents of the Company increased by 360 million, among which, the net cash flow arising from operating activities was RMB 16.37 billion, the net cash flow arising from investing activities was RMB -17.76 billion, the net cash flow arising from financing activities was RMB 1.58 billion, and the net cash flow arising from the effect of fluctuation in exchange rate was RMB 180 million. Without considering the impact of the Finance Co., the cash and cash equivalents increased by RMB 2.71 billion, among which, the net cash flow arising from operating activities was RMB 18.41 billion, the net cash flow arising from investment activities was RMB -17.7 billion, the net cash flow arising from financing activities was RMB 1.84 billion and the net cash flow arising from the effect of fluctuation in exchange rate was 160 million.

Unit: Million Yuan Currency: RMB

Items	2016		2015		Variation year on year	
	Including Finance Co.	Excluding Finance Co.	Including Finance CO.	Excluding Finance Co.	Including Finance Co.	Excluding Finance Co.
Net cash flow arising from operating activities	16,373	18,411	21,177	17,801	-4,804	610
Net cash flow arising from investing activities	-17,765	-17,704	-21,676	-20,003	3,911	2,298
Net cash flow arising from financing activities	1,580	1,843	-1,119	-580	2,699	2,423
Effect of fluctuation in exchange rate on cash	177	164	-564	-571	741	736
Net increase in cash and cash equivalents	365	2,714	-2,182	-3,353	2,547	6,067

Without regard to the impact of Finance Co., the net cash flow arising from operating activities was RMB 18.41 billion, an increase of RMB 610 million from the RMB 17.8 billion at the same period last year. This is mainly caused by the following factors:

- (1) The net profit this year was RMB 8.97 billion, RMB 8.17 billion more than the RMB 800 million at the same period last year.
- (2) Depreciation and amortization was RMB 12.31 billion, RMB 1.69 billion more than the RMB 10.62 billion at the same period last year.
- (3) Assets impairment was RMB 1.08 billion, RMB 400 million less than the RMB 1.48 billion at the same period last year.
- (4) Financial expense was RMB 2.21 RMB, RMB 260 million less than the RMB 2.47 billion at the same period last year.
- (5) Asset loss, fair value change loss, investment loss, deferred tax asset and liabilities decreased RMB 620 million cash flow, with a loss of 270 million at the same period last year, representing a decreased cash flow of 350 million.
- (6) Inventory increased than that at the beginning of the year and decreased RMB 12.41 billion cash flow, with an increase of cash flow of RMB 2.81 billion due to decrease of inventory at the same period last year, representing a decreased cash flow of RMB 15.21 billion for two years.
- (7) operational receivable items decreased RMB 10.43 billion cash flow than that at the beginning of the year, with an increase of RMB 1.08 billion due to decrease of receivables at the same period last year, representing a decreased cash flow of 11.51 billion for two years.
- (8) Operational receivable items increased RMB 17.32 billion cash flow than that at the beginning of the year, with a loss of RMB 1.18 billion due to the decrease of payables at the same period last year, representing an increased cash flow of RMB 18.48 billion for two years.

Without regard to the impact of Finance Co., the net cash flow of investing activities was RMB -17.7 billion, RMB 2.3 billion less than the RMB -20 billion at the same period last year. This is mainly caused by the following factors:

- (1) Cash for purchasing fixed assets, intangible assets and long-term assets was RMB 11.53 billion, with RMB 12.24 billion more cash flow than the RMB 23.97 billion at the same period last year, mainly due to less expense on Dongshan Base Construction.
- (2) The net outflow of other investing activities was RMB 6.17 billion, with RMB 10.14 billion more cash outflow than the RMB 6.17 billion at the same period last year, representing an increased outflow of RMB 10.14 billion, mainly due to more expense on low risk asset operations this year.

Unit: Million Yuan Currency: RMB

Items (without regard to Finance Co.)	2016	2015	Year-on-Year Variation
Cash inflow arising from investing activities	64,366	23,053	41,313
Cash outflow arising from investing activities	82,070	43,055	39,015
Net cash flow arising from investing activities	-17,704	-20,003	2,298

## Section IV Discussion and Analysis about Operation

Without regard to the impact of Finance Co., the net cash flow arising from financing activities was RMB 1.84 billion, RMB 2.42 billion more than the RMB -580 million at the same period last year. Details are as follow:

Unit: Million Yuan Currency: RMB

Items (without regard to Finance Co.)	2016	2015	Year-on-year variation
Impact of change in financing scale on flow	4,981	3,986	995
Cash paid for distribution of dividends and profits or repayment of interest	-3,822	-4,966	1,144
Cash paid for repurchase of stocks	0	-1,500	1,500
Cash received from investors	720	1,900	-1,180
Other cash related to financing activities	-36	0	-36
Net cash flow arising from financing activities	1,843	-580	2,423

### ( II ) Analysis of assets and liabilities

√ Applicable □ Not applicable

#### 1. Assets and liabilities status

Unit: Million Yuan Currency: RMB

Items	Amount at the end of the reporting period	Ratio against total assets at the end of the reporting period (%)	Amount at the end of last reporting period	Ratio against total assets at the end of last reporting period (%)	YoY ratio change (%)	Notes
Current assets	102,210	38.1	69,903	29.9	46.2	
Including: Cash and cash equivalents	10,477	3.9	7,817	3.3	34.0	Concentration for the payment collection at the end of year
Inventory	35,779	13.4	23,516	10.0	52.1	Raw material price increase and strategic reserve capacity increase and other reasons
Receivables	20,632	7.7	17,351	7.4	18.9	
Prepayments	7,800	2.91	4,160	1.8	87.52	Purchasing price rise and business scale growth
Non-current assets	165,773	61.9	164,220	70.1	0.9	
Including: Fixed assets	118,102	44.1	91,068	38.9	29.7	
Construction-in-progress	9,310	3.5	33,628	14.4	-72.3	The construction in progress of Zhanjiang Iron & Steel transferred as the fixed asset
Long-term equity investment	5,310	2.0	5,010	2.1	6.0	
Total assets	267,983	100.0	234,123	100.0	14.5	
Current liabilities	119,890	44.7	91,860	39.2	30.5	
Including: Short-term borrowings	27,754	10.4	27,111	11.6	2.4	
Payables	33,979	12.7	25,820	11.0	31.6	Purchasing price rise and business scale growth
Deposit received	21,745	8.11	12,468	5.3	74.41	Product price rise and increased sales volume
Non-current liabilities due within one year	155	0.1	208	0.1	-25.7	
Other current liabilities	18,054	6.7	10,057	4.3	79.5	Newly-issued ultra-short term financing bill
Non-current liabilities	16,672	6.2	20,117	8.6	-17.1	
Including: Long-term borrowings	296	0.1	9,111	3.9	-96.7	Adjustment of financing structure
Notes payables	14,077	5.3	8,747	3.7	60.9	Newly-issued medium-term note
Total liabilities	136,562	51.0	111,977	47.8	22.0	
Shareholders' equity	131,421	49.0	122,146	52.2	7.6	
Total Liabilities and shareholders' equity	267,983	100.0	234,123	100.0	14.46	



## 2. Limited status of major assets at the end of reporting period

Applicable  Not applicable

Unit: Million Yuan Currency: RMB

Items	Carrying value at the end of the year	Limited cause
Cash and cash equivalents	1,003	Reserve requirement in the People's Bank of China by Finance Co.
Notes receivables	524	Pledge billing RMB 510 million, discount RMB 20 million
Fixed assets	592	Mortgage from subsidiaries
Intangible assets	89	Mortgage from subsidiaries
Total	2,209	

## ( III ) Analysis of industrial operations

Applicable  Not applicable

### Analysis of steel industry operations

#### 1. Steel manufacturing and sales by processing

Applicable  Not applicable

Unit: Million Yuan Currency: RMB

By processing	Production (ton)		Sales volume (ton )		Operating revenue		Operating cost		Gross margin (%)	
	This year	Previous year	This year	Previous year	This year	Previous year	This year	Previous year	This year	Previous year
Cold-rolled steel	9,865,762	9,456,127	9,733,394	9,445,106	43,033	41,655	33,117	35,695	23.0	14.3
Hot-rolled steel	9,587,806	8,888,578	10,040,169	8,839,070	28,592	22,937	22,262	20,259	22.1	11.7
others	3,567,259	3,279,873	3,613,875	3,271,513	12,597	13,054	11,918	12,923	5.4	1.0

Note: the above table only contains manufacturing and sales information of self-made steel, excluding information of steel billet.

#### 2. Steel manufacturing and sales by form of product

Applicable  Not applicable

Unit: Million Yuan Currency: RMB

By form	production (ton)		Sales volume (ton)		Operating revenue		Operating cost		Gross margin (%)	
	This year	Previous year	This year	Previous year	This year	Previous year	This year	Previous year	This year	Previous year
Strips	20,902,733	19,500,501	21,233,112	19,454,468	75,500	68,163	59,268	59,689	21.5	12.4
Tubes&pipes	1,525,339	1,637,311	1,562,650	1,611,194	6,271	7,450	6,254	7,520	0.3	-0.9
others	592,755	486,766	591,676	490,026	2,452	2,033	1,776	1,668	27.6	17.9

Note: the above table only contains manufacturing and sales information of self-made steel, excluding information of steel billet.

#### 3. Steel sales by marketing channels

Applicable  Not applicable

Unit: Million Yuan Currency: RMB

By marketing channels	Operating revenue		Ratio to total operating revenue (%)	
	This year	Previous year	This year	Previous year
Off-line marketing	125,259	122,807	67.4	74.8
On-line marketing	34,053	18,728	18.3	11.4

#### 4. Iron ore supplies

Applicable  Not applicable

Unit: Million Yuan Currency: RMB

Iron ore source of supply	Supply (ton)		Expenditure	
	This year	Previous year	This year	Previous year
Domestic procurement	6,400,000	2,420,000	3,052	792
Overseas import	40,230,000	34,460,000	14,715	14,296

## Section IV Discussion and Analysis about Operation

### ( IV ) Investment analysis

#### 1. Analysis of equity investment outside Baosteel

Applicable  Not applicable

In 2016, the Company spent RMB 1.97 billion in equity investment, RMB 2.88 billion less than that in last year, which was down by 59.3%.

The main equity investment

Applicable  Not applicable

Unit: Million Currency: RMB

Name of investee	Main business	Proportion of Baosteel's equity in the investee	Actual capital contribution from Baosteel
Shanghai Baosteel Asset Management Co., Ltd.	Asset management	100%	1,000
Shanghai Ouyeel Finance Service Co., Ltd.	E-commerce	54.91%	500
Ouyeel International Co., Ltd.	E-commerce	100%	99
Baochem Zhanjiang Co., Ltd.	Chemical industry	100%	90
Total			1,689

Note: statistics according to the capital contribution of the Company to the equity investment project in the year.

#### 2. Main non-equity investment

Applicable  Not applicable

In 2016, the Company completed the fixed-asset investment of RMB 14.75 billion, of which: Zhanjiang Iron & Steel project completed the investment of RMB 7.74 billion.

(1) Raised fund project situation

None.

(2) Non-raised fund project

① Completed and operated project

Zhanjiang Iron & Steel Project. In order to carry out the Plan of National Steel Industry Adjustment and Revitalization and steel industry strategic adjustment between Guangdong and Shanghai, the iron-making, steel-making, hot rolling and cold rolling production line in Donghai Island, Zhanjiang City of Guangdong Province were newly built with an annual output of 8.23 million tons of pig iron, 8.928 million tons of molten steel, 8.749 million tons of continuous casting billets and 6.89 million tons of steel product. No. 2 blast furnace system of the project started the heat load test run in advance on Jul. 15, which marked the Phase-I project of Zhanjiang Iron & Steel construction completely.

Closed Transformation for Phase-I and Phase-II Mine Field (OC, OD) Bar C-type. In order to further improve the raw material mine area environment, decrease unorganized emissions of the dust, reduce material loss and boiling water content, the closed transformation will be implemented for the open-air mine, the transformed material yard will synchronize to realize the completely automatic operation. The project was completed and put into operation in September.

Reconstruction of E and F bar silo in the coal yard. In order to further improve the coal year area environment, decrease unorganized emissions of the dust, reduce the material loss, the open-air coal yard will be reconstructed as the silo. The project was completed and put into operation in Jun. 2016.

② Continuously-constructed project

Closed Transformation for Phase-I and Phase-II Blending Yard (BA, BB) and Secondary Material Yard (OA, OB). In order to solve material dust and erosion of Phase-I and Phase-II blending yard and secondary material yard, reduce the material pollution to the surrounding environment, the closed transformation will be implemented for the open-air blending yard, and the plan is going to be put into operation at the end of June 2017. Currently, the civil construction and steel structure installation are in progress.

### 3. Assets by Fair Value and Measurement

Applicable  Not applicable

Unit: Million Yuan Currency: RMB

Items	At the end of 2015	At the end of 2016	Purchase in the reporting period	Sales in the reporting period	Change of fair value
Assets by fair value and measurement and its change recorded in the gains/losses in the reporting period	873	1,123	3,515	3,401	136
Available-for-sale financial assets	1,331	3,529	2,644	570	124
Total	2,204	4,652	6,159	3,971	260

### (V) Main holding and joint-stock company analysis

Applicable  Not applicable

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

As of the end of 2016, the Company owned 77.0% of the equity. With a registered capital of RMB 7.08 billion, Meishan Steel specializes in the processing and sales of black metal smelting and rolling. By the end of 2016, Meishan Steel had a total asset of RMB 30.76 billion, a net asset of RMB 9.79 billion, and a net yearly profit of RMB 360 million.

#### 2. Baosteel Zhanjiang Iron & Steel Co., Ltd.

As of the end of 2016, the Company owned 90% of the equity. With a registered capital of RMB 20 billion, Zhanjiang Steel's main business specializes in the processing and sales of black metal smelting and rolling. Parts of projects of the Company is under construction at present. By the end of 2016, Zhanjiang Steel had a total asset of RMB 63.05 billion, a net asset of RMB 17.88 billion, and a net yearly profit of RMB -700 million.

#### 3. Baosteel-NSC Automotive Steel Sheets Co., Ltd.

As of the end of 2016, the Company owned 50% of the equity. With a registered capital of RMB 3 billion, BNA's main business includes manufacturing and sales of cold-rolled steel sheets and hot-dip galvanized steel sheets for automobile, automotive parts and other services related to its principal business. By the end of 2016, BNA had a total asset of RMB 5.03 billion, a net asset of RMB 3.51 billion, and a net yearly profit of RMB 260 million.

#### 4. Yantai Lubao Steel Tubes Co., Ltd.

As of the end of 2016, the Company owned 100% of the equity. With a registered capital of RMB 500 million, Lubao Steel Tube's main business includes processing and sales of seamless steel pipe. Its major products include structural seamless steel pipe, low/medium pressure boiler seamless pipe, seamless pipelines for transportation of fluids, and hydraulic seamless pipe, as well as high pressure boiler seamless pipe, seamless pipe for oil pipelines, geological drillings, oil pipelines and oxygen cylinder pipe. By the end of 2016, Lubao Steel Tubes had a total asset of RMB 840 million and a net asset of RMB 560 million and reporting a net yearly profit of RMB -90 million.

#### 5. Baosteel Huangshi Coated and Galvanized Sheet Co., Ltd.

In 2016, Huangshi State-owned Assets Management Co., Ltd. increased its capital investment by RMB 72 million to the Company, and the initial capital contribution of RMB 40 million had been completed. After the completion of all increased capitals, the equity ratio of Huangshi Coated and Galvanized held by Baosteel has been decreased from 58.45% to 50.63%. With a registered capital of RMB 167 million, Huangshi's main business includes production and sales of cold-rolled sheets, aluminum coated steel sheets, prepainted steel sheets and related coated steel products. By the end of 2016, Huangshi had a total asset of RMB 1.06 billion, a net asset of RMB 460 million, and reporting a net yearly profit of RMB 30 million.

#### 6. Shanghai Baosteel International Economic & Trading Co., Ltd.

As of the end of 2016, the Company owned 100% of the equity. With a registered capital of RMB 2.25 billion, Baosteel International's main business includes imports and exports of goods and technology approved by the government, the imports of steel and scrap steel, processing with imported materials and compensation trade. By the end of 2016, Baosteel International had a total asset of RMB 45.86 billion, a net asset of RMB 14.64 billion, and reporting a net yearly profit of RMB 1.46 billion.

#### 7. Shanghai Baosight Software Co., Ltd.

As of the end of 2016, the Company owned 55.5% of the equity. With a registered capital of RMB 783 million, Baosight's main business includes computer, automation, network communication and the research, design, development, manufacturing and integration of software and hardware. By the end of 2016, Baosight had a total asset of RMB 6.84 billion, a net asset of RMB 4.25 billion, and reporting a net yearly profit of RMB 370 million.

#### 8. Shanghai Baosteel Chemical Co., Ltd.

As of the end of 2016, the Company owned 100% of the equity. With a registered capital of RMB 2.11 billion, Baosteel Chemical's main business includes production and sales of raw chemical materials and products, "four techniques" services in chemical industry, and import and export activities of its own products. By the end of 2016, Baosteel Chemical had a total asset of RMB 5.3 billion, a net asset of RMB 3.66 billion, and reporting a net yearly profit of RMB 70 million.

## Section IV Discussion and Analysis about Operation

### 9. Shanghai Baosteel Asset Management Co., Ltd.

In 2016, the Company invested RMB 1 billion to set up Shanghai Baosteel Asset Management Co., Ltd. with the sole proprietorship, whose main business is for asset management; Maintenance of construction machinery and metallurgical equipment; Design, manufacturing, installation and maintenance of mechanical and electrical equipment (except for special equipment); Goods and technology import and export business; Technical development, transfer, consulting, services, etc. in the field of metallurgical technology. In Dec. 2016, it purchased 95.82% of equities of Nantong Baosteel Iron & Steel Co., Ltd. which was held by the Company. By the end of 2016, this company's total assets have been RMB 750 million, net assets of RMB 690 million, and net profits of RMB 550 thousand in this year.

### 10. Baosteel Group Finance Co., Ltd.

By the end of 2016, the Company owned 62.1% of equities of this company whose registered capital is RMB 1.4 billion, the main business for absorbing deposits from member units, applying for loans to member units, internal transfer and settlement between the member units, entrusted loans and entrusted investment for member units, inter-bank borrowing, etc. By the end of 2016, this company's total assets have been RMB 15.09 billion, net assets of RMB 1.97 billion, and net profits of RMB 130 million in this year.

### 11. Yantai Baosteel Pipe Co, Ltd.

By the end of 2016, the Company owned 80% of equities, the rest 20% owned by Yantai Lubao Steel Tubes Co., Ltd. who has registered capital of RMB 4 billion, with the main business for production, processing and sales of steel tubes, ancillary products and by-products; Consulting services for steel pipe rolling technology, warehousing, goods, import and export business etc. By the end of 2016, this company's total assets have been RMB 4.16 billion, net assets of RMB 1.03 billion, and net profits of RMB -350 million in this year.

### 12. Ouyeel Co., Ltd.

By the end of 2016, the Company and its subsidiary Baosteel International jointly owned 51% equities of this company (the Company holds 8.67% equities in this company). The registered capital of this company is RMB 2.4 billion. Its main business is in the e-commerce field of technical consulting, technology development, technical services, technology transfer, industrial investment, investment management, equity investment management, investment consulting, economic information consulting, enterprise management consulting, domestic trade (except special approval), engagement in import and export business of goods and technology. By the end of 2016, this company's total assets have been RMB 14.34 billion, net assets of RMB 2.41 billion, and net profits of RMB -290 million in this year.

### 13. Overseas Company

By the end of 2016, the Company has set up foreign subsidiaries in the US, Japan, Germany, Singapore and Hong Kong, played a significant role in expanding sales and purchasing network of the Company, and improving the competitiveness of the Company in the international market.

## III. Discussion and Analysis of the Company's Future Development

### ( I ) Industry structure and trend

Applicable  Not applicable

In 2017, the growth of the world economy will be impacted by the Fed rate hike, unstable European economy and other uncertain factors, and the vast developing countries including China under great financial pressure, at the same time, the bigger challenge would be faced in front of China's foreign trade.

In 2017, global crude steel production is expected to slightly increase by 0.1% to 1.62 billion tons on year-on-year basis. As China's real estate construction slowed down, from 2017 to 2018, China's crude steel production is expected to decline, which may be risky for China's steel enterprises. In contrast, the crude steel production in India is expected to continue to grow strongly over the next two years and is expected to overtake Japan as the world's second largest producer of crude steel in 2018. Due to the increase in domestic steel demand and anti-dumping support for low-priced imported steel, the crude steel production in the United States and the European Union will be expected to increase over the next two years.

2017 is not only a year for deepening structural supply-side reform but also a crucial time for resolving excessive steel production capacity. Domestic economic growth will be generally stable, continually maintaining the medium-to-high speed growth, in more balanced structure. The work to reduce excessive steel production capacity will continue to move forward. The recycled steel, intermediate frequency furnace and other backward production capacity will gradually withdraw from the market. But in the overall view, the oversupply situation in the domestic market is hard to turn better fundamentally in the short term.

In 2017, China's steel market demand is expected to remain stable, with the steel production keeping at a high level, but because of the domestic and foreign market environment is more complicated, the steel export trade friction may be a lot more, and the annual export volume in a trend of decline. The steel industry is still at transformation and struggling stage. The whole market changed a little, so it will still be difficult for steel price to rise sharply. Resolving excessive production capacity and eliminating backward production capacity will be the key factors for the smooth operation of steel price.

### ( II ) Company development strategy

Applicable  Not applicable

In 2016, after reviewing and sorting out the last round of planning, systematically analyzing the external development environment and national development strategy, the Company actively took the opportunities and responded to threats, launching a new round of development planning (2016-2021), and refining connotation of the development strategy of "one body with two wings". Namely: to adhere to the steel business development as the main body, to strengthen the comprehensive competitiveness, to insist on the strategic objectives "becoming the world's most competitive steel enterprise, becoming the listed company of the most investment value and to undertake China's mission of turning from the iron and steel giant to iron and steel power; At the same time, the Company fully grasps the opportunities of the times, through the development by two wings of intelligent manufacturing in the steel industry and Ouyee Co., Ltd., to gain the Company's new advantage in the Internet era and intelligent era ahead of other competitors. The Company's new development strategy is connected with the national strategy, closely following the pulse of era, in clear strategic positioning, with explicit ways and measures, and in line with the development environment of China's steel industry.

In 2016, with the development strategy of "one body with two wings", the company gained a total profits of RMB 11.52 billion in the whole year, and achieved the best planning objectives among the domestic counterparts; with three initial releasing products to the world like high magnetic induction oriented silicon steel, and 6 significant new technological breakthroughs like acid free phosphorus removal technology; Streamlining organizational structure, improving labor efficiency, the annual staff of 2,222 people to be optimized, the official labor efficiency improved by 6.5%.

### ( III ) Business plan

Applicable  Not applicable

#### 1. Progress of the preliminary development strategy and business plan during the reporting period

In the annual business objectives, in 2016, the Company's overall cost reduced by RMB 5.85 billion, net cash inflow from operating activities of RMB 18.41 billion (excluding Finance Company), cold rolled automobile sheet occupancy of more than 50%, formal labor efficiency ratio increasing by 6.5%, exceeding the annual business objectives, and realizing the optimal performance of domestic industry.

#### 2. Business objectives, plans and key works of the Company to be implemented in 2017

In 2017, the Company will focus on business policy of "one body with two wings, four-place coordination for development, reform and innovation; difference competition, cost reform, green and lean for success", stressing firmly on three-year planning objective of cost reduction without wavering, striving to achieve the business objectives of "being domestic leader of business performance, being global top three of profit per ton; cost reduction of more than RMB 6 billion; synergy benefit from Baowu of more than RMB 1 billion; Zhanjiang Iron & Steel of overall profitability; formal labor efficiency improved by more than 6%".

In 2017, Baosteel plans to produce 45.22 million tons of iron (including: Wugang Limited of 15.32 million tons), 46.19 million tons of steel (including: Wugang Limited of 15.68 million tons), to sell 43.94 million tons of commercial billet (including: Wugang Limited of 14.4 million tons), total operating incomes of RMB 338.5 billion and operating costs of RMB 310.2 billion. The management of the Company will continue to consolidate the results of cost reduction and breakthrough in profound zone as the main work, in order to maintain the Company's leadership in the domestic carbon steel sheet markets and relative leading position in global business performance as the objective. Through promotion of joint restructuring, strengthening of coordination between all bases, continuous implementation of the cost reduction, the Company can be assured to complete the production and business objectives and to strive for more excellent business performance.

Guided by the Company's business policy and objectives in 2017, and in line with the requirements of planning and requirements of the group company, the Company will promote the following works in the year:

(1) Promote joint restructuring and make full use of synergy effects. Earnestly complete the joint restructuring of Baowu, making full use of synergy effects, comprehensively optimizing allocation of resources, and enhancing the sustainable profitability. Meanwhile, further improving the leading ability of technology, promoting interactive communication and manufacturing capacity of multi bases and establishing the benchmarking mechanism in four production bases as soon as possible, to form the Company's virtuous circle of internal benchmarking improvement. Planning operational information architecture in future four bases of Baosteel, to support multi-base collaborative integration operation.

(2) Focus on new product development, lead the market and users. Insist on technical guidance, providing the users with overall solution of high-quality steels and materials with the stable quality and reasonable cost. Vigorously boost R & D schedule of initial releasing products and original technology to each team, consolidating coordination of production, study, research and application, exploring the establishment of the collaborative research and development mode of research institute and local technology center, accelerating the technology transplanting coverage of core process, with full play of radiation efficiency of R & D advantage resources from the research institute and the Baoshan base factory headquarters.

(3) Strengthen multi-base coordination and achieve stable and efficient manufacturing. Further intensify the whole process control of Baoshan base to improve manufacturing capacity. Set up a stable and controlled production operation system in Meishan base, to constantly upgrade the standardization and refinement of technology, management, on-site operation, equipment operation and maintenance and other links. Comprehensively upgrade all the production technical indexes in Dongshan base, exploiting potential cost improvement. Further expand the market in Steel Tube and Strip Division, to improve business performance.

(4) Adhere to objective of cost reduction without unwavering, enhance cost competitiveness. Continue to exploit new projects and potential points to reduce cost, and promote cost reduction in depth, to ensure that all costs not rebound on year-on-year basis and the indexes are not bad, and to effectively support the Company's overall business performance objectives.



## Section IV Discussion and Analysis about Operation

(5) Pay attention to environmental improvement and construct the urban steel mills. Baoshan base needs to be comprehensively enhanced on the environmental protection process performance and system capacity, to steadily push forward the new standards of environmental protection for realization and improvement, and plan supervision projects of clean air. Meishan base needs to "promotion and upgrading" in front area of the factory and "optimization and improvement" in north area of the factory, and other environmental protection and greening projects, to push forward the pollutant emission reduction and increase the risk control and management of discharge of waste gas and waste water; Dongshan base needs to fully carry forward the environmental protection acceptance of the two blast furnace systems, to improve the environmental management system and system certification, and to broaden the comprehensive utilization of social channels and to enhance the utility value of secondary resources.

(6) Develop variety competition advantages and consolidate the market leading position. Keep improvement and optimization of the multi-base operation mode, and better complete the production organization in multi bases; Keep optimization of the product structure to ensure and improve the market share of various steel products; Further strengthen product development management. According to new product requirements and needs of technology research, promote collection and delivery of new product requirements and increase implementation efficiency of new product development requirements.

(7) Innovate the human resources mechanism and motivate the vitality of staff team. Combined with the joint restructuring process of Baowu, on the base of multi-base human resources management mode, carry out the top-level design of human resources, explore various means to increase the labor efficiency in full coverage, innovate salary and welfare incentive mechanism and build the core talent team.

(8) Take the pilot projects as the starting point, and actively promote intelligent manufacturing. Baoshan base needs to actively promote the furnace front operation of blast furnace, automation of cold rolling packaging and other robot application demonstration and reconstruction projects, and establishment of the intelligent procurement platform into operation. Meishan base needs to continuously promote intelligent centralized control of key areas and model production projects of key processes. Steel Tube and Strip Division needs to continue promoting the industrial robot and intelligent detection, making breakthroughs in product identification and tracking, end-to-end personal service for strategic users, surface detection for hot steel tube, automatic thread determination technology etc.

3. In 2017, the Company's business plan not constitutes a company's performance commitment to the investors, prompting the investors to maintain sufficient risk awareness.
4. The capital requirements required to maintain the Company's current business and to complete the investment projects under construction, and the investment funds' sources, costs and usage, involved in the company's business plan.

In Baoshan base, the Company's budget of fixed assets investment is RMB 15.9 billion in 2017, mainly used for optimization of oriented silicon steel product structure, optimization of tinplate product structure, series project reconstruction in raw material field of "coal in stock, mine in shack"; Reconstruction of outsourcing coke and coal silo in Meishan base; 1550 cold rolling project and factory station project construction in Dongshan base; In Qingshan base, new steel rail production line with on-line heat treatment function added in large strip branch of strip factory and other key projects.

### ( IV ) Possible risks

Applicable  Not applicable

#### 1. Overall risk situation of the company and related risk countermeasures

In 2016, Zhanjiang Iron & Steel realized the transformation from construction to operation, and production and business results exceeded expectations. The construction of Zhanjiang Iron & Steel was steadily moving on. In January, it completed the test run of 2030 cold rolling hot load. In March, No. 1 blast furnace system was fully completed. In July, No. 2 blast furnace was successfully ignited. With the successive trial production of production lines, Zhanjiang Iron & Steel quickly upgraded the technical and economic indexes. The continuous annealing of one blast furnace, hot rolling and cold rolling successively achieved monthly production, successfully passing the ISO9001 certification and conformity certification of ISO/TS16949 by BSI. The related products have been supplied to more than 50 car users. At the same time, seize the favorable opportunities to accelerate production capacity increasing and realize the overall positive product gross margin.

Take the cost reduction and energy and medium integration as the drive, greatly promote the management optimization of energy system and to realize efficient, economical, safe and stable supply of energy system. Overcome the influence of coal control on the logistics and energy, fully debase the energy cost per ton and energy consumption of main process, continuously reduce the gas and oxygen release, to exceed the annual energy cost reduction objective and to complete the energy saving quantity of 89,900 tons of standard coal in process. Strengthen the process management and control, and environmental risk management and control. The 100% online emission process of key pollution sources reached up to standards, with no major environmental risk events throughout the year. A series of emergency management and control measures marked by G20 summit have been highly recognized by the local environmental protection department, and approved by the Second Central Environmental Protection Inspectorate for the flight inspection.

#### 2. Newly-increased risk factors in 2017

In 2016, with the official establishment of Baowu group, Baosteel exchanged shares by absorption merger of Wuhan Iron and Steel Company Limited, so it is urgent to play a strong synergy and scale effect of the powerful combination and rapidly increase the sustainable profitability. In 2017, during the integration process of Baowu, through business and management integration in various aspects, there may be risks of not reaching the maximized cross-regional synergetic effects in procurement, production, sales, personnel, and so on within the target period.

## Section V Important Matters

### I. Proposed Plan of Profit Appropriation of Common Shares or Capitalizing of Capital Reserves

#### (I). Formulation, implementation or adjustment of cash dividend policy

Applicable  Not applicable

The Company's dividend distribution schemes in previous years were all in line with the Company's Articles of Association and were approved by the Resolutions of the Shareholders' Meeting. The cash dividend stipulated by the Company followed clear standard and percentage requirement, and the related decision-making procedures and mechanism were self-contained. The independent directors have fulfilled their obligations and played active roles. It was also ensured that the medium and small shareholders could fully air their views and concerns. Measures were taken to protect the legal rights and interests of the medium and small shareholders.

In 2016, since the Company recorded a net profit of RMB 6,889,147,293.69, plus the undistributed profit of RMB 33,913,169,990.02 at the beginning of 2016 and minus the cash dividend of RMB 988,015,633.44 distributed in 2015, it is predicted that the Company's distributable profit would amount to RMB 39,814,301,650.27 at the end of 2016. In order to achieve the Company's long-term, sustainable development and better repay investors, according to the Company's Articles of Association, it is proposed for the following profit appropriation scheme for 2016:

1. Ten percent of the net profit, or RMB 688,914,729.37, was allocated as a statutory reserve fund for the year 2016;
2. Ten percent of the net profit, or RMB 688,914,729.37, was allocated as an optional reserve fund for the year 2016;
3. According to the Proposal of Baoshan Iron & Steel Co., Ltd. on Modification of Articles of Association approved by the General Meeting of Shareholders in 2012, the annual cash dividend to be distributed should not be less than 50% of the net profit attributable to the parent company in the consolidated statements audited in that year; therefore the total cash dividend in 2016 that should be distributed shall not be less than RMB 4,482,757,045.43. In view of the Company's usual policy of attaching importance to repay shareholders and cash dividend in long terms, the Company intends to distribute cash dividend of 0.21 yuan / share (including tax) to all shareholders specified in the dividend notice and listed in equity registration, totaling RMB 4,641,557,954.25 (including tax), accounting for 51.77% of net profit in the consolidated statements attributable to shareholders of the parent company;
4. Other models of distribution, such as capitalizing of capital reserves, would not be adopted.
5. Cash dividend-net profit ratios from 2013 to 2016

Item	2016	2015	2014	2013
1 Cash dividend per share (including tax) (RMB)	0.21	0.06	0.18	0.10
2 Total amount of cash repurchase (RMB 100 million)				30.83
3 Total amount of cash dividend (incl. cash for repurchase) (RMB 100 million)	46.42	9.88	29.65	47.31
4 Net profit for legal person presented in the statements according to corporation (RMB 100 million)	68.89	33.27	67.12	64.92
5 Net profit attributable to parent company in consolidated statements (RMB 100 million)	89.66	10.13	57.92	58.18
6 Cash dividend against net profit for legal person	67.37%	29.69%	44.17%	72.87%
7 Cash dividend against net profit attributable to parent company in consolidated statements	51.77%	97.55%	51.19%	81.30%

Notes: The effect of retroactive adjustment is not taken into account.

#### (II). Common stock dividends and Capitalizing of Capital Reserves Plan or Proposal in Last Three Years (Including the reporting period)

Unit: Million Yuan Currency: RMB

Dividend Year	Bonus shares per 10 shares (share)	Dividend payout per 10 shares (Yuan) (tax-inclusive)	Number of increase by transferring per 10 shares (share)	Cash dividends amount (tax-inclusive)	The net profit belonging to the listed company common share's shareholders in the annual dividend consolidated statements	Percentage (%) accounting for the net profit of listed company common shareholders in consolidated statements
Year 2016 (Note)				4,642	8,966	51.77
2015				988	1,013	97.55
2014				2,965	5,792	51.19

Notes: 2016 cash dividend is an estimated amount.

## Section V Important Matters

### II. Performance situation of commitment matters

#### (I). Commitments of actual controllers, shareholders, relevant party and acquirer, the company and other committed parties in and continuing to the reporting period

√ Applicable □ Not applicable

Baosteel Group Corporation (hereinafter referred to as Baosteel Group) is the predecessor of China Baowu Steel Group Co., Ltd. (referred to as "Baowu group").

Commitment background	Commitment Type	Commitment Party	Commitment Content	Commitment time and duration	If strictly perform the duration	If strictly perform in time	Specific reasons for nonperformance in time	Notes for next plan if nonperformance in time
	A commitment to providing true, accurate and complete information	Baosteel, Wuhan Iron and Steel Co., Ltd.	The company is committed to provide timely information related to the transaction, and to ensure that the provided information is true, accurate and complete, without false records, misleading statements or material omissions, and to bear individual and joint legal liabilities of provided information of authenticity, accuracy, and completeness. If there are false records, misleading statements or major omissions existing in the provided information, resulting in losses to the transaction parties or investors, the company shall bear the liability for compensation. These commitments were published on China Securities News, Shanghai Securities News and Securities Times dated Sept. 23, 2016 and the official website of Shanghai Stock Exchange ( <a href="http://www.sse.com.cn/">http://www.sse.com.cn/</a> ).	Sept. 22, 2016	No	Yes, it has been fulfilled		
Report on Baosteel exchanging shares and merger of Wuhan Iron and Steel Co., Ltd and relevant transaction	A commitment to providing true, accurate and complete information	Baosteel Group	I. The company has provided relevant information and documents (including but not limited to the original written materials, copy of materials or oral testimony etc.) of the company related to this transaction to Baosteel, Wuhan Iron and Steel Company Limited and intermediary organ offering professional service of audit, valuation, legal and financial consultation for the transaction. And the company promises: The provided copies or photocopies of documents are in conformity with the reserved copy or originals, and the signatures and seals on such documents are true; The provided information and documents is true, accurate and complete, without false records, misleading statements or material omissions, and to bear individual and joint legal liabilities of provided information of authenticity, accuracy, and completeness. II. In this transaction, the company promises to timely provide the relevant information about the restructuring of Baosteel, Wuhan Iron and Steel Company Limited, and ensures that the provided information is true, accurate and complete. If there are false records, misleading statements or major omissions existing in the provided information, which resulting in losses to Baosteel, Wuhan Iron and Steel Company Limited or investors, the company shall bear the liability for compensation. III. If the transaction is suspected of false records, misleading statements or major omissions in provided information or disclosure, reported of placing a case on file by the judicial authority or China Securities Regulatory Commission, the company will suspend the transfer of shares of the company in Baosteel or Wuhan Iron and Steel Company Limited before the conclusion of the case is finally explicit. These commitments were published on China Securities News, Shanghai Securities News and Securities Times dated Sept. 23, 2016 and the official website of Shanghai Stock Exchange ( <a href="http://www.sse.com.cn/">http://www.sse.com.cn/</a> ).	Sept. 22, 2016	No	Yes, it has been fulfilled		
	A commitment to providing true, accurate and complete information	Wuhan Iron and Steel Group	I. The company has provided relevant information and documents (including but not limited to the original written materials, copy of materials or oral testimony etc.) of the company related to this transaction to Baosteel, Wuhan Iron and Steel Company Limited and intermediary organ offering professional service of audit, valuation, legal and financial consultation for the transaction. And the company promises: The provided copies or photocopies of documents are in conformity with the reserved copy or originals, and the signatures and seals on such documents are true; The provided information and documents is true, accurate and complete, without false records, misleading statements or material omissions, and to bear individual and joint legal liabilities of provided information of authenticity, accuracy, and completeness. II. In this transaction, the company will timely provide the relevant information to Baosteel and Wuhan Iron and Steel Company Limited, and ensures that the provided documents and information is true, accurate and complete, without false records, misleading statements or major omissions and is willing to bear individual and joint legal liabilities. III. If the transaction is suspected of false records, misleading statements or major omissions in provided information or disclosure, reported of placing a case on file by the judicial authority or China Securities Regulatory Commission, the company will suspend the transfer of shares of the company in Wuhan Iron and Steel Company Limited or the new company after the mergence before the conclusion of the case is finally explicit. These commitments were published on China Securities News, Shanghai Securities News and Securities Times dated Sept. 23, 2016 and the official website of Shanghai Stock Exchange ( <a href="http://www.sse.com.cn/">http://www.sse.com.cn/</a> ).	Sept. 22, 2016	No	Yes, it has been fulfilled		

Commitment background	Commitment Type	Commitment Party	Commitment Content	Commitment time and duration	If strictly perform the duration	If strictly perform in time	Specific reasons for nonperformance in time	Notes for next plan if nonperformance in time
	Letter of commitment on true, accurate and complete information disclosure and application documents	All Directors, Supervisors and Management Personnel of Baosteel	All the Directors, Supervisors and Senior Management Personnel of the company ensure that all information contained in the Baoshan Iron & Steel Co., Ltd. Absorption merger of WISCO and Relevant Transaction Report and other disclosure and application documents issued by the company for this transaction, is true, accurate and complete, without false records, misleading statements or material omissions, and bears the joint legal liabilities for false records, misleading statements or major omissions. These commitments were published on China Securities News, Shanghai Securities News and Securities Times dated Sept. 23, 2016 and the official website of Shanghai Stock Exchange ( <a href="http://www.sse.com.cn/">http://www.sse.com.cn/</a> ).	Sept. 22, 2016	No	Yes, it has been fulfilled		
	Letter of commitment on true, accurate and complete information disclosure and application documents	All Directors, Supervisors and Management Personnel of Wuhan Iron and Steel Company Limited	All the Directors, Supervisors and Senior Management Personnel of the company ensure that all information contained in the Baoshan Iron & Steel Co., Ltd. Absorption merger of WISCO and Relevant Transaction Report and other disclosure and application documents issued by the company for this transaction, is true, accurate and complete, without false records, misleading statements or material omissions, and bears the joint legal liabilities for false records, misleading statements or major omissions. These commitments were published on China Securities News, Shanghai Securities News and Securities Times dated Sept. 23, 2016 and the official website of Shanghai Stock Exchange ( <a href="http://www.sse.com.cn/">http://www.sse.com.cn/</a> ).	Sept. 22, 2016	No	Yes, it has been fulfilled		
Report on Baosteel exchanging shares and merger of Wuhan Iron and Steel Co., Ltd and relevant transaction	Commitment to the effective implementation of filing in return measures for exchange, absorption merger and relevant transactions	All Directors, Supervisors and Management Personnel of Baosteel	<ol style="list-style-type: none"> <li>I hereby promise neither to deliver profits to other units or individuals in a free or unfair manner, nor adopt other forms to damage the company's benefits;</li> <li>I hereby promise to restrict position-oriented consumption;</li> <li>I hereby promise not to use the company asset to be engaged in investment or consumption irrelevant to duty performance;</li> <li>I hereby promise to combine the salary system formulated by the Board of Directors or Remuneration and Appraisal Committee with the execution of the company's padding and payback measures;</li> <li>If the company will promote company equity incentive plan, I hereby promise to combine the planned company equity incentive vesting conditions with the execution of the company's padding and payback measures.</li> <li>I am committed to fulfill this commitment in good faith and be willing to take legal responsibility for breach of the above commitments.</li> </ol> These commitments were published on China Securities News, Shanghai Securities News and Securities Times dated Sept. 23, 2016 and the official website of Shanghai Stock Exchange ( <a href="http://www.sse.com.cn/">http://www.sse.com.cn/</a> ).	Sept. 22, 2016	No	Yes		
A commitment to maintain the independence of the Baoshan Iron & Steel Co., Ltd.		Baosteel Group Corporation, WISCO	I. Maintain independency of stock holders of Baosteel The company is committed that the Baosteel staff remain independent after the completion of the transaction and that General Manager, Deputy General Manager, Chief Financial Officer and Secretary of the Board and other senior management personnel of Baosteel will not serve as Directors or Supervisors other than in the company and other companies controlled by the company, not paid in the company or the other subsidiaries of the company. To ensure that Baosteel's financial personnel do not have part-time job with the company or other companies under the control of the company. II. Commitment that the property of Baosteel is independent and complete. <ol style="list-style-type: none"> <li>To ensure that Baosteel has independent and complete assets.</li> <li>To ensure that there is no occurrence of Baosteel's funds and assets occupied by the company or other companies controlled by the company.</li> <li>To ensure that Baosteel's residence is independent of the shareholders</li> </ol> III. Commitment to financial independence of Baosteel <ol style="list-style-type: none"> <li>To ensure the establishment of independent financial department and independent financial calculating system in Baosteel .</li> <li>To ensure that Baosteel has a standard and independent financial accounting system.</li> <li>To ensure that Baosteel independently opens an account with a bank and does not share a bank account with its shareholders.</li> <li>To ensure that Baosteel's financial personnel do not have part-time job with the company or other companies under the control of the company.</li> <li>To ensure that Baosteel can independently make financial decisions, and that the company and other companies under the control of the company do not interfere with the use of funds in Baosteel.</li> </ol> IV. Commitment to institutional independence of Baosteel To ensure that Baosteel has an independent and complete organizational structure, which is completely separate from those of the shareholders, especially those of the company and other companies under the control of the company. V. Commitment to work-related independence of Baosteel The company has committed itself to maintaining independent business with Baosteel after the completion of the transaction. There is no substantive peer competition or unfair related transactions. To ensure that Baosteel has the assets, personnel, qualification and ability to carry out business activities independently, and has the ability to operate independently in markets. VI. The company promises not to interfere in the operation and management of Baosteel and shall not encroach on the interests of Baosteel. These commitments were published on China Securities News, Shanghai Securities News and Securities Times dated Sept. 23, 2016 and the official website of Shanghai Stock Exchange ( <a href="http://www.sse.com.cn/">http://www.sse.com.cn/</a> ).	Sept. 22, 2016	No	Yes		

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Commitment background	Commitment Type	Commitment Party	Commitment Content	Commitment time and duration	If strictly perform the duration	If strictly perform in time	Specific reasons for nonperformance in time	Notes for next plan if nonperformance in time
	Commitment to avoid horizontal competition with the newly merged company	Baosteel Group Corporation	<p>1. After the completion of this transaction, the company will not directly or indirectly (including but not limited to the ways of sole and holding etc.) involve or undertake business activities that are substantially competitive or may have substantial competition with main business of Baosteel.</p> <p>2. When the company or its subsidiaries have new business, investment or research that may have substantial competition with Baosteel business, Baosteel will have the priority of the right of development and the project priority right to buy. The company will do its best to promote so that the transaction price is determined based upon fairness, rationality and normal commercial transactions with independent third parties.</p> <p>3. Upon completion of this transaction, the company will exercise its legitimate rights to urge all parties involved in this transaction to issue commitments related to peer competition.</p> <p>4. The above promises are valid on the premise that during the Company as the controlling shareholder of Baosteel. In case of rights and interests of Baosteel being damaged due to violation of the above promises, the company is willing to undertake corresponding liability for damages.</p> <p>These commitments were published on China Securities News, Shanghai Securities News and Securities Times dated Sept. 23, 2016 and the official website of Shanghai Stock Exchange (<a href="http://www.sse.com.cn/">http://www.sse.com.cn/</a>).</p>	Sept. 22, 2016	No	Yes		
Report on Baosteel exchanging shares and merger of Wuhan Iron and Steel Co., Ltd and relevant transaction	Commitment to avoid horizontal competition with the newly merged company	Wuhan Iron and Steel Group	<p>1. The company promises that it won't control Guangxi Steel Group Co., Ltd. or dominate the operation of the company after for 3 years of the completion of this transaction or after the steel project at Port of Fangcheng is fully put into operation (the earlier one).</p> <p>2. After the completion of this transaction, the company will not directly or indirectly (including but not limited to the ways of sole and holding etc.) involve or undertake business activities that are substantially competitive or may have substantial competition with main business of Baosteel.</p> <p>3. When the company or its subsidiaries have new business, investment or research that may have substantial competition with Baosteel business, Baosteel will have the priority of the right of development and the project priority right to buy. The company will do its best to promote so that the transaction price is determined based upon fairness, rationality and normal commercial transactions with independent third parties.</p> <p>4. Except for the promise fulfilled for Guangxi Steel Group Co., Ltd. based on the solution promised this time and promise exempted by fulfillment procedures, now, the promise pertaining to horizontal competition which is being fulfilled by the company for Wuhan Iron and Steel Company Limited will be continuously fulfilled after this transaction and bind upon Baosteel.</p> <p>5. The above promises are valid on the premise that during the Company as the shareholder of Baosteel. In case of rights and interests of Baosteel being damaged due to violation of the above promises, the company is willing to undertake corresponding liability for damages.</p> <p>These commitments were published on China Securities News, Shanghai Securities News and Securities Times dated Sept. 23, 2016 and the official website of Shanghai Stock Exchange (<a href="http://www.sse.com.cn/">http://www.sse.com.cn/</a>).</p>	Sept. 22, 2016	No	Yes		
	Commitment on specifying related transaction	Baosteel Group Corporation	<p>1. The company will ensure the business of Baosteel is independent with complete capital as well as independent and complete production, supply, sales and other supporting systems.</p> <p>2. The company and other enterprises controlled by the company won't make use of the identity of shareholders at Baosteel to seek for preference concluding the transaction with Baosteel and its subordinate enterprises.</p> <p>3. The company and other enterprises controlled by the enterprise will avoid and reduce unnecessary transactions with Baosteel and its subordinate enterprises. In case of necessary transaction which cannot be avoided, the company and other enterprises controlled by the company will legally reach an agreement with Baosteel and its subordinate enterprises as per the principle of justice, equity and compensation of equal value and perform legal procedure. The company and other enterprises controlled by the company will legally perform information disclosure obligation and relevant internal decision-making and approval procedures, ensure not trading with Baosteel and its subordinate enterprises based on conditions which are obviously unjust compared to market price or use such transaction to engage in any behavior damaging legitimate rights and interests of Baosteel and other shareholders in accordance with relevant laws and regulations, requirements of normative documents as well as provisions of Articles of Association of Baoshan Iron &amp; Steel Co., Ltd.</p> <p>4. In case of the company violating the above promises, the company will undertake and compensate losses incurred to Baosteel for this reason according to law.</p> <p>These commitments were published on China Securities News, Shanghai Securities News and Securities Times dated Sept. 23, 2016 and the official website of Shanghai Stock Exchange (<a href="http://www.sse.com.cn/">http://www.sse.com.cn/</a>).</p>	Sept. 22, 2016	No	Yes		



Commitment background	Commitment Type	Commitment Party	Commitment Content	Commitment time and duration	If strictly perform the duration	If strictly perform in time	Specific reasons for nonperformance in time	Notes for next plan if nonperformance in time
	Commitment related transaction	Wuhan Iron and Steel Group	<p>1. The company and other enterprises controlled by the company won't make use of the identity of shareholders at Baosteel to seek for preference concluding the transaction with Baosteel and its subordinate enterprises.</p> <p>2. The company and other enterprises controlled by the enterprise will avoid and reduce unnecessary transactions with Baosteel and its subordinate enterprises. In case of necessary transaction which cannot be avoided, the company and other enterprises controlled by the company will legally reach an agreement with Baosteel and its subordinate enterprises as per the principle of justice, equity and compensation of equal value and perform legal procedure. The company and other enterprises controlled by the company will legally perform information disclosure obligation and relevant internal decision-making and approval procedures, ensure not trading with Baosteel and its subordinate enterprises based on conditions which are obviously unjust compared to market price or use such transaction to engage in any behavior damaging legitimate rights and interests of Baosteel and other shareholders in accordance with relevant laws and regulations, requirements of normative documents as well as provisions of Articles of Association of Baoshan Iron &amp; Steel Co., Ltd.</p> <p>3. In case of the company violating the above promises, the company will undertake and compensate losses incurred to Baosteel for this reason according to law.</p> <p>These commitments were published on China Securities News, Shanghai Securities News and Securities Times dated Sept. 23, 2016 and the official website of Shanghai Stock Exchange (<a href="http://www.sse.com.cn/">http://www.sse.com.cn/</a>).</p>	Sept. 22, 2016	No	Yes		
Report on Baosteel exchanging shares and merger of Wuhan Iron and Steel Co., Ltd and relevant transaction	The promise from cash option provider holding the post of dissent shareholder of Baoshan Iron & Steel Co., Ltd. in the process of stock conversion and absorption merger of China Baowu Steel Group Corporation	Baosteel Group Corporation	<p>1. In the process of this merger, for dissent shareholders of Baosteel meeting the condition of exercising cash option set forth in this merger scheme and implementing the procedure stipulated in the relevant notification to successfully declare and exercise cash option in light of cash option published by Baosteel at the appointed time, the company unconditionally agrees to fulfill various obligations of cash option provider according to "Article 3 of Merger Agreement-cash option of Baosteel dissent shareholders", voluntarily arrange capital and pay cash consideration to relevant dissent shareholders.</p> <p>2. The company confirms that after dissent shareholders of Baosteel completes exercising cash option, if it's anticipated that shareholding ratio of the public of Baosteel after completion of merger doesn't meet the lowest requirements stipulated by laws and regulations, the company and/or related parties of the company will immediately transfer partial shares of Baosteel to independent third party under the practicable state in order to make the amount of holding shares of the public of Baosteel after completion of merger meet the lowest requirements stipulated by laws and regulations.</p> <p>3. The company agrees to neither collect any remuneration from Baosteel and/or Wuhan Iron and Steel Company Limited on account of cash option of dissent shareholders of Baosteel nor collect any remuneration from dissent shareholders of Baosteel exercising the cash option.</p> <p>4. The company will fulfill relevant obligations of the provider of cash right of claim pursuant to relevant provisions of laws, regulations and other normative documents.</p> <p>5. The company making the above promises doesn't violate provisions of laws, regulations and Articles of Association without the situation of conflicting with obligations under other contract borne by the company.</p> <p>These commitments were published on China Securities News, Shanghai Securities News and Securities Times dated Sept. 23, 2016 and the official website of Shanghai Stock Exchange (<a href="http://www.sse.com.cn/">http://www.sse.com.cn/</a>).</p>	Sept. 22, 2016	No	Yes, no dissent shareholders declaring cash option		
	The promise from cash option provider holding the post of dissent shareholders of Baoshan Iron & Steel Co., Ltd. in the process of stock conversion and absorption merger of China Baowu Steel Group Corporation	Wuhan Iron and Steel Group	<p>1. In the process of this merger, for dissent shareholders of Wuhan Iron and Steel Company Limited meeting the condition of exercising cash option set forth in this merger scheme and implementing the procedure stipulated in the relevant notification to successfully declare and exercise cash option in light of cash option published by Wuhan Iron and Steel Company Limited at the appointed time, the company unconditionally agrees to fulfill various obligations of cash option provider according to "Article 3 of Merger Agreement-cash option of Wuhan Iron and Steel Company Limited dissent shareholders", voluntarily arrange capital and pay cash consideration to relevant dissent shareholders.</p> <p>2. The company confirms that after dissent shareholders of Wuhan Iron and Steel Company Limited completes exercising cash option, if it's anticipated that shareholding ratio of the public of Wuhan Iron and Steel Company Limited after completion of merger doesn't meet the lowest requirements stipulated by laws and regulations, the company and/or related parties of the company will immediately transfer partial shares of Baosteel to independent third party under the practicable state in order to make the amount of holding shares of the public of Baosteel after completion of merger meet the lowest requirements stipulated by laws and regulations.</p> <p>3. The company agrees to neither collect any remuneration from Baosteel and/or Wuhan Iron and Steel Company Limited on account of cash option of dissent shareholders of Baosteel nor collect any remuneration from dissent shareholders of Baosteel exercising the cash option.</p> <p>4. The company will fulfill relevant obligations of the provider of cash right of claim pursuant to relevant provisions of laws, regulations and other normative documents.</p> <p>5. The company making the above promises doesn't violate provisions of laws, regulations and Articles of Association without the situation of conflicting with obligations under other contract borne by the company.</p> <p>These commitments were published on China Securities News, Shanghai Securities News and Securities Times dated Sept. 23, 2016 and the official website of Shanghai Stock Exchange (<a href="http://www.sse.com.cn/">http://www.sse.com.cn/</a>).</p>	Sept. 22, 2016	No	Yes, no dissent shareholders declaring cash option		

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Commitment background	Commitment Type	Commitment Party	Commitment Content	Commitment time and duration	If strictly perform the duration	If strictly perform in time	Specific reasons for nonperformance in time	Notes for next plan if nonperformance in time
Report on Baosteel exchanging shares and merger of Wuhan Iron and Steel Co., Ltd and relevant transaction	Explanation and promise about related matters of stock conversion and absorption merger of Wuhan Iron and Steel Company Limited by Baoshan Iron & Steel Co., Ltd.	Wuhan Iron and Steel Group	<p>I. For explanation about land lease, Promise 1. For 39 authorized operation land with Power of Attorney for Operation and Management of State-owned Land Use Right gained, the company promises that it will complete the registration formality of state-owned land use right with respect to such authorized operation land at the land competent department within 3 years as of the date of completing this absorption merger and handle relevant registration formality regarding collocating such land to Wuhan Iron and Steel Company Limited and its subsidiaries for use by virtue of lease. There is no substantive impediment against handling above-mentioned registration formalities. 2. For two authorized operation leasehold land failing to gain Power of Attorney for Operation and Management of State-owned Land Use Right, the company will gain the Power of Attorney for Operation and Management of State-owned Land Use Right for these two authorized operation land within 3 years after completion of this absorption merger, complete the registration formality of state-owned land use right at the land competent department and handle relevant registration procedures for collocating such land to Wuhan Iron and Steel Company Limited and its subsidiaries by means of lease. There is no substantial impediment against handling above-mentioned registration formalities. 3. For the land used by the phase II project of Wuhan Wuxin New Building Materials Co., Ltd., under the premise of competent land department publicly bidding, auctioning and transferring relevant land, the company promises to gain the land use right certificate about such land or ensure gaining land use right certificate by Wuhan Wuxin New Building Materials Co., Ltd. within 3 years as of the date of completing this absorption merger. There is no substantial impediment against obtaining the above land use right certificate. In case of land use right certificate for such land being gained by Wuhan Wuxin New Building Materials Co., Ltd., the company will terminate the Land Lease Agreement concerning such land with Wuhan Wuxin New Building Materials Co., Ltd. If Wuhan Wuxin New Building Materials Co., Ltd. cannot continue to use such land because the company or Wuhan Wuxin New Building Materials Co., Ltd. fails to obtain the land use right certificate for such land, the company will take all reasonable and feasible measures to remove related interference or influence and undertake relevant losses caused to Wuhan Wuxin New Building Materials Co., Ltd. for this reason. 4. The company will ensure Wuhan Iron and Steel Company Limited (or asset receiver of Wuhan Iron and Steel Company Limited confirmed in terms of this absorption merger scheme) and its subsidiaries can sustainably and stably continue use of the land (including the above leased land); If Wuhan Iron and Steel Company Limited (or asset receiver of Wuhan Iron and Steel Company Limited confirmed as per this absorption merger scheme) and its subsidiaries cannot continue to use such land since no state-owned land use right registration formality for authorized operation land involved by land lease is handled or the registration formality for related lease fails to be handled, the company will take all reasonable and feasible measures to remove interfere or influence and bear related losses incurred to Wuhan Iron and Steel Company Limited (or asset receiver of Wuhan Iron and Steel Company Limited confirmed in line with this absorption merger scheme) or its subsidiaries.</p> <p>These commitments were published on China Securities News, Shanghai Securities News and Securities Times dated Sept. 23, 2016 and the official website of Shanghai Stock Exchange (<a href="http://www.sse.com.cn/">http://www.sse.com.cn/</a>).</p> <p>II. Explanation and promise about relevant matters of the property</p> <p>1. For the property registered in the name of Wuhan Iron and Steel Company Limited and its subsidiaries at different levels with the holder of the right to use the land being the company, the company confirms actual owner of such property is Wuhan Iron and Steel Company Limited or its subsidiaries at different levels. Wuhan Iron and Steel Company Limited (the asset receiver of Wuhan Iron and Steel Company Limited confirmed pursuant to this absorption merger scheme) and relevant subsidiaries can continue to occupy and use such house based on the current situation and such house is free from property right controversy, dispute or potential dispute. For such property, the company promises to transfer it to the asset receiver of Wuhan Iron and Steel Company Limited confirmed on the basis of this absorption merger scheme before completion of this absorption merger in accordance with this absorption merger scheme. There is no substantive impediment against handling above-mentioned transfer formalities.</p> <p>2. For the property owned by Wuhan Iron and Steel Company Limited and its subsidiaries at different levels and registered in the name of the company, the company confirms Wuhan Iron and Steel Company Limited and relevant subsidiaries have fully paid related consideration for gaining the above property or such property is constructed after independent investment by Wuhan Iron and Steel Company Limited and relevant subsidiaries. Actual owner of above-mentioned property shall be Wuhan Iron and Steel Company Limited and relevant subsidiaries. The company promises that it will ensure Wuhan Iron and Steel Company Limited (asset receiver of Wuhan Iron and Steel Company Limited confirmed as per this absorption merger scheme) and relevant subsidiaries can sustainably, stably and freely use the above property for a long time before completion of handling transfer formality and make use of and dispose such property based on the instruction from Wuhan Iron and Steel Company Limited (asset receiver of Wuhan Iron and Steel Company Limited confirmed in light of this absorption merger scheme) and relevant subsidiaries. In case of any income, it shall be enjoyed by Wuhan Iron and Steel Company Limited (asset receiver of Wuhan Iron and Steel Company Limited confirmed in line of this absorption merger scheme) and relevant subsidiaries. For such property, the company promises to transfer it to the asset receiver of Wuhan Iron and Steel Company Limited confirmed according to this absorption merger scheme or related subsidiaries within 2 years after completion of this absorption merger in accordance with this absorption merger scheme. There is no substantial legal impediment against handling above-mentioned transfer formality. The company will undertake related expenses resulting from the transfer.</p> <p>3. For the property held by Wuhan Iron and Steel Company Limited and its subsidiaries at different levels the House Ownership Certificate failing to be transacted, the company confirms actual owner of such property is Wuhan Iron and Steel Company Limited or its subsidiaries at different levels. Wuhan Iron and Steel Company Limited (the asset receiver of Wuhan Iron and Steel Company Limited confirmed pursuant to this absorption merger scheme) and relevant subsidiaries can continue to occupy and use such house based on the current situation and such house is free from property right controversy, dispute or potential dispute. The company promises to assist Wuhan Iron and Steel Company Limited (or asset receiver of Wuhan Iron and Steel Company Limited confirmed in accordance with this absorption merger scheme) and relevant subsidiaries to gain the House Ownership Certificate of the above property within 3 years as of the completion of this absorption merger.</p> <p>4. In case of any loss incurred to Wuhan Iron and Steel Company Limited (or asset receiver of Wuhan Iron and Steel Company Limited confirmed according to this absorption merger) and relevant subsidiaries due to violation of the above promise, the company promises to compensate.</p> <p>These commitments were published on China Securities News, Shanghai Securities News and Securities Times dated Sept. 23, 2016 and the official website of Shanghai Stock Exchange (<a href="http://www.sse.com.cn/">http://www.sse.com.cn/</a>).</p>	Sept. 22, 2016	Yes	Yes		
				Sept. 22, 2016	Yes	Yes		

Commitment background	Commitment Type	Commitment Party	Commitment Content	Commitment time and duration	If strictly perform the duration	If strictly perform in time	Specific reasons for nonperformance in time	Notes for next plan if nonperformance in time
			<p>III. Explanation and promise of land usage by Wuhan Weishike Steel Processing and Distribution Co., Ltd. The company promises to ensure Wuhan Weishike gains the land use right of the above land within 1 year after this absorption merger is completed; If Wuhan Weishike suffers from administrative punishment or is ordered to dismantle the building on the above-mentioned plot or remove, etc. by any government authority due to actual use of the above-mentioned plot before gaining State-owned Land Use Right, or later Wuhan Weirenke will be unable to gain the State-owned Land Use Right of the above-mentioned plot according to legal procedures, the company will compensate relevant losses incurred to Wuhan Weirenke for this reason. These commitments were published on China Securities News, Shanghai Securities News and Securities Times dated Sept. 23, 2016 and the official website of Shanghai Stock Exchange (<a href="http://www.sse.com.cn/">http://www.sse.com.cn/</a>).</p>	Sept. 22, 2016	Yes	Yes		
Report on Baosteel exchanging shares and merger of Wuhan Iron and Steel Co., Ltd and relevant transaction	Explanation and promise about related transaction matters of stock conversion and absorption merger of Wuhan Iron and Steel Company Limited by Baoshan Iron & Steel Co., Ltd.	Wuhan Iron and Steel Group	<p>IV. For explanation regarding the trademark and promise 1, the registered trademark (hereinafter referred to as "the trademark") set forth in this explanation and Appendix II to the commitment letter is the one applied by the company for registration and such trademark is legal and effective whose exclusive right is legally protected and which has no ownership dispute. At present, such trademark is freely used by Wuhan Iron and Steel Company Limited and its subsidiaries. 2. The company confirms that Wuhan Iron and Steel Company Limited and its subsidiaries are entitled to continuously and freely use such trademark and the company will continue to maintain effectiveness of such trademark and guarantee the use right of Wuhan Iron and Steel Company Limited. Without permission from Wuhan Iron and Steel Company Limited, the company won't waive renewal and maintenance of such trademark or transfer such trademark to any third party. 3. After completion of this absorption merger, the asset receiver of Wuhan Iron and Steel Company Limited confirmed as per this absorption merger scheme (hereinafter referred to as "asset receiver of Wuhan Iron and Steel Company Limited") will have right to continue to freely use such trademark for a long time within the valid term of such trademark and the company promises that the company will coordinate if it needs to transfer the trademark used by it to the asset receiver of Wuhan Iron and Steel Company Limited as required by any law, regulation or supervision organization. Without permission from the asset receiver of Wuhan Iron and Steel Company Limited, the company won't waive renewal and maintenance of such trademark or transfer such trademark to any third party. These commitments were published on China Securities News, Shanghai Securities News and Securities Times dated Sept. 23, 2016 and the official website of Shanghai Stock Exchange (<a href="http://www.sse.com.cn/">http://www.sse.com.cn/</a>).</p>	Sept. 22, 2016	No	Yes		
			<p>V. Explanation and promise concerning the patent 1. Patents set forth in this explanation and Appendix III to commitment letter (hereinafter referred to as "the patent") are applied and maintained by the company. Such patent is legal and effective whose exclusive right is legally protected and which has no ownership dispute. At present, such patent is freely used by Wuhan Iron and Steel Company Limited and its subsidiaries. 2. The company confirms that Wuhan Iron and Steel Company Limited and its subsidiaries are entitled to exclusively and freely use such patent and the company will continue to maintain effectiveness of such patent and guarantee the use right of Wuhan Iron and Steel Company Limited. Without permission from Wuhan Iron and Steel Company Limited, the company won't waive the maintenance for such patent or transfer such patent to any third party or allow any third party to use it. 3. After completion of this absorption merger, the asset receiver of Wuhan Iron and Steel Company Limited confirmed in line with this absorption merger scheme (hereinafter referred to as "asset receiver of Wuhan Iron and Steel Company Limited") will be entitled to freely use such patent for a long time within the valid term of such patent and the company promises that it will cooperate upon transfer requirement by the listed company after the merger and transfer relevant patent which is required to be transferred by the listed company after the merger and is being used by the asset receiver of Wuhan Iron and Steel Company Limited and subsidiaries to the asset receiver of Wuhan Iron and Steel Company Limited within 12 months. These commitments were published on China Securities News, Shanghai Securities News and Securities Times dated Sept. 23, 2016 and the official website of Shanghai Stock Exchange (<a href="http://www.sse.com.cn/">http://www.sse.com.cn/</a>).</p>	Sept. 22, 2016	No	Yes		

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Commitment background	Commitment Type	Commitment Party	Commitment Content	Commitment time and duration	If strictly perform the duration	If strictly perform in time	Specific reasons for nonperformance in time	Notes for next plan if nonperformance in time
Report on Baosteel exchanging shares and merger of Wuhan Iron and Steel Co., Ltd and relevant transaction	Explanation and promise about related transaction matters of stock conversion and absorption merger of Wuhan Iron and Steel Company Limited by Baoshan Iron & Steel Co., Ltd.	Wuhan Iron and Steel Group	<p>VI. Explanation and promise about litigation matters of Wuhan Iron and Steel Group International Economy and Trade Co., Ltd. As for such dispute, the company confirms: Wuhan Iron and Steel Group International Economy and Trade Co., Ltd. is actually unrelated to the above-mentioned loan and the fact is that Ping An Bank files a lawsuit where Wuhan Iron and Steel Group International Economy and Trade Co., Ltd. was taken as the defendant because the third party was suspected of counterfeiting related seals of Wuhan Iron and Steel Group International Economy and Trade Co., Ltd. In addition, the company promises that if Wuhan Iron and Steel Group International Economy and Trade Co., Ltd. finally bears related liability for satisfaction due to the above lawsuit or Wuhan Iron and Steel Group International Economy and Trade Co., Ltd. suffers from other losses on account of the above lawsuit, the company will compensate. These commitments were published on China Securities News, Shanghai Securities News and Securities Times dated Sept. 23, 2016 and the official website of Shanghai Stock Exchange (<a href="http://www.sse.com.cn/">http://www.sse.com.cn/</a>).</p>	Sept. 22, 2016	No	Yes		
			<p>VII. As for explanation and promise about other matters, the company promise that in case of the loss incurred to the listed company after the merger due to any legal defect of Wuhan Iron and Steel Company Limited before this absorption merger, Wuhan Iron and Steel Group will compensate the listed company after the merger and make sure no actual loss will happen to the listed company after the merger for the purpose of maintaining benefits of the listed company after the merger. These commitments were published on China Securities News, Shanghai Securities News and Securities Times dated Sept. 23, 2016 and the official website of Shanghai Stock Exchange (<a href="http://www.sse.com.cn/">http://www.sse.com.cn/</a>).</p>	Sept. 22, 2016	No	Yes		
Promise regarding IPO	Settlement of horizontal competition	Baosteel Group Corporation	<p>Baosteel Group has made two promises when the establishment: (1) Baosteel Group promises that associated transaction of the company will be subject to related national laws and administrative regulations and rules of relevant competent departments and won't damage legitimate interests of the company and non-controlling shareholders of the company. (2) Baosteel Group promises that it won't directly participate in any business or activity competitive to the company or directly hold rights and interests of business, activity or entity competitive to the company. However, Baosteel Group can hold shares of the company and continue operate and develop current business (including the business competitive or likely competitive to the company). Baosteel Group promises that when Baosteel Group or its subsidiary intends to carry out new business, investment and research likely competitive to the business of the company, the company will have the priority of development and project purchase. The above promises are effective under the following situations: A. The company is listed at Hong Kong Exchanges and Clearing Limited and domestic stock exchange; B. Baosteel Group holds no less than 30% of issued shares of the company. What's more, Baosteel Group further makes the following promises on Jun. 13, 2001 and Sept. 6, 2002, that is to say that the company the above two promises will still be effective after the company purchases partial Phase III project assets and remaining assets of Baosteel Group. These commitments were published on China Securities News, Shanghai Securities News and Securities Times dated Jun. 21, 2001 and Sept. 12, 2002 and the official website of Shanghai Stock Exchange (<a href="http://www.sse.com.cn/">http://www.sse.com.cn/</a>).</p>	Feb.3, 2000	No	Yes		

Commitment background	Commitment Type	Commitment Party	Commitment Content	Commitment time and duration	If strictly perform the duration	If strictly perform in time	Specific reasons for nonperformance in time	Notes for next plan if nonperformance in time
Promises pertaining to refinancing	Settlement of horizontal competition	Baosteel Group Corporation	The promise from Baosteel Group in the seasoned equity offerings prospectus of the company: (1) For assets and businesses currently held by the group company which is likely to make Baosteel suffer from the horizontal competition, Baosteel has the right to select the right time to purchase from the group company. (2) For the business opportunity to be gained by any group company to engage in the same business with the Baosteel, the group company shall transfer such opportunity to Baosteel and only makes investment after Baosteel gives up such commercial opportunity. As for the above promises, see the website of Shanghai Stock Exchange ( <a href="http://www.sse.com.cn/">http://www.sse.com.cn/</a> ) in Apr. 2005.	Aug. 10, 2004	No	Yes		
Other commitments made for medium and small shareholders of the company	Others	Baosteel Group Corporation	The promise regarding Luojing land from Baosteel Group: The wholly-owned subsidiary of Baosteel Group- Baosteel Group Shanghai Pudong Steel Co. Ltd. (hereinafter referred to as "Putdong Steel Company") intends to sell Luojing project under construction and related fixed assets held by it (hereinafter referred to as "related assets of Luojing project") and the company intends to purchase related assets of Luojing project. Related assets of Luojing project occupy the land of 3.228 million square meters (hereinafter referred to as "land for Luojing project"). For the land for Luojing project, Pudong Steel Company has paid some upfront charge, but hasn't paid the land-transferring fees. If the company needs to undertake unpaid land-transferring fees as well as compensate upfront charge which has been paid by Pudong Steel Company as of appraisal base date for related assets of Luojing project (namely, Sept. 30, 2007) due to purchasing related assets of Luojing project. Upon preliminary estimate, such expenses approximately amount to RMB 2.8 billion. Baosteel Group promises that: (1) If the company purchases related assets of Luojing project, Baosteel Group and/or Pudong Steel Company will actively coordinate with the company to complete the land transfer formalities regarding the land for Luojing project and give corresponding assistance based on the rational requirement from the company. (2) In case of total above-mentioned expenses actually exceeding RMB 2.8 billion, the excess portion will be undertaken by Baosteel Group and/or Pudong Steel Company with timely and full payment to the company and/or relevant government agency (as the case may be). These commitments were published on China Securities News, Shanghai Securities News and Securities Times dated Dec. 12, 2007 and the official website of Shanghai Stock Exchange ( <a href="http://www.sse.com.cn/">http://www.sse.com.cn/</a> ). The land involved in the above promises includes western area and eastern area of the land for Luojing project as well as northern energy corridor. By the end of this report period, the company has paid about RMB 2.34 billion of land costs concerning western area of the land for Luojing project and obtained the land warrant; The company has paid about RMB 0.02 billion of land costs regarding northern energy corridor and obtained the land warrant; Related warrant for eastern land is being applied and transacted without land-transferring fee paid.	Dec. 11, 2007	No	Yes		
	Others	Baosteel Group Corporation	On Dec. 16, 2010, Baosteel Group sent Confirmation Request about Desheng Nickel Industry Project and Commitment Letter about Desheng Nickel Industry Project in order to ask whether the company is willing to invest Desheng Nickel Industry project. The company agrees that Baosteel Group invests Desheng Nickel Industry project, but it reserves the right to purchase the project based on appropriate opportunity in the future. Baosteel Group promises that: When the company asks for purchase in the future, the equity of Desheng Nickel Industry held will be transferred to the company with the rational price on the basis of asset assessment price from independent appraisal agency and under the premise of complying with related laws and regulations and other normative documents. The above promises are effective under the following situations: (1) The company is listed at the stock exchange and (2) Baosteel Group holds no less than 30% of issued shares of the company. These commitments were published on China Securities News, Shanghai Securities News and Securities Times dated Dec. 23, 2010 and the official website of Shanghai Stock Exchange ( <a href="http://www.sse.com.cn/">http://www.sse.com.cn/</a> ). Both Baosteel Group and the company don not violate any one of the above promises within the report period.	Dec. 16, 2010	No	Yes		

## Section V Important Matters

- ( II ) There is a profit forecast of the Company's assets or projects that is still in the profit forecast period during the reporting period. The Company makes an explanation for whether the Company's assets or projects can achieve the original profit forecast.

Reached  Not reached  Not applicable

### III. Capital occupied situation and clearing up defaults progress situation within reporting period

Applicable  Not applicable

### IV. The Company's instruction on accounting firm "nonstandard opinion on audit report"

Applicable  Not applicable

### V. The Company's analysis instructions on accounting policy, accounting estimation change or major accounting error's correct reasons and effects

- (I) The analysis instruction for the reasons and effect of changes in accounting policies and accounting estimates

Applicable  Not applicable

- (II) The analysis instruction for correct reasons of major accounting errors and effect of the Company

Applicable  Not applicable

- (III) The communication situation with previous accounting firm

Applicable  Not applicable

### VI. Appointment and dismissal of the accounting firm

Unit: Ten Thousand Currency: RMB

	Now employ
Name of the domestic accounting firm	Deloitte & Touche (Special General Partnership)
Remuneration of the domestic accounting firm	230.4
Domestic accounting firm's audit age limit	Seven years

	Title	Remuneration
Accounting firm for the Company's internal control audit	Deloitte & Touche (Special General Partnership)	88

Appointment and dismissal of the accounting firm

Applicable  Not applicable

The Company continued to use the services of Deloitte Touche Tohmatsu (Deloitte) in 2016. The compensation paid to the accounting firm was detailed below:

1. The approach and amount of the compensation payable to the accounting firm for services was determined by the Shareholders' Meeting. Meanwhile, compensation for auditing services employed by the Board of Directors was determined by the Board. Independent directors gave their unanimous consent to the compensation for the accounting firm.

2. As approved by 2015 Annual Shareholders' Meeting, the auditing fees payable to Deloitte in this report period was RMB 2.304 million. In addition, the Company paid Deloitte RMB 0.88 million for its internal control auditing work in 2016, which did not influence Deloitte's independent audit, as the Board of Directors believed.

3. Until the year 2016, Deloitte has been continuously providing auditing service to the Company for seven years. Signatory auditors to the Company's 2016 Financial Statements were Xu Yusun and Dou Chengming. The former has been providing auditing service to the Company for two consecutive years, and the latter for the first year.

## VII. Major litigation and arbitration events

- Major litigation and arbitration events of this year  
 No major litigation and arbitration events of this year

### (I) Lawsuit and arbitration matters which have been disclosed in temporary announcement and have no following progress

- Applicable  Not applicable

### (II) Lawsuit and arbitration situation which have not been disclosed in the temporary announcement or have following progress

- Applicable  Not applicable

### (III) Other instructions

- Applicable  Not applicable

In Apr. 26, 2016, United States Steel Corporation filed an application with the United States International Trade Commission (ITC) to request the 337 investigation into carbon steel and alloy steel products exported to the US from a number of Chinese steel companies. In May 26, ITC was formally placed on file. There are over 40 Chinese enterprises as the defendant, covering almost all major Chinese steel enterprises, and Baosteel was involved in three charges: Anti-monopoly, false identification of country of origin, business secrets.

Baosteel responded to the suits at the first time. Anti-monopoly lawsuit, ITC administrative judge made a preliminary determination on Nov. 14, 2016 and terminated the investigation; On Dec. 19, 2016, the committee decided to review the preliminary determinations. The review result was pending. False identification of origin of country lawsuit, ITC administrative judge made a preliminary determination on Jan. 11, 2017 and terminated the investigation; On Feb. 27, 2017, the committee reviewed the preliminary determinations, and decided to withdraw the preliminary determinations to remand. Business secrets lawsuit, the plaintiff on Feb. 15, 2017 formally submitted to the ITC for the case. A judge ruled the termination of the trial of business secret case on Feb. 22. The committee decided not to review the appeal which was ended with the withdrawal from the plaintiff.

## VIII. Punishing and readjusting situation of the listed company, directors, supervisors, senior executives, shareholders, actual controllers and purchasers thereof.

- Applicable  Not applicable

## IX. The integrity situation instruction of the company and its controlling shareholder, actual controller during reporting period

- Applicable  Not applicable

## X. Situations and impacts of company stock ownership incentive plan, employee shareholding plan or other employee incentive measures

For the establishment of a sound long-term incentive mechanism in Baosteel, the Company implemented a restricted stock plan in 2014. The incentive targets were the Company's senior management personnel, core management personnel, and technical backbone. At the first time, 136 incentive targets were granted with totaling 47,446,100 shares which were originated from ordinary shares of the Company's A stock repurchased from Shanghai Stock Exchange through public auction. In the same year, 2 incentive targets adjusted to exit the restricted stock plan. According to the national policy and relevant provisions of the Company's restricted stock, the 698,900 shares were not up to the unlocked condition of restricted stock, so the Company repurchased the shares at the granted price from the incentive target and canceled the share. Correspondingly, the capital stock of the company reduced RMB 698,900.

In 2015, restricted stocks held by the incentive targets were still in the lock-up period. Because of personnel changes, in the whole year, a total of 9 incentive targets adjusted to exit restricted stock plan. According to the national policy and relevant provisions of the Company's restricted stock, the Company repurchased the 3,508,500 shares of restricted stocks which were not up to the unlocked condition at the granted price from the incentive targets and canceled the shares. Therefore, the capital stock of the company reduced RMB 3,508,500.

In 2016, since the annual performance of the Company of 2015 did not reach the initial release performance conditions for restricted stock plan, the first batch of 1/3 restricted stocks could not be unlocked by the Company. Therefore, 14,216,800 shares of unlocked restricted stocks were repurchased by the Company at the granted price and got canceled. The capital stock of the Company reduced RMB 14,216,800 correspondingly. At the same time of the year, 11 incentive targets adjusted to exit the restricted stock plan. According to the national policy and relevant provisions of the Company's restricted shares, 3,160,500 shares of restricted stocks which were not up to the unlocked condition would be repurchased at the granted price by the Company and got canceled.

The specific circumstance of above conditions that the incentive targets adjusted to exit the restricted stock plan had all been disclosed. Please see details on the Shanghai stock exchange website <http://www.sse.com.cn>



## Section V Important Matters

### XI. Significant related party transactions

#### (1) Related transaction related to daily operation

The main related party to the company is a legal person directly controlled by Baowu Group. During the reporting period, the day-to-day related party transactions between the Company and its major related party are as follows:

##### 1. Buying and selling products and accepting services

Unit: Million Yuan Currency: RMB

Related party	Contents of related transaction	Pricing principle	Transaction amount
Baosteel Resources (International) Limited	Sell fuel and raw material	Market price	3,916
Baosteel Group Shanghai Meishan Co., Ltd.	Sell steel products etc.	Market price	2,124
Baosteel Special Steel Co., Ltd.	Sell steel products, accessories etc.	Market price	2,022
Baosteel Metals Co., Ltd.	Sell steel products etc.	Market price	1,598
Baosteel Resources Co., Ltd.	Sell fuel and raw material	Market price	1,565
Baosteel Stainless Steel Co., Ltd.	Sell steel products, energy media etc.	Market price	810
Baosteel Development Co., Ltd.	Sell steel products, energy media etc.	Market price	736
Ningbo Baoxin Stainless Steel Co.,Ltd	Sell iron and steel products, accessories, etc.	Market price	640
<b>Subtotal of sales</b>			<b>13,411</b>
Baosteel Stainless Steel Co., Ltd.	Purchase steel products etc.	Market price	6,570
Baosteel Resources Co., Ltd.	Purchase fuel and raw material	Market price	5,284
Ningbo Baoxin Stainless Steel Co.,Ltd	Purchase steel products	Market price	4,829
Baosteel Special Steel Co., Ltd.	Purchase steel products	Market price	4,743
Baosteel Group Guangdong Shaoguan Iron & Steel Co., Ltd.	Purchase steel products	Market price	1,998
Baosteel Engineering & Technology Group Co., Ltd.	Purchase equipment, spare parts etc.	Market price	1,982
Baosteel Development Co., Ltd.	Purchase auxiliary materials etc.	Market price	988
Baosteel Group Shanghai Meishan Co., Ltd.	Purchase raw and auxiliary materials etc.	Market price	699
Baosteel Desheng Stainless Steel Co., Ltd.	Purchase steel products	Market price	610
<b>Subtotal of procurement</b>			<b>27,703</b>
Baosteel Engineering & Technology Group Co., Ltd.	Accept inspection, maintenance, engineering and other services	Agreed price	1,987
Baosteel Development Co., Ltd.	Accept comprehensive logistics, engineering, maintenance, warehousing, transportation and other services	Agreed price	1,335
Baosteel Group Shanghai Meishan Co., Ltd.	Accept comprehensive logistics, engineering, maintenance, transportation and other services	Agreed price	1,033
Baosteel Resources Co., Ltd.	Accept transport services	Agreed price	615
<b>Subtotal of procurement</b>			<b>4,970</b>

Notes: All of the companies mentioned above included their subsidiaries.

The sales above accounted for 7.2% of the Company's operation revenue in the reporting period; procurement and accepting services took up 17.1% and 3.1% respectively of the Company's operation cost in the reporting period.

All transactions were settled either by cash or by note.

##### 2. Financial service

Baosteel Group Finance Co., Ltd. (hereafter referred to as Finance Company), a national non-bank financial institution with Baowu Group holding 35.18% of the shares and the Company holding 62.10% of the shares, was established for central management of the funds of the Company to raise the efficiency of fund use. It provided comprehensive financial services such as internal settlement, deposits and loans, short term capital financing, investment and fund-raising etc. for members of the group.

In the reporting period, Finance Company provided a total of RMB 11.04 billion to controlled subsidiaries of Baowu Group, with outstanding loan of RMB 170 million, and a total interest income of RMB 20 million.

During the reporting period, Baosteel Desheng Stainless Steel Co., Ltd., a subsidiary of Baowu Group, entrusted the Finance Company to conduct fund management activities such as buyback of the national debt. The Finance Company received the entrusted fund of RMB 1.47 billion for management, for which the Finance Co. charged a service fee of RMB 90,000.

The day-to-day related party transactions mentioned above 1 and 2 were the market choices made by both sides on the basis of maximizing the benefit and optimizing the efficiency of operation, which fully embodied the principle of professional cooperation and complementary advantages. The day-to-day related party transactions between the company and its major related party will continue to exist.

### 3. Entrusted assets management

In order to effectively raise the use efficiency of temporarily idle funds, maintain and increase capital value, Baosteel entrusted the financial subsidiary of Baowu Group for assets management, including purchasing financial products like funds and trust. Trading volume in 2016 was RMB 14.85 billion, with RMB 5.57 billion closing balance, RMB 190 million investment income.

## ( II ) Affiliated credit and debt transaction

### 1. Matters disclosed at temporary announcement and without progression or change in the following implementation

Applicable  Not applicable

### 2. Matters disclosed at temporary announcement but with progression or change in the following implementation

Applicable  Not applicable

On Apr. 1, 2012 the Company completed the asset transfer of stainless steel and special steel subsidiaries. In the transfer, the assets of RMB 22.5 billion was collected in following five years by equal amount of each year, 20% per year. Since 2013, it was to collect the the principal and interest of the receivable on Apr. 1 of each year, and all the fees will be collected by Apr. 1, 2017. The asset transfer project was approved by the Shareholders' Meeting. The long-term receivable balance at the end of 2016 was RMB 4.5 billion, including RMB 2.6 billion of receivable from Shanghai Baosteel Stainless Steel Co., Ltd., and RMB 76 million of interest income on installment respectively; RMB 1.9 billion of receivable from Baosteel Special Steel Co., Ltd., and RMB 56 million of interest income on installment respectively.

### 3. Matters undisclosed at temporary announcement

Applicable  Not applicable

## (III) Others

Applicable  Not applicable

## (IV) Significant related trade of common foreign investment

1. In Apr. 2016, the company, Ouyeel Co., Ltd. Baowu Group and its subsidiary Huabao Investment Co.,Ltd. jointly invested RMB 1.1 billion to subscribe Shanghai Ouyeel Financial Information Services Co., Ltd. to issue new shares of 1.1 billion shares, of which: the Company, Ouyeel Co., Ltd. totally invested RMB 500 million to subscribe for 500 million shares. After the completion of new issuance, Shanghai Ouyeel Financial Information Services Co., Ltd. totally had capital of 1.4 billion shares, the shareholding ratio of the Company and Ouyeel Co., Ltd. at 54.91%.

2. In Apr. 2016, Ouyeel Co., Ltd. and Baowu Group's subsidiary Baosteel Resources Holdings (Shanghai) Co., Ltd. jointly invested RMB 100 million to set up Shanghai Ouyeel Resource E-commerce Co., Ltd., to which Ouyeel Co., Ltd. invested RMB 60 million of shareholding ratio of 60%.

3. In Jul. 2016, Shanghai Baosight Software Co., Ltd. and Baowu Group jointly invested RMB 10 million to set up Shanghai Baosteel Xinyue Human Resources Service Co., Ltd., to which Shanghai Baosight Software Co., Ltd invested RMB 1.5 million of shareholding ratio of 15%.

## XII. Major contracts and their performance situation

### (I) Matters of trusteeship, contracting and lease

#### 1. Trusteeship situation

Applicable  Not applicable

#### 2. Contracting situation

Applicable  Not applicable

## Section V Important Matters

### 3. Leasing situation

Applicable  Not applicable

### (II) Security situation

Applicable  Not applicable

Unit: Million Yuan Currency: RMB

#### Foreign guaranty condition of the Company (excluding the guaranty for subsidiaries)

Guarantor	The relationship between the guarantor and the listed company	Secured party	Amount of guarantee	Guarantee occurring date (signing date of the agreement)	Starting date of guarantee	Expiry date of guarantee	Guarantee type	The guarantee has been fulfilled or not	Guarantee is overdue or not	Guaranteed overdue amount	Whether there is a counter guarantee or not	Whether it is guaranteed by related parties	Associated relation
Total amount of guarantee during the reporting period (excluding guarantees for subsidiaries)													
Total amount of guarantee balance at the end of the reporting period (A) (excluding guarantees for subsidiaries)													
<b>Guarantees for subsidiaries from the Company and its subsidiaries</b>													
Total guaranteed amount for subsidiaries during the report period													131
Total balance of guarantee for subsidiaries at the end of the report period (B)													4,076
<b>Total guarantee amount of the Company (including the guaranty towards subsidiaries)</b>													
Total guaranteed amount (A + B)													4,076
Proportion of total guaranteed amount to net assets (%)													3.1%

#### Wherein:

Total amount guaranteed for shareholders, actual controllers and related parties (C)

Amount guaranteed provided for guaranteed objects with a liability rate of assets of over 70% directly or indirectly (D)

Excess of total guaranteed amount over 50% of net assets (E)

The aforementioned total amount guaranteed of three items (C + D + E)

Descriptions for the possible joint liability for satisfaction of the undue guarantee

The Guarantee companies mentioned above bear joint liability. At present, there is no such thing as the actual performance of joint liability by the Company.

Statement of guarantee

By the end of 2016, the Company had provided 2 jointly and severally liable performance guarantees for the Company's wholly owned subsidiary - Baosteel Europe Trading Company: one of which was US\$ 250 million in time limit from Aug. 30, 2012 to Aug. 30, 2017, the other of which was US\$ 281 million in time limit from Oct. 21, 2014 to Oct. 21, 2017. The Company had provided 2 jointly and severally liable performance guarantees for the Company's wholly owned subsidiary - Baosteel Middle East Company, including one of US\$ 29 million in time limit from Mar. 31, 2015 to Jun. 29, 2018, another of US\$19 million in time limit from Nov. 28, 2016 to May 30, 2019. The Company had provided one jointly and severally liable performance guarantee for the Company's wholly owned subsidiary - Baosteel Australia Trading Company, of totally US\$ 9 million in time limit from Dec. 10, 2015 to Jan. 20, 2018. Amount of the above guarantees totaled US\$ 588 million, equivalent to RMB 4.76 billion, accounting for 3.1% of net assets of the Company at the end of the period. The performance guarantee mentioned above did not substantially expand the risk, in essential difference with the general guarantees. The above guarantees were not performance oriented, in controllable risk.

Notes: The Company merged with Wuhan Iron & Steel Co., Ltd., and signed the Guarantee Agreement with it, issuing Irrevocable Letter of Guaranty to 14 bondholders of Wuhan Iron & Steel, and agreed to provide joint and several liability guarantee for the 14 debts of Wuhan Iron and Steel. The guarantee amount was RMB 7 billion and reasonable fees caused by the payment of interest, liquidated damages, damage compensation and expense of credit realization. The above guarantee shall come into effect on the date of the merger settlement date, as shown in Notice No. 2016-064 and 2016-084 of the Company.

## (III) Situation of entrusting others to carry out cash asset management

## 1. Entrusted financial management situation

√ Applicable □ Not applicable

Unit: Million Yuan Currency: RMB

Trustee	Types of entrusted financial products	Amount of entrusted financial management	Starting date of entrusted financing	End date of entrusted financing	Determination mode of remuneration	Actually received principal amount	Actually received incomes	In statutory procedures or not	Withdraw depreciation reserves	Related transaction or not	Involved in a lawsuit or not	Associated relation
Industrial and Commercial Bank of China Co., Ltd.	Win-win financing plan by ICBC	3,100	2015/10/29	2017/12/20	Expected annual interest rate of 4.0%-4.5%	100	1.8	Yes		No	No	
Bank of China Limited	Collective financing plan by BOC	12,173	2015/7/8	2017/11/24	Expected annual interest rate of 3.50%-4.9%	6,583	123.3	Yes		No	No	
Huabao Trust Co., Ltd.	Baoying trust plan	3,610	2014/11/28	2018/3/30	Expected annual interest rate of 4.3%-6%	900	45.7	Yes		Yes	No	Group brother companies
China Universal Asset Management Co., Ltd.	Baosteel special asset management plan	100	2015/12/31	2016/12/30	Expected return range 4.5%-5.5%	100	4.9	Yes		No	No	
China Construction Bank Corporation	CCB profits and gains management financing plan	2,000	2016/9/12	2016/12/15	Expected annual interest rate of 3.92%	2,000	27.2	Yes		No	No	
Agricultural Bank of China Limited	ABC secure earnings financing plan	14,600	2016/2/18	2016/11/17	Expected annual interest rate range of 3.75%-4.25%	14,600	349.5	Yes		No	No	
Shanghai Pudong Development Bank Co., Ltd.	Collective financing plan by SPDB	8,800	2016/1/12	2016/11/21	Expected annual interest rate range of 3.8%-5.2%	8,800	108.5	Yes		No	No	
Total	/	44,383	/	/	/	33,083	660.9	/		/	/	/
Accruing amount of overdue and uncollected principal and earnings (RMB)												0
Description of entrusted financing												None

## Section V Important Matters

### 2. Other investing and financing as well as derivative investment situations

√ Applicable □ Not applicable

Unit: One million shares, one million Currency: RMB

Investment type	Parties	Investment shares	Investment term	Product type	Investment profit and loss	Involved in a lawsuit or not
Available-for-sale financial assets						
Open-end funds	Fund companies	761.08	Above 1 year	Fund	10.93	No
Closed-end fund:	Fund companies	69.93	1 year below	Fund	0.00	No
Trust program	Trust companies	200.00	1 year below	Trust	0.00	No
Subtotal		1,031.01			10.93	
Trading financial assets						
Currency fund	Fund companies	1,870.05	1 year below	Fund	0.95	No
Bank financing	Banks	1,020.00	1 year below	Financing	2.83	No
Trust program	Trust companies	100.00	Above 1 year	Trust	0.31	No
Currency fund	SSE	1.00	1 year below	Fund	0.12	No
Subtotal		2,991.05			4.21	
Others						
Bank financing	Banks	4,069.37	1 year below	Financing	55.26	No
Trust program	Trust companies	830.00	1 year below	Trust	16.31	No
Trust program	Trust companies	4,561.35	Above 1 year	Trust	27.53	No
Trust program	Trust companies	1,792.74	Above 1 year	Trust	11.11	No
Trust program	Trust companies	3,468.05	Above 1 year	Trust	88.45	No
Trust program	Trust companies	500.00	Above 1 year	Trust	0.00	No
Bank financing	Trust companies	3,040.20	1 year below	Financing	28.45	No
Subtotal		18,261.71			227.10	
Total		22,283.78			242.24	

Notes: ① The invested financial business mentioned above entrusted to others for management are carried out for the Company's subsidiary Finance Company and Ouyee Co., Ltd. The Finance Company is a wholly-owned financial subsidiary of the Company, and the investment and financing business belongs to its normal business scope.

② The above "investment share" is the sum total of investment balance at the end of last year and share of this year, not the investment shares corresponding to investments held at the end of the period.

### XIII. Explanations for other major matters

√ Applicable □ Not applicable

#### 1. Absorption merger by stock exchange of Wuhan Iron & Steel Co., Ltd.

On Sept. 22, 2016, the Company convened the 12th session of the 6th Board of Directors to agree Proposal on the merger of Baoshan Iron & Steel Co., Ltd. and Wuhan Iron and Steel Co., Ltd. and other proposals related to the Company's stock exchange and absorption merger of Wuhan Iron and Steel Co., Ltd. (hereinafter referred to as "WISCO"), and the signed Stock-exchange and Absorption Merger Agreement of Baoshan Iron & Steel Co., Ltd. and Wuhan Iron and Steel Co., Ltd. (hereinafter referred to as the Exchange Merger Agreement) which came into force with condition. Its relevant information was disclosed on Sept. 23, 2016.

According to the provisions of Exchange Merger Agreement signed by the Company and WISCO, the Company started stock exchange and absorption merger of WISCO. The Company was the merging party and the existing party. WISCO was the merged party and non-existing party. After completion of stock exchange, the Company shall go through relevant procedures for registration alteration, and WISCO shall go through the procedures for registration cancellation.

The specific pattern adopted for this merger: The Company issued A shares to all shareholders for stock exchange in WISCO, and A shares intended to issue will be applied for listed circulation in the Shanghai Stock Exchange (SSE). After A shares of WISCO had been canceled registration, WISCO shall complete the cancellation of business registration.

All existing assets, liabilities, business, personnel, contract, qualification and all other rights and obligations owned by WISCO shall be taken over and inherited by the wholly owned subsidiary of Wuhan Iron & Steel Ltd. (hereinafter referred to as "Wugang Limited.") before WISCO cancellation of registration; From the merger settlement date, 100% shares of Wugang Limited shall be controlled by Baosteel.

On Sept. 27, 2016, the Company received the Information Disclosure Inquiry Letter About Baoshan Iron & Steel Co., Ltd. Stock Exchange and Absorption Merger of Wuhan Iron and Steel Co., Ltd. and Report of Related Party Transactions (Draft) (SZGH [2016] No. 2152, hereinafter referred to as "Inquiry Letter") from Shanghai Stock Exchange. According to the requirements of the Inquiry Letter, the Company and other relevant intermediary agency replied to relevant questions, and made revision and supplementary disclosures of Absorption Merger Report and its abstract on Oct. 1, 2016.

The controlling shareholder of the Company- Baosteel Group Corporation (the predecessor of China Baowu Steel Group Corporation Ltd. ) received the Reply on Relevant Issues Concerning Baoshan Iron & Steel Co., Ltd. Stock Exchange And Absorption Merger of Wuhan Iron and Steel Co., Ltd. (GZCQ [2016] No.1136) issued by the State Assets Supervision and Administration Commission (hereinafter referred to as "SASAC") on Oct. 17, 2016. The SASAC of the State Council agreed in principle for the general plan of the Company's stock exchange and absorption merger of WISCO.

On Oct. 28, 2016, the Company convened the 3rd provisional shareholders' meeting to review and pass proposals related to the merger.

The Company disclosed Announcement on Official Reply on The Merger From Antimonopoly Bureau of the Ministry of Commerce on Dec. 6, 2016. The controlling shareholder of the Company-China Baowu Steel Group Corporation Ltd. (hereinafter referred to as "China Baowu Group") had received the Notice of No Further Investigation (SFLCSH [2016] No. 327) issued by Antimonopoly Bureau of the Ministry of Commerce .

The Company received Reply on Approval of Baoshan Iron & Steel Co., Ltd. Stock Exchange And Absorption Merger of Wuhan Iron and Steel Co., Ltd. (CSRC approval [2016]No.3199) issued by Chinese Securities Regulatory Commission on Dec. 29, 2016.

It is Feb. 17, 2017 to implement the stock exchange for this merger. On Feb. 21, the Company obtained Registration Certificate of Securities Change from China Securities Depository and Clearing Co., Ltd. Shanghai branch.

The Company completed the merger on Feb. 27, 2017, new shares listed on the same day.

The media designated for information disclosure by the Company is Chinese Securities Journal, Shanghai Securities Journal, Securities Times and the SSE website (<http://www.sse.com.cn>). All information about the Company are subject to the content published in the media designated for information disclosure.

## 2. Retroactive adjustment of previous annual financial data

The National Audit Office (hereinafter referred to as the "Audit Office") carried out economic responsibility audit in 2016 to the controlling shareholder of the Company - original Baosteel Group Corporation, and extended to the Company, part issues involved in the audit scope extended to annual scope. According to the audit opinion from the Audit Office, the Company conducted retroactive adjustments to previous annual financial data so that annual impairment loss of merged assets of 2014 and 2015 were increased to RMB 590 million and 90 million respectively, and that the annual cost of merged income tax of 2014 and 2015 was reduced to RMB 150 million and RMB 20 million respectively, and that other comprehensive incomes of merge of 2014 and 2015 was increased to RMB 440 million and RMB 70 million respectively. All of that had no effect on merged shareholders' equity of the Company at the end of the 2014 and 2015.

## XIV. Working situation on actively implementing social responsibilities

### (I) Poverty-relief work situation of listed company

Applicable  Not applicable

#### 1. Targeted poverty alleviation planning

In accordance with the central government's guiding ideology of "targeted poverty alleviation and precise poverty alleviation", to make bigger efforts on poverty alleviation, to ensure that the oriented poor areas and poor population could enjoy the well-off society in an all-round way by 2020. Baosteel Group combined the actual situation of oriented anti-poverty counties in Yunnan assisted by Baowu Group, through doing sufficient research work, finding out the real condition, identifying causes of poverty, to make poverty alleviation planning scientifically. Ensure that the aid project meets the requirements of poverty alleviation planning by Yunnan province and Baowu Group. First, to combine the designated poverty alleviation program and the construction of characteristic villages. Second, infrastructure construction is organically connected with the improvement of production and living conditions for vast poor villagers, so as to complete the county and rural infrastructure construction in aid project, to lay a solid foundation for development of the poverty-stricken minority people. Third, the economic development and increase income of vast poor villagers are organically connected together. The investment for economic development is focused on planting industry and breeding industry which could increase income of oriented villages to support them for the characteristic industries development and help increase farmers' income. Fourth, the economic construction and social development are organically connected together. To properly support the oriented villages for construction projects closely linked to the economic development, so as to promote their coordinated development, and to serve the counties and villages in aid projects to build a harmonious society and a new socialist countryside.

## Section V Important Matters

### 2. Essentials of annual targeted poverty alleviation

In 2016, Baowu Group had sent out 6 cadres while retaining positions to aid Yunnan province, including 4 people from Baosteel, 1 person served as deputy director of Puer Poverty Alleviation Office, 1 person as deputy county head of Ninger County, 1 person as deputy county head of Jiangcheng County, 1 person as first secretary to stay in the village of Ninger County. 62 people went to the designated counties for on-the-spot investigation (including: 3 at department level, 36 at division level, 22 at section and lower level). The annual direct investment was RMB 12.84 million, of which: RMB 6.85 million was used for infrastructure, RMB 2 million for industrial development, RMB 150,000 for cultural education, RMB 690 thousand for human resources, and RMB150,000for the rest. In addition, 2016 Pu'er Poverty Alleviation Office and the county government in aid projects expressed their hopes for Baosteel to increase helping efforts poverty alleviation plan during the communication. Therefore, the leadership of Baowu Group and Baosteel attached great importance to it, and timely organized leading groups to discuss. Then, it was decided after approval by the board of directors to add extra aid fund of RMB 2 million to Ning'er County of Pu'er city respectively, to add aid fund of RMB 1 million to Guangnan County of Wenshan state, so as to accelerate the poverty alleviation in that two counties.

### 3. Statistical table of targeted poverty alleviation work of listed companies in 2016

Unit: Ten thousand yuan Currency: RMB

Indicators	Quantity and development
<b>I. Overall situation</b>	It is according to the plan to provide actual aid funds of RMB 9.84 million to the counterparts in four counties and Pu'er city, involving 16 projects. Wherein: 9 projects were promoted in the whole village, 4 of which had been completed; 5 industrial supporting projects, 3 of which had been completed; 1 educational project: The poor students enrolled by universities in 2016 were taken as the funding targets, 120 people of which had been aided financially; 1 municipal project; In training program for rural doctors, 350 rural doctors got training. An additional relief funds of RMB 2 million to Pu'er City and RMB 1 million to Guangnan County of Wenshan State.
Wherein: 1. Funds	1,284
<b>II. Investment for subentry</b>	
1. Industrial development for poverty alleviation	
Wherein:	<input checked="" type="checkbox"/> Agriculture and forestry poverty relief
1.1 Types of industrial poverty alleviation projects	<input type="checkbox"/> E-commerce poverty relief
	<input type="checkbox"/> Assets income poverty relief
	<input type="checkbox"/> Support poor areas using technology
	<input type="checkbox"/> Others
1.2 Number of industrial poverty alleviation projects (units)	10
1.3 Investment amount of industrial poverty alleviation project	420
1.4 The number of poverty people who are helped to put on record for poverty alleviation (person)	576
2. Transfer and employment for poverty alleviation	
Wherein: 2.1 Investment amount of vocational skills training	69
2.2 Number of vocational skills training (person / times)	350
3. Relocation for poverty alleviation	
4. Education for poverty alleviation	
Wherein: 4.1 Investment amounts for funding poor students	15
4.2 Number of poor students (person) for funding	120
5. Health care for poverty alleviation	
6. Ecological protection for poverty alleviation	
7. Bottom guaranteed protection	
8. Social poverty alleviation	
9. Other items	
Wherein: 9.1. Project number	11
9.2. Invested amount	780
9.3. The number of poverty people who are helped to put on record for poverty alleviation (person)	490
<b>III. Awards received (content, grade)</b>	



#### 4. Follow-up targeted poverty alleviation plan

According to the CPC Central Committee's spirits of Targeted poverty alleviation, strengthening industrial supports for targeted poverty alleviation, and Baowu Group's task requirements of poverty alleviation in designated anti-poverty counties in Yunnan, Baosteel plans to invest aid funds of RMB 13 million in designated places in Yunnan in 2017.

Wherein: Aid funds of RMB 9.5 million to Pu'er City and oriented poor counties, aid funds of RMB 3.5 million to Guangnan county. According to overall structure of the aid project in plan, investment ratio of promotion in whole village, industrial development, education training is 5:4:1.

#### (II) Social responsibilities working situation

Applicable  Not applicable

The Company disclosed the sustainable development report, in the website <http://www.sse.com.cn/>.

#### (III) The Company's environmental protection presentation of situation or its subsidiary company belongs to major pollutant discharging unit published by Environmental Protection Department.

Applicable  Not applicable

See the environmental protection situation of the Company in the sustainable development report disclosed by the Company, in the website <http://www.sse.com.cn/>.

## Section VI Change of Common Shares and Shareholders

### I. Change in Common Share Capital

#### (I) Table of changes in common share capital

##### 1. Table of changes in common share capital

Unit: Share

	Before the change			Changes in the period (+, -)		After the change			
	Shares	Ratio (%)	Shares newly issued	Bonus share	Share transferred from reserve	Others	Sub-total	Shares	Ratio%
<b>I. Shares subject to conditional sales</b>	43,238,700	0.263				-17,123,900	-17,123,900	26,114,800	0.159
1. State-owned shares									
2. State-owned legal person shares									
3. Other domestic shares									
Among which: domestic non-state-owned legal person shares									
Domestic natural person shares	43,238,700	0.263				-17,123,900	-17,123,900	26,114,800	0.159
4. Foreign shares									
Among which: foreign legal person shares									
foreign natural person shares									
<b>II. Tradable shares</b>	16,424,278,824	99.737						16,424,278,824	99.841
1.RMB ordinary shares	16,424,278,824	99.737						16,424,278,824	99.841
2.Domestic listed international investment shares									
3.Overseas listed international investment shares									
4. Others									
<b>III. Total of ordinary shares</b>	16,467,517,524	100.000				-17,123,900	-17,123,900	16,450,393,624	100.000

##### 2. Explanation of common share change

Applicable  Not applicable

On Mar. 29-30, 2016, the Company convened the 6th Session of the Sixth Board of Directors, and discussed and approved Proposal on Adjustment of Incentive Objects of Restricted Share Plan. The Company repurchased 590,300 restricted shares (not yet reaching the unlocking conditions) of incentive objects quitting restricted A share plan on May 23, 2016 and canceled the shares on May 25, 2016.

The Company convened the 7th session of the 6th board of directors meeting on Apr. 27, 2016 to review and approve the Proposal to repurchase restricted shares initially not up to unlocking conditions. The Company repurchased 14,216,800 shares of restricted stock on Aug. 17, 2016, which had not been up to unlocking conditions and completed its cancellation on Nov. 8, 2016.

On Aug. 29-30, 2016, the Company convened the 11th Session of the Sixth Board of Directors, and discussed and approved Proposal on Adjustment of Incentive Objects of Restricted Share Plan. The Company repurchased 1,592,800 restricted shares (not yet reaching the unlocking conditions) of incentive objects quitting restricted A share plan on Nov. 3, 2016 and canceled the shares on Nov. 8, 2016.

On Sept. 22, 2016, the Company convened the 12th Session of the Sixth Board of Directors, and discussed and approved Proposal on Adjustment of Incentive Objects of Restricted Share Plan. The Company repurchased 724,000 restricted shares (not yet reaching the unlocking conditions) of incentive objects quitting restricted A share plan on Nov. 29, 2016 and canceled the shares on Dec. 2, 2016.

By Dec. 31, 2016, the number of total shares of the Company was 16,450,393,624, including 26,114,800 non-tradable shares and 16,424,278,824 tradable shares.

On Nov. 30, 2016, the Company convened the 14th Session of the Sixth Board of Directors, and discussed and approved Proposal on Adjustment of Incentive Objects of Restricted Share Plan. The Company repurchased 253,400 restricted shares (not yet reaching the unlocking conditions) of incentive objects quitting restricted A share plan on Jan. 26, 2017 and canceled the shares on Feb. 7, 2017.

The Company exchanged stocks and merged the shares of WISCO, and newly issued 5,652,516,701 shares of circulation shares without limited sale condition, which was listed on Feb. 27, 2017. By Feb. 27, 2017, the number of total shares of the Company was 22,102,656,925, including 25,861,400 non-tradable shares and 22,076,795,525 tradable shares.

### 3. Impact of common stock changes on financial index such as earnings per share and net assets per share of last year and latest term (if any)

Applicable  Not applicable

During the reporting period, the Company canceled 17,123,900 shares of restricted stocks, barely causing impacts on financial index such as current earnings per share, net assets per share.

### 4. Other content deemed by the Company as necessary to or required by the regulatory authority to disclose

Applicable  Not applicable

### (II) Change of Shares Subject to Conditional Sales

Applicable  Not applicable

Unit: Share

Name	Shares at the beginning of year	Shares unlocked in the year	Shares added in the year	Shares at the end of the year	Reason	Unlocking date
Stock incentive object	43,238,700	17,123,900		26,114,800	Stock incentive	
Total	43,238,700	17,123,900		26,114,800	/	/

Note: 1. See Explanation of Change in Common Share for details of unlocking causes in this year.  
2. Notes for unlocking date: two years of conditional sale was due and unlocking conditions were satisfied

## II. Issuance of Securities and Listing

### (I) Issuance of Securities during the Reporting Period

Applicable  Not applicable

Unit: 100 million shares, 100 million yuan Currency: RMB

Stock and derivative security	Issue date	Issue price (or interest rate)	Issuance	Listing date	Permitted issuance	Closing date of transaction
<b>Convertible bonds, bonds with warrants and cooperate bonds</b>						
Cooperate bonds(US dollars)	5,December,2013	3.75%	5	12,December,2013	5	12,December,2018
Cooperate bonds(Euros)	13,February,2015	1.63%	5	23,February,2015	5	23,February,2018
<b>Other derivative securities</b>						
Medium-term Notes	26,October,2015	3.68%	20	27,October,2015	20	26,October,2018
Medium-term Notes	22, March, 2016	3.14%	50	23, March,2016	50	22, March, 2019
SCP	14, November,2016	2.63%	30	15, November,2016	30	11, August, 2017
SCP	17, November,2016	2.62%	50	18, November,2016	50	16, May,2017
SCP	24, November,2016	2.66%	50	25, November,2016	50	22, June, 2017
SCP	1, December,2016	2.75%	50	2, December,2016	50	29, July, 2017

### (II) Total Common Shares of the Company and Change in Shareholders Structure and Liability Structure

Applicable  Not applicable

At the end of the reporting period, the Company's total number of common shares was 16,450,393,624 shares with a decrease of 17,123,900 than the end of 2015; At the end of the reporting period, China Baowu Steel Group Co., Ltd. held 11,523,385,833 shares of the Company stock with a decrease of 1,606,879,434 than the end of 2015, its shareholding proportion declined from 79.734% at the end of 2015 to 70.049% at the end of the reporting period.

At the end of 2016, the Company's asset-liability ratio was 51.0% with a growth of 3.1% than the beginning of the year.

The Company exchanged shares by the merger of WISCO, a newly-issued tradable share was 5,652,516,701 shares without restricted conditions. As of Feb. 27, 2017, the Company's total number of common shares was 22,102,656,925 shares, wherein: China Baowu Steel Group Co., Ltd. held the Company stock of 11,523,385,833 shares with a proportion of 52.14%; Wuhan Iron and Steel (Group) Co. held the Company stock of 2,982,172,472 shares with a proportion of 13.49%.

## Section VI Change of Common Shares and Shareholders

### (III) Current Employee Stock Ownership

Applicable  Not applicable

## III. Shareholders and Actual Controllers

### (I) Total Shareholders

Total number of common shareholders at the end of the reporting period( people)	293,874
Total number of common shareholders at the end of last trading month before the disclosure date of the annual report( people)	556,722
Total number of preferred shareholders with recovered voting rights at the end of the reporting period( people)	
Total number of preferred shareholders with recovered voting rights at the end of last trading month before the disclosure date of the annual report(people)	

### (II) Top 10 shareholders, Top 10 tradable shareholders (or holders of shares not subject to conditional sales) by the end of the reporting period

Unit: Share

#### Top 10 shareholders

Name (Full Name)	Increase or decrease during the period	Shares at the end of the reporting period	Ratio (%)	Shares subject to conditional sales	pledged or frozen		Shareholder's nature
					Status	Number	
China Baowu Steel Group Corp., Ltd.	-1,606,879,434	11,523,385,833	70.049	0	None	0	State-owned
China National Petroleum Corporation	800,000,000	800,000,000	4.863	0	None	0	State-owned
China Securities Finance Corporation Ltd.	10,835,626	455,648,887	2.770	0	None	0	State-owned
Beijing Chengtong Asset Control and Investment Co., Ltd.	403,439,717	403,439,717	2.452	0	None	0	State-owned
CNIC Corporation Ltd.	403,439,717	403,439,717	2.452	0	None	0	State-owned
Hong Kong Securities Clearing Company Ltd.	141,393,658	165,042,258	1.003	0	None	0	N/A
Central Huijin Investment Ltd.	0	122,230,300	0.743	0	None	0	State-owned
Bank of China Ltd. - Huaxia New Economy Flexible Hybrid Securities Investment	0	30,593,576	0.186	0	None	0	N/A
Fidelity Investments Management(HK) Ltd.—customer capital	8,851,604	29,319,864	0.178	0	None	0	N/A
ICBC Ruixin Fund - Industrial and Commercial Bank of China - capital management for specific customers	28,923,357	28,923,357	0.176	0	None	0	N/A

Unit: Share

#### Top 10 holders of shares not subject to conditional sales

Name	Number of shares not subject to conditional sales	Type and number of shares	
		Type	Number
China Baowu Steel Group Corp., Ltd.	11,523,385,833	RMB ordinary share	11,523,385,833
China National Petroleum Corporation	800,000,000	RMB ordinary share	800,000,000
China Securities Finance Corporation Ltd.	455,648,887	RMB ordinary share	455,648,887
Beijing Chengtong Asset Control and Investment Co., Ltd.	403,439,717	RMB ordinary share	403,439,717
CNIC Corporation Ltd.	403,439,717	RMB ordinary share	403,439,717
Hong Kong Securities Clearing Company Ltd.	165,042,258	RMB ordinary share	165,042,258
Central Huijin Investment Ltd.	122,230,300	RMB ordinary share	122,230,300
Bank of China Ltd. - Huaxia New Economy Flexible Hybrid Securities Investment	30,593,576	RMB ordinary share	30,593,576
Fidelity Investments Management(HK) Ltd.—customer capital	29,319,864	RMB ordinary share	29,319,864
ICBC Ruixin Fund - Industrial and Commercial Bank of China - capital management for specific customers	28,923,357	RMB ordinary share	28,923,357

Remarks on affiliation, alliance or collusion among the aforementioned shareholders

The Company is not aware of any connected relationship among other shareholders mentioned above or any parties acting in concert specified in Measures for the Administration of Acquisitions by Listed Companies.

Remarks on holders of preferred shares with voting right recovered and quantity of shares held

### Top 10 holders of shares subject to conditional sales, and the conditions for sales

√ Applicable □ Not applicable

Unit: Share

No.	Name	Number of shares held	Condition for listing and trading of shares subject to conditional sales		Conditions
			Tradable time	Newly-added tradable shares	
1	Dai Zhihao	362,000			see notes
2	Zhu Junsheng	362,000			see notes
3	Chu Shuangjie	325,800			see notes
4	Zhou Jianfeng	325,800			see notes
5	Sheng Genghong	289,600			see notes
6	Wang Jing	325,800			see notes
7	Zhi Xiwei	325,800			see notes
8	Zhang Pijun	289,600			see notes
9	Yao Linlong	289,600			see notes
10	Xie Qi	289,600			see notes
11	Wang Qiangmin	289,600			see notes
12	Shi Bing	289,600			see notes
13	Zhong Yongqun	289,600			see notes

Notes on affiliation, alliance or collusion among the aforementioned shareholders

All aforementioned shareholders are the incentive objects of first awarding Scheme of A share restricted stock plan. For the conditions, please refer to Baosteel first awarding Scheme of A share restricted stock plan on the website of Shanghai Stock Exchange <http://www.sse.com.cn>

### (III) Top 10 shareholders after stock exchange transaction with Wuhan Iron and Steel

Baoshan Iron & Steel Co., Ltd. on Implementation Results and Share Changes of Merger Share Swap Cum Newly-increased Share Listed Announcement (announcement No.: 2017-018) disclosed by the Company on Feb. 22, 2017 include the shareholdings of the Company's top 10 shareholders after the merger share swap, see the table below.

No.	Name	Number of shares(share)	Ratio	Stock nature
1	China Baowu Steel Group Corp., Ltd	11,523,385,833	52.14%	Not subject to conditional sales
2	Wuhan Iron and Steel (Group) Corporation	2,982,172,472	13.49%	Not subject to conditional sales
3	China National Petroleum Corporation	800,000,000	3.62%	Not subject to conditional sales
4	China Securities Finance Corporation Ltd.	633,249,556	2.87%	Not subject to conditional sales
5	Beijing Chengtong Asset Control and Investment Co., Ltd.	541,926,376	2.45%	Not subject to conditional sales
6	CNIC Corporation Ltd.	541,926,376	2.45%	Not subject to conditional sales
7	China Cosco Shipping ( Group)	280,000,000	1.27%	Not subject to conditional sales
8	Central Huijin Investment Ltd.	194,224,180	0.88%	Not subject to conditional sales
9	Hong Kong Securities Clearing Company Ltd.	162,943,656	0.74%	Not subject to conditional sales
10	Haitong Securities Co., Ltd. - Zhongrong Guozheng Steel index Securities Investment	57,634,554	0.26%	Not subject to conditional sales

## Section VI Change of Common Shares and Shareholders

### IV. Controlling shareholders and actual controllers

#### (I) Controlling shareholders

##### 1. Legal person

Applicable  Not applicable

Name	China Baowu Steel Group Corp., Ltd.
Legal representative	Ma guoqiang
Date of incorporation	January 1, 1992
Principal businesses and operations	China Baowu Steel Group Co., Ltd. is an institution of investment authorized by the state and state-owned holding company, mainly operates the state-owned assets within the scope of authorization of the State Council and carries out relevant investment business: steel, metallurgical mineral, chemical industry (excluding hazardous article), electric power, wharf, warehousing, transportation and related steel business, as well as technical development, technical transformation, technical service, technology management consulting business, imports and exports approved by MOFTEC, domestic and foreign trade (except for special provisions) and its services.
Shareholdings of other listed companies at home and abroad in the period	In accordance with the data of the third-quarter report in 2016 of the listed company, the circumstances that China Baowu Steel Group Co., Ltd. Directly or indirectly held more than 5% of other listed companies' equity are as follows: 50.02% of A shares in Bayi Iron & Steel, 53.37% of A shares in Shaogang Songshan, 14.93% of A shares in IPIIC, 15.10% of A shares in NCI.
Others	None

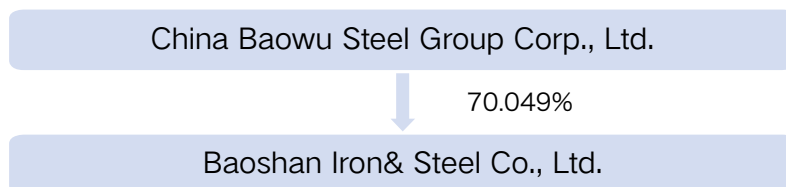
##### 2. Reference and date of change in controlling shareholders in the reporting period

Applicable  Not applicable

Controlling shareholder Baosteel Group Corp. and Wuhan Iron and Steel (Group) recapitalized. Baosteel Group Corp. changed its name to China Baowu Steel Group Corp., Ltd and completed Industrial and Commercial Registration on November, 17, 2016.

##### 3. Equity and controlling relationship between the Company and its controlling shareholders

Applicable  Not applicable

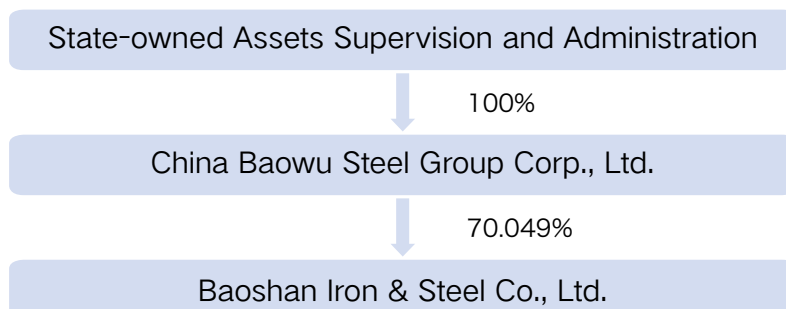


#### (II) Actual Controller

Actual controller of Baosteel is the State-owned Assets Supervision and Administration Commission of the State Council (SASAC).

##### 1. The enterprise property rights and controlling relationship between the Company and its actual controller

Applicable  Not applicable



## Section VII Preferred Stock

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Applicable  Not applicable



## Section VIII Directors, Supervisors, Senior Executives and Employees

## I. Shareholding Changes and Remuneration

## (1) Shareholding changes and remuneration of directors, supervisors, and senior executives in service or leaving the Company during the reporting period:

√ Applicable □ Not applicable

Unit: Share

Name	Position	Gender	Age	Beginning of office	End of office	Shares held at beginning of the year	Shares held at end of the year	Share change in the year	Reason for change	Remuneration from the Company in reporting period (pre-tax) (RMB ten thousand)	Compensation from shareholders in reporting period
Chen Derong(note 1)	Chairman	Male	55	2014-10-30	2017-02-08						Yes
Chen Derong(note 1)	Director	Male	55	2014-10-15	2017-02-08						Yes
Dai Zhihao (note2)	Chairman	Male	53	2017-02-24	2018-04-27	543,000	362,000	-181,000	Company's procurement of restricted stocks that had not yet reached the unlocking conditions		Yes
Dai Zhihao (note2)	Director	Male	53	2013-07-22	2018-04-27						Yes
Dai Zhihao (note2)	President	Male	53	2013-07-22	2017-02-24						Yes
Zhou Jixin(note3)	Director, President	Male	48	2017-02-24	2018-04-27						Yes
Zhang Jingang(note4)	Director	Male	46	2017-02-24	2018-04-27						Yes
Zhu Junsheng	Director	Male	56	2012-04-27	2018-04-27	643,800	462,800	-181,000	Company's procurement of restricted stocks that had not yet reached the unlocking conditions	155.1	No
Zhao Changxu(note4)	Director	Male	50	2017-02-24	2018-04-27						
Liu An(note 5)	Director	Male	55	2016-08-08	2017-02-08					7.0	Yes
Buck Pei	Director	Male	59	2012-04-27	2018-04-27					35	No
Huang Yuchang	Independent director	Male	61	2012-04-27	2018-04-27					35	No
Liu Wenbo	Independent director	Male	48	2012-04-27	2018-04-27					35	No
Xia Dawei	Independent director	Male	63	2013-04-26	2018-04-27					35	No
Li Li	Independent director	Female	63	2015-04-24	2018-04-27	30,000	30,000	0		35	No
Zhang Kehua (note 6)	Independent director	Male	63	2017-02-24	2018-04-27						No
Zhou Zhuping(note7)	Chairperson of Board of Supervisors	Male	53	2016-01-27	2017-02-08						Yes
Zhu Yonghong(note8)	Chairperson of Board of Supervisors	Male	47	2017-02-24	2018-04-27						Yes
Yu Hansheng (note8)	Supervisor	Male	53	2017-02-24	2018-04-27						Yes
Liu Guowang	Supervisor	Male	44	2014-05-20	2018-04-27						Yes
Zhang Helei	Supervisor	Male	45	2016-08-08	2018-04-27						Yes
Zhang Yong	Supervisor	Male	55	2014-09-12	2018-04-27	30,600	30,600	0		124.1	No
He Meifen	Supervisor	Female	52	2013-03-19	2018-04-27					109.8	No
Ma Jiangsheng(note9)	Supervisor	Male	44	2017-04-12	2018-04-27						Yes
Chu Shuangjie	Vice President	Male	52	2012-08-27	2018-04-27	558,700	395,800	-162,900	Company's procurement of restricted stocks that had not yet reached the unlocking conditions	149.5	No
Liu An(note 5)	Vice President	Male	55	2017-02-24	2018-04-27					-	

Sheng Genghong	Vice President	Male	52	2016-06-01	2018-04-27	434,400	289,600	-144,800	Company's procurement of restricted stocks that had not yet reached the unlocking conditions	154.5	No
Wang Jing	Vice President	Female	53	2010-08-27	2018-04-27	619,700	456,800	-162,900	Company's procurement of restricted stocks that had not yet reached the unlocking conditions	144.6	No
Zhi Xiwei	Vice President	Male	56	2014-02-10	2018-04-27	540,400	377,500	-162,900	Company's procurement of restricted stocks that had not yet reached the unlocking conditions	144.6	No
Wu Kunzong	Chief Accountant,	Male	45	2016-06-01	2018-04-27					44.6	No
Wu Yiming (note10)	Secretary of Board of Directors	Female	41	2017-02-24	2018-04-27						Yes
Zhao Zhouli	Resigned director	Male	60	2012-04-27	2016-07-22	543,000	0	-543,000	Company's procurement of restricted stocks that had not yet reached the unlocking conditions and exit stock incentive	-	Yes
Wang Li	Resigned director	Male	60	2012-04-27	2016-07-22						Yes
Chen Ying	Resigned chairperson of Board of Supervisors	Female	45	2015-04-24	2016-01-05						Yes
Wu Kunzong	Resigned supervisor	Male	45	2012-04-27	2016-06-01					-	Yes
Li Yongxiang	Resigned vice president	Male	56	2008-03-26	2016-06-01	506,700	18,000	-488,700	Company's procurement of restricted stocks that had not yet reached the unlocking conditions and exit stock incentive	119.3	No
Zhang Dianbo	Resigned vice president	Male	54	2015-08-28	2016-04-27	434,500	0	-434,500	Company's procurement of restricted stocks that had not yet reached the unlocking conditions and exit stock incentive	75.6	No
Zhu Kebing	Resigned Chief Accountant, Secretary of Board of Directors	Male	42	2012-08-27	2016-06-01	444,400	10,000	-434,400	Company's procurement of restricted stocks that had not yet reached the unlocking conditions and exit stock incentive	87.1	No
Wu Kunzong	Resigned secretary of board of directors	Male	45	2016-06-01	2017-02-24						
Total	/	/	/	/	/					1,490.8	/

Note 1: Mr. Chen Derong resigned the position of Director and other positions at the 6th session of Board of Directors in Feb. 2017 due to other arrangements for his work.

Note 2: Mr. Dai Zhihao resigned general manager of the Company at the 16th meeting of 6th session of Board of Directors held on Feb. 24, 2017 and was elected Chairman of the 6th session of Board of Directors; with payment as responsible person of the central enterprises, paid by the Baowu Group.

Note 3: Mr. Zou Jixin was appointed director of the Company at the Shareholders' Meeting held on Feb. 24, 2017, and was hired as General Manager on the 16th meeting of 6th session of Board of Directors.

Note 4: Mr. Zhang Jingang and Mr. Zhao Changxu were appointed directors of the Company at Shareholders' Meeting held on Feb. 24, 2017.

Notes 5: Mr. Liu An resigned director of the Company of the 6th Board of Directors in Feb. 2017 and other positions of the 6th Board of Directors and was appointed deputy general manager at the 16th meeting of 6th session of Board of Directors held on Feb. 24, 2017; paid by the Company since December 2016.

Notes 6: Mr. Zhang Kehua was appointed independent director of the Company at Shareholders' Meeting held on Feb. 24, 2017.

Notes 7: Mr. Zhou Zhuping resigned as Chairman and supervisor of the Board of Supervisors in Feb. 2017.

Notes 8: Mr. Zhu Yonghong and Mr. Yu Hansheng were appointed supervisors of the Company at Shareholders' Meeting held on Feb. 24, 2017.

Notes 9: In the 5th meeting of the 4th session of workers' congress, each delegation held a delegation meeting from Apr. 7, 2017 to Apr. 12, 2017, during which Mr. Ma Jiangsheng was elected as staff supervisor of the 6th Board of Supervisors.

Notes 10: Ms. Wu Yiming was appointed Secretary of Board at the 16th meeting of 6th session of Board of Directors held on Feb. 24, 2017.

## Section VIII Directors, Supervisors, Senior Executives and Employees

Name	Main working experience
Chen Derong	<p>Born in March, 1961, Chinese nationality, Director and President of China Baowu Steel Group Co., Ltd., Chairman of the Company from Oct., 2014 to Feb., 2017, Senior Engineer.</p> <p>Mr. Chen has rich experience in steel manufacturing management, enterprise operational management and governmental public affairs management. He was the director of Hangzhou Iron &amp; Steel Group BOF Steel-making Plant in Zhejiang Province, vice president of Zhejiang metallurgy Group, mayor of Jiaxing, secretary of municipal CPC committee of Jiaxing, Zhejiang Province, secretary of municipal CPC committee of Wenzhou, vice governor and a member of standing committee of provincial CPC committee of Zhejiang Province. Since joining Baosteel in August, 2014, he served as the director, president and member of standing committee of CPC committee of Baosteel Group Corporation. He also took a concurrent post of the director of the Company on October 15, 2014. He has been Director and President of China Baowu Steel Group Co., Ltd. since Oct., 2016. He was the chairman of the Company from Oct., 2014 to Feb. 2017.</p> <p>Mr. Chen graduated in iron-making from Beijing Institute of Iron and Steel in 1982, and in steel metallurgy from Wuhan Institute of Iron and Steel in 1985, obtaining the Graduate degree and Master Degree in engineering.</p>
Dai Zhihao	<p>Born in June 1963, Chinese Nationality, Chairman of Baoshan Iron &amp; Steel Co., Ltd, Senior Engineer.</p> <p>Mr. Dai has extensive experience in manufacturing, marketing management, resource trade and financial management. Mr. Dai joined Baosteel in August 1983 and successively held positions of Head of Cold Rolling Plant, Deputy Director of Planning Department of Baosteel International Trading Co., Ltd., Head of Planning Team of Pudong Steel Co., Ltd., Director of No.1 Steel Trading Department and President of Baosteel Steel Trading Co., Ltd., Vice President of Baosteel International Trading Co., Ltd., Assistant President and Director of Sales Department of Shanghai Baosteel Group Corporation, Assistant President of Baoshan Iron &amp; Steel Co., Ltd., President of Baosteel International Trading Co., Ltd., Vice President of Baoshan Iron &amp; Steel Co., Ltd. Mr. Dai was Vice President of Baosteel Group Corporation and also successively held positions of Chairman of Huabao Investment Co., Ltd. between November 2007 and July 2013, Director of Baoshan Iron &amp; Steel Co., Ltd. between April 2009 and April 2011, Chairman of Baosteel Resources Co., Ltd. from March 2010 to May 2016, Chairman of Baosteel Resources (International) Co., Ltd. from August 2010 to May 2016, President of Baoshan Iron &amp; Steel Co., Ltd. from July 2013 to Feb. 2017. He has been Director of Baoshan Iron &amp; Steel Co., Ltd. since August 2013 and Chairman of Baoshan Iron &amp; Steel Co., Ltd. since Feb. 2017.</p> <p>Mr. Dai graduated from Shanghai Jiaotong University in July 1983 and received the Master Degree of Economics from West Virginia University in August 1996.</p>
Zou Jixin	<p>Born in Jul. 1968, Chinese nationality, Director and General Manager of Baoshan Iron &amp; Steel Co., Ltd., Senior Professional Title Senior Engineer.</p> <p>Mr. Zou had rich experience in enterprise management, iron and steel manufacturing, management, etc. He enjoys the special subsidy from the State Council. He used to be factory director, general manager assistant, deputy general manager of steel plant of Wuhan Iron and Steel Company Limited, Party committee member, deputy general manager of Wuhan Iron &amp; Steel (Group) company, general manager of Wuhan Iron and Steel Company Limited, director of the 6th and 7th board of directors meeting of Wuhan Iron and Steel Company Limited. Since Oct. 2016, he had been appointed as Party committee member of China Baowu Steel Group Co., Ltd. Since Feb. 2017, he was appointed director and general manager of Baoshan Iron &amp; Steel Co., Ltd.</p> <p>Mr. Zou graduated from Chongqing University of Science and Technology in 1989 and obtained MBA degree from Ohio University in 2004.</p>
Zhang Jingang	<p>Born in March, 1970, Chinese Nationality, Vice President of China BaoWu Steel Group Corporation Limited, Board Director of Baoshan Iron &amp; Steel Co., Ltd., Professor-level Senior Engineer</p> <p>Mr. Zhang has extensive experience in steel enterprise production &amp; manufacturing, corporate management and corporate governance. He has successively held positions as Deputy Director of No.2 Steelmaking Plant, Deputy Director of No.1 Steelmaking Plant of Anshan Iron &amp; Steel Co., Ltd.; Deputy Secretary General of China Iron &amp; Steel Association; Director of Anshan Iron &amp; Steel Co., Ltd. Investment &amp; Planning Department; Director of Anshan Iron &amp; Steel Production &amp; Contracting Center; Board Secretary of Anshan Iron &amp; Steel Group; Vice President of Baosteel Group Corporation. He has been Vice President of China BaoWu Steel Group Corporation Limited since Oct., 2016 and Director of Baoshan Iron &amp; Steel Co., Ltd. since Feb., 2017.</p> <p>Mr. Zhang graduated from Anshan Iron and Steel Institute in 1992, received the Master Degree in Material Science from Northeastern University, and the Doctor's Degree in Material Science from Northeastern University.</p>
Zhu Junsheng	<p>Born in November 1960, Chinese Nationality, Director of Baoshan Iron &amp; Steel Co., Ltd., Senior Engineer.</p> <p>Mr. Zhu has extensive experience in human resource, supply chain and safety production management. Mr. Zhu joined Baosteel in 1983 and successively held positions as Deputy Director of Baosteel Production Planning Department, Deputy Director and Director of Cost Management Department, Vice Director of Personnel Department of Baoshan Iron &amp; Steel Co., Ltd.. He has worked as Assistant President and Director of Personnel Department of Baoshan Iron &amp; Steel Co., Ltd. since May 2001, Vice President of Baoshan Iron &amp; Steel Co., Ltd. from June 2003 to March 2010, Deputy CPC Committee Secretary of Baoshan Iron &amp; Steel Co., Ltd. from June 2003 to August 2006, Deputy CPC Committee Secretary of Baoshan Iron &amp; Steel Co., Ltd. since September 2010, Director, Deputy CPC Committee Secretary of Baoshan Iron &amp; Steel Co., Ltd. since April 2011, Director and CPC Committee Secretary of Baoshan Iron &amp; Steel Co., Ltd. since Feb. 2014. He has been Chairman of Shanghai Meishan Iron &amp; Steel Co., Ltd. Since August 2016 and Deputy CPC Committee Secretary of Baoshan Iron &amp; Steel Co., Ltd. Since Feb., 2017.</p> <p>Mr. Zhu graduated from Maanshan Iron &amp; Steel Institute in July 1983 and received the EMBA degree from China Europe International Business School in 2007.</p>
Zhao Changxu	<p>Born in May, 1965, Chinese Nationality, Assistant President of China BaoWu Steel Group Corporation Limited, President of Related Manufacturing Sector Development Center, Director of Baoshan Iron &amp; Steel Co., Ltd., Professor-level Senior Engineer.</p> <p>Mr. Zhao has extensive experience in steel production, manufacturing and steel marketing. He has successively held positions as Deputy Chief Engineer of WISCO Machinery Manufacturing Corporation; Branch Manager, Deputy Manager, Manager of WISCO Sales Company; Vice President of Wuhan Iron &amp; Steel Co., Ltd.; President, Chairman of WISCO RN; Assistant President of Wuhan Iron &amp; Steel Group. He has been Assistant President of China BaoWu Steel Group Corporation Limited, President of Related Manufacturing Sector Development Center since Oct., 2016. He has been Director of Baoshan Iron &amp; Steel Co., Ltd. Since Feb., 2017,</p> <p>Mr. Zhao graduated from Huazhong University of Science &amp; Technology in 1986, and received the Master Degree in Agricultural Machinery Design &amp; Manufacturing from Beijing University of Agricultural Engineering in 1989, the Doctor's Degree in Western Economics from Huazhong University of Science &amp; Technology, and the MBA degree from HEC Paris.</p>

Buck Pei	<p>Born in March 1957, U.S. Citizen, Professor of Accountancy and Doctoral Supervisor of Arizona State University W.P. Carey School of Business, Director of Baoshan Iron &amp; Steel Co., Ltd.</p> <p>Mr. Pei is an influential member of the American Accounting Association and he has been holding positions as Chairman of Global Committee of American Accounting Association from 1996 to 1997, while assisted to found the Chinese Accounting Professor Association. Mr. Pei has worked as Chairman of Chinese Accounting Professor Association of North America in 1993, 1994 and 2004, Independent Director of Baoshan Iron &amp; Steel Co., Ltd. from 2006 to 2012. He has been Director of Baoshan Iron &amp; Steel Co., Ltd. since April 2012.</p> <p>Mr. Pei graduated from Taipei University in 1979, and received the MBA degree from Southern Illinois University in 1981 and the Doctor's degree of Accountancy from University of North Texas in 1986.</p>
Huang Yuchang	<p>Born in January 1955, U.S. Citizen, Professor of China Europe International Business School, Independent Director of Baoshan Iron &amp; Steel Co., Ltd.</p> <p>Before joining China Europe International Business School, Mr.Huang taught in Arizona State University and Katz Business School of the University of Pittsburgh. Mr.Huang's research area consists Management Accounting, Strategic Cost Management, Motivate Mechanism Design and Performance Evaluation. During 16 years teaching in W.P. Carey School of Business and 8 years in the University of Pittsburgh, he taught MBA curriculum, EMBA program for senior managers and management accounting for doctor candidates. Mr.Huang has been director of doctor candidates' class of Accountancy, supervisor of about 20 doctor candidates' dissertations in Arizona State University between 2009 to 2012. Mr.Huang was elected as Secretary to Director of The Institute of Management Accountants of American Accounting Association from 2007 to 2009. Mr. Huang worked as independent Director of fifth Board of Directors of Baoshan Iron &amp; Steel Co., Ltd. since April 2012.</p> <p>Mr.Huang received the Master's degree from National Chengchi University in 1979 and the Doctor's degree from University of California, Berkeley in 1987.</p>
Liu Wenbo	<p>Born in August 1968, Chinese Nationality. Global Senior Partner and Member of the Board of Supervisors of Roland Berger Strategy Consultants, Independent Director of Baoshan Iron &amp; Steel Co., Ltd.</p> <p>Mr.Liu has extensive experience in corporate management consulting industry. Before entering the consulting industry, he has worked in Siemens and DHL for 7 years, and as external expert consultant for P&amp;G(UK) from February 2002, external expert consultant for Smartbead(UK) from November 2002, senior expert consultant for A.T. Kearney from September 2003, General Director of North Asia of Accenture in September 2005, Global Senior Partner and Executive Vice President of Greater China of Roland Berger Strategy Consultants from June 2007. He has been Global Senior Partner and Member of the Board of Supervisors of Roland Berger Strategy Consultants since July 2015 and Independent Director of Baoshan Iron &amp; Steel Co., Ltd. since April 2012.</p> <p>Mr.Liu graduated from North China University of Technology in 1991, and received the Master Degree from Cranfield School of Management(UK) in September 2002 and the MBA degree from University of Cambridge(UK) in September 2003. Mr.Liu took Advanced Management Curriculum in Business School of Harvard University from Nov. 2011 to June 2012.</p>
Xia Dawei	<p>Born in Feb. 1953, China, Director of Academic Committee of Shanghai National Accounting Institute, Professor and Doctoral Supervisor, Independent Director of Baoshan Iron &amp; Steel Co., Ltd.</p> <p>Mr. Xia began to teach in Shanghai University of Finance and Economics since 1985, worked as visiting fellow in Osaka City University from 1988 to 1990 and was promoted to Professor in 1994. He worked as Dean of School of International Business Administration, Assistant President, Vice President and Managing Vice President of Shanghai University of Finance and Economics and Dean of Shanghai National Accounting Institute.</p> <p>Mr.Xia is awarded government allowances of the State Council, now works as Director of Academic Committee, Professor and PhD supervisor of Shanghai National Accounting Institute. He also works as Vice President of Chinese Industrial Economic Association, President of Shanghai Accounting Association, consulting expert of Accounting Standard Committee, Honorary Professor of the Chinese University of Hong Kong and Adjunct Professor of School of Management of Fudan University, member of Listing Committee of Shanghai Stock Exchange.</p> <p>Mr. Xia worked as Outside Director of Baosteel Group Corporation from Oct 2005 to Feb 2012, and has been Independent Director of Baoshan Iron &amp; Steel Co., Ltd. since April 2013.</p>
Li Li	<p>Born in December 1953, Chinese Nationality, Co-President of China Science &amp; Merchants Investment Management Group Co., Ltd., Independent Director of Baoshan Iron &amp; Steel Co., Ltd.</p> <p>Ms.Li has over 20years' experience in global M&amp; A, oversea listing, US securities law compliance, PE fund formation and investment. In China, Ms.Li has conducted a wide range of business activities for transnational corporations, Chinese companies, and fund management companies, such as M&amp;A, PE fund formation and investment, public offering of securities and FDI. She worked as Attorney, Partner of Winthrop, Stimson, Putnam &amp; Roberts(New York, Hong Kong) between 1991 and 2002, International Law Consultant, Partner and China Chief Representative of Debevoise &amp; Plimpton LLP between 2002 and 2011, Director of Cleary Gottlieb Steen &amp; Hamilton LLP Beijing Representative Office since 2011, Partner, Chief Representative of Beijing Office of Weil, Gotshal &amp; Manges LLP since 2013. She has been Co-President of China Science &amp; Merchants Investment Management Group Co., Ltd. since Jan. 2016. Ms.Li worked as Chairwoman of the third and fourth Board of Supervisors of Baoshan Iron &amp; Steel Co., Ltd. Between 2006 and 2012, and has been Independent Director of Baoshan Iron &amp; Steel Co., Ltd. since April 2015.</p> <p>Ms.Li graduated from Capital Normal University in 1984 and received the Master degree in Economy from Duke University in 1987, and the Doctor's degree of Juridical Science from Columbia University in 1991.</p>
Zhang Kehua	<p>Born in Aug., 1953, Chinese Nationality, Independent Director of Baoshan Iron &amp; Steel Co., Ltd., Professor-level Senior Engineer.</p> <p>Mr. Zhang has extensive experience in corporate management and project construction management. He has successively held positions as Assistant President, Engineering Department Director of SinoPec Group, Vice President of SinoPec, Vice Chairman of SinoPec Engineering (Group) Co., Ltd. From Dec., 2015 to Feb., 2017, he assumed Independent Director of the 7th Board of Directors of Wuhan Iron &amp; Steel Co., Ltd. He has been Independent Director of Baoshan Iron &amp; Steel Co., Ltd. since Feb., 2017, Mr. Zhang graduated from East China University of Science &amp; Technology in 1980, and received the Master Degree in Management Science &amp; Engineering from China University of Petroleum in 2000.</p>

## Section VIII Directors, Supervisors, Senior Executives and Employees

Zhou Zhuping	<p>Born in Mar. 1963, in Chinese nationality, Chairman of Hwabao Investment Co.,Ltd. and Secretary of the party committee of the financial system.. From Jan. 2016 to Feb. 2017, he served as Chairman of the Board of Supervisors of Baoshan Iron &amp; Steel Co., Ltd.</p> <p>Mr. Zhou had rich experience in financial accounting, fund management, cost and budget management, corporate governance and so on. In Jul. 1982, he started working. In Jul. 1994, he joined Baosteel, serving as deputy director of financing plan department (assets management department) of Shanghai Baosteel Group Corporation, board secretary of Baoshan Iron &amp; Steel Co., Ltd., vice-president of finance, director, Party committee member of Baosteel international economic and trade company, deputy general manager of Baoshan Iron &amp; Steel Co., Ltd. trade branch, minister of financial department of Baosteel Group, business director and finance minister of Baosteel Group Corporation, president of Baosteel Development Co. Ltd., deputy general manager and secretary of the board of directors of Baosteel Group Corporation. In Nov. 2016, he was appointed chairman and secretary of the party committee of the financial system of Hwabao Investment Co., Ltd. From Jan. 2016 to Feb. 2017, he was chairman of the board of supervisors of Baoshan Iron &amp; Steel Co., Ltd.</p> <p>Mr. Zhou graduated from Zhejiang Metallurgical Economics College in 1982 and obtained his MBA degree from Tianjin University in Aug. 1996 and obtained his MBA degree from Arizona State University in Jun. 2005.</p>
Zhu Yonghong	<p>Born in Jan., 1969, Chinese Nationality, Chief Accountant of China BaoWu Steel Corporation Limited. Chairman of Board of Supervisors of Baoshan Iron &amp; Steel Co., Ltd., Senior Economist, Senior Accountant</p> <p>Mr. Zhu has extensive experience in corporate financial management and strategic planning. He has successively held positions as Chief Financial Officer and Head of Finance &amp; Accounting Department, Deputy Chief Accountant of Wuhan Iron &amp; Steel (Group) Corporation; Director of the 7th Board of Directors of Wuhan Iron &amp; Steel Co., Ltd. From Oct., 2016, he assumed the Chief Accountant of China BaoWu Steel Group Corporation Limited. He has been Chairman of Board of Supervisors of Baoshan Iron &amp; Steel Co., Ltd. since Feb. 2017.</p> <p>Mr. Zhu graduated from Zhongnan Forestry College in 1989, and received the Master Degree in Management from China University of Geosciences in 2000, and the Doctor ' s Degree in Economics from Huazhong University of Science and Technology in 2003.</p>
Yu Hansheng	<p>Born in Oct., 1963, Chinese Nationality, Supervisor of Baoshan Iron &amp; Steel Co., Ltd., Senior Professional Title Senior Accountant. Mr. Yu has extensive experience in corporate financial management and audit management. He has successively held positions as Director of Finance &amp; Accounting Department, Deputy Chief Accountant &amp; Director of Finance &amp; Accountant Department of Wuhan Iron &amp; Steel Co., Ltd. From Sept., 2014 to Feb., 2017, he assumed Chief Accountant of Wuhan Iron &amp; Steel Co., Ltd. He has been Supervisor of Baoshan Iron &amp; Steel Co., Ltd. since Feb. 2017.</p> <p>Mr. Yu graduated from WISCO TV University in 1986, majoring in Accounting, and received the Bachelor Degree in Accounting from Zhongnan University of Economics.</p>
Liu Guowang	<p>Born in February 1972, China, General Manager of Human Resource Department, Director of Party Committee Organization Department of China BaoWu Steel Corporation Limited, Supervisor of Baoshan Iron &amp; Steel Co., Ltd., Administration Engineer.</p> <p>Mr.Liu has extensive experience in human resource and corporate operation management. Mr.Liu joined Baosteel in July 1994. He has held positions as Director of Human Resource Department of Baoshan Iron &amp; Steel Co.,Ltd., General Manager of Human Resource Department, Director of Party Committee Organization Department and United Front Work Department of Baosteel Group Corporation since May 2014, General Manager of Human Resource Department, Director of Party Committee Organization Department of Baosteel Group Corporation from December 2014 to Nov. 2016. He assumed General Manager of Human Resource Department, Director of Party Committee Organization Department of China BaoWu Steel Corporation Limited since Nov. 2016 and Supervisor of Baoshan Iron &amp; Steel Co., Ltd. since May 2014.</p> <p>Mr.Liu graduated from Wuhan University of Science and Technology in 1994 and received the Bachelor Degree of Labor Economics and Social Security from Fudan University in 2004.</p>
Zhang Helei	<p>Born in October 1971, Chinese Nationality, Director of Supervision Department of China BaoWu Steel Corporation Limited , Engineer.</p> <p>Mr. Zhang has rich experience in human resources management, discipline inspection and supervision. He joined Baosteel in July 1996, and successively held positions as Organization and United Front Management Head of Human Resources Department of Baosteel Group Corporation; Secretary of Discipline Inspection Commission; Chairman of the Labor Union of Shanghai Baosteel Engineering &amp; Technology Group Co., Ltd.; Director of Party Commission &amp; Organization Department and Human Resources Department of Shanghai Baosteel Engineering &amp; Technology Group Co., Ltd.; Vice Director and concurrently Chief of Supervision Division 1 of Baosteel Group Corporation Supervision Department; Party Secretary of Baosteel Technology Service Business Unit. He was Vice President of Baosteel Engineering &amp; Technology Group Co., Ltd. from February 2013 to April 2014, Director of Baosteel Group Corporation Supervision Department from April 2014 to Nov. 2016. He has been Director of Supervision Department of China BaoWu Steel Corporation Limited since Nov. 2016 and Supervisor of Baoshan Iron &amp; Steel Co., Ltd. since August 2016.</p> <p>Mr. Zhang graduated from Central South University of Technology in 1996, and received Doctor's Degree in steel metallurgy from Central South University in May 2014.</p>
Zhang Yong	<p>Born in September 1961, Chinese Nationality, Supervisor and Chairman of the Trade Union of Baoshan Iron &amp; Steel Co., Ltd., Senior Engineer.</p> <p>Mr.Zhang has extensive experience in steel production, sales and trade union administration. Mr.Zhang joined Baosteel in July 1983 and successively held positions as Head of operation, Head of technique team and Head of Manufacturing Department of Cold-rolling Plant; Manager of Administration Division of Baosteel Steel Department; Deputy Manager ,Manager of Steel Trading Department of Baosteel International Trading Co., Ltd.; Vice President , President of Baosteel Steel Trading Co., Ltd.; Steel Business Vice President of Baosteel International Trading Co., Ltd.; Vice President of Sales Center of Baoshan Iron&amp;Steel Co.,Ltd. and concurrently President of Marketing Administrative Department; Vice President of Baosteel International Trading Co., Ltd.; President of Steel Sheet Sales Department, Assistant President of Baoshan Iron&amp;Steel Co.,Ltd. and concurrently CPC Committee Secretary of Sales Center, President of Marketing Administrative Department, Assistant President of Baoshan Iron&amp;Steel Co.,Ltd. and concurrently Director of Production Management Department. He has been Chairman of the Trade Union and Employee Supervisor of Baoshan Iron &amp; Steel Co., Ltd. since September 2014.</p> <p>Mr. Zhang graduated from Chongqing University in July 1983.</p>



He Meifen	<p>Born in May 1964, Chinese Nationality, Director of Audit Department, Supervisor of Baoshan Iron &amp; Steel Co., Ltd., Senior Engineer. Ms.He has extensive experience in steel products planning management, financial management and internal audit. Ms.He joined Baosteel in 1984 and successively held positions as clerk of Planning Department, office secretary, Head of Budget Division of Operation Management Department in Baosteel Group Corporation, Head of Budget Division of Cost Management Department, Deputy Director of Cost Management Department, Deputy Director of Finance and Accounting Department of Baoshan Iron&amp;Steel Co.,Ltd., Director of Management Department of BNA, Deputy Director of Audit Department of Baoshan Iron&amp;Steel Co.,Ltd. She has worked as Director of Audit Department of Baoshan Iron&amp;Steel Co.,Ltd. since May 2009 and Employee Supervisor of Baoshan Iron &amp; Steel Co., Ltd.since March 2013.</p> <p>Ms.He graduated from Northeastern University and received the Bachelor Degree of Metal Pressure Processing in 1984, the MBA degree from Shanghai University of Finance and Economics in January 1998 and the EMPACC degree from The Chinese University of Hong Kong in December 2005.</p>
Ma Jiangsheng	<p>Born in Aug. 1972, Chinese Nationality, Captain of the Third Steelmaking Continuous Casting Workshop of Steel Plant of Wuhan Iron and Steel Company Limited, Employee Supervisor of Baoshan Iron &amp; Steel Co., Ltd. and Senior Technician.</p> <p>Mr. Ma successively served as the steel casting worker of the Second Steel Plant and Steel Casting Line Director of the Third Steel Plant of Wuhan Iron and Steel (Group) Company, and Steel Casting Captain of the Third Steel Plant of Wuhan Iron and Steel Company Limited and Wuhan Iron and Steel (Group) Company Iron and Steel Company, Steel Casting Captain of the Third Steel Plant of Wuhan Iron and Steel Company Limited and Shift Captain of the Third Steelmaking Continuous Casting Workshop.</p> <p>From May 2011 to Feb. 2017, he has served as the Employee Supervisor of the 6th and 7th Board of Supervisors of Wuhan Iron and Steel Company Limited. From Feb. 2017, he has been serving as the Captain of the Third Steelmaking Continuous Casting Workshop of Steel Plant of Wuhan Iron and Steel Company Limited. From Apr. 2017, he has been serving as the Employee Supervisor of Baoshan Iron &amp; Steel Co., Ltd.</p> <p>Mr. Ma graduated from Wuhan Iron and Steel Metallurgy Automation Technical School with the major of steelmaking in Jul. 1991 and was awarded the Administrative Management Bachelor degree of Central Radio and Television University in Jan. 2010.</p>
Chu Shuangjie	<p>Born in December 1964, Chinese Nationality, Vice President of Baoshan Iron &amp; Steel Co., Ltd., Professor-level Senior Engineer. Mr.Chu has extensive experience in steel manufacturing and technology management. Mr.Chu joined Baosteel in 1996 and successively held positions as engineer in Cold Rolling Plant, Deputy Director, Director of Silicon Steel Branch of Cold Rolling Department, Deputy Director, Director of Cold Rolling Plant, Director of Silicon Steel Department; Assistant President of the company' s Baosteel Branch and Director of Silicon Steel Department of Baoshan Iron &amp; Steel Co., Ltd.; Assistant President of Baoshan Iron &amp; Steel Co., Ltd. and concurrently Director of Silicon Steel Department, Manager of Oriented Silicon Steel Phase II Project; Assistant President of Baoshan Iron &amp; Steel Co., Ltd. and Director of Cold Rolling Plant, Manager of Prepaint and Continuous Annealing Project, Manager of No.5 Cold Rolling Project, Assistant President , Vice President of Baoshan Iron &amp; Steel Co., Ltd. He worked as Vice President of Baoshan Iron &amp; Steel Co., Ltd. from Dec. 2013 to Feb. 2017 (and concurrently General Manager of Steel Pipe Division from Dec. 2013 to August 2016).</p> <p>Mr.Chu graduated from Anhui Polytechnic University and received the Bachelor Degree in Thermal Processing in 1987, the Master Degree in Materials Science and Engineering from Northwestern Polytechnical University in 1990, the Doctor's degree in Composite Material from School of Materials Science, Shanghai Jiao Tong University in 1996, and the EMBA degree from China Europe International Business School in 2009.</p>
Liu An	<p>Born in September 1961, Chinese Nationality, Vice President of Wuhan Iron &amp; Steel (Group) Corporation, Vice President of Baoshan Iron &amp; Steel Co., Ltd., Professor-level Senior Engineer.</p> <p>Mr. Liu has rich experiences in enterprise production and operation, steel manufacturing production, planning development management, etc. Joined Baosteel in August 1983, Mr. Liu had been Director of Baosteel cold rolling plant; President of Ningbo Baoxin Stainless Steel Co., Ltd.; President of Stainless Steel Branch and No.1 Steel Company; President , Chairman of Ningbo Iron &amp; Steel Co., Ltd.; Director of Planning Development Department, Assistant President of Baosteel Group Corporation. He was became Assistant President of Baosteel Group Corporation and General Manager of Steel and Relevant Manufacturing Sector Development Center from May 2016 to Nov. 2016 and Director of Baoshan Iron &amp; Steel Co., Ltd. From August 2016 to Feb. 2017. He has been Vice President Wuhan Iron &amp; Steel (Group) Corporation from Nov. 2016 to Mar. 2017 and Vice President of Baoshan Iron &amp; Steel Co., Ltd. since Feb. 2017.</p> <p>Mr. Liu graduated from Beijing Institute of Iron and Steel in 1983 and received the Bachelor degree.</p>
Sheng Genghong	<p>Born in January 1964, Chinese Nationality, Vice President of Baoshan Iron &amp; Steel Co., Ltd., Senior Engineer.</p> <p>Mr. Sheng has extensive experience in steel production operating, project construction, investment management and scientific research management. Mr.Sheng joined Baosteel in 1984 and successively held positions as Deputy Director of Hot Rolling Mill Quality Inspection Station, Vice Director of Technology Department Science and Technology Division,Vice Director (presiding) of Science and Technology Management Division of Baosteel R&amp;D Center; Chief of Strategy Department Science and Technology Division, Vice Director of Strategy Department and Chief of Strategy Division of Baosteel Group, Director of Science and Technology Development Department, Director of Project Investment Department, Director of Major Projects Department, Director of Major Projects Department and General Manager of Zhanjiang Longteng Co., of Baosteel Group, Business Supervisor of Baosteel Group; Deputy Commander-in-chief of Zhanjiang Steel Project Headquarter,Vice President of Guangdong Steel Group Company, Vice President, President of Zhanjiang Steel etc.. Since August 2013, he was President and Executive Vice Commander-in-chief of Project Headquarter of Zhanjiang Steel. Mr. Sheng has been Chairman,Secretary of CPC Committee and Commander-in-chief of Project Headquarter of Zhanjiang Steel since May 2016 and Vice President of Baoshan Iron &amp; Steel Co., Ltd. Since June 2016.</p> <p>Mr. Sheng graduated from steel metallurgy major of Northeastern University of Technology and received the Bachelor degree in July 1984.</p>
Wang Jing	<p>Born in October 1963, Chinese Nationality, Vice President of Baoshan Iron &amp; Steel Co., Ltd., Senior Economist</p> <p>Ms. Wang has extensive experience in steel marketing and corporate management in steel market. Ms.Wang joined Baosteel in 1985 and successively held positions as Vice President, President of Baosteel International Tianjin Northern Trading Co., Ltd., Assistant President of Baosteel International Trading Co., Ltd., President of Bsteel Online Co., Ltd., Deputy CIO of Baosteel International Trading Co., Ltd., President and Chief Representative of Baosteel America Inc., President of Baosteel International Trading Co., Ltd. She has been Vice President of Baoshan Iron &amp; Steel Co., Ltd. since August 2010.</p> <p>Ms. Wang graduated from Wuhan Institute of Iron and Steel in 1985 and received the EMBA degree from Guanghua School of Management, Beijing University in 2000, the Doctor's Degree in Management Engineering from Northeastern University in 2009 and the EMPACC degree from the Chinese University of Hong Kong in 2011.</p>

## Section VIII Directors, Supervisors, Senior Executives and Employees

Zhi Xiwei	<p>Born in February 1960, Chinese Nationality, Vice President of Baoshan Iron &amp; Steel Co., Ltd., Senior Engineer. Mr.Zhi has extensive experience in steel manufacturing technology and engineering management.</p> <p>Mr.Zhi joined Baosteel in August 1982 and successively held positions as President of Baosteel Design Institute; Assistant President, Vice President of Baosteel Group Engineering Company; President of Shanghai Baosteel Engineering &amp; Technology Co., Ltd.; President of Baosteel Engineering &amp; Technology Group Co., Ltd.; Assistant President of Baoshan Iron &amp; Steel Co., Ltd. and concurrently Director of Investment Management Department and Director of Major Engineering Department. He has been Vice President of Baoshan Iron &amp; Steel Co., Ltd. since Feb. 2014.</p> <p>Mr.Zhi graduated from Northeastern University in August 1982 and received the Master degree of Metal Pressure Processing from University of Science Technology Beijing in July 1989.</p>
Wu Kunzong	<p>Born in February 1971, Chinese Nationality, CFO of Baoshan Iron &amp; Steel Co., Ltd., Professor-level Senior Accountant, CPA. Mr.Wu has extensive experience in audit management, financial management and corporate operation. Mr.Wu joined Baosteel in July 1993 and successively held positions as Deputy Director of Audit Division, Deputy Director, Director of Audit Department, Director of Operation Innovation Department, Director of Finance Department of Baoshan Iron&amp;Steel Co.,Ltd.; Director of Audit Department of Baosteel Group Corporation. He was General Manager of Operating Finance Department and Asset Management Supervisor of Baosteel Group Corporation from August 2013 to May 2016, Supervisor of the Fifth Board of Supervisors of Baoshan Iron &amp; Steel Co., Ltd. from April 2012 to May 2016. He has been CFO of Baoshan Iron &amp; Steel Co., Ltd. since June 2016 (and concurrently Board Secretary from June 2016 to Feb. 2017) .</p> <p>Mr.Wu graduated from East China Institute of Metallurgy in 1993 and received the Bachelor degree. He obtained the Master degree from Shanghai University of Finance and Economics in February 2004 and the MBA degree from China Europe International Business School in September 2008.</p>
Wu Yiming	<p>Born in February 1975, Chinese Nationality, Board Secretary of Baoshan Iron &amp; Steel Co., Ltd., Economist. Ms .Wu has extensive experience in law affairs management, financial management, asset management and corporate governance. Ms Wu joined Baosteel in July 1997 and successively held positions as Senior Law Affairs Manager, Deputy Director, Director of Asset Management Department of Baosteel International. She worked as Board Secretary and Director of Asset and Finance Department of Baosteel Resources from July 2008 to July 2010; Assistant President, Board Secretary and Director of Asset and Finance Department of Baosteel Resources from July 2010 to July 2012, concurrently Assistant President of Baosteel Resources International) since September 2010; Vice President of Baosteel Resources and Baosteel Resources (International) from July 2012 to April 2017. She has been Board Secretary of Baoshan Iron &amp; Steel Co., Ltd. since Feb. 2017.</p> <p>Ms Wu graduated from Fudan University in 1997 and received the Master Degree of Science in Management from Stanford University in July 2008.</p>

### (II) Granted Equity Incentive of Directors and Senior Executives in the Reporting Period

Applicable  Not applicable

## II. Employment of directors, supervisors, and senior executives in service or leaving the Company during the period

### (I) Posts in the shareholding company

Applicable  Not applicable

Name	Shareholding company	Post held	Start of term	End of term
Chen Derong	China Baowu Steel Group Corp., Ltd.	Director; President	2016-10	
Zhang Jingang	China Baowu Steel Group Corp., Ltd	Vice President	2016-10	
Zhao Changxu	China Baowu Steel Group Corp., Ltd	President Assistant& General Manager of Steel and Related Industry Development Center	2016-10	
Buck Pei	China Baowu Steel Group Corp., Ltd	Outside Director	2016-10	
Zhu Yonghong	China Baowu Steel Group Corp., Ltd	Chief accountant	2016-10	
Liu Guowang	China Baowu Steel Group Corp., Ltd	General Manager of Human Resource Department	2016-11	
Zhang Helei	China Baowu Steel Group Corp., Ltd	Director of Supervision Department	2016-11	
Notes	None			



## (II) Posts in other entities

√ Applicable □ Not applicable

Name	Name of other entities	Post held	Start of term	End of term
Chen Derong	Shanghai Association for Science and Technology	Executive Director	2014/10	
Chen Derong	The Chinese Society for Metals	Executive Director	2014/10	
Chen Derong	Northeastern University	Deputy Chairman of School Board	2014/12	
Chen Derong	Ouyeel Co., Ltd.	General Manager	2015/1	2017/2
Dai Zhihao	Bao-Island Enterprises Ltd.	Chairman	2008/5	
Dai Zhihao	China Pacific Insurance (Group) Co., Ltd.	Chairman of the Board of Supervisors	2013/7	
Dai Zhihao	Shanghai Association of Listed Companies	Chief Supervisor	2013/8	
Zhu Junsheng	Shanghai Meishan Iron & Steel Co., Ltd.	Chairman	2016/8	
Buck Pei	China Merchants Group Limited	Outside Director	2015/10	
Buck Pei	Minmetals Resources Limited	Independent Director	2015/7	
Buck Pei	Zhong An Real Estate Limited	Independent Director	2007/3	
Buck Pei	Want Want China Holdings	Independent Director	2007/9	
Buck Pei	Shanghai-Hangzhou-Ningbo Expressway Co., Ltd.	Independent Director	2012/3	
Huang Yuchang	China-Europe International Business School	Professor	2013/4	
Huang Yuchang	Shanghai DragonNet Technology Co., Ltd.	Independent Director	2015/9	
Huang Yuchang	Shanghai Jahwa Corporation	Independent Director	2015/12	
Huang Yuchang	Cifi Group	Director	2016/8	
Liu Wenbo	Roland Berger Strategy Consultants	Senior Expert	2016/11/1	
Xia Dawei	Shanghai Electric Power Company Limited	Independent Director	2009/11	
Xia Dawei	Lianhua Supermarket Holdings Co., Ltd.	Independent Director	2004/9	
Xia Dawei	Guotai Junan Securities Co., Ltd.	Independent Director	2016/5	
Li Li	China Science & Merchants Capital Management Co., Ltd.	Co-president	2016/1	
Zhang Kehua	Wuhan Iron and Steel Company Limited	Independent Director	2015/12	2017/2
Zhou Zhuping	Shanghai Ouyeel Financial Information Service Co., Ltd.	Chairman	2017/1	
Zhu Yonghong	Hebi Cleaned Coal Co., Ltd.	Deputy Chairman	2013/9/23	
Zhu Yonghong	Hubei United Development Investment Co., Ltd.	Director	2014/10/31	
Zhu Yonghong	Hankou Bank Co., Ltd.	Director of the Board of Directors and Member of Strategy Committee	2014/6/25	
Zhu Yonghong	Beibu Gulf Property & Casualty Insurance Co., Ltd.	Director	2016/5/18	
Zhu Yonghong	Changjiang Property & Casualty Insurance Co., Ltd.	Chief Supervisor	2016/3/24	
Zhu Yonghong	The 3rd Board of Directors of Hubei Association of Chief Financial Officers	Director and Deputy Chairman	2015/5	
Zhu Yonghong	China Association of Price Metallurgical Price Branch	Deputy Chairman	2014/8	
Zhu Yonghong	China Association of Chief Financial Officers	Member	2014/12	
Zhu Yonghong	The 6th Board of Directors of Hubei Accounting Association	Director and Deputy Chairman	2014/12	
Zhu Yonghong	Journal of Metallurgical Financial Accounting	Editorial Board Member	2016/2	
Zhu Yonghong	Wuhan Senior Accounting Talent Pool	Evaluation Committee Member	2014/7	
Zhu Yonghong	Wuhan University of Science and Technology	Postgraduate Tutor (Off-campus Tutor)	2015/1	
Liu Guowang	Baosteel Group Finance Co., Ltd.	Director	2014/5	2017/5
He Meifen	Shanghai Baosight Software Co., Ltd.	Supervisor	2010/4	
He Meifen	Baosteel Group Finance Co., Ltd.	Director	2014/3	
He Meifen	Baosteel Zhanjiang Iron & Steel Co., Ltd.	Supervisor	2012/11	

## Section VIII Directors, Supervisors, Senior Executives and Employees

Yu Hansheng	Wuhan Huagong Venture Capital Co., Ltd.	Director	2014/5	
Yu Hansheng	Wuhan Iron and Steel Group Finance Co., Ltd.	Director	2013/5	
Yu Hansheng	Chang Xin Asset Management Co., Ltd.	Director	2016/12	
Chu Shuangjie	Baosteel Zhanjiang Iron & Steel Co., Ltd.	Director	2012/12	
Chu Shuangjie	Chinese Automobile Lightweight Technology Innovation Strategic Alliance	Director	2013/3	
Chu Shuangjie	Baosteel America Co., Ltd.	Director	2015/1	
Chu Shuangjie	Baosteel Europe Co., Ltd.	Director	2015/1	
Chu Shuangjie	PetroChina Northwest Alliance Pipeline Co., Ltd.	Director	2015/1	
Chu Shuangjie	The Chinese Society for Metals Electrical Steel Branch	Deputy Committee Chairman	2011/10	
Chu Shuangjie	The Chinese Society for Metals	Director	2012/10	
Chu Shuangjie	Shanghai Jiao Tong University	Doctoral Tutor	2007/9	
Liu An	Wuhan Iron and Steel (Group) Company	Deputy General Manager	2016/11	2017/3
Sheng Genghong	Baosteel Zhanjiang Iron & Steel Co., Ltd.	Chairman, Secretary of the Party Committee and Commander-in-Chief of Engineering Commanding Department	2016/5	
Wang Jing	Baosteel-NSC Automotive Steel Sheets Co., Ltd.	Chairman	2012/8	
Wang Jing	Baosteel Singapore Co., Ltd.	Chairman	2014/12	
Wang Jing	Howa Trading Co., Ltd.	Chairman	2014/12	
Wang Jing	Baosteel Europe Co., Ltd.	Chairman	2015/1	
Wang Jing	Guangzhou JFE Steel Plate Co., Ltd.	Deputy Chairman	2015/3	
Wang Jing	Baosteel America Co., Ltd.	Chairman	2015/7	
Wang Jing	Shanghai Jiangnan Changxing Shipyard Co., Ltd.	Deputy Chairman	2011/4	
Wang Jing	Shanghai Jiangnan Changxing Heavy Industry Co., Ltd.	Deputy Chairman	2011/4	
Zhi Xiwei	Baosteel Engineering & Technology Group Co., Ltd.	Director	2013/5	
Wu Kunzong	Baosteel Group Xinjiang Bayi Iron & Steel Co., Ltd.	Supervisor	2011/5	
Wu Kunzong	New China Life Insurance Company Ltd.	Director	2014/7	
Wu Kunzong	Shanghai Baodi Real Estate Co., Ltd.	Director	2015/6	
Wu Kunzong	Baosteel Zhanjiang Iron & Steel Co., Ltd.	Director	2016/6	
Wu Kunzong	Baosteel Special Steel Co., Ltd.	Supervisor	2012/4	
Wu Kunzong	Baosteel Stainless Steel Co., Ltd.	Supervisor	2012/4	
Wu Yiming	Bao-Trans Enterprises Ltd.	Chairman	2017/3	
Instructions about employment conditions in other units	None			

## III. Annual Remunerations of the Directors, Supervisors, and Senior Executives

√ Applicable □ Not applicable

## Decision-making procedure

Basis

The annual payable remunerations of senior executives, directors and supervisors to be paid by the Company will be set and approved by Board of Directors in accordance with their annual performance and with the "Performance Evaluation Method for Senior Executives", "Remuneration Management Method for Senior Executives".

Remunerations payable

The annual payable remunerations of those to be paid by shareholding companies and other related companies would be defined by these companies. The remunerations actually received by and payable to the Directors, Supervisors and Senior Executives from the Company for the report year totaled RMB 14.908 million (pre-tax)

Total remunerations actually received by the Directors, Supervisors and Senior Executives by the end of reporting period

RMB 14.908 million

#### IV. Change in directors, superiors and senior executives

Applicable  Not applicable

Name	Position	Change	Reason of change
Chen Derong	Chairman	Leave office	Resign from the post in Feb. 2017
Dai Zhihao	President	Leave office	Resign from the post in Feb. 2017
Dai Zhihao	Chairman	Hired	Newly hired in Feb. 2017
Zhou Jjixin	Director; president	Hired	Newly hired in Feb. 2017
Zhang Jingang	Director	Hired	Newly hired in Feb. 2017
Zhao Changxu	Director	Hired	Newly hired in Feb. 2017
Zhao Zhouli	Director	Leave office	Resign from the post in Aug. 2016
Wang Li	Director	Leave office	Resign from the post in Aug. 2016
Liu An	Director	Hired	Newly hired in Aug. 2016
Liu An	Director	Leave office	Resign from the post in Feb. 2017
Zhang Kehua	Independent director	Hired	Newly hired in Feb. 2017
Chen Ying	Chairman of board of supervisors	Leave office	Resign from the post in Jan. 2016
Zhou Zhuping	Chairman of board of supervisors	Hired	Newly hired in Jan. 2016
Zhou Zhuping	Chairman of board of supervisors	Leave office	Resign from the post in Feb. 2017
Zhu Yonghong	Chairman of board of supervisors	Hired	Newly hired in Feb. 2017
Wu Kunzong	Supervisor	Leave office	Resign from the post in Jun. 2016
Zhang Helei	Supervisor	Hired	Newly hired in Aug. 2016
Yu Hansheng	Supervisor	Hired	Newly hired in Feb. 2017
Ma Jiangsheng	Staff supervisor	Hired	Newly hired in Apr. 2017
Liu An	Vice president	Hired	Newly hired in Feb. 2017
Sheng Genghong	Vice president	Hired	Newly hired in Jun. 2016
Li Yongxiang	Vice president	Leave office	Resign from the post in Jun. 2016
Zhang Dianbo	Vice president	Leave office	Resign from the post in Apr. 2016
Zhu Kebing	CFO, Secretary of board of directors	Leave office	Resign from the post in Jun. 2016
Wu Kunzong	CFO, Secretary of board of directors	Hired	Newly hired in Jun. 2016
Wu Kunzong	Secretary of board of directors	Leave office	Resign from the post in Feb. 2017
Wu Yiming	Secretary of board of directors	Hired	Newly hired in Feb. 2017

#### V. Punishment by Securities regulatory authorities in the previous three years

Applicable  Not applicable

#### VI. Profile of Employees of the Parent Company and Major Subsidiaries

##### (I) Employees

Number of employees in service in the parent company	16,784
Number of employees in service in the main subsidiaries	20,399
Total number of employees in service	37,183
Number of retired employees to be covered by the parent company and main subsidiaries	

## Section VIII Directors, Supervisors, Senior Executives and Employees

### Professional composition

Category of professional composition	Number of professionals
Production personnel	21,807
Sales personnel	2,317
Technical personnel	10,222
Financial personnel	611
Administrative personnel	2,226
<b>Total</b>	<b>37,183</b>

### Educational background

Category of educational background	Number (people)
Master's degree or above	2,856
Bachelor's degree	13,024
College degree	12,687
Secondary vocational school education or below	8,616
<b>Total</b>	

### (II) Compensation Policy

Applicable  Not applicable

With a compensation budget mechanism oriented toward efficiency and profitability enhancement for the subordinate units, the Company stuck to the concept of "Compensation in line with the post value, performance, and contribution," and continued to perfect the compensation management system. The Company carried out varied incentive policies for employees according to the features of their posts.

### (III) Training Scheme

Applicable  Not applicable

In 2016, concerning the Company's development strategy and production operation, focus on related content of "A New Round of Planning", make use of capacity building as the main line to continuously optimize project design, improve the growth traction mechanism, expand the high-quality training resource and exactly develop the talent training work through deep exploration and hierarchical classification.

## Section IX Corporate Governance

### I. Corporate Governance

Applicable  Not applicable

The Company has established a corporate governance structure with Baosteel features, in accordance with the characteristics of steel industry to support the strategic development and be adapted to the manufacturing and operation of the Company. Moreover, The Company strictly observed relevant laws and regulations like Company Law, Securities Law, Code of Corporate Governance for Listed Companies and Rules of Shanghai Stock Exchange for Stock Listing, constantly enhanced normalized operation, strengthened scientific management, innovated interaction and communication channels, maintained good investor relationship, kept perfecting internal control system and overall risk management, and rigorously performed the obligation of information disclosure in an effort to improve the quality of operation and running.

During the reporting period, the Company's Board of Directors totals 9 directors, including 4 Independent Directors, accounting for 44%; In addition, Mr. Buck Pei is an Outside Director of China Baowu Steel Group Co., Ltd. appointed by the SASAC and serves as the Company's Director at the same time, this also has greater independence relative to Baosteel.

The Company's Independent Directors actively participate in the construction of the Special Committee of the Board of Directors and has played an important role in the subordinate Special Committee of the Board of Directors. The Company's Board of Directors totals 4 Special Committees, of which the Strategy and Risk Management Committee consists of 6 Directors, Independent Directors account for 1/6; The Audit Committee consists of 4 Directors, Independent Directors account for 3/4; the Independent Director - Accounting Professor, Mr. Huang Yuchang serves as the Committee Chairman; The Remuneration and Appraisal Committee is held by the Outside Director, Independent Directors account for 4/5, the Independent Director, Mr. Xia Dawei serves as the Committee Chairman; The Nomination Committee consists of 5 Directors, Independent Directors account for 4/5, the Independent Director, Ms. Li Li serves as the Committee Chairman; The Audit Committee, Remuneration and Appraisal Committee, Nomination Committee are held by the Independent Directors, which effectively ensures the independence and fairness of the audit, appraisal and appointment of Directors and Senior Executives.

After the approval of the First Temporary Shareholders' Meeting in 2017 convened on Feb. 24, 2017, the approval of the Company's 2017 Congress of Workers and Staff, the Company adjusted the members of the Board of Directors and Board of Supervisors, after the adjustment, the Company's Board of Directors totals 11 Directors, including 5 Independent Directors, accounting for 45%; The Company's Board of Supervisors totals 7 Supervisors, including 3 staff supervisors.

The Company continues to strengthen the information disclosure management, improve and formulate the Baosteel Inside Information Insider Registration Management System, Baosteel Information Disclosure Delay and Exemption Business Management System and other documents, further enhances the information disclosure management specification.

In 2016, the Company won "China's Top-100 Enterprise Award" and China's Innovation Enterprise Award issued by China Business Top 100, and won "The Twelfth 'Gold Prize of Round Table' of Chinese Board of Listed Company" sponsored by the Directors & Boards.

Whether there is a significant difference between corporate governance and relevant requirements of CSRC; In case of any significant differences, the reason shall be explained

Applicable  Not applicable

### II. Brief introduction of shareholders' meeting

Session	Date	Reference websites	Disclosure date
First temporary shareholders' meeting in 2016	2016-1-27	<a href="http://www.sse.com.cn/">http://www.sse.com.cn/</a>	2016-1-28
Annual shareholders' meeting of 2015	2016-4-28	<a href="http://www.sse.com.cn/">http://www.sse.com.cn/</a>	2016-4-29
Second temporary shareholders' meeting in 2016	2016-8-8	<a href="http://www.sse.com.cn/">http://www.sse.com.cn/</a>	2016-8-9
Third temporary shareholders' meeting in 2016	2016-10-28	<a href="http://www.sse.com.cn/">http://www.sse.com.cn/</a>	2016-10-29

## Section IX Corporate Governance

### III. Directors' Duty Fulfillment

#### (I) Directors' Attendance of the board meetings and the shareholders' meetings

Director name	Independent Director or not	Attendance of the board meetings						Attendance of the shareholders' meetings
		Required number of board meetings for the year	Attendance in person	Attendance by correspondence	Entrusting a representative	Absence	Two successive absence	Times of attendance of the meetings
Chen Derong	No	10	10	6			No	2
Dai Zhihao	No	10	10	6			No	3
Zhao Zhouli	No	5	5	3			No	0
Zhu Junsheng	No	10	10	6			No	1
Liu An	No	5	5	3			No	0
Wang Li	No	5	5	3			No	0
Buck Pei	No	10	10	6			No	0
Yuh-Chang Hwang	Yes	10	9	6	1		No	0
Liu Wenbo	Yes	10	10	6			No	1
Xia Dawei	Yes	10	10	6			No	0
Li Li	Yes	10	9	6	1		No	1
Number of Board Meetings held in the year				10				
Including: number of on-site meetings				4				
Number of meetings in communication mode				6				
Number of on-site meetings combined with other ways of communication				0				

#### (II) Dissents from Independent Directors to Relevant Matters of the Company

Applicable  Not applicable

No Independent Director has voiced their dissents on proposals of the Board of Directors and other proposals in the reporting year.

#### (III) Others

Applicable  Not applicable

### IV. Important Opinions and Suggestion Put Forward by the Special Committees Attached to the Board of Directors During the Reporting Period.

Applicable  Not applicable

The Strategy and Risk Management Committee believes that after the Baowu restructuring, the effect of business integration and the degree of cultural fusion are the key to achieve the Baowu restructuring objective. The Company's management shall formulate the integration plan to effectively promote the R&D, purchase, sales and other systems, uniformly optimize the resource allocation, promote the cultural fusion and achieve synergy.

Remuneration and Appraisal Committee recommends that the Company should summarize the experience and insufficiency of the first phase of the restricted stock plan in the design and formulation of the stock incentive plan in the future, further optimize and improve the company index design system, including weight setting for relative index and absolute index while drawing lessons from the foreign steel enterprise design index, so that the stock incentive index design is more scientific and reasonable in order to more objectively reflect the Company's business performance and better play the role of incentive.

The Audit Committee believes that the Company's cost-cutting work in 2016 has a significant effect, the Company shall maintain the sustainability of cost control. Along with the continuous expansion of Ouyeel business scale, the Audit Committee recommends the Company to invest more energy in order to build Ouyeel risk control mechanism and strengthen the internal control system construction.

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## V. Explanation of the Board of Supervisors on Risks for the Company

Applicable  Not applicable

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## VI. Explanation of Independence and Self-Management Inability in Business, Staff, Assets, Organization and Finance of the Company and its Controlling Shareholders

Applicable  Not applicable

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## VII. Establishment and Implementation of the Examination Mechanisms and the Incentive Mechanism for Senior Executives

Applicable  Not applicable

The Company enjoyed a well-formed structure of corporate governance, with an assessment and appraisal mechanism for senior executives, which was approved by the Compensation and Performance Evaluation Committee and the Board of Directors. The compensation of senior executives depended on the performances of the Company as a whole and of themselves, and normative procedures have been well established with regards to their targets, daily compensation management, achievements, assessments and achievement-assessment relationship.

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## VIII. Disclosure of Internal Control Self-Evaluation Report

Applicable  Not applicable

In accordance with Basic Norms of Enterprise Internal Control and Guideline for Enterprise Internal Control Evaluation, the Company develops the internal control evaluation work and prepares the internal control self-evaluation report, the internal control self-evaluation report has been approved by the 17th Session of the 6th Board of Director Meeting and disclosed externally.

### Description of the significant defect of internal control during the reporting period

Applicable  Not applicable

No significant defect of internal control was found during the reporting period.

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## IX. Audit Report for the Company's Internal Control

Applicable  Not applicable

Deloitte Touche Tohmatsu Certified Public Accountants LLP (special general partnership) conducted the internal control audit and gave its audit report for the Company, and the content of the report was disclosed at [www.sse.com.cn](http://www.sse.com.cn).

If the internal control auditing report has been disclosed: yes

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## X. Others

Applicable  Not applicable

## Section X Corporate Bond

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Applicable  Not applicable



## Section XI Financial Statements

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## Section XI Financial Statements

# AUDITOR'S REPORT

De Shi Bao (Shen) Zi (17) No.P02403

To the Shareholders of Baoshan Iron & Steel Co., Ltd.

We have audited the accompanying financial statements of Baoshan Iron & Steel Co., Ltd. (the "Company"), which comprise the Company's and consolidated balance sheets as at 31 December 2016, and the Company's and consolidated income statements, the Company's and consolidated statements of changes in shareholders' equity, and the Company's and consolidated cash flow statements for the year then ended, and the notes to the financial statements.

### 1. Management's responsibility for the financial statements

Management of the Company is responsible for the preparation and fair presentation of these financial statements. This responsibility includes: (1) preparing the financial statements in accordance with Accounting Standards for Business Enterprises to achieve fair presentation of the financial statements; (2) designing, implementing and maintaining internal control which is necessary to enable that the financial statements are free from material misstatement, whether due to fraud or error.

### 2. Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with China Standards on Auditing. China Standards on Auditing require that we comply with the Code of Ethics for Chinese Certified Public Accountants, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, Certified Public Accountants consider the internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### 3. Opinion

In our opinion, the financial statements of the Company present fairly, in all material respects, the Company's and consolidated financial position as of 31 December 2016, and the Company's and consolidated results of operations and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises.

Deloitte Touche Tohmatsu CPA LLP

Shanghai, China

Chinese Certified Public Accountant: **Xu Yusun**  
**Dou Chengming**

27 April 2017

The auditor's report and the accompanying financial statements are English translations of the Chinese auditor's report and statutory financial statements prepared under accounting principles and practices generally accepted in the People's Republic of China. These financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in other countries and jurisdictions. Where the English version does not conform to the Chinese version, the Chinese version prevails.

## Consolidated Balance Sheet

AT 31 December 2016

RMB

Item	Notes	Closing Balance in 2016	Closing Balance in 2015	Opening Balance in 2015
			Adjusted	Adjusted
<b>Current Assets:</b>				
Cash and bank balances	(VI)1	10,476,743,677.34	7,816,943,116.11	12,103,757,440.88
Financial assets at fair value through profit or loss	(VI)2	1,122,863,784.67	872,874,998.19	180,636,573.51
Notes receivable	(VI)3	10,217,286,812.49	8,192,598,702.78	9,222,110,761.77
Accounts receivable	(VI)4	10,414,655,663.00	9,158,063,277.11	10,049,072,037.10
Prepayments	(VI)5	7,800,289,356.60	4,159,608,819.61	2,923,618,311.69
Interest receivable	(VI)6	140,063,117.27	294,162,019.29	547,356,317.25
Dividends receivable	(VI)7	23,852,647.00	162,869,833.28	11,298,647.00
Other receivables	(VI)8	1,748,491,320.85	1,057,234,780.61	1,080,179,452.07
Financial assets purchased under resale agreements	(VI)9	-	2,140,000,000.00	595,000,000.00
Inventories	(VI)10	35,779,209,085.93	23,515,760,734.54	26,815,100,722.39
Non-current assets due within one year	(VI)11	4,825,441,243.86	4,500,000,000.00	6,358,800,000.00
Other current assets	(VI)12	19,660,719,905.83	8,032,867,446.36	4,499,073,089.90
<b>Total Current Assets</b>		<b>102,209,616,614.84</b>	<b>69,902,983,727.88</b>	<b>74,386,003,353.56</b>
<b>Non-current Assets:</b>				
Loans and advances to customers	(VI)13	3,317,691,941.16	2,238,404,977.48	2,948,545,990.88
Available-for-sale financial assets	(VI)14	13,120,089,003.27	10,924,024,795.65	10,447,520,041.50
Long-term receivables	(VI)15	218,565,000.00	4,579,073,208.90	9,012,068,634.07
Long-term equity investments	(VI)16	5,309,771,518.40	5,010,366,850.50	4,963,108,955.16
Investment properties	(VI)17	364,312,763.81	373,337,165.32	450,687,455.44
Fixed assets	(VI)18	118,102,218,135.79	91,067,560,315.55	82,897,000,178.55
Construction in progress	(VI)19	9,309,906,223.21	33,628,389,473.68	26,758,846,736.54
Materials for construction of fixed assets	(VI)20	46,050,460.52	55,433,580.47	173,012,390.36
Intangible assets	(VI)21	11,648,345,527.36	9,251,464,486.88	9,136,786,103.95
Long-term prepaid expenses	(VI)22	1,131,291,683.83	1,057,177,388.37	1,099,681,062.52
Deferred tax assets	(VI)23	1,374,693,480.15	1,520,955,982.61	1,826,404,465.21
Other non-current assets	(VI)24	1,830,162,168.20	4,513,975,000.00	4,552,848,644.62
<b>Total Non-current Assets</b>		<b>165,773,097,905.70</b>	<b>164,220,163,225.41</b>	<b>154,266,510,658.80</b>
<b>TOTAL ASSETS</b>		<b>267,982,714,520.54</b>	<b>234,123,146,953.29</b>	<b>228,652,514,012.36</b>

## Consolidated Balance Sheet - continued

AT 31 DECEMBER 2016

RMB

Item	Notes	Closing Balance in 2016	Closing Balance in 2015		Opening Balance in 2015
				Adjusted	Adjusted
<b>Current Liabilities:</b>					
Short-term borrowings	(VI)25	27,753,834,453.31	27,111,031,934.70		31,480,011,723.61
Loans from the central bank		-	130,730,819.70		-
Customer deposits and deposits from banks and other financial institutions	(VI)26	9,315,966,149.03	10,009,980,135.82		7,972,063,672.99
Taking from banks and other financial institutions	(VI)27	-	198,000,000.00		-
Financial liabilities at fair value through profit or loss		35,161,856.12	3,608,651.05		-
Notes payable	(VI)28	7,767,973,320.89	4,433,892,369.95		5,416,879,164.85
Accounts payable	(VI)29	26,210,638,849.60	21,385,905,275.51		19,910,369,631.42
Receipts in advance	(VI)30	21,745,253,002.56	12,467,881,559.99		11,522,938,150.20
Financial assets sold under repurchase agreements		152,321,609.86	-		169,528,930.40
Employee benefits payable	(VI)31	1,794,427,413.78	1,671,753,461.42		1,743,340,738.03
Taxes payable	(VI)32	3,728,633,233.57	1,698,315,074.97		2,162,028,290.86
Interest payable	(VI)33	347,033,483.79	199,607,814.92		281,301,392.21
Dividends payable	(VI)34	28,332,080.09	625,765.44		12,184,096.83
Other payables	(VI)35	2,801,551,728.17	2,283,044,126.16		1,141,614,196.44
Non-current liabilities due within one year	(VI)36	154,697,246.02	208,114,896.18		7,442,007,303.14
Other current liabilities	(VI)37	18,053,794,455.29	10,057,344,262.30		-
<b>Total Current Liabilities</b>		<b>119,889,618,882.08</b>	<b>91,859,836,148.11</b>		<b>89,254,267,290.98</b>
<b>Non-current Liabilities:</b>					
Long-term borrowings	(VI)38	296,464,080.86	9,111,026,384.68		9,936,435,216.96
Bonds payable	(VI)39	14,076,920,848.12	8,747,373,959.29		3,024,076,037.38
Long-term payables	(VI)40	49,879,268.00	82,585,917.00		89,287,152.00
Long-term employee benefit payable	(VI)41	222,216,606.05	328,307,328.96		162,061,249.06
Special payables	(VI)42	261,860,000.00	292,916,697.81		287,916,697.81
Deferred income	(VI)22	1,108,741,804.19	1,092,839,458.77		1,268,675,356.46
Deferred tax liabilities	(VI)43	655,512,411.47	454,701,623.19		423,066,461.35
Other non-current liabilities	(VI)44	315,720.00	7,134,514.14		1,902,403.65
<b>Total Non-current Liabilities</b>		<b>16,671,910,738.69</b>	<b>20,116,885,883.84</b>		<b>15,193,420,574.67</b>
<b>TOTAL LIABILITIES</b>		<b>136,561,529,620.77</b>	<b>111,976,722,031.95</b>		<b>104,447,687,865.65</b>
<b>SHAREHOLDERS' EQUITY:</b>					
Share capital	(VI)45	16,450,393,624.00	16,467,517,524.00		16,471,026,024.00
Capital reserve	(VI)46	33,769,068,132.18	33,739,882,090.62		33,253,945,989.75
Less: Treasury shares	(VI)47	49,879,268.00	82,585,917.00		89,287,152.00
Other comprehensive income	(VI)48	(60,089,825.59)	(997,587,960.09)		(1,004,817,797.37)
Special reserve	(VI)49	25,654,384.62	10,915,599.63		10,040,556.78
Surplus reserve	(VI)50	27,894,484,385.08	26,516,654,926.34		25,851,173,391.46
Retained earnings	(VI)51	43,236,393,452.96	37,148,447,581.69		39,765,842,085.69
Total shareholders' equity attributable to owners of the Company		121,266,024,885.25	112,803,243,845.19		114,257,923,098.31
Minority interests		10,155,160,014.52	9,343,181,076.15		9,946,903,048.40
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>131,421,184,899.77</b>	<b>122,146,424,921.34</b>		<b>124,204,826,146.71</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>267,982,714,520.54</b>	<b>234,123,146,953.29</b>		<b>228,652,514,012.36</b>

The accompanying notes form part of the financial statements.

The financial statements on pages 67 to 168 were signed by the following:

Legal Representative: **Dai Zhihao**

Person in Charge of the Accounting Body: **Wu Kunzong**

Chief Accountant: **Wang Juan**

## Balance Sheet of the Company

AT 31 DECEMBER 2016

RMB

Item	Notes	Closing Balance	Opening Balance
Current asset:			
Cash and bank balances		3,761,841,278.83	2,609,809,152.05
Financial assets at fair value through profit or loss		111,528,367.77	
Notes receivable		10,341,730,083.20	9,485,523,681.41
Accounts receivable	(XVI)1	20,617,169,797.24	14,528,789,667.02
Prepayments		1,531,948,904.01	1,253,626,615.28
Interest receivable		213,628,945.02	373,908,851.48
Other receivables	(XVI)2	340,757,761.05	249,886,362.58
Inventories		14,142,651,284.18	10,004,843,968.85
Non-current assets due within one year		4,500,000,000.00	4,500,000,000.00
Other current assets		33,645,877,265.96	12,923,012,337.05
<b>Total Current Assets</b>		<b>89,207,133,687.26</b>	<b>55,929,400,635.72</b>
Non-current Assets:			
Available-for-sale financial assets		8,844,897,096.20	8,844,897,096.20
Long-term receivables		2,208,708,380.96	6,645,532,930.56
Long-term equity investments	(XVI)3	46,689,645,811.87	46,254,613,054.24
Fixed assets		46,576,088,776.26	49,147,433,841.75
Construction in progress		3,013,269,894.17	2,841,837,566.36
Materials for construction of fixed assets		19,373,852.82	29,585,906.85
Intangible assets		3,625,448,341.08	3,707,611,299.90
Long-term prepaid expenses		47,056,557.98	73,013,638.42
Deferred tax assets		489,718,868.66	851,482,708.40
Other non-current assets		125,118,672.15	396,867,364.20
<b>Total Non-current Assets</b>		<b>111,639,326,252.15</b>	<b>118,792,875,406.88</b>
<b>TOTAL ASSETS</b>		<b>200,846,459,939.41</b>	<b>174,722,276,042.60</b>

## Balance Sheet of the Company - continued

AT 31 DECEMBER 2016

RMB

Item	Notes	Closing Balance	Opening Balance
Current Liabilities:			
Short-term borrowings		20,400,629,890.54	19,223,563,658.59
Notes payable		3,767,731,007.95	1,520,322,564.34
Accounts payable		16,847,203,968.42	16,361,219,616.35
Receipts in advance		12,988,920,288.71	10,723,769,050.31
Employee benefits payable		1,194,628,714.45	1,102,916,994.13
Taxes payable		2,975,857,730.40	2,040,209,581.28
Interest payable		175,076,419.87	52,052,454.92
Other payables		446,847,349.07	484,621,748.19
Non-current liabilities due within one year		-	127,713,600.00
Other current liabilities		18,052,896,712.32	10,057,344,262.30
<b>Total Current Liabilities</b>		<b>76,849,792,081.73</b>	<b>61,693,733,530.41</b>
Non-current Liabilities:			
Bonds payable		7,000,000,000.00	2,000,000,000.00
Long-term employee benefit payable		145,728,919.50	219,451,130.56
Long-term payables		49,879,268.00	82,585,917.00
Special payables		242,580,000.00	239,350,000.00
Deferred income		375,007,686.29	376,156,642.05
Deferred tax liabilities		566,984,366.40	442,584,276.06
<b>Total Non-current Liabilities</b>		<b>8,380,180,240.19</b>	<b>3,360,127,965.67</b>
<b>TOTAL LIABILITIES</b>		<b>85,229,972,321.92</b>	<b>65,053,861,496.08</b>
Shareholders' Equity:			
Share capital		16,450,393,624.00	16,467,517,524.00
Capital reserve		32,912,011,944.13	32,919,701,968.51
Less: Treasury shares		49,879,268.00	82,585,917.00
Other comprehensive income		(26,995,259.25)	(66,043,945.35)
Surplus reserve		27,894,484,385.08	26,516,654,926.34
Retained earnings		38,436,472,191.53	33,913,169,990.02
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>115,616,487,617.49</b>	<b>109,668,414,546.52</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>200,846,459,939.41</b>	<b>174,722,276,042.60</b>

## Consolidated Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2016

RMB

Item	Notes	Amount for the current year	Amount for the prior year (adjusted)
I. Total operating income		185,710,288,249.25	164,117,135,498.74
Including: Operating income	(VI)52	185,458,649,583.21	163,789,548,495.24
Interest income		239,077,590.76	321,567,791.79
Fee and commission income		12,561,075.28	6,019,211.71
Less: Total operating costs		175,594,920,676.19	163,310,549,025.16
Including: Operating costs	(VI)2	161,851,374,147.20	149,258,356,248.98
Interest expenses		195,523,701.70	266,246,632.79
Fee and commission expenses		2,260,371.02	1,072,784.07
Business taxes and levies	(VI)53	523,499,119.90	466,201,435.37
Selling expenses	(VI)54	2,267,625,076.68	2,152,762,665.55
Administrative expenses	(VI)55	7,587,981,707.85	7,286,612,345.95
Financial expenses	(VI)56	2,185,972,165.16	2,392,567,246.13
Impairment losses of assets	(VI)57	980,684,386.68	1,486,729,666.32
Add: Gains from changes in fair values	(VI)58	102,811,869.70	5,657,956.88
Investment income	(VI)59	1,377,077,070.87	1,038,207,499.26
Including: Income from investments in associates and joint ventures		331,802,668.35	78,022,511.61
II. Operating profit		11,595,256,513.63	1,850,451,929.72
Add: Non-operating income	(VI)60	439,095,059.36	668,228,033.02
Including: Income from disposal of non-current assets		32,621,479.20	94,590,167.84
Less: Non-operating expenses	(VI)61	514,523,430.53	664,549,233.56
Including: Losses from disposal of non-current assets		471,537,530.23	638,690,137.29
III. Total profit		11,519,828,142.46	1,854,130,729.18
Less: Income tax expenses	(VI)62	2,314,529,704.79	1,140,060,553.87
IV. Net profit		9,205,298,437.67	714,070,175.31
Net profit attributable to owners of the Company		8,965,514,090.86	1,012,871,715.20
Profit or loss attributable to minority interests		239,784,346.81	(298,801,539.89)
V. Other comprehensive income, net of income tax	(VI)63	440,385,968.18	1,377,822.97
attributes to owners of the company		425,775,007.09	7,229,837.28
(I) Items that will not be reclassified subsequently to profit or loss		-	-
(II) Items that may be reclassified subsequently to profit or loss		425,775,007.09	7,229,837.28
1. Amounts of other comprehensive income attributes to investees that are to be reclassified into profit or loss under equity method		43,303,908.41	39,724,170.18
2. Gains/losses from changes in fair value of available-for-sale financial assets		97,364,017.52	(111,809,711.00)
3. Translation differences arising on translation of financial statements denominated in foreign currencies		285,107,081.16	79,315,378.10
4. Others		-	-
Attributes to non-controlling interest		14,610,961.09	(5,852,014.31)
VI. Total comprehensive income		9,645,684,405.85	715,447,998.28
Attributes to owners of the company		9,391,289,097.95	1,020,101,552.48
Attributes to minority interest		254,395,307.90	(304,653,554.20)
VII. Earnings per share			
(I) Basic earnings per share (RMB/share)	(VI)68	0.55	0.06
(II) Diluted earnings per share (RMB/share)	(VI)68	0.55	0.06

## Income Statement of The Company

FOR THE YEAR ENDED 31 DECEMBER 2016

RMB

Item	Notes	Amount for the current year	Amount for the prior year
I. Operating income	(XVI)4	91,013,297,599.22	86,533,212,543.05
Less: Operating costs	(XVI)4	75,411,520,821.03	77,716,889,887.37
Business taxes and levies		306,262,755.52	215,748,640.20
Selling expenses		641,763,402.33	698,038,665.28
Administrative expenses		4,104,056,676.94	4,423,445,078.79
Financial expenses		1,074,828,104.27	1,389,636,028.14
Impairment losses of assets		2,766,717,219.90	571,907,628.07
Add: Gains from changes in fair values		111,528,367.77	(6,102,202.15)
Investment income	(XVI)5	1,893,866,622.61	1,845,919,406.94
Including: Income from investments in associates and joint ventures		135,745,516.93	45,192,289.46
II. Operating profit		8,713,543,609.61	3,357,363,819.99
Add: Non-operating income		147,342,490.70	394,781,543.35
Including: Income from disposal of non-current assets		2,971,820.03	69,892,717.07
Less: Non-operating expenses		333,892,424.60	489,776,828.42
Including: Losses from disposal of non-current assets		322,012,522.28	478,233,078.36
III. Total profit		8,526,993,675.71	3,262,368,534.92
Less: Income tax expenses		1,637,846,382.02	(65,039,139.50)
IV. Net profit		6,889,147,293.69	3,327,407,674.42
V. Other comprehensive income, net of income tax		39,048,686.10	36,542,102.90
(I) Items that will not be reclassified subsequently to profit or loss		-	-
(II) Items that may be reclassified subsequently to profit or loss		39,048,686.10	36,542,102.90
1. Amounts of other comprehensive income attributes to investees that are to be reclassified into profit or loss under equity method		39,048,686.10	36,542,102.90
2. Gains or losses from change in fair value of available-for-sale financial assets		-	-
3. Gain or loss of held-to-maturity investment reclassified to available-for-sale financial assets		-	-
4. Effective portion of gains or losses of cash flow hedge		-	-
5. Translation differences arising on translation of financial statements denominated in foreign currencies		-	-
VI. Total comprehensive income		6,928,195,979.79	3,363,949,777.32



## Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER 2016

RMB

Item	Notes	Amount for the current year	Amount for the prior year
<b>I. Cash Flows from Operating Activities:</b>			
Cash receipts from the sale of goods and the rendering of services		220,200,831,215.58	192,145,993,503.64
Net increase in customer deposits and deposits from banks and other financial institutions		-	2,039,322,506.36
Net decrease in loans and advances to customers		-	671,868,969.82
Net increase in loans from the central bank		-	130,730,819.70
Net increase in taking from banks and other financial institutions		-	198,000,000.00
Net decrease in balance with the central bank and due from banks and other financial institutions		-	705,458,139.94
Cash receipts from interest, fees and commissions		257,688,171.72	327,907,914.64
Net increase in financial assets sold under repurchase agreements		152,321,609.86	-
Receipts of tax refunds		222,310,207.18	201,587,516.49
Other cash receipts relating to operating activities	(VI)64(1)	2,112,150,868.78	1,545,990,823.45
Sub-total of cash inflows from operating activities		222,945,302,073.12	197,966,860,194.04
Cash payments for goods purchased and services received		184,425,090,394.53	158,725,828,879.03
Net decrease in customer deposits and deposits from banks and other financial institutions		696,741,565.27	-
Net increase in loans and advances to customers		969,387,874.64	-
Net decrease in loans from the central bank		130,730,819.70	-
Net decrease in taking from banks and other financial institutions		198,000,000.00	-
Net increase in balance with the central bank and due from banks and other financial institutions		155,125,708.89	-
Cash payments for interest, fees and commissions		158,257,787.26	394,971,867.28
Net decrease in financial assets sold under repurchase agreements		-	169,528,930.40
Cash payments to and on behalf of employees		9,572,601,874.07	9,168,729,415.22
Payments of various types of taxes		6,723,695,118.30	5,926,878,875.67
Other cash payments relating to operating activities	(VI)64(2)	3,543,130,603.75	2,404,125,782.38
Sub-total of cash outflows from operating activities		206,572,761,746.41	176,790,063,749.98
Net Cash Flows from Operating Activities	(VI)65(1)	16,372,540,326.71	21,176,796,444.06
<b>II. Cash Flows from Investing Activities:</b>			
Cash receipts from disposals and recovery of investments		65,245,827,070.91	27,713,469,185.01
Cash receipts from investment income		1,150,701,953.18	863,887,323.94
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		49,666,357.18	44,952,702.99
Net cash receipts from disposals of subsidiaries and other business units		3,290,962.12	(7,641,688.30)
Other cash receipts relating to investing activities	(VI)64(3)	4,951,413,721.98	5,311,726,571.88
Sub-total of cash inflows from investing activities		71,400,900,065.37	33,926,394,095.52
Cash payments to acquire and construct fixed assets, intangible assets and other long-term assets		11,540,300,859.85	23,978,623,342.34
Cash payments to acquire investments		77,426,439,182.98	30,971,835,198.56
Net cash payments for acquisitions of subsidiaries and other business units		15,737,300.00	3,652,765.63
Other cash payments relating to investing activities	(VI)64(4)	183,405,304.46	648,413,258.39
Sub-total of cash outflows from investing activities		89,165,882,647.29	55,602,524,564.92
Net Cash Flows from Investing Activities		(17,764,982,581.92)	(21,676,130,469.40)

## Consolidated Cash Flow Statement - continued

FOR THE YEAR ENDED 31 DECEMBER 2016

RMB

Item	Notes	Amount for the current year	Amount for the prior year
III. Cash Flows from Financing Activities:			
Cash receipts from capital contributions		720,273,874.00	2,013,475,646.46
Including: cash receipts from capital contributions from minority owners of subsidiaries		720,273,874.00	2,013,475,646.46
Cash receipts from borrowings		83,697,562,353.95	83,566,582,548.07
Cash receipts from issue of bonds	(VI)37(2) / (VI)39(2)	33,000,000,000.00	15,653,821,828.56
Sub-total of cash inflows from financing activities		117,417,836,227.95	101,233,880,023.09
Cash repayments of borrowings		112,110,514,377.54	95,892,429,914.60
Cash payments for distribution of dividends or profits or settlement of interest expenses		3,690,783,427.25	4,960,521,211.79
Including: payments for distribution of dividends or profits to minority owner of subsidiaries		160,557,397.19	548,817,572.92
Other cash payments relating to financing activities	(VI)64(5)	36,434,088.00	1,500,000,000.00
Sub-total of cash outflow from financing activities		115,837,731,892.79	102,352,951,126.39
Net Cash Flows from Financing Activities		1,580,104,335.16	(1,119,071,103.30)
IV. Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents		176,961,337.99	(563,996,162.28)
V. Net Increase in Cash and Cash Equivalents		364,623,417.94	(2,182,401,290.92)
Add: Opening balance of Cash and Cash Equivalents	(VI)65(2)	9,108,888,292.15	11,291,289,583.07
VI. Closing Balance of Cash and Cash Equivalents	(VI)65(2)	9,473,511,710.09	9,108,888,292.15

## Cash Flow Statement of the Company

FOR THE YEAR ENDED 31 DECEMBER 2016

RMB

Item	Notes	Amount for the current year	Amount for the prior year
<b>I. Cash Flows from Operating Activities:</b>			
Cash receipts from the sale of goods and the rendering of services		100,511,565,160.85	97,022,880,555.42
Receipts of tax refunds		76,901,697.11	98,804,284.62
Other cash receipts relating to operating activities		373,351,514.37	269,980,649.36
Sub-total of cash inflows from operating activities		100,961,818,372.33	97,391,665,489.40
Cash payments for goods purchased and services received		81,032,776,853.14	88,208,989,303.05
Cash payments to and on behalf of employees		5,518,653,306.81	5,331,320,521.34
Payments of various types of taxes		3,800,575,471.23	3,004,042,789.83
Other cash payments relating to operating activities		303,727,082.93	530,353,777.12
Sub-total of cash outflows from operating activities		90,655,732,714.11	97,074,706,391.34
Net Cash Flows from Operating Activities	(XVI)7	10,306,085,658.22	316,959,098.06
<b>II. Cash Flows from Investing Activities:</b>			
Cash receipts from disposals and recovery of investment		33,083,000,001.00	14,625,500,000.00
Cash receipts from investment income		1,875,046,709.74	1,805,395,922.10
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		215,404,467.79	19,082,867.61
Other cash receipts relating to investing activities		5,015,777,743.57	5,365,925,178.35
Sub-total of cash inflows from investing activities		40,189,228,922.10	21,815,903,968.06
Cash payments to acquire or construct fixed assets, intangible assets and other long-term assets		5,223,215,899.34	5,750,918,316.78
Cash payments to acquire investments		42,526,553,024.00	14,535,880,013.32
Other cash payments relating to investing activities		111,120,304.46	640,103,271.19
Sub-total of cash outflows from investing activities		47,860,889,227.80	20,926,901,601.29
Net Cash Flows from Investing Activities		(7,671,660,305.70)	889,002,366.77
<b>III. Cash Flows from Financing Activities:</b>			
Cash receipts from borrowings		73,964,861,298.24	62,794,823,173.16
Cash receipts from issue of bonds		33,000,000,000.00	12,000,000,000.00
Sub-total of cash inflows from financing activities		106,964,861,298.24	74,794,823,173.16
Cash repayments of borrowings		92,990,458,010.50	62,260,435,685.30
Cash payments for distribution of dividends or profits or settlement of interest expenses		2,473,934,749.63	3,547,068,256.73
Other cash payments relating to financing activities		12,966,979,153.30	13,374,900,355.93
Sub-total of cash outflow from financing activities		108,431,371,913.43	79,182,404,297.96
Net Cash Flows from Financing Activities		(1,466,510,615.19)	(4,387,581,124.80)
IV. Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents		(15,882,610.55)	(491,701,003.00)
V. Net Increase in Cash and Cash Equivalents		1,152,032,126.78	(3,673,320,662.97)
Add: Opening balance of Cash and Cash Equivalents		2,609,809,152.05	6,283,129,815.02
VI. Closing Balance of Cash and Cash Equivalents		3,761,841,278.83	2,609,809,152.05

## Consolidated Statement of Changes in Shareholders' Equity

FOR THE YEAR ENDED 31 DECEMBER 2016

Item	Amount for the same period of last year			
	Attributable to shareholders of the Company			
	Share capital	Capital reserve	Less: Treasury shares	Other comprehensive income
I. Balance at 31 December 2015	16,467,517,524.00	33,739,882,090.62	82,585,917.00	(997,587,960.09)
Add: retrospective adjustment	-	-	-	511,723,127.41
II. Balance at 1 January 2016	16,467,517,524.00	33,739,882,090.62	82,585,917.00	(485,864,832.68)
III. Changes for the year	(17,123,900.00)	29,186,041.56	(32,706,649.00)	425,775,007.09
(I) Total comprehensive income	-	-	-	425,775,007.09
(II) Shareholder's contributions and reduction in capital	(17,123,900.00)	(1,421,300.28)	(32,706,649.00)	-
1. Capital contribution (reduction) from shareholders	(17,123,900.00)	(12,187,333.55)	-	-
2. Purchase of shares from minority interests	-	-	-	-
3. Share-based payments recognized in shareholder's equity	-	9,485,805.45	-	-
4. Others	-	1,280,227.82	(32,706,649.00)	-
(III) Profit distribution	-	-	-	-
1. Transfer to surplus reserve	-	-	-	-
2. Distribution to shareholders of the company	-	-	-	-
(IV) Transfers within shareholders' equity	-	-	-	-
1. Others	-	-	-	-
(V) Special reserve	-	-	-	-
1. Transfer to special reserve in the year	-	-	-	-
2. Amount utilized in the year	-	-	-	-
(VI) Others	-	30,607,341.84	-	-
IV. Balance at 31 December 2016	16,450,393,624.00	33,769,068,132.18	49,879,268.00	(60,089,825.59)

Item	Amount for the same period of last year			
	Attributable to shareholders of the Company			
	Share capital	Capital reserve	Less: Treasury shares	Other comprehensive income
I. Balance at 31 December 2014	16,471,026,024.00	33,253,945,989.75	89,287,152.00	(1,004,817,797.37)
Add: retrospective adjustment	-	-	-	443,256,546.28
II. Balance at 1 January 2015	16,471,026,024.00	33,253,945,989.75	89,287,152.00	(561,561,251.09)
III. Changes for the year	(3,508,500.00)	485,936,100.87	(6,701,235.00)	75,696,418.41
(I) Total comprehensive income	-	-	-	75,696,418.41
(II) Shareholders' contributions and reduction in capital	(3,508,500.00)	484,519,058.09	(6,701,235.00)	-
1. Capital contribution (reduction) from shareholders	(3,508,500.00)	496,407,144.48	-	-
2. Purchase of shares from minority interests	-	(16,323,813.81)	-	-
3. Share-based payments recognized in shareholder's equity	-	4,435,727.42	-	-
4. Others	-	-	(6,701,235.00)	-
(III) Profit distribution	-	-	-	-
1. Transfer to surplus reserve	-	-	-	-
2. Distribution to shareholders of the Company	-	-	-	-
(IV) Transfers within shareholders' equity	-	-	-	-
1. Others	-	-	-	-
(V) Special reserve	-	-	-	-
1. Transfer to special reserve in the year	-	-	-	-
2. Amount utilized in the year	-	-	-	-
(VI) Others	-	1,417,042.78	-	-
IV. Balance as at 31 December 2015	16,467,517,524.00	33,739,882,090.62	82,585,917.00	(485,864,832.68)

RMB

Amount for the same period of last year								
Attributable to shareholders of the Company								Total shareholders' equity
Special reserves	Surplus reserves	General risk reserve	Retained earnings	Subtotal	Minority interest			
10,915,599.63	26,516,654,926.34	-	37,148,447,581.69	112,803,243,845.19	9,343,181,076.15		122,146,424,921.34	
-	-	-	(511,723,127.41)	-	-		-	
10,915,599.63	26,516,654,926.34	-	36,636,724,454.28	112,803,243,845.19	9,343,181,076.15		122,146,424,921.34	
14,738,784.99	1,377,829,458.74	-	6,599,668,998.68	8,462,781,040.06	811,978,938.37		9,274,759,978.43	
-	-	-	8,965,514,090.86	9,391,289,097.95	254,395,307.90		9,645,684,405.85	
-	-	-	-	14,161,448.72	710,993,874.00		725,155,322.72	
-	-	-	-	(29,311,233.55)	720,273,874.00		690,962,640.45	
-	-	-	-	-	(9,280,000.00)		(9,280,000.00)	
-	-	-	-	9,485,805.45	-		9,485,805.45	
-	-	-	-	33,986,876.82	-		33,986,876.82	
-	1,377,829,458.74	-	(2,365,845,092.18)	(988,015,633.44)	(160,557,397.19)		(1,148,573,030.63)	
-	1,377,829,458.74	-	(1,377,829,458.74)	-	-		-	
-	-	-	(988,015,633.44)	(988,015,633.44)	(160,557,397.19)		(1,148,573,030.63)	
-	-	-	-	-	-		-	
-	-	-	-	-	-		-	
14,738,784.99	-	-	-	14,738,784.99	7,147,153.66		21,885,938.65	
388,573,640.97	-	-	-	388,573,640.97	10,821,812.23		399,395,453.20	
373,834,855.98	-	-	-	373,834,855.98	3,674,658.57		377,509,514.55	
-	-	-	-	30,607,341.84	-		30,607,341.84	
25,654,384.62	27,894,484,385.08	-	43,236,393,452.96	121,266,024,885.25	10,155,160,014.52		131,421,184,899.77	
Amount for the same period of last year								
Attributable to shareholders of the Company								Total shareholders' equity
Special reserves	Surplus reserves	General risk reserve	Retained earnings	Subtotal	Minority interest			
10,040,556.78	25,851,173,391.46	-	39,765,842,085.69	114,257,923,098.31	9,946,903,048.40		124,204,826,146.71	
-	-	-	(443,256,546.28)	-	-		-	
10,040,556.78	25,851,173,391.46	-	39,322,585,539.41	114,257,923,098.31	9,946,903,048.40		124,204,826,146.71	
875,042.85	665,481,534.88	-	(2,685,861,085.13)	(1,454,679,253.12)	(603,721,972.25)		(2,058,401,225.37)	
-	-	-	944,405,134.07	1,020,101,552.48	(304,653,554.20)		715,447,998.28	
-	-	-	-	487,711,793.09	249,859,125.98		737,570,919.07	
-	-	-	-	492,898,644.48	2,237,789,781.37		2,730,688,425.85	
-	-	-	-	(16,323,813.81)	(1,516,674,104.00)		(1,532,997,917.81)	
-	-	-	-	4,435,727.42	-		4,435,727.42	
-	-	-	-	6,701,235.00	(471,256,551.39)		(464,555,316.39)	
-	665,481,534.88	-	(3,630,266,219.20)	(2,964,784,684.32)	(548,817,572.92)		(3,513,602,257.24)	
-	665,481,534.88	-	(665,481,534.88)	-	-		-	
-	-	-	(2,964,784,684.32)	(2,964,784,684.32)	(548,817,572.92)		(3,513,602,257.24)	
-	-	-	-	-	-		-	
-	-	-	-	-	-		-	
875,042.85	-	-	-	875,042.85	(109,971.11)		765,071.74	
479,597,276.10	-	-	-	479,597,276.10	7,121.35		479,604,397.45	
478,722,233.25	-	-	-	478,722,233.25	117,092.46		478,839,325.71	
-	-	-	-	1,417,042.78	-		1,417,042.78	
10,915,599.63	26,516,654,926.34	-	36,636,724,454.28	112,803,243,845.19	9,343,181,076.15		122,146,424,921.34	

## Statement of Changes in Shareholders' Equity of the Company

FOR THE YEAR ENDED 31 December 2016

Item	Amount for the current year			
	Share capital	Capital reserve	Less: Treasury shares	Other comprehensive income
I. Balance at 1 January 2016	16,467,517,524.00	32,919,701,968.51	82,585,917.00	(66,043,945.35)
II. Changes for the year	(17,123,900.00)	(7,690,024.38)	(32,706,649.00)	39,048,686.10
(I) Total comprehensive income	-	-	-	39,048,686.10
(II) Shareholders' contributions and reduction in capital	(17,123,900.00)	(6,190,024.38)	(32,706,649.00)	-
1. Capital contribution and reduction from shareholders	(17,123,900.00)	(15,582,749.00)	-	-
2. Share-based payments recognized in shareholder's equity	-	9,485,805.45	-	-
3. Others	-	(93,080.83)	(32,706,649.00)	-
(III) Profit distribution	-	-	-	-
1. Transfer to surplus reserve	-	-	-	-
2. Distribution to shareholders of the company	-	-	-	-
(IV) Transfers within shareholders' equity	-	-	-	-
1. Others	-	-	-	-
(V) Special reserve	-	-	-	-
1. Transfer to special reserve in the year	-	-	-	-
2. Amount utilized in the year	-	-	-	-
(VI) Others	-	(1,500,000.00)	-	-
III. Balance as at 31 December 2016	16,450,393,624.00	32,912,011,944.13	49,879,268.00	(26,995,259.25)

Item	Amount for the same period of last year			
	Share capital	Capital reserve	Less: Treasury shares	Other comprehensive income
I. Balance at 1 January 2015	16,471,026,024.00	32,759,853,588.96	89,287,152.00	(102,586,048.25)
II. Changes for the year	(3,508,500.00)	159,848,379.55	(6,701,235.00)	36,542,102.90
(I) Total comprehensive income	-	-	-	36,542,102.90
(II) Shareholders' contributions and reduction in capital	(3,508,500.00)	158,334,461.77	(6,701,235.00)	-
1. Capital contribution from shareholders	(3,508,500.00)	153,898,734.35	-	-
2. Share-based payments recognized in shareholder's equity	-	4,435,727.42	-	-
3. Others	-	-	(6,701,235.00)	-
(III) Profit distribution	-	-	-	-
1. Transfer to surplus reserve	-	-	-	-
2. Distribution to shareholders of the company	-	-	-	-
(IV) Transfers within shareholders' equity	-	-	-	-
1. Others	-	-	-	-
(V) Special reserve	-	-	-	-
1. Transfer to special reserve in the year	-	-	-	-
2. Amount utilized in the year	-	-	-	-
(VI) Others	-	1,513,917.78	-	-
III. Balance at 31 December 2015	16,467,517,524.00	32,919,701,968.51	82,585,917.00	(66,043,945.35)

RMB

## Amount for the current year

Special reserve	Surplus reserves	General risk reserve	Retained earnings	Total shareholders' equity
-	26,516,654,926.34	-	33,913,169,990.02	109,668,414,546.52
-	1,377,829,458.74	-	4,523,302,201.51	5,948,073,070.97
-	-	-	6,889,147,293.69	6,928,195,979.79
-	-	-	-	9,392,724.62
-	-	-	-	(32,706,649.00)
-	-	-	-	9,485,805.45
-	-	-	-	32,613,568.17
-	1,377,829,458.74	-	(2,365,845,092.18)	(988,015,633.44)
-	1,377,829,458.74	-	(1,377,829,458.74)	-
-	-	-	(988,015,633.44)	(988,015,633.44)
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
246,948,681.82	-	-	-	246,948,681.82
246,948,681.82	-	-	-	246,948,681.82
-	-	-	-	(1,500,000.00)
-	27,894,484,385.08	-	38,436,472,191.53	115,616,487,617.49

## Amount for the same period of last year

Special reserve	Surplus reserves	General risk reserve	Retained earnings	Total shareholders' equity
-	25,851,173,391.46	-	34,216,028,534.80	109,106,208,338.97
-	665,481,534.88	-	(302,858,544.78)	562,206,207.55
-	-	-	3,327,407,674.42	3,363,949,777.32
-	-	-	-	161,527,196.77
-	-	-	-	150,390,234.35
-	-	-	-	4,435,727.42
-	-	-	-	6,701,235.00
-	665,481,534.88	-	(3,630,266,219.20)	(2,964,784,684.32)
-	665,481,534.88	-	(665,481,534.88)	-
-	-	-	(2,964,784,684.32)	(2,964,784,684.32)
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
352,081,511.46	-	-	-	352,081,511.46
352,081,511.46	-	-	-	352,081,511.46
-	-	-	-	1,513,917.78
-	26,516,654,926.34	-	33,913,169,990.02	109,668,414,546.52

## Notes To The Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2016

### (I) COMPANY PROFILE

Baoshan Iron & Steel Company Limited (the "Company") was incorporated and registered on 3 February 2000 in Shanghai, the People's Republic of China ("PRC"), as a limited company, with the registration number of 91310000132200821H, under the law of the PRC. The Company was established by Shanghai Baosteel Group Corporation Ltd. (formerly "Shanghai Baosteel Group Corporation"; hereinafter "Baosteel Group") as the sole investor, under the official approval document No. [1999] 1266, as issued by the State Economic & Trade Commission of China.

The Company took over related businesses, assets and liabilities from Baosteel Group by means of issuing 10,635,000,000 ordinary shares to Baosteel Group with a par value of RMB 1.00 each on the date of establishment.

The Company issued 1,877,000,000 ordinary shares (A shares) to the general public with a par value of RMB1 each and an offer price of RMB4.18 by means of on-line stock exchange listing coupled with off-line rationed subscription, from 6 to 24 November 2000, in compliance with the approval document No. [2000] 140, issued by the China Securities Regulatory Commission (the "CSRC").

Following the approval by the CSRC, as provided in the approval document No. [2005]15, during 21 to 26 of April 2005, the Company issued five billion shares with a par value of RMB1.00 each and an offer price of RMB5.12 per share, including three billion state-owned shares to Shanghai Baosteel Group Corporation and two billion to the general public, with the latter on a combinatory basis of preferential claiming, pro-rata and online and off-line bidding inquiry.

Approved by the CSRC (No. 739 document in 2008), the Company issued RMB10 billion convertible loan notes featuring the separation between liability and conversion option components on 20 June 2008. In this issuance, the original circulating shareholders for unlimited sale (of shares) conditions were given the priority for placing, and the rest of the notes were sold to institutional investors through price inquiry and to online applicants. The notes were issued based on the face value, which was RMB100.00 per stock. The dividend was paid once a year and the principal was returned once and for all when the time expired. The annual contract interest rate was 0.8%. The purchaser of the note was able to obtain 16 copies of stock purchase components issued by the issuer, the duration of the component was 24 months from the day when it was listed, and the exercising period was the last 5 trading days of the duration. The exercise proportion was 2:1 and the initial exercise price was RMB12.50 per stock. The liability and conversion option components were listed and traded on Shanghai Stock Exchange on 4 July 2008. The exercise price was then adjusted to RMB11.80 per stock due to dividend. The exercising period was from 28 June to 3 July 2010. A total of 113,785 components were successfully exercised before the stock market closed on 2 July 2010, the last effective exercise date for "Baosteel CWB1", increasing 48,088 shares of the Company.

According to "The Board's Resolution on the motion of repurchase shares of the company by centralized bidding", "The creditors' notice about repurchase shares of Baoshan Iron & Steel Co., Ltd.", "The 2012 second Resolution of extraordinary shareholders meeting of Baoshan Iron & Steel Co., Ltd." and the Company's revised articles of association, the Company repurchased A-shares on Shanghai Stock Exchange by centralized bidding with price no more than RMB5 per share and amount no more than RMB5 billion in total. The first repurchase began on 21 September 2012, and the Company has repurchased 414,055,508 shares by the end of 2012. According to the resolution and the Company's revised articles of association, the Company applied for reduction of share capital RMB0.39 billion and finished all procedures with China Securities Depository and Clearing Corporation Limited, Shanghai Branch on 20 December 2012. The Company renewed all commercial registration in December 2012, and the updated registered share capital is RMB17,122,048,088 as at 31 December 2012.

The Company has repurchased 626,267,656 shares in year of 2013, and completed the implementation of the repurchase scheme. In accordance with the resolution of the general shareholders' meeting of the Company and the regulations of the revised articles of association, the Company has applied for the decrease of the capital of RMB 650,323,164 and completed the cancellation of 650,323,164 shares with the Shanghai Branch of China Securities Depository and Clearing Corporation Limited (CSDC) on 23 May, 2013. The Company completed procedures on industrial and commercial registration on 24 June, 2013, and the updated registered share capital is RMB 16,471,724,924.

As the restricted stock repurchase has not yet reach the unlock conditions in 2014, 2015 and 2016, the company reduce the capital share by 21,331,300 in total, including 698,900 shares in year 2014, 3,508,500 shares in the year 2015 and 17,123,900 shares in the year 2016. By the end of the reporting period, the Company's registered capital and share capital both amount to RMB 16,450,393,624. In the 16,424,278,824 ordinary shares without sales restriction of the Company, Baosteel Group has held 11,523,385,833 shares with an equity interest proportion of 70.05 %.

The business scope of the Company covers iron and steel production and its related processing, power generation, coal, industrial-gas generation, port terminals, warehouse storage and transport. It is also engaged in technology development and transfer; technology services and consulting, automobile maintenance, exports of steel products and technology, imports of related materials, machinery, equipment, parts and components, as well as technology(except for restricted items, i.e. where imports and exports prohibited by the Government). The Company is also engaged in import processing as well as a subsidized trading business. In summary, the principal activities of the Company are the manufacture and sales of iron and steel products as well as the sales and services of the by-products generated during the process of steel production and sales.

The Company's parent company was originally named as Baosteel Group Corporation. On 22 September 2016, the State-owned Assets Supervision and Administration Commission ("SASAC") of the State Council published "Circular on Restructuring of Baosteel Group Corporation and Wuhan Iron and Steel (Group) Corporation ("WISCO")" formally approving the joint restructuring of Baosteel Group and WISCO, after which Baosteel Group Corporation was changed as "China Baowu Steel Group Corporation Limited" ("Baowu Group") with WISCO combined in entirety at no consideration and becoming the subsidiary of Baowu Group. Baowu Group is a state-owned enterprise supervised by the SASAC of the State Council.

The Company and its subsidiaries hereinafter refer to as the Group.

The Company and the consolidated financial statements have been approved by Board of Directors on 27 April 2017.

The detailed scope of consolidated financial statements demonstrates in Notes VIII "Interests in other entities".



## Notes To The Financial Statements – continued

### FOR THE YEAR ENDED 31 DECEMBER 2016

#### (II) BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Group has adopted the Accounting Standards for Business Enterprises ("ASBE") issued by the Ministry of Finance ("MoF"). In addition, the Group has disclosed relevant financial information in accordance with Information Disclosure and Presentation Rules for Companies Offering Securities to the Public No. 15 General Provisions on Financial Reporting (Revised in 2014).

The Group's consolidated financial statements have been prepared on the basis that it will continue as a going concern, since the Group has evaluated its ability to operate on a going concern basis for the next twelve months since 31 December 2016 and no significant doubt was found.

#### (III) THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

##### 1. Statement of compliance with the ASBE

The financial statements of the Company have been prepared in accordance with Accounting Standards for Business Enterprises, and present truly and completely, the Company's financial position as of 31 December 2016, and the Company's results of operations and cash flows for the year then ended.

##### 2. Basis of accounting and principle of measurement

The Group has adopted the accrual basis of accounting. Except for certain financial instruments which are measured at fair value, the Group adopts the historical cost as the principle of measurement in the financial statements. Where assets are impaired, provisions for asset impairment are made in accordance with relevant requirements.

In according with the historical cost method, the assets' value should be the same with the fair value of cash or cash equivalents paid for those assets. The liabilities should be the same amount with the cash or cash equivalents received, the contract amount or the future payment for the present obligations.

Fair value is the amount received by selling assets or paid for transferring liabilities in orderly transaction held by market participants on measuring day. Whether fair value is observable or estimated by measurement technology, it was determined on this base in the financial statements for measurement or disclosure.

The fair value was separated into three levels based on observable degree of value inputted and the importance of those inputted value:

Level 1: the inputted value is the same with an unadjusted price of the same assets or liabilities which could be obtained on measuring day;

Level 2: the inputted value is directly or indirectly observable for related assets or liabilities but other than the Level 1 value;

Level 3: the inputted value is unobservable for related assets or liabilities.

##### 3. Accounting year

The Group adopts the calendar year as its accounting year; i.e. from 1 January to 31 December.

##### 4. Operating cycle

Operating cycle is the time period between the purchase of raw material for production and the collection of cash from receivable created by the sale of inventory. The Company's operating cycle is twelve months.

##### 5. Functional currency

Renminbi ("RMB") is the currency of the primary economic environment in which the Company and its domestic subsidiaries operate. Therefore, the Company and its domestic subsidiaries choose RMB as their functional currency. The Company's foreign subsidiaries choose their functional currencies on the basis of the primary economic environment in which they operate. The Group adopts RMB to prepare its financial statements.

##### 6. The accounting treatment of business combinations involving enterprises under common control and business combinations not involving enterprises under common control

Business combinations are classified into business combinations involving enterprises under common control and business combinations not involving enterprises under common control.

###### 6.1 Business combinations involving enterprises under common control

A business combination involving enterprises under common control is a business combination in which all of the combining enterprises are ultimately controlled by the same party or parties both before and after the combination, and that control is not transitory.

Assets and liabilities obtained shall be measured at their respective carrying amounts as recorded by the combining entities at the date of the combination. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination (or the aggregate face value of shares issued as consideration) is adjusted to the capital premium in capital reserve. If the capital premium is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings.

Costs that are directly attributable to the combination are charged to profit or loss in the period in which they are incurred.

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

### (III) THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

#### 6.2 Business combinations involving enterprises not under common control

A business combination not involving enterprises under common control is a business combination in which all of the combining enterprises are not ultimately controlled by the same party or parties before and after the combination.

The cost of combination is the aggregate of the fair values, at the acquisition date, of the assets given, liabilities incurred or assumed, and equity securities issued by the acquirer in exchange for control of the acquiree. Where a business combination not involving enterprises under common control is achieved in stages that involve multiple transactions, the cost of combination is the sum of the consideration paid at the acquisition date and the fair value at the acquisition date of the acquirer's previously held interest in the acquiree. The intermediary expenses incurred by the acquirer in respect of auditing, legal services, valuation and consultancy services, etc. and other associated administrative expenses attributable to the business combination are recognized in profit or loss when they are incurred.

The acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria, which are acquired in a business combination not involving enterprises under common control, are measured at their fair value at the acquisition date.

Where the cost of combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognized as goodwill as an asset and measured at cost. Where the cost of combination is less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is accounted for as follows: firstly, the acquirer reassesses the measurement of the fair values of the acquiree's identifiable assets, liabilities and contingent liabilities and measurement of the cost of combination; then, if after that reassessment, the cost of combination is still less than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the acquirer recognizes the remaining difference immediately in profit or loss for the current period.

## 7. Preparation of consolidated financial statements

### 7.1 Preparation of consolidated financial statements

The scope of consolidation in the consolidated financial statements is determined on the basis of control. Control is the power over the investee, exposure or rights to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect the amount of the investor's returns. If changes of related facts and situations lead to changes of related elements of control, the Group will undertake reassessment.

The combination of subsidiaries begins with controlling the subsidiary by the Group, and ends with the Group's losing control of the subsidiary. For a subsidiary disposed of by the Group, the operating results and cash flows before the date of disposal (the date when control is lost) are included in the consolidated income statement and consolidated statement of cash flows, as appropriate.

For a subsidiary acquired through a business combination not involving enterprises under common control, the operating results and cash flows from the acquisition date (the date when control is obtained) are included in the consolidated income statement and consolidated statement of cash flows, as appropriate.

No matter when the business combination occurs in the reporting period, subsidiaries acquired through a business combination involving enterprises under common control or the party being absorbed under merger by absorption are included in the Group's scope of consolidation as if they had been included in the scope of consolidation from the date when they first came under the common control of the ultimate controlling party. Their operating results and cash flows from the beginning of the earliest reporting period are included in the consolidated income statement and consolidated statement of cash flows, as appropriate.

The significant accounting policies and accounting periods adopted by the subsidiaries are determined based on the uniform accounting policies and accounting periods set out by the Company.

All significant intra-group balances and transactions are eliminated on consolidation. The portion of subsidiaries' equity that is not attributable to the Company is treated as minority interests and presented as "minority interests" in the consolidated balance sheet within owners' equity. The portion of net profits or losses of subsidiaries for the period attributable to minority interests is presented as "minority interests" in the consolidated income statement below the "net profit" line item. When the amount of loss for the period attributable to the minority shareholders of a subsidiary exceeds the minority shareholders' portion of the opening balance of owners' equity of the subsidiary, the excess amount are still allocated against minority interests.

Acquisition of minority interests or disposal of interest in a subsidiary that does not result in the loss of control over the subsidiary is accounted for as equity transactions. The carrying amounts of the Company's interests and minority interests are adjusted to reflect the changes in their relative interests in the subsidiary. The difference between the amount by which the minority interests are adjusted and the fair value of the consideration paid or receipts is adjusted to capital reserve under owners' equity. If the capital reserve is not sufficient to absorb the difference, the excess are adjusted against retained earnings.

For the stepwise acquisition of equity interest till acquiring control after a few transactions and leading to business combination not under common control, this should be dealt with for whether this belongs to 'package deal': if it belongs to 'package deal', transactions will be dealt as transaction to acquire control. If it does not belong to 'package deal', transactions to acquire control on acquisition date will be under accounting treatment, the fair value of acquirees' shares held before acquisition date will be revalued, and the difference between fair value and book value will be recognized in profit or loss of current period; if acquirees' shares held before acquisition date involve in changes of other comprehensive income and other equity of owners under equity method, this will be transferred to income of acquisition date.

When the Group loses control over a subsidiary due to disposal of certain equity interest or other reasons, any retained interest is re-measured at its fair value at the date when control is lost. The difference between (i) the aggregate of the consideration received on disposal and the fair value of any retained interest and (ii) the share of the former subsidiary's net assets cumulatively calculated from the acquisition date according to the original proportion of ownership interest is recognized as investment income in the period in which control is lost, and goodwill is offset at the same time. Other comprehensive income associated with investment in the former subsidiary is reclassified to investment income in the period in which control is lost.

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

### (III) THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

When the Group loses control of a subsidiary in two or more arrangements (transactions), terms and conditions of the arrangements (transactions) and their economic effects are considered. One or more of the following indicate that the Group shall account for the multiple arrangements as a single transaction: (i) they are entered into at the same time or in contemplation of each other; (ii) they form a single transaction designed to achieve an overall commercial effect; (iii) the occurrence of one arrangement is dependent on the occurrence of at least one other arrangement; (iv) one arrangement considered on its own is not economically justified, but it is economically justified when considered together with other arrangements. If the transactions of disposal of equity interest of a subsidiary are assessed as a single transaction, these transactions are accounted for as one transaction of disposal of a subsidiary. Before losing control, the difference of consideration received on disposal and the share of net assets of the subsidiary continuously calculated from acquisition date is recognized as other comprehensive income. When losing control, the cumulated other comprehensive income is transferred to profit or loss of the period of losing control. If the transactions of disposal of equity investment of a subsidiary are not assessed as a single transaction, these transactions are accounted for as unrelated transactions.

#### 8. Classification of joint venture arrangements and accounting treatment for joint operation

Joint venture arrangements include common management and joint venture, which is decided by rights and obligations agreed in the arrangements based on the structure, legal form and contract terms. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. The Group's investment in the joint venture is accounted by the equity method. Refer to note (III) 14.3.2.

#### 9. Recognition criteria of cash and cash equivalents

Cash comprises cash on hand and deposits that can be readily withdrawn on demand. Cash equivalents are the Group's short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

#### 10. Translation of transactions and financial statements denominated in foreign currencies

##### 10.1 Transactions denominated in foreign currencies

A foreign currency transaction is recorded, on initial recognition, by applying the spot exchange rate on the date of the transaction.

At the balance sheet date, foreign currency monetary items are translated into RMB using the spot exchange rates at the balance sheet date. Exchange differences arising from the differences between the spot exchange rates prevailing at the balance sheet date and those on initial recognition or at the previous balance sheet date are recognized in profit or loss for the period, except that (1) exchange differences related to a specific-purpose borrowing denominated in foreign currency that qualify for capitalization are capitalized as part of the cost of the qualifying asset during the capitalization period; (2) exchange differences related to hedging instruments for the purpose of hedging against foreign currency risks are accounted for using hedge accounting; (3) exchange differences arising from available-for-sale non-monetary items (such as shares) denominated in foreign currencies and changes in the carrying amounts (other than the amortized cost) of available-for-sale monetary items are recognized as other comprehensive income and included in capital reserve.

When the consolidated financial statements include foreign operations, if there is foreign currency monetary item constituting a net investment in a foreign operation, exchange difference arising from changes in exchange rates are recognized as "exchange differences arising on translation of financial statements denominated in foreign currencies" in owners' equity, and in profit and loss for the period upon disposal of the foreign operation.

Foreign currency non-monetary items measured at historical cost are translated to the amounts in functional currency at the spot exchange rates on the dates of the transactions and the amounts in functional currency remain unchanged. Foreign currency non-monetary items measured at fair value are re-translated at the spot exchange rate on the date the fair value is determined. Difference between the re-translated functional currency amount and the original functional currency amount is treated as changes in fair value (including changes of exchange rate) and is recognized in profit and loss or as other comprehensive income included in capital reserve.

##### 10.2 Translation of financial statements denominated in foreign currencies

For the purpose of preparing the consolidated financial statements, financial statements of a foreign operation are translated from the foreign currency into RMB using the following method: assets and liabilities on the balance sheet are translated at the spot exchange rate prevailing at the balance sheet date; shareholders' equity items are translated at the spot exchange rates at the dates on which such items arose; all items in the income statement as well as items reflecting the distribution of profits are translated at the average exchange rate of the transaction period; the difference between the translated assets and the aggregate of liabilities and shareholders' equity items is separately presented as other comprehensive income and charged to the shareholders' equity.

Cash flows arising from a transaction in foreign currency and the cash flows of a foreign subsidiary are translated at the average exchange rate in the period of the cash flows. The effect of exchange rate changes on cash and cash equivalents is regarded as a reconciling item and presented separately in the cash flow statement as "effect of exchange rate changes on cash and cash equivalents".

The opening balances and the comparative figures of previous year are presented at the translated amounts in the previous year's financial statements.

#### 11. Financial instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. For financial assets and financial liabilities at fair value through profit or loss, transaction costs are immediately recognized in profit or loss. For other financial assets and financial liabilities, transaction costs are included in their initial recognized amounts.

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

### (III) THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

#### 11.1 Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or a group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period, using the effective interest rate. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or financial liability or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial asset or financial liability (without considering future credit losses), and also considers all fees paid or received between the parties to the contract giving rise to the financial asset and financial liability that are an integral part of the effective interest rate, transaction costs, and premiums or discounts, etc.

#### 11.2 Classification, recognition and measurement of financial assets

On initial recognition, financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

##### 11.2.1. Financial Assets at Fair Value through Profit or Loss ("FVTPL")

Financial assets at FVTPL include financial assets held for trading and those designated as at fair value through profit or loss.

A financial asset is classified as held for trading if one of the following conditions is satisfied: (1) It has been acquired principally for the purpose of selling in the near term; or (2) On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and there is objective evidence that the Group has a recent actual pattern of short-term profit-taking; or (3) It is a derivative that is not designated and effective as a hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured.

A financial asset may be designated as at FVTPL upon initial recognition only when one of the following conditions is satisfied: (1) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise result from measuring assets or recognizing the gains or losses on them on different bases; or (2) The financial asset forms part of a group of financial assets or a group of financial assets and financial liabilities, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is reported to key management personnel on that basis; or (3) Qualified hybrid instruments containing embedded derivatives.

Financial assets at FVTPL are subsequently measured at fair value. Any gains or losses arising from changes in the fair value and any dividend or interest income earned on the financial assets are recognized in profit or loss.

##### 11.2.2. Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group's management has the positive intention and ability to hold to maturity.

Held-to-maturity investments are subsequently measured at amortized cost using the effective interest method. Gain or loss arising from derecognition, impairment or amortization is recognized in profit or loss.

##### 11.2.3. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financial assets classified as loans and receivables by the Group include notes receivable, accounts receivable, interest receivable, dividends receivable, other receivables and loans and advances to customers as well as long-term receivables.

Loans and receivables are subsequently measured at amortized cost using the effective interest method. Gains or losses arising from derecognition, impairment or amortization are recognized in profit or loss for the current period.

##### 11.2.4. Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are designated on initial recognition as available for sale and financial assets that are not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are subsequently measured at fair value, and gains or losses arising from changes in the fair value are recognized as other comprehensive income and included in the capital reserve, except that impairment losses and exchange differences related to amortized cost of monetary financial assets denominated in foreign currencies are recognized in profit or loss, until the financial assets are derecognized, at which time the gains or losses are released and recognized in profit or loss.

Interests obtained and the dividends declared by the investee during the period in which the available-for-sale financial assets are held, are recognized in investment gains.

For investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, and derivative financial assets that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost.

#### 11.3 Impairment of financial assets

The Group assesses at each balance sheet date the carrying amounts of financial assets other than those at fair value through profit or loss. If there is

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

### (III) THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

objective evidence that a financial asset is impaired, the Group determines the amount of any impairment loss. Objective evidence that a financial asset is impaired is evidence that, arising from one or more events that occurred after the initial recognition of the asset, the estimated future cash flows of the financial asset, which can be reliably measured, have been affected.

Objective evidence that a financial asset is impaired includes the following observable events:

- (1) Significant financial difficulty of the issuers or the debtors;
- (2) A breach of contract by the debtors, such as a default or delay in interest or principal payments;
- (3) The Group, for economic or legal reasons relating to the debtors' financial difficulty, grants a concession to debtors;
- (4) It becoming probable that the borrower will enter bankruptcy or other financial reorganizations;
- (5) The disappearance of an active market for that financial asset because of financial difficulties of the issuer;
- (6) Upon an overall assessment of a group of financial assets, observable data indicates that there is a measurable decrease in the estimated future cash flows from the group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group. Such observable data includes:
  - Adverse changes in the payment status of borrower in the group of assets;
  - Economic conditions in the country or region of the borrower which may lead to a failure to pay the group of assets;
- (7) Significant adverse changes in the technological, market, economic or legal environment in which the issuer operates, indicating that the cost of the investment in the equity instrument may not be recovered by the investor;
- (8) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost;
- (9) Other objective evidence indicates that there is an impairment of a financial asset.

#### - Impairment of financial assets measured at amortized cost

If financial assets carried at amortized cost are impaired, the carrying amounts of the financial assets are reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of reduction is recognized as an impairment loss in profit or loss. If, subsequent to the recognition of an impairment loss on financial assets carried at amortized cost, there is objective evidence of a recovery in value of the financial assets which can be related objectively to an event occurring after the impairment is recognized, the previously recognized impairment loss is reversed. However, the reversal is made to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For a financial asset that is individually significant, the Group assesses the asset individually for impairment. For a financial asset that is not individually significant, the Group assesses the asset individually for impairment or includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset (whether significant or not), it includes the asset in a group of financial assets with similar credit risk characteristics and collectively reassesses them for impairment. Assets for which an impairment loss is individually recognised are not included in a collective assessment of impairment.

#### - Impairment of available-for-sale financial assets

The objective evidence of impairment of available-for-sale equity instruments includes the continuous or significant drop of their fair value. Impairment of available-for-sale equity instruments should be determined by the analysis of relevant information. The fair value of available-for-sale equity instruments falling below their cost does not constitute the indication of impairment. Impairment of available-for-sale equity instruments which are hold for strategic purpose and will not be sold based on the fluctuation of the stock price should be determined by the analysis of the investees' operation. If the investee was suffering from a serious deteriorated situation, such as the minimum 10% annual decreases of revenue or minimum 20% decrease of EBITDA for three consecutive years, or the fair value of such investments in equity instruments fall below 50% of their initial investment cost at balance sheet date for 2 consecutive years, impairment of available-for-sale equity instrument in such investee should be considered. Impairment of available-for-sale equity instruments which are hold for trading should be considered when the fair value of such instruments fall below 50% of their original investment or the fair value of such instruments fall below their original investment longer than 24 months.

When an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value previously recognized directly in capital reserve is reclassified from the capital reserve to profit or loss. The amount of the cumulative loss that is reclassified from capital reserve to profit or loss is the difference between the acquisition cost (net of any principal repayment and amortization) and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss. If, subsequent to the recognition of an impairment loss on available-for-sale financial assets, there is objective evidence of a recovery in value of the financial assets which can be related objectively to an event occurring after the impairment is recognized, the previously recognized impairment loss is reversed. The amount of reversal of impairment loss on available-for-sale equity instruments is recognized as other comprehensive income and included in the capital reserve, while the amount of reversal of impairment loss on available-for-sale debt instruments is recognized in profit or loss.

#### - Impairment of financial assets measure at cost

If an impairment loss has been incurred on an investment in unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured, or on a derivative financial asset that is linked to and must be settled by delivery of such an unquoted equity instrument,

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

### (III) THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

the carrying amount of the financial asset is reduced to the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The amount of reduction is recognized as an impairment loss in profit or loss. The impairment loss on such financial asset is not reversed once it is recognized.

#### 11.4 Transfer of financial assets

The Group derecognizes a financial asset if one of the following conditions is satisfied: (1) the contractual rights to the cash flows from the financial asset expire; or (2) the financial asset has been transferred and substantially all the risks and rewards of ownership of the financial asset are transferred to the transferee; or (3) although the financial asset has been transferred, the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but has not retained control of the financial asset.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of a financial asset, and it retains control of the financial asset, it recognizes the financial asset to the extent of its continuing involvement in the transferred financial asset and recognizes an associated liability. The extent of the Group's continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset.

For a transfer of a financial asset in its entirety that satisfies the derecognition criteria, the difference between (1) the carrying amount of the financial asset transferred; and (2) the sum of the consideration received from the transfer and any cumulative gain or loss that has been recognized in other comprehensive income, is recognized in profit or loss.

If a part of the transferred financial asset qualifies for derecognition, the carrying amount of the transferred financial asset is allocated between the part that continues to be recognized and the part that is derecognized, based on the respective fair values of those parts. The difference between (1) the carrying amount allocated to the part derecognized; and (2) the sum of the consideration received for the part derecognized and any cumulative gain or loss allocated to the part derecognized which has been previously recognized in other comprehensive income, is recognized in profit or loss.

#### 11.5 Classification, recognition and measurement of financial liabilities

Debt and equity instruments issued by the Group are classified into financial liabilities or equity on the basis of the substance of the contractual arrangements and definitions of financial liability and equity instrument.

On initial recognition, financial liabilities are classified into financial liabilities at fair value through profit or loss and other financial liabilities.

##### 11.5.1. Financial liabilities at fair value through profit or loss

Financial liabilities at FVTPL consist of financial liabilities held for trading and those designated as at FVTPL on initial recognition.

A financial liability is classified as held for trading if one of the following conditions is satisfied: (1) It has been acquired principally for the purpose of repurchasing in the near term; or (2) On initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and there is objective evidence that the Group has a recent actual pattern of short-term profit-taking; or (3) It is a derivative, except for a derivative that is a designated and effective hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured.

A financial liability may be designated as at FVTPL upon initial recognition only when one of the following conditions is satisfied: (1) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise result from measuring liabilities or recognizing the gains or losses on them on different bases; or (2) The financial liability forms part of a group of financial liabilities or a group of financial assets and financial liabilities, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is reported to key management personnel on that basis; or (3) Qualified hybrid instruments containing embedded derivatives.

Financial liabilities at FVTPL are subsequently measured at fair value. Any gains or losses arising from changes in the fair value or any dividend or interest expenses related to the financial liabilities are recognised in profit or loss.

##### 11.5.2. Other financial liabilities

For a derivative liability that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured, it is subsequently measured at cost. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with gain or loss arising from derecognition or amortization recognized in profit or loss.

#### 11.6 Derecognition of Financial Liabilities

The Group derecognizes a financial liability (or part of it) only when the underlying present obligation (or part of it) is discharged. An agreement between the Group (an existing borrower) and an existing lender to replace the original financial liability with a new financial liability with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

When the Group derecognizes a financial liability or a part of it, it recognizes the difference between the carrying amount of the financial liability (or part of the financial liability) derecognized and the consideration paid (including any non-cash assets transferred or new financial liabilities assumed) in profit or loss.

#### 11.7 Derivatives and embedded derivatives

Derivative financial instruments include forward contracts, interest rate swaps, etc. Derivatives are initially measured at fair value at the date when the derivative contracts are entered into and are subsequently re-measured at fair value. The resulting gain or loss is recognized in profit or loss.

## Notes To The Financial Statements – continued

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### (III) THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

An embedded derivative is separated from the hybrid instrument, where the hybrid instrument is not designated as a financial asset or financial liability at fair value through profit or loss, and treated as a standalone derivative if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

If the Group is unable to measure the embedded derivative separately either at acquisition or at a subsequent balance sheet date, it designates the entire hybrid instrument as a financial asset or financial liability at fair value through profit or loss.

#### 11.8 Offsetting financial assets and a financial liabilities

Where the Group has a legal right that is currently enforceable to set off the recognized financial assets and financial liabilities, and intends either to settle on a net basis, or to realize the financial asset and settle the financial liability simultaneously, a financial asset and a financial liability shall be offset and the net amount is presented in the balance sheet. Except for the above circumstances, financial assets and financial liabilities shall be presented separately in the balance sheet and shall not be offset.

#### 11.9 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The consideration received from issuing equity instruments, net of transaction costs, are added to shareholders' equity.

All types of distributions made by the Group to holders of equity instruments are deducted from shareholders' equity. The Group does not recognize any changes in the fair value of equity instruments.

##### 11.9.1 Repurchase of share capital

The consideration and transaction costs paid to repurchase share capital are deducted from shareholders' equity. No gain or loss is recognized in profit or loss on the repurchase, sale or cancellation of the Company's share capital. Repurchased share capital is presented as treasury share before cancellation or sale, and all the expenditure occurred in repurchase is accounted for cost of treasury shares. Treasury shares are not counted in profit appropriation. The Company presents treasury shares as the reserve item of shareholders' equity in the balance sheet. When the Company reduces the capital by means of repurchasing ordinary shares in accordance with statutory procedure, it reduces the share capital in the face value of cancelled shares. The Company recognizes the difference between the consideration paid (including transaction costs) and face value of shares in equity. When the amount of consideration paid exceeds total face value, the difference is offset against capital reserve (capital premium), surplus reserve and retained earnings in consequence, when the amount of consideration paid is less than total face value, the difference is recognized in the capital reserve (capital premium).

#### 11.10 Convertible loan notes

The Group confirms whether the issued convertible loan notes contain both liability and conversion option components. Convertible loan notes issued by the Group that contain both the liability and conversion option components are classified separately into respective items on initial recognition. On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the gross proceeds of the issue of the convertible loan notes and the fair value assigned to the liability component, representing the conversion option for the holder to convert the loan notes into equity instrument, is included in capital reserve (other capital reserve - share conversion option). In subsequent periods, the liability component of the convertible loan notes is carried at amortized cost using the effective interest method. The conversion option classified as equity remains in equity. Transaction costs incurred for the issue of convertible loan notes are allocated to the liability component and equity component in proportion to their respective fair values. In subsequent periods, the liability component of the convertible loan notes is carried as liability at amortized cost. The conversion option classified as equity remains in equity and does not need subsequent measurement. Where the conversion option components remain unexercised at the maturity date of the convertible loan notes issued by the Group, the balance recognized in capital reserve (other capital reserve) will be transferred to capital reserve (capital premium). Once the conversion option components are exercised, the equity component recognized in capital reserve (other capital reserve) will be transferred to capital reserve (capital premium); the aggregate nominal amount of shares are credited to share capital at par value of the stock multiplied by the number of shares; the difference between the total funds raised by conversion option components and share capital is credited to capital reserve (capital premium).

## 12. Accounts receivable

### 12.1 Receivables that are individually significant and for which bad debt provision is individually assessed

Basis for determining an individually significant receivable

A receivable that ranks top five largest is deemed as an individually significant receivable by the Group.

Method of determining provision for receivables that are individually significant and for which bad debt provision is individually assessed

For receivables that are individually significant, the Group assesses such receivables individually for impairment, if the Group determines that no objective evidence of impairment exists for individually assessed receivables, such receivables are included in a financial asset with similar credit risk and are collectively reassessed for impairment. Receivables for which an impairment loss is individually recognised are not included in a collective assessment of impairment.

### 12.2 Receivables for which bad debt provision is collectively assessed on a portfolio basis



## Notes To The Financial Statements – continued

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### (III) THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

Receivables that are not individually significant and receivables that are individually significant but are not impaired individually

Other receivables (excluding accounts receivable that are individually significant or not individually significant and for which bad debt provision has been assessed individually) are classified as two portfolios by nature, namely, amounts due from entities within scope of consolidated financial statements of Baowu Group and amounts due from other parties. Meanwhile accounts receivable within the two portfolios are divided into certain aging groups by regarding aging as the credit risk characteristic, of which the bad debt provisions for the current year in such aging groups are calculated based on the actual loss rate of equal or similar aging group of accounts receivable with similar risk characteristics in prior years and the proportion of bad debt provision of each aging group determined pursuant to the current condition. Among these accounts receivable, the amount due from entities within scope of consolidated financial statements of Baowu Group has made no bad debt provision while the amount due from other parties has made bad debt provision with details listed as below.

Portfolios that aging analysis is used for bad debt provision:

Aging	Provision as a proportion of accounts receivable (%)	Provision as a proportion of other receivables (%)
Within 1 year (inclusive)	5	5
More than 1 year but not exceeding 2 years	30	30
More than 2 years but not exceeding 3 years	60	60
More than 3 years	100	100

#### 12.3 Receivables that are individually not significant but for which bad debt provision is individually assessed

Reasons for determining individual provision for receivables	There is objective evidence of impairment.
Method of determining provision for receivables	The difference between the estimated recoverable amount and the book value is recognized as bad debt.

### 13. Inventories

#### 13.1 Categories of inventories

The Group's inventories mainly include raw materials, work in progress, finished goods, spare parts and others, etc. Inventories are initially measured at cost. Cost of inventories comprises all costs of purchase, costs of conversion and other expenditures incurred in bringing the inventories to their present location and condition.

#### 13.2 Valuation method of inventories upon delivery

The actual cost of inventories upon delivery is calculated using the weighted average method.

#### 13.3 Basis for determining net realizable value of inventories and provision methods for decline in value of inventories

At the balance sheet date, inventories are measured at the lower of cost and net realizable value. If the net realizable value is below the cost of inventories, a provision for decline in value of inventories is made. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion, the estimated costs necessary to make the sale and relevant taxes. Net realizable value is determined on the basis of clear evidence obtained, and takes into consideration of the purposes of holding inventories and effect of post balance sheet events.

Provision for decline in value of other inventories is made based on the excess of cost of inventory over its net realizable value on an item-by-item basis.

After the provision for decline in value of inventories is made, if the circumstances that previously caused inventories to be written down below cost no longer exist so that the net realizable value of inventories is higher than their cost, the original provision for decline in value is reversed and the reversal is included in profit or loss for the period.

#### 13.4 Stock count system

The perpetual inventory system is maintained for stock system.

#### 13.5 Amortization method for low cost and short-lived consumable items and packaging materials

Packaging materials and low cost and short-lived consumable items are amortized using the immediate write-off method.

### 14. Long-term equity investments

#### 14.1 Criteria of determining significant influence over the investee

Control is defined as power over the investee, exposed or having the rights to variable returns from its involvement with the investee and having the ability to use its power to affect its returns. Joint control is defined as the contractually agreed sharing of control of an arrangement. Joint control exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Significant influence is defined as the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. When deciding if the investor can exert control or significant influence over the investee, potential factors for voting rights shall be taken into consideration. The factors are not limited to investee's convertible bonds, stock warrants executable currently possessed by the investors and by other holders.

#### 14.2 Determination of investment cost

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

### (III) THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

For a long-term equity investment acquired through business combination involving enterprises under common control, shares of book value of owners' equity of combined party in financial statements of ultimate controlling party are recognized as initial investment cost of long-term equity investment at combination date. The difference between initial investment cost of long-term equity investment and cash paid, non-cash assets transferred and book value of liabilities assumed, is adjusted in capital reserve. If the balance of capital reserve is not sufficient, any excess is adjusted to retained earnings. If the consideration of the combination is satisfied by the issue of equity securities, the initial investment cost of the long-term equity investment is the share of book value of owners' equity of the acquired entity in the ultimate controlling party's consolidated financial statements at the date of combination. The aggregate face value of the shares issued is accounted for as share capital. The difference between the initial investment cost and the aggregate face value of the shares issued is adjusted to capital reserve. If the balance of capital reserve is not sufficient, any excess is adjusted to retained earnings. Where equity interests in an acquiree are acquired in stages through multiple transactions ultimately constituting a business combination involving entities under common control, the acquirer shall determine if these transactions are considered to be "a bundled transaction". If yes, these transactions are accounted for as a single transaction where control is obtained. If no, the initial investment cost of the long-term equity investment is the share of book value of owners' equity of the acquired entity in the ultimate controlling party's consolidated financial statements at the date of combination. The difference between the initial investment cost and the sum of carrying amount of equity investments previously held in the acquiree and the new investment cost is adjusted to capital reserve. If the balance of capital reserve is not sufficient, any excess is adjusted to retained earnings. Other comprehensive income recognized for the previously held equity investments by accounting treatment of equity method or available-for-sale financial assets is not subject to accounting treatment temporarily.

For a long-term equity investment acquired through business combination not involving enterprises under common control, the investment cost of the long-term equity investment is the cost of acquisition. Where equity interests in an acquiree are acquired in stages through multiple transactions ultimately constituting a business combination not involving entities under common control, the acquirer shall determine if these transactions are considered to be "a bundled transaction". If yes, these transactions are accounted for as a single transaction where control is obtained. If no, the sum of carrying amount of equity investments previously held in the acquiree and the new investment cost is deemed as the initial investment cost of long-term equity investments that was changed to be accounted for using cost method. If the equity previously held was accounted for using the equity method, the corresponding other comprehensive income is not subject to accounting treatment temporarily. If the equity investment previously held was classified as available-for-sale financial assets, the difference between the fair value and carrying amount, together with the accumulated fair value previously included in other comprehensive income are transferred to profit or loss for the period.

The expenses incurred by the acquirer in respect of auditing, legal services, valuation and consultancy services and other associated administrative expenses attributable to the business combination are recognized in profit or loss when they are incurred.

Long-term equity investment acquired otherwise than through a business combination is initially measured at its cost. When the entity is able to exercise significant influence or joint control (but not control) over an investee due to additional investment, the cost of long-term equity investments is the sum of the fair value of previously-held equity investments determined in accordance with Accounting Standard for Business Enterprises No.22 - Financial Instruments; Recognition and Measurement and the additional investment cost.

#### 14.3 Subsequent measurement and recognition of profit or loss

##### 14.3.1 Long-term equity investment accounted for using the cost method

Long-term equity investments in subsidiaries are accounted for using the cost method in the Company's separate financial statements. A subsidiary is an investee that is controlled by the Group.

Under the cost method, a long-term equity investment is measured at initial investment cost. When additional investment is made or the investment is recouped, the cost of the long-term equity investment is adjusted accordingly. Investment income is recognized in the period in accordance with the attributable share of cash dividends or profit distributions declared by the investee.

##### 14.3.2 Long-term equity investment accounted for using the equity method

The Group accounts for investment in associates and joint ventures using the equity method. An associate is an entity over which the Group has significant influence and a joint venture is an entity over which the Group exercises joint control along with other investors.

Under the equity method, where the initial investment cost of a long-term equity investment exceeds the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, no adjustment is made to the initial investment cost. Where the initial investment cost is less than the Group's share of the fair value of the investee's identifiable net assets at the time of acquisition, the difference is recognized in profit or loss for the period, and the cost of the long-term equity investment is adjusted accordingly.

Under the equity method, the Group recognizes its share of the net profit or loss of the investee for the period as investment income or loss for the period. The Group recognizes its share of the investee's net profit or loss based on the fair value of the investee's individual separately identifiable assets, etc. at the acquisition date after making appropriate adjustments to conform with the Group's accounting policies and accounting period. Unrealized profits or losses resulting from the Group's transactions with its associates and joint ventures are recognized as investment income or loss to the extent that those attributable to the Group's equity interest are eliminated. However, unrealized losses resulting from the Group's transactions with its associates and joint ventures which represent impairment losses on the transferred assets are not eliminated. Changes in owners' equity of the investee other than net profit or loss are correspondingly adjusted to the carrying amount of the long-term equity investment, and recognized as other comprehensive income which is included in the capital reserve.

The Group discontinues recognizing its share of net losses of the investee after the carrying amount of the long-term equity investment together with any long-term interests that in substance form part of its net investment in the investee is reduced to zero. If the Group has incurred obligations to assume additional losses of the investee, a provision is recognized according to the expected obligation, and recorded as investment loss for the period. Where net profits are subsequently made by the investee, the Group resumes recognizing its share of those profits only after its share of the profits exceeds the share of losses previously not recognized.

#### 14.4 Disposal of long-term equity investments

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

### (III) THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

On disposal of a long term equity investment, the difference between the proceeds actually received and receivable and the carrying amount is recognized in profit or loss for the period. For a long-term equity investment accounted for using the equity method, the amount included in the shareholders' equity attributable to the percentage interest disposed is transferred to profit or loss for the period. For a long-term equity investment accounted for using the cost method, if it is still accounted for cost method after disposal, other comprehensive income recognized before controlling the investee according to equity method or recognition and measurement of financial instruments, account for them on the basis of related assets and liabilities, and recognized in profit or loss for proportion; change of owners' equity except for net profit or loss, other comprehensive income and profit distribution is recognized in profit or loss of current period.

For a long-term equity investment accounted for using the cost method, if the remaining shares after the disposal are still accounted for using the cost method, other comprehensive income recognized before controlling the investee according to equity method or recognition and measurement of financial instruments, accounted for on the basis of directly disposed related assets and liabilities of the investee, and recognized in profit or loss for the period and carried forward proportionately ; changes of owners' equity except for net profit or loss, other comprehensive income and profit distribution are carried forward proportionately and recognized in profit or loss for the current period.

The Group loses control on investee due to disposal of part of shares, during preparing separate financial statement, remaining shares after disposal can make joint control or significant influence on investee, are accounted under equity method, and adjust them as they are accounted under equity method from acquisition date; if remaining shares after disposal cannot make joint control or significant influence on investee, they are accounted according to recognition and measurement of financial instrument, and the difference between fair value on date of losing control and book value is recognized in profit or loss of current period. Before the Group controls the investee, other comprehensive income recognized due to equity method or recognition and measurement of financial instruments, account for them on the basis of related assets and liabilities, and recognized in profit or loss for proportion; change of owners' equity except for net profit or loss, other comprehensive income and profit distribution is recognized in profit or loss of current period. Remaining shares after disposal are accounted under equity method, other comprehensive income and other owners' equity are carried forward as proportion; remaining shares after disposal are accounted due to recognition and measurement of financial instruments other comprehensive income and other owners' equity are all carried forward.

For the Group loses joint control or significant influence on investee after part disposal of shares, remaining shares after disposal are accounted according to recognition and measurement of financial instruments, the difference between fair value at the date of losing joint control or significant influence and book value is recognized in profit or loss of current period. Other comprehensive income recognized under equity method, is accounted on the basis of related assets or liabilities when stop using equity method, change of owners' equity except for net profit or loss, other comprehensive income and profit distribution is recognized in profit or loss of current period

The Group loses control on subsidiaries through step by step transactions of disposal, if transactions are package deal, all transactions are seemed as one transaction of disposal investment on subsidiaries, difference between amount of disposal and book value of long-term equity investment, is recognized as other comprehensive income, and recognized in profit or loss when losing control.

#### 15. Investment properties

Investment property is property held to earn rentals or for capital appreciation or both. It includes a land use right that is leased out and a building that is leased out.

An investment property is measured initially at cost. Subsequent expenditures incurred for such investment property are included in the cost of the investment property if it is probable that economic benefits associated with an investment property will flow to the Group and the subsequent expenditures can be measured reliably. Other subsequent expenditures are recognized in profit or loss in the period in which they are incurred.

The Group uses the cost model for subsequent measurement of investment property, and adopts a depreciation or amortization policy for the investment property which is consistent with that for buildings or land use rights.

When an investment property is sold, transferred, retired or damaged, the Group recognizes the amount of any proceeds on disposal net of the carrying amount and related taxes in profit or loss for the period.

#### 16. Fixed assets

##### 16.1 Recognition criteria for fixed assets

Fixed assets are tangible assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and have useful lives of more than one accounting year. A fixed asset is recognized only when it is probable that economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. Fixed assets are initially measured at cost.

Subsequent expenditures incurred for the fixed asset are included in the cost of the fixed asset and if it is probable that economic benefits associated with the asset will flow to the Group and the subsequent expenditures can be measured reliably. Meanwhile the carrying amount of the replaced part is derecognized. Other subsequent expenditures are recognized in profit or loss in the period in which they are incurred.

##### 16.2 Depreciation of each category of fixed assets

A fixed asset is depreciated over its useful life using the straight-line method since the month subsequent to the one in which it is ready for intended use. The useful life, estimated net residual value rate and annual depreciation rate of each category of fixed assets are as follows:

Category	Depreciation period (years)	Residual value (%)	Annual depreciation rate (%)
Buildings	15-35	4	2.7-6.4
Machinery and equipment	7-15	4	6.4-13.7
Transportation vehicles	5-10	4	9.6-19.2
Office and other equipment	4-9	4	10.7-24.0

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

### (III) THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

Estimated net residual value of a fixed asset is the estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

#### 16.3 Other explanations

If a fixed asset is upon disposal or no future economic benefits are expected to be generated from its use or disposal, the fixed asset is derecognized. When a fixed asset is sold, transferred, retired or damaged, the amount of any proceeds on disposal of the asset net of the carrying amount and related taxes is recognized in profit or loss for the period.

The Group reviews the useful life and estimated net residual value of a fixed asset and the depreciation method applied at least once at each financial year end, and accounts for any change as a change in an accounting estimate.

#### 17. Construction in progress

Construction in progress is measured at its actual costs. The actual costs include various construction expenditures during the construction period, borrowing costs capitalized before it is ready for intended use and other relevant costs. Construction in progress is not depreciated. Construction in progress is transferred to a fixed asset when it is ready for intended use.

#### 18. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying asset are capitalized when expenditures for such asset and borrowing costs are incurred and activities relating to the acquisition, construction or production of the asset that are necessary to prepare the asset for its intended use or sale have commenced. Capitalization of borrowing costs ceases when the qualifying asset being acquired, constructed or produced becomes ready for its intended use or sale. Capitalization of borrowing costs is suspended during periods in which the acquisition, construction or production of a qualifying asset is suspended abnormally and when the suspension is for a continuous period of more than 3 months. Capitalization is suspended until the acquisition, construction or production of the asset is resumed. Other borrowing costs are recognized as an expense in the period in which they are incurred.

Where funds are borrowed under a specific-purpose borrowing, the amount of interest to be capitalized is the actual interest expense incurred on that borrowing for the period less any bank interest earned from depositing the borrowed funds before being used on the asset or any investment income on the temporary investment of those funds. Where funds are borrowed under general-purpose borrowings, the Group determines the amount of interest to be capitalized on such borrowings by applying a capitalization rate to the weighted average of the excess of cumulative expenditures on the asset over the amounts of specific-purpose borrowings. The capitalization rate is the weighted average of the interest rates applicable to the general-purpose borrowings.

#### 19. Intangible assets

##### 19.1 Intangible assets

Intangible asset includes land use rights, software, and etc.

An intangible asset is measured initially at cost. When an intangible asset with a finite useful life is available for use, its original cost less net residual value and any accumulated impairment losses is amortized over its estimated useful life using the straight-line method. An intangible asset with an indefinite useful life is not amortized. The amortization method, useful life and net estimated residual value are set out as follows:

Category	Amortization method	Useful life (year)	Residual value rate (%)
Land use rights	Straight line method	40 - 70	0
Software	Straight line method	5	0
Others	Straight line method	3 - 50	0

For an intangible asset with a finite useful life, the Group reviews the useful life and amortization method at the end of the period, and makes adjustments when necessary.

##### 19.2 Research and development expenditure

Expenditure during the research phase is recognized as an expense in the period in which it is incurred.

Expenditure during the development phase that meets all of the following conditions at the same time is recognized as intangible asset. Expenditure during development phase that does not meet the following conditions is recognized in profit or loss for the period.

- (1) it is technically feasible to complete the intangible asset so that it will be available for use or sale;
- (2) the Group has the intention to complete the intangible asset and use or sell it;
- (3) the Group can demonstrate the ways in which the intangible asset will generate economic benefits, including the evidence of the existence of a market for the output of the intangible asset or the intangible asset itself or; if it is to be used internally, the usefulness of the intangible asset;
- (4) the availability of adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset; and
- (5) the expenditure attributable to the intangible asset during its development phase can be reliably measured.

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

### (III) THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

If the expenditures cannot be distinguished between the research phase and development phase, the Group recognizes all of them in profit or loss for the period.

#### 20. Impairment of long-term assets

The Group assesses at each balance sheet date whether there is any indication that the long-term equity investment, investment properties, fixed assets and CIP which measured by cost method, and intangible assets with a finite useful life may be impaired. If there is any indication that such assets may be impaired, recoverable amounts are estimated for such assets. Intangible assets with indefinite useful life and intangible assets not yet available for use are tested for impairment annually, irrespective of whether there is any indication that the assets may be impaired.

Recoverable amount is estimated on individual basis. If it is not practical to estimate the recoverable amount of an individual asset, the recoverable amount of the asset group to which the asset belongs will be estimated. The recoverable amount of an asset is the higher of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the asset.

If the recoverable amount of an asset or an asset group is less than its carrying amount, the deficit is accounted for as an impairment loss and is recognised in profit or loss for the period.

Once the impairment loss of such assets is recognized, it is not be reversed in any subsequent period.

#### 21. Long-term prepaid expenses

Long-term prepaid expenses represent expenses incurred that should be borne and amortized over the current and subsequent periods of more than one year. Long-term prepaid expenses are amortized using the straight-line method over the expected periods in which benefits are derived.

#### 22. Assets transferred under repurchase agreements

##### 22.1 Financial assets purchased under resale agreements

Financial assets that have been purchased under agreements with a commitment to resell at a specific future date are not recognized in the balance sheet. The cost of purchasing such assets is presented under "financial assets purchased under resale agreements" in the balance sheet. The difference between the purchasing price and reselling price is recognized as interest income during the term of the agreement using the effective interest method.

##### 22.2 Financial assets sold under repurchase agreements

Financial assets sold subject to agreements with a commitment to repurchase at a specific future date are not derecognized in the balance sheet. The proceeds from selling such assets are presented under "financial assets sold under repurchase agreements" in the balance sheet. The difference between the selling price and repurchasing price is recognized as interest expense during the term of the agreement using the effective interest method.

#### 23. Employee benefit

##### 23.1 Accounting treatment for short-term employee benefits

Actually occurred short-term employee benefits are recognized as liabilities, with a corresponding charge to the profit or loss for the period or in the costs of relevant assets in the accounting period in which employees provide services to the Group. Staff welfare expenses incurred by the Group are recognized in profit or loss for the period or the costs of relevant assets based on the actually occurred amounts when it actually occurred. Non-monetary staff welfare expenses are measured at fair value.

Payment made by the Group of social security contributions for employees such as premiums or contributions on medical insurance, work injury insurance and maternity insurance, etc. and payments of housing funds, as well as trade union fund and employee education fund provided in accordance with relevant requirements, are calculated according to prescribed bases and percentages in determining the amount of employee benefits and recognized as relevant liabilities, with a corresponding charge to the profit or loss for the period or the costs of relevant assets in the accounting period in which employees provide services.

##### 23.2 Accounting treatment for post-employment benefits

The post-employment benefits of the Group are defined contribution plan.

The contribution payable to a defined contribution plan is recognized as a liability with a corresponding charge to the profit or loss for the current period or the cost of a relevant asset.

##### 23.3 Accounting treatment for termination benefits

When the Group terminates the employment relationship with employees before the expiry of the employment contracts or provides compensation as an offer to encourage employees to accept voluntary redundancy, if the Group has a formal plan for termination of employment relationship or has made an offer for voluntary redundancy which will be implemented immediately, and the Group cannot unilaterally withdraw from the termination plan or the redundancy offer; a provision for the compensation payable arising from the termination of employment relationship with employees is recognized with a corresponding charge to the profit or loss for the period.

An internal retirement plan is accounted for using the same principles as described above. Salaries and social insurance contributions to be paid to the internally retired employees by the Group during the period from the date when the employee ceases to provide services to the normal retirement date are recognized in profit or loss for the period when the recognition criteria for provisions are met with termination benefits.

##### 23.4 Accounting treatment other long-term employee benefit

When other long-term employee benefits satisfied the conditions for classifying as a defined contribution plan, whose benefits shall be accounted for in accordance with the requirements related to defined contribution plan

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

### (III) THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

#### 24. Provisions

Provisions are recognized when the Group has a present obligation related to a contingency. It is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account factors pertaining to a contingency such as the risks, uncertainties and time value of money. Where the effect of the time value of money is material, the amount of the provision is determined by discounting the related future cash outflows.

#### 25. Share-based payments and equity instruments

A share-based payment is a transaction which the Group grants equity instruments, or incurs liabilities for amounts that are determined based on the price of equity instruments, in return for services rendered by employees. The Group's share-based payments are equity-settled share-based payments.

##### 25.1 Equity-settled share-based payments

Equity-settled share-based payments in exchange for services rendered by employees are measured at the fair value of the equity instruments granted to employees at the grant date. Such amount is recognized as related costs or expenses on a straight-line basis over the vesting period, based on the best estimate of the number of equity instruments expected to vest at the grant date, if the equity instruments vest immediately, with a corresponding increase in capital reserve. At each balance sheet date during the vesting period, the Group makes the best estimate according to the subsequent latest information of change in the number of employees who are granted with options that may vest, etc and revises the number of equity instruments expected to vest. The effect of the above estimate is recognized as related costs or expenses, with a corresponding adjustment to capital reserve.

##### 25.2 Accounting treatment related to implementation, modification and termination of share-based payment arrangement

In case the Group modifies a share-based payment arrangement, if the modification increases the fair value of the equity instruments granted, the Group will include the incremental fair value of the equity instruments granted in the measurement of the amount recognised for services received. If the modification increases the number of the equity instruments granted, the Group will include the fair value of additional equity instruments granted in the measurement of the amount recognised for services received. The increase in the fair value of the equity instruments granted is the difference between fair value of the equity instruments before and after the modification on the date of the modification. If the Group modifies the terms or conditions of the share-based payment arrangement in a manner that reduces the total fair value of the share-based payment arrangement, or is not otherwise beneficial to the employee, the Group will continue to account for the services received as if that modification had not occurred (other than a cancellation of some or all the equity instruments granted).

If cancellation of the equity instruments granted occurs during the vesting period, the Group will account for the cancellation of the equity instruments granted as an acceleration of vesting, and recognise immediately the amount that otherwise would have been recognised over the remainder of the vesting period in profit or loss for the period, with a corresponding recognition in capital reserve. When the employee or counterparty can choose whether to meet the non-vesting condition but the condition is not met during the vesting period, the Group treats it as a cancellation of the equity instruments granted.

##### 25.3 Others

The consideration received from employees will be returned due to the cancellation of the equity instruments when the terms or conditions of the share-based payment arrangement are not met. The group increases its paid-in capital and capital reserve when receives such consideration and recognizes liability and treasury shares for the repurchase obligation.

#### 26. Revenue

##### 26.1 Revenue from sales of goods

Revenue from sale of goods is recognized when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods; the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; the amount of revenue can be measured reliably; it is probable that the associated economic benefits will flow to the Group; and the associated costs incurred or to be incurred can be measured reliably.

##### 26.2 Revenue arising from the rendering of services

Revenue from rendering of services is recognized when (1) the amount of revenue can be measured reliably; (2) it is probable that the associated economic benefits will flow to the enterprise; (3) the stage of completion of the transaction can be determined reliably; and (4) the associated costs incurred or to be incurred can be measured reliably. Revenue from rendering of services is recognized using the percentage of completion method at the balance sheet date. The stage of completion of a transaction for rendering for services is determined based on the proportion that costs incurred to date bear to the estimated total costs of the transaction. When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognized only to the extent of the costs incurred that will be recoverable, and the costs incurred are recognized as expenses for the period. When it is not probable that the costs incurred will be recovered, revenue is not recognized.

##### 26.3 Royalty Revenue

The amount of royalty revenue is measured and confirmed in accordance with the period and method of charging as stipulated in the relevant contract or agreement.

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

### (III) THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

#### 26.4 Interest Revenue

The amount of interest revenue is measured and confirmed in accordance with the length of time for which the Group's monetary funds is used by others and the effective interest rates.

#### 27. Government grants

Government grants are transfer of monetary assets and non-monetary assets from the government to the Group at no consideration. A government grant is recognized only when the Group can comply with the conditions attaching to the grant and the Group will receive the grant.

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable.

#### 27.1 Basis for determining government grants related to an asset and accounting treatment

The Group's government grant generally consists of grant for technology transformation in prior years, which related to purchase or construction fixed assets, it is classified as government grant related to assets.

A government grant related to an asset is recognized as deferred income, and evenly amortized to profit or loss over the useful life of the related asset.

#### 27.2 Basis for determining government grants related to an income and accounting treatment

The Group's government grant generally consists of special fund for international economic cooperation which is directly related to accrued expenses, this government grant is classified as government grant related to income.

For a government grant related to income, if the grant is a compensation for related expenses or losses to be incurred in subsequent periods, the grant is recognized as deferred income, and recognized in profit or loss over the periods in which the related costs are recognized. If the grant is a compensation for related expenses or losses already incurred, the grant is recognized immediately in profit or loss for the period.

For repayment of a government grant already recognized, if there is related deferred income, the repayment is offset against the carrying amount of the deferred income, and any excess is recognized in profit or loss for the period. If there is no related deferred income, the repayment is recognized immediately in profit or loss for the period.

#### Relocation compensation received for relocation in public interests

If the Group relocates for the benefits of the public interests such as overall planning of urban and rural areas and receives relocation compensation appropriated by the government directly from its fiscal budget, it recognizes such income as special payable. The income attributable to compensation for losses of fixed assets and intangible assets, related expenses, losses from suspension of production incurred during the relocation and reconstruction period, and purchases of assets after the relocation is transferred from special payable to deferred income and is accounted for as either a government grant related to an asset or a government grant related to income based on its nature. Any surplus of relocation compensation after deducting the amount transferred to deferred income is recognized as capital reserve.

#### 28. Deferred tax assets / deferred tax liabilities

The income tax expenses include current income tax and deferred income tax.

#### 28.1 Current income tax

At the balance sheet date, current income tax liabilities (or assets) for the current and prior periods are measured at the amount expected to be paid (or recovered) according to the requirements of tax laws.

#### 28.2 Deferred tax assets and deferred tax liabilities

For temporary differences between the carrying amounts of certain assets or liabilities and their tax base, or between the nil carrying amount of those items that are not recognized as assets or liabilities and their tax base that can be determined according to tax laws, deferred tax assets and liabilities are recognized using the balance sheet liability method.

Deferred tax is generally recognized for all temporary differences. Deferred tax assets for deductible temporary differences are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences can be utilized. However, for temporary differences associated with the initial recognition of goodwill and the initial recognition of an asset or liability arising from a transaction (not a business combination) that affects neither the accounting profit nor taxable profits (or deductible losses) at the time of transaction, no deferred tax asset or liability is recognized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future. At the balance sheet date, deferred tax assets and liabilities are measured at the tax rates, according to tax laws, that are expected to apply in the period in which the asset is realized or the liability is settled.

Current and deferred tax expenses or income are recognized in profit or loss for the period, except when they arise from transactions or events that are directly recognized in other comprehensive income or in shareholders' equity, in which case they are recognized in other comprehensive income or in shareholders' equity; and when they arise from business combinations, in which case they adjust the carrying amount of goodwill.

At the balance sheet date, the carrying amount of deferred tax assets is reviewed and reduced if it is no longer probable that sufficient taxable profits will be available in the future to allow the benefit of deferred tax assets to be utilized. Such reduction in amount is reversed when it becomes probable that sufficient taxable profits will be available.



## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

### (III) THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

#### 28.3 Offset of Income Tax

When the Group has a legal right to settle on a net basis and intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously, current tax assets and current tax liabilities are offset and presented on a net basis.

When the Group has a legal right to settle current tax assets and liabilities on a net basis, and deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax assets and liabilities on a net basis or to realize the assets and liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be reversed, deferred tax assets and deferred tax liabilities are offset and presented on a net basis.

#### 29. Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

##### 29.1.1 The Group as lessee under operating leases

Operating lease payments are recognized on a straight-line basis over the term of the relevant lease, and are either included in the cost of related asset or charged to profit or loss for the period. Initial direct costs incurred are charged to profit or loss for the period. Contingent rents are charged to profit or loss in the period in which they are actually incurred.

##### 29.1.2 The Group as lessor under operating leases

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs with more than an insignificant amount are capitalized when incurred, and are recognized in profit or loss on the same basis as rental income over the lease term. Other initial direct costs with an insignificant amount are charged to profit or loss in the period in which they are incurred. Contingent rents are charged to profit or loss in the period in which they actually arise.

#### 29.2 Accounting treatment of financing leases

##### 29.2.1 The Group as lessor under finance leases

At the commencement of the lease term, the aggregate of the minimum lease receivable at the inception of the lease and the initial direct costs is recognized as a finance lease receivable, and the unguaranteed residual value is recorded at the same time. The difference between the aggregate of the minimum lease receivable, the initial direct costs and the unguaranteed residual value, and the aggregate of their present values is recognized as unearned finance income. Unearned finance income is recognized as finance income for the period using the effective interest method over the lease term. Contingent rents are credited to profit or loss in the period in which they are actually incurred.

The net amount of financial lease receivables less unearned finance income is separated into long-term debts receivable and the portion of long-term debts receivable due within one year for presentation.

#### 30. Basis of determining significant accounting policies and key assumptions and uncertainties in accounting estimates

In the application of the Group's accounting policies, which are described in Note (III) , the Group is required to make judgments, estimates and assumptions about the carrying amounts of items in the financial statements that cannot be measured accurately, due to the internal uncertainty of the operating activities. These judgments, estimates and assumptions are based on historical experiences of the Group's management as well as other factors that are considered to be relevant. Actual results may differ from these estimates.

The aforementioned judgments, estimates and assumptions are reviewed regularly on a going concern basis. The effect of a change in accounting estimate is recognized in the period of the change, if the change affects that period only; or recognized in the period of the change and future periods, if the change affects both.

Key assumptions and uncertainties in accounting estimates

The followings are the key assumptions and uncertainties in accounting estimates at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in future periods.

##### 30.1 Inventory Provision

Note III. (13) describes that inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price for inventories, less all the estimated costs of completion and costs necessary to make the sales.

Operational procedures have been in place to monitor this risk as a significant proportion of the Group's working capital is devoted to inventories. Physical counts on all inventories are carried out by the management on a periodical basis in order to determine whether it is necessary to make provision in respect of any obsolete and defective inventories identified. This involves comparison of carrying amount of the aged inventory items with the respective net realizable value. The purpose is to ascertain whether provision is required to be made in the financial statements for any obsolete and slow-moving items. In this regard, the management is satisfied that adequate inventory provision has been made for obsolete and slow-moving inventories.

##### 30.2 Bad debt provision

The Company makes bad debt provision for receivables when there is clear evidence that the recovery of receivables is uncertain. As the Company's management needs to judge historical record of debt recovery, debt aging, financial status of debtors and overall economic environment when evaluating the provision, the measurement of bad debt provision is uncertain. Although there is no reason to believe significant change will take place on the assumption on which the measurement of receivables is based, the carrying amount and provision of receivables will change when actual results are



## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

### (III) THE COMPANY'S SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES - continued

different from previous assumptions.

#### 30.3 Deferred tax assets

The recognition of deferred tax assets is primarily subject to actual profit and actual tax rate employed by deductible temporary differences in the future. The recognized deferred tax assets will be reversed and recognized in profit or loss, when the actual profit is less than the expectation, or the actual tax rate is lower than the expectation. Furthermore, due to the uncertainty of whether there is enough taxable profit in the future for some subsidiaries, carrying forward losses of future years and deductible temporary differences are not fully recognized as deferred tax assets in these subsidiaries.

#### 30.4 Fixed assets provision

The Group reviews whether there is any indication of impairment for the fixed assets at the balance sheet date. Impairment tests will be carried out when any indications of the book value may not be recoverable. If book value of assets or asset group is higher than the recoverable amount, there is impairment. An asset's fair value less costs to sell, is referenced to the price in a binding sale agreement in an arm's length transaction, adjusted for incremental costs that would be directly attributable to the disposal of the asset. When the current value of the expected future cash flow is forecasted, the management estimates the expected future cash flow of the asset or asset group, and selects the appropriate discount rate to determine the present value of future cash flow. Based on procedures mentioned above, the management of the Group considered that the provision has been sufficiently recognized.

#### 30.5 Impairment of available-for-sale financial assets

On the financial statement date, the Group investigates the impairment risk of its available-for-sale financial assets. Those assets are held by the Group for the purpose of strategic investment, and the Group will not decide to sell them due to temporary fluctuation on the stock price. The Group accrues the impairment of the asset when the asset meets the quantified impairment standard (Notes III, 11.3) set out by the Group. After considering all the complications, the management of the group believes that it is not necessary to accrual the impairment of the available-for-sale financial asset.

### (IV) CORRECTION FOR ACCOUNTS IN PRIOR PERIOD

Retrospective adjustment for accounts in prior years	If approved	Influenced accounts in financial statements for the comparative period of 2015 and 2014	Influenced amounts in accumulation
In 2016, National Audit Office of the People's Republic of China ("Audit Office") audited the economic responsibility of the Company's original controlling shareholder Baosteel Group Co., Ltd. ("Baosteel Group"), and the scope of such audit has covered the Company. As the period of certain events involved in this audit has extended to the corresponding period, the Company makes retrospective adjustment for financial figures of prior years pursuant to the Audit Office's opinion.	Approved	Consolidated impairment losses of assets; Consolidated income tax expenses; Consolidated other comprehensive income Consolidated retained earnings; The correction has influenced above accounts listed in the consolidated financial statements, but not influence consolidated statement of shareholders' equity.	Consolidated income statement: Impairment losses of assets: add RMB 591,008,728.37 for 2014 and RMB 91,288,774.84 for 2015;  Income tax expenses: less RMB 147,752,182.09 for 2014 and RMB 22,822,193.71 for 2015;  Other comprehensive income: add RMB 443,256,546.28 for 2014 and RMB 68,466,581.13 for 2015.  Consolidated balance sheet:  Other comprehensive income: add RMB 443,256,546.28 for 2014 and RMB 511,723,127.41 for 2015  Retained earnings: add RMB 443,256,546.28 for 2014 and RMB 511,723,127.41 for 2015  No influence on the consolidated statement of shareholders' equity

### (V) TAXES

#### Major categories of taxes and tax rates

Category of tax	Basis of tax computation	Tax rate
Value-added tax	Taxable revenue of goods sales	6%, 11%, 13% or 17%
Business tax(Note 1)	Taxable revenue	3% or 5%
City maintenance and construction tax	Actual turnover tax	1%~7%
Educational surtax and surcharge	Actual turnover tax	1%~5%
Enterprise income tax(Note 2)	Taxable income	Note 2
Overhead charges of river way	Actual turnover tax	Applicable rates set by the government
Property tax	Residual value of the taxable buildings or rental income	Applicable rates set by the government
Individual income tax	Taxable individual income	Applicable rates set by the government

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

### (VI) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

**Note1:** In March 2016, as approved by the fourth session of twelfth National People's Congress, the pilot schemes on levying VAT in place of business tax have been developed overall in nationwide since 1 May 2016, with all businesses tax payers of industries of construction, real estate, finance and living services etc included. Meanwhile, according to Notice on Full Launch of the Pilot Scheme on Levying Value-added Tax in Place of Business Tax (Cai Shui [2016] No. 36) which jointly issued by Ministry of Finance and State Administration of Taxation, since 1 May 2016, the Group has paid VAT instead of business tax for its interest income and lease income, etc., subjected to 6% VAT rate.

**Note2:** The Company is subjected to 25% income tax rate on its taxable income. Subsidiaries of the Group are subjected to respective applicable income tax rates on taxable income. The income taxes of overseas subsidiaries of the Group are based on the relevant local laws and regulations on taxation.

### (VI) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

#### 1. Cash and bank balances

Item	Closing balance			Opening balance		
	Foreign Currency	Exchange Rate	Amount in RMB	Foreign Currency	Exchange Rate	Amount in RMB
Cash:						
RMB			823,717.72			664,508.04
Bank:						
RMB			5,735,984,063.14			5,060,080,054.36
USD	395,825,032.90	6.9370	2,745,838,253.23	187,106,788.26	6.4936	1,214,996,640.23
JPY	5,211,030,036.79	0.0596	310,530,490.59	3,069,814,446.94	0.0539	165,462,998.69
EUR	72,096,106.05	7.3068	526,791,827.69	56,550,294.79	7.0952	401,235,651.60
HKD	7,283,110.71	0.8945	6,514,815.36	2,438,742.99	0.8377	2,042,935.00
Other currencies			84,866,471.31			59,976,539.75
Other currency funds:						
RMB			62,162,071.05			64,428,964.48
USD			-			-
Statutory reserve deposit with PBOC by Finance Co.			1,003,231,967.25			848,054,823.96
Total			10,476,743,677.34			7,816,943,116.11
Including: subtotal of deposit with overseas banks			2,832,516,636.25			1,639,426,680.42

Details of restricted bank balance are shown as follows:

Item	Closing balance	Opening balance
Deposit reserve in central bank by Finance Co.	1,003,231,967.25	848,054,823.96

At 31 December 2016, RMB 2,832,516,636.25 (at 31 December 2015: RMB 1,639,426,680.42) was deposited in overseas banks. At 31 December 2016, apart from statutory reserves from the central bank, other currency funds of the Group mainly consist of cash for investment of RMB 8,006,848.75 (at 31 December 2015: RMB 316,726.75), bank acceptance bill's guarantee deposit of RMB 36,903,801.66 (at 31 December 2015: RMB 54,125,398.02), letter of credit's deposit of RMB 16,285,916.45 (at 31 December 2015: RMB 9,531,943.88) and credit card deposit of RMB 325,873.52 (at 31 December 2015: RMB 324,915.82), and etc.

#### 2. Financial assets at FVTPL

Item	Closing balance	Opening balance
Held-for-trading financial assets		
Including: Investments in debt instruments	5,516,613.20	10,247,756.02
Investments in equity instruments	977,369,259.44	862,627,242.17
Derivative financial assets	139,977,912.03	-
Derivative financial assets	1,122,863,784.67	872,874,998.19

The management of the Company believes that there exists no significant obstacle in realizing the held-for-trading financial assets.

#### 3. Notes receivable

(1) Categories of notes receivable

Category	Closing balance	Opening balance
Bank acceptance	9,119,281,529.24	7,405,501,078.59
Commercial acceptance	1,098,005,283.25	787,097,624.19
Total	10,217,286,812.49	8,192,598,702.78

As at 31 December 2016, the Group has a carrying amount of RMB 1,216,034,193.05 of undue bank acceptance discounted. According to relevant acceptance discount contract, no short term borrowing is recognized (other than the discounted bank acceptance and commercial acceptance of RMB 17,983,343.93) due to lacking of recourse right as at 31 December 2016. (At 31 December 2015, the Group derecognised a carrying amount of RMB 1,630,486,437.98 of the discounted bank acceptance prior to its maturity, for no bank acceptance is recognized due to lacking of recourse right as at 31 December 2015 in accordance with relevant acceptance discount contract.)

(2) Notes receivables of RMB 506,496,683.43 have been pledged as security at the end of the reporting period, which have been used for issuing acceptance payable. (31 December 2015: Nil)

(3) At the opening and closing of the year, there are no notes receivables due to any shareholders holding at least 5% of the Company's shares with voting power.

(4) Notes receivable due from related parties refer to Note (XI). 6 (1).

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

(VI) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS- continued

## 4. Accounts receivable

(1) Disclosure of accounts receivable by categories:

Category	Closing balance					Opening Balance				
	Carrying amount		Bad debt provision		Carrying amount	Carrying amount		Bad debt provision		Carrying amount
	Amount	Proportion (%)	Bad debt provision	Proportion (%)		Amount	Proportion (%)	Bad debt provision	Proportion (%)	
Accounts receivable that are individually significant and for which bad debt provision has been assessed individually	2,369,206,742.91	21	55,660,132.84	2	2,313,546,610.07	1,611,241,932.67	17	40,613,092.34	3	1,570,628,840.33
Accounts receivables with provision accrued collectively on a portfolio basis	8,457,176,921.63	77	356,067,868.70	4	8,101,109,052.93	7,939,350,148.71	82	351,915,711.93	4	7,587,434,436.78
Accounts receivable that are not individually significant but for which bad debt provision has been assessed individually	177,914,384.74	2	177,914,384.74	100	-	130,707,350.43	1	130,707,350.43	100	-
<b>Total</b>	<b>11,004,298,049.28</b>	<b>100</b>	<b>589,642,386.28</b>	<b>5</b>	<b>10,414,655,663.00</b>	<b>9,681,299,431.81</b>	<b>100</b>	<b>523,236,154.70</b>	<b>5</b>	<b>9,158,063,277.11</b>

Accounts receivable that are individually significant or not individually significant but for which bad debts has been assessed individually as at 31 December 2016:

Content of accounts receivable	Closing Balance			
	Amount	Bad debt provision	Proportion of provision (%)	Reasons for provision
Accounts receivable that are individually significant	2,369,206,742.91	55,660,132.84	2	Note 1
Accounts receivable with long aging	177,914,384.74	177,914,384.74	100	Note 2
<b>Total</b>	<b>2,547,121,127.65</b>	<b>233,574,517.58</b>	<b>/</b>	<b>/</b>

Accounts receivable that are individually significant or not individually significant but for which bad debts have been assessed individually as at 31 December 2015:

Content of accounts receivable	Opening Balance			
	Amount	Bad debt provision	Proportion of provision (%)	Reasons for provision
Accounts receivable that are individually significant	1,611,241,932.67	40,613,092.34	3	Note 1
Accounts receivable with long aging	130,707,350.43	130,707,350.43	100	Note 2
<b>Total</b>	<b>1,741,949,283.10</b>	<b>171,320,442.77</b>	<b>/</b>	<b>/</b>

Note 1: The Group assessed the bad debt provision of accounts receivable which are individually significant separately. As at 31 December 2016, nil of bad debt provision is accrued for accounts receivable that are individually significant (as at 31 December 2015: Nil). By reference to the Note III.12, receivables for which bad debt provision is collectively assessed on a portfolio basis, as at 31 December 2016, an amount of RMB 55,660,132.84 is accrued as bad debt provision (at 31 December 2015: RMB 40,613,092.34).

Note 2: Provision for bad debt aged over 3 years is fully made due to a slim chance of recollection. The aging analysis of accounts receivable is as follows:

Aging	Closing balance				Opening balance			
	Amount	Proportion (%)	Bad debt provision	Carrying amount	Amount	Proportion (%)	Bad debt provision	Carrying amount
Within 1 year	10,234,446,868.90	93	312,708,518.27	9,921,738,350.63	8,896,959,848.03	92	314,461,324.78	8,582,498,523.25
More than 1 year but not exceeding 2 years	314,445,383.91	3	47,748,848.54	266,696,535.37	378,613,268.11	4	35,400,252.29	343,213,015.82
More than 2 years but not exceeding 3 years	187,124,573.69	2	51,270,634.73	135,853,938.96	187,468,604.13	2	42,667,227.20	144,801,376.93
More than 3 years	268,281,222.78	2	177,914,384.74	90,366,838.04	218,257,711.54	2	130,707,350.43	87,550,361.11
<b>Total</b>	<b>11,004,298,049.28</b>	<b>100</b>	<b>589,642,386.28</b>	<b>10,414,655,663.00</b>	<b>9,681,299,431.81</b>	<b>100</b>	<b>523,236,154.70</b>	<b>9,158,063,277.11</b>

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

### (VI) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS- continued

The aging analysis of bad debt provision in portfolio basis:

Aging	Closing Balance			Proportion (%)
	Accounts Receivable	Bad Debt Provision		
Within 1 year	7,865,240,125.99	257,048,385.43		3
More than 1 year but not exceeding 2 years	314,445,383.91	47,748,848.54		15
More than 2 year but not exceeding 3 years	187,124,573.69	51,270,634.73		27
More than 3 years	90,366,838.04	-		-
Total	8,457,176,921.63	356,067,868.70		4

RMB

Aging	Opening Balance			Proportion (%)
	Accounts Receivable	Bad Debt Provision		
Within 1 year	7,285,717,915.36	273,848,232.44		4
More than 1 year but not exceeding 2 years	378,613,268.11	35,400,252.29		9
More than 2 year but not exceeding 3 years	187,468,604.13	42,667,227.20		23
More than 3 years	87,550,361.11	-		-
Total	7,939,350,148.71	351,915,711.93		4

RMB

#### (2) Bad debt allowance accrual, reversal and change due to foreign currency translations.

For the year, the Company recorded a bad debt allowance of RMB 142,605,178.14, reversed bad debt allowance of RMB 79,917,721.04 due to collections, and increased bad debt allowance of RMB 4,199,428.90 due to foreign currency translations.

#### (3) Accounts receivable write-off

Item	Write-off amount
Accounts receivable write-off	480,654.42

RMB

#### (4) Accounts receivable due from shareholders holding at least 5% of the Company's shares with voting power in the current period refer to Note (XI). 6 (2).

#### (5) Top five customers with the largest balances

For period ended December 31 2016, the largest five debtors hold the account receivable balance of RMB 2,369,206,742.91, which accounts for 22% of total account receivable balance. The bad debt provision is 55,660,132.84 RMB.

#### (6) As at 31 December 2016, the Group has no accounts receivable mortgaged for a short-term borrowing by means of bank guarantee. (31 December 2015, a total carrying amount of RMB 500,000,000.00 of accounts receivable is mortgaged for a short-term borrowing of RMB 500,000,000.00 by means of bank guarantee)

#### (7) At the end of the reporting period, no accounts receivables should be derecognized due to transfer of financial assets.

### 5. Prepayments

#### (1) Aging analysis of prepayments is as follows:

Aging	Closing balance		Opening balance	
	Amount	Proportion (%)	Amount	Proportion (%)
Within 1 year	7,672,601,429.08	98	4,020,560,343.15	97
More than 1 year but not exceeding 2 years	93,180,453.69	1	79,983,246.13	2
More than 2 years but not exceeding 3 years	13,555,881.03	0	17,690,997.15	0
More than 3 years	20,951,592.80	1	41,374,233.18	1
Total	7,800,289,356.60	100	4,159,608,819.61	100

RMB

As at 31 December 2016, prepayments with more than one year are mainly intended for purchase of large equipment used for projects under construction.

#### (2) Top five advanced payment to suppliers

As of December 31, 2016, top five balances of advanced payment to suppliers amounted to RMB 1,799,919,280.70, accounting for 23% of total advanced payment to suppliers.

#### (3) At the opening and closing of the year, there is no prepayment to any shareholder holding at least 5% of the Company's shares with voting power.

#### (4) Disclosure of prepayments by supplier categories is as follows:

Category	Closing balance	Opening balance
Individually significant prepayments	1,799,919,280.70	1,670,671,267.03
Other insignificant prepayments	6,000,370,075.90	2,488,937,552.58
Total	7,800,289,356.60	4,159,608,819.61

RMB

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

## (VI) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS- continued

(5) Prepayments due to related parties refer to Note (XI), 6 (3).

## 6. Interest receivable

(1) Interest receivable

Item	Closing balance	Opening balance
Interest receivable	140,063,117.27	294,162,019.29
Category of interest receivable		
Item	Closing balance	Opening balance
Time deposit	1,098,958.20	1,949,868.15
Loans	5,679,342.86	1,119,658.85
Interest receivable from financial assets transfer (Note (VI),15 (note 1))	131,890,573.75	290,967,534.24
Others	1,394,242.46	124,958.05
Total	140,063,117.27	294,162,019.29

At the balance sheet date, the aging of interest receivable is within one year.

(2) Interest receivable due to related parties refer to note (VI), 6(4).

## 7. Dividends receivable

Item(or Investee)	Closing balance	Opening balance
CISDI Engineering Co., Ltd. (note1)	23,852,647.00	23,852,647.00
Yongcheng Coal (Group) Co., Ltd.(note2)	-	127,017,186.28
Henan Pingbao Coal Co., Ltd.	-	12,000,000.00
Total	23,852,647.00	162,869,833.28

Note 1: As at 31 December 2016, the aging of dividends due from CISDI Engineering Co., Ltd. of RMB 23,852,647.00 in above dividends receivable are within two to three years. The management believes there is no recoverable risk in the above dividends receivable.

Note 2: As at 31 December 2016, as the management of the Group considers that it may be impossible to recover the dividends receivable from Yongcheng Coal (Group) Co., Ltd. amounted to RMB127,017,186.28. Such dividends have been transferred to other receivables and made bad debt provision in full amounts.

## 8. Other receivables

(1) Disclosure of other receivables by categories:

Category	Closing balance					Opening balance				
	Carrying amount		Bad debt provision		Book value	Carrying amount		Bad debt provision		Book value
	Amount	Pro-portion (%)	Amount	Pro-portion (%)		Amount	Pro-portion (%)	Amount	Pro-portion (%)	
Other receivables that are individually significant and for which bad debt provision has been assessed individually	459,434,069.20	24	127,017,186.28	28	332,416,882.92	306,246,025.49	27	-	-	306,246,025.49
Other receivables with provision accrued collectively on a portfolio basis	1,432,116,841.39	74	16,042,403.46	1	1,416,074,437.93	767,826,770.54	69	16,838,015.42	2	750,988,755.12
Other receivables that are not individually significant but for which bad debt provision has been assessed individually	41,950,343.83	2	41,950,343.83	100	-	39,744,095.49	4	39,744,095.49	100	-
Total	1,933,501,254.42	100	185,009,933.57	10	1,748,491,320.85	1,113,816,891.52	100	56,582,110.91	5	1,057,234,780.61

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

## (VI) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS- continued

Other receivables that are individually significant or not individually significant but for which bad debt provision has been assessed individually as at 31 December 2016:

Content of other receivables	closing balance			Reasons
	Amount	Bad debt provision	Proportion of provision (%)	
Other receivables with significant balances	459,434,069.20	127,017,186.28	28	Note 1
Other receivables with long aging	41,950,343.83	41,950,343.83	100	Note 2
Total	501,384,413.03	168,967,530.11	34	/

Content of other receivables	beginning balance			Reasons
	Amount	Bad debt provision	Proportion of provision (%)	
Other receivables with significant balances	306,246,025.49	-	-	Note 1
Other receivables with long aging	39,744,095.49	39,744,095.49	100	Note 2
Total	345,990,120.98	39,744,095.49	11	/

Note 1: Other receivables with significant balances mainly consist of deposits paid to customs, electricity bureau, advances of project expense and receivables with low risk of collection such as amount due from related parties within the Group and receivables transferred from dividends receivable that are not expected to recover, refer to Note VI, 7. The carrying amount of other receivables with significant balances for the Group is 459,434,069.20 (31 December 2015: RMB 306,246,025.49), and bad debt provision on such balances is RMB 127,017,186.28 (no bad debt provision was made as of 31 December 2015). The management of the Group believes that sufficient bad debt provision has been made for such other receivables.

Note 2: The possibility of collecting the above mentioned other receivables with long aging is very small. Therefore, the Company made full bad debt provision on the above other receivables.

Aging analysis of other receivables is as follows:

Aging	Closing balance				Opening balance			
	Amount	Proportion (%)	Bad debt provision	Carrying amount	Amount	Proportion (%)	Bad debt provision	Carrying amount
Within 1 year	1,415,564,117.93	73	7,506,038.95	1,408,058,078.98	875,319,421.55	79	8,134,692.17	867,184,729.38
More than 1 year but not exceeding 2 years	327,035,130.68	17	130,592,044.39	196,443,086.29	37,756,633.22	3	3,554,264.69	34,202,368.53
More than 2 years but not exceeding 3 years	12,828,870.19	1	4,961,506.40	7,867,363.79	131,301,356.72	12	5,149,058.56	126,152,298.16
More than 3 years	178,073,135.62	9	41,950,343.83	136,122,791.79	69,439,480.03	6	39,744,095.49	29,695,384.54
Total	1,933,501,254.42	100	185,009,933.57	1,748,491,320.85	1,113,816,891.52	100	56,582,110.91	1,057,234,780.61

The aging analysis of bad debt provision in portfolio basis:

Aging	Closing balance (note)		
	Other receivables	Bad debt provision	Proportion (%)
Within 1 year	1,349,043,937.27	7,506,038.95	1
More than 1 year but not exceeding 2 years	46,171,882.24	3,574,858.11	8
More than 2 year but not exceeding 3 years	12,828,870.19	4,961,506.40	39
More than 3 year	24,072,151.69	-	-
Total	1,432,116,841.39	16,042,403.46	1

Aging	Opening balance (note)		
	Other receivables	Bad debt provision	Proportion (%)
Within 1 year	701,356,412.16	8,134,692.17	1
More than 1 year but not exceeding 2 years	37,756,633.22	3,554,264.69	9
More than 2 year but not exceeding 3 years	19,250,716.62	5,149,058.56	27
More than 3 year	9,463,008.54	-	-
Total	767,826,770.54	16,838,015.42	2

## (2) Bad debt allowance accrual and reversal

For the year, the Company recorded a bad debt allowance of RMB 129,723,969.66, reversed bad debt allowance of RMB 1,312,802.80. The Company recorded an increase in bad debt provision for the current year of RMB 16,655.80.

## (3) Accounts receivable write-off

Item	Write-off amount
Accounts receivable write-off	-

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

## (VI) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS- continued

- (4) Other receivables due to shareholders holding at least 5% of the Company's shares with voting power in the current period refer to Note (XI). 6(5).
- (5) Top five others receivables  
As of December 31, 2016, top five balances of other receivables amounted to RMB 459,434,069.20, accounting for 24% of total other receivables. RMB 127,017,186.28 of bad debt provision is made for the above accounts receivable from related parties.
- (6) At the end of the reporting period, no other receivables are related to government subsidies.
- (7) At the end of the reporting period, no other receivables should be derecognized due to transfer of financial assets.
- (8) At the end of the reporting period, no assets or liabilities have been formed due to transferring of other receivable and the related continuous involvement.

## 9. Financial assets purchased under resale agreements

Item	Closing balance	Opening balance
Financial assets purchased under resale agreements	-	2,140,000,000.00

## 10. Inventories

## (1) Categories of inventories

Item	Closing balance			Opening balance		
	Gross carrying amount	Provision for decline in value of inventories	Net carrying amount	Gross carrying amount	Provision for decline in value of inventories	Net carrying amount
Raw materials	8,705,300,905.80	253,397,967.21	8,451,902,938.59	2,946,702,429.03	127,758,317.36	2,818,944,111.67
Work-in-progress	8,744,775,813.32	519,498,645.09	8,225,277,168.23	7,228,761,440.83	443,789,510.43	6,784,971,930.40
Finished goods	16,189,886,444.28	701,839,072.92	15,488,047,371.36	11,003,224,858.87	869,320,702.99	10,133,904,155.88
Spare parts and others	3,803,993,797.47	190,012,189.72	3,613,981,607.75	3,995,946,319.40	218,005,782.81	3,777,940,536.59
Total	37,443,956,960.87	1,664,747,874.94	35,779,209,085.93	25,174,635,048.13	1,658,874,313.59	23,515,760,734.54

## (2) Provision for decline in value of inventories

Category of inventories	Restated opening carrying amount after business combination involving entities under common control	Increase in the current period	Decrease in the current period		Exchange differences arising on translation of financial statements denominated in foreign currencies	Closing carrying amount
			Reversals	Write-off		
Raw materials	127,758,317.36	268,428,003.11	142,788,353.26	-	-	253,397,967.21
Work-in-progress	443,789,510.43	280,670,592.15	203,168,202.61	2,275,064.10	481,809.22	519,498,645.09
Finished goods	869,320,702.99	289,965,262.79	448,311,736.80	10,559,142.01	1,423,985.95	701,839,072.92
Spare parts and others	218,005,782.81	102,916,684.04	5,747,094.90	125,163,182.23	-	190,012,189.72
Total	1,658,874,313.59	941,980,542.09	800,015,387.57	137,997,388.34	1,905,795.17	1,664,747,874.94

## (3) Provision for decline in value of inventories

Item	Basis of making provision for decline in value of inventories	Reasons for reversal of decline in value of inventories for the period	Proportion of amount of reversal for the period to the closing balance of the relevant category of inventories
Raw materials	Carrying amount higher than net realizable value	Market price rebound or product cost reduction	2%
Work-in-progress	Carrying amount higher than net realizable value	Market price rebound or product cost reduction	2%
Finished goods	Carrying amount higher than net realizable value	Market price rebound or product cost reduction	3%
Spare parts and others	Carrying amount higher than net realizable value	-	-

## (4) Closing balance of inventories including capitalized borrowing costs:

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

### (VI) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS- continued

No inventory was used for guarantee as at 31 December 2016, and no interest expense was capitalized in the closing balance of inventory as at 31 December 2016.

#### 11. Non-current assets due within one year

Item	Closing balance	Opening balance
Trust financial products	325,441,243.86	-
Accounts receivable from disposal of assets (note1)	4,500,000,000.00	4,500,000,000.00
<b>Total</b>	<b>4,825,441,243.86</b>	<b>4,500,000,000.00</b>

Note 1: Accounts receivable from disposal of assets due within one year is RMB4.5 billion, including RMB2.6 billion from Shanghai Baosteel Stainless Co., Ltd. and 1.9 billion from Baosteel Special Steel Co., Ltd. refer to Note (VI), 15 note (1).

Accounts receivable due from related parties in non-current assets due within one year refer to Note (XI).6(6).

#### 12. Other current assets

Item	Closing balance	Opening balance
Deductible VAT input	4,896,618,549.40	2,920,573,739.25
Financial products (note)	14,354,134,075.19	5,088,464,093.70
Others	409,967,281.24	23,829,613.41
<b>Total</b>	<b>19,660,719,905.83</b>	<b>8,032,867,446.36</b>

Note: Financial products are non-guaranteed floating income, financial instruments with no active market quotation and major investing in money market, high credit grade bonds and trust plans (beneficiary rights) etc. The Group recognised the above financial products as other current assets due to the maturity of such products within one year.

#### 13. Loans and advances to customers

##### (1) Category of loans and advances to customers

Item	Closing balance	Opening balance
Loans	240,937,972.02	990,478,072.43
Discounts	3,142,141,965.03	1,412,450,723.68
Provision for loan impairment	(65,387,995.89)	(164,523,818.63)
<b>Total</b>	<b>3,317,691,941.16</b>	<b>2,238,404,977.48</b>

##### (2) Loan loss provisions

Item	Restated opening carrying amount after business combination involving entities under common control	Increase in the current period	Decrease in the current period		Exchange differences arising on translation of financial statements denominated in foreign currencies	Closing carrying amount
			Reversals	Write-off		
Loan loss provisions	164,523,818.63	34,999,177.26	134,135,000.00	-	-	65,387,995.89

Loans and advances to customers due to shareholders holding at least 5% of the Company's shares with voting power at the beginning and closing of the current period are nil.

Loans and advances to customers due to related party at the beginning and closing of the current period refer to Note (XI). 6(7).



## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

(VI) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS- continued

## 14. Available-for-sale financial assets

## (1) Available-for-sale financial assets

Item	Closing balance		
	Carrying value	Provision	Book value
Available-for-sale debt instruments	2,279,900,591.70	50,240,011.70	2,229,660,580.00
Available-for-sale equity instruments	11,584,774,178.20	694,345,754.93	10,890,428,423.27
Including: Fair Value measurement	1,981,281,696.27	682,297,503.21	1,298,984,193.06
Cost measurement	9,603,492,481.93	12,048,251.72	9,591,444,230.21
Total	13,864,674,769.90	744,585,766.63	13,120,089,003.27

## (2) Closing balance of available-for-sale financial assets using fair value measurement:

Categories
Amortized cost of debt instruments at the end of the year / Cost of equity instruments
Fair value at the end of the year
Accumulated amount recognized in other comprehensive income arising from the change of fair value
Impairment provision accrued

## (3) Closing balance of available-for-sale financial assets using cost measurement:

Investees	Opening balance	Increase	Decrease
CISDI	9,508,999.34	-	-
Shanghai Baosteel Xinyue Human Resources Service Co., Ltd.	-	1,500,000.00	-
Shanghai Baoxin Digital Technology Co., Ltd.(Note)	-	600,000.00	-
Jinchuan Automation Engineering Co. Ltd.	1,000,000.00	-	-
Shanghai Huayi Information Technology Co., Ltd	3,000,000.00	-	-
Henan Longyu energy Limited by Share Ltd	370,269,254.56	-	-
Yongcheng coal (Group) Co., Ltd.	279,000,000.00	-	-
Henan Zhenglong Coal Industry Co Ltd	45,569,714.27	-	-
China First Capital Management Inc	3,000,000.00	-	-
Yantai iron and steel processing Co. Ltd. Po	5,600,000.00	-	-
Huarun land (Beijing) Co., Ltd.	1,618,750.00	-	-
Anhui merchants Limited by Share Ltd	3,000,000.00	-	-
Hanyang Spare Parts Co. Ltd.	3,311,720.00	-	-
Bao Hua Rui mining Limited by Share Ltd	103,282,213.00	-	-
Shanghai Luojing Ore Terminal Co., Ltd.	88,734,096.00	-	-
The Yangtze River Economic Development (Group) Limited by Share Ltd	980,000.00	-	-
Steam (Beijing) Automotive Lightweight Technology Research Co Ltd	3,000,000.00	-	-
Corex	5,000,000.00	-	-
Globalore Pte Ltd	16,011,054.60	859,309.20	-
Baometal S.r.L	14,319,532.64	427,051.12	-
PetroChina Pipeline Ltd (Note)	8,643,900,787.20	-	-
Total	9,600,106,121.61	3,386,360.32	-

In September 2016, 85% of equity interest in Shanghai Baoxin Digital Technology Co., Ltd. ("Baoxin Digital") was disposed by the Group, and Baoxin Digital was not included in the consolidated scope thereafter. The remaining 15% of equity interest in Baoxin held by the Group is recognised as available-for-sale financial assets.

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

(VI) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS- continued

RMB

Opening balance(Adjusted)		
Carrying value	Provision	Book value
403,945,851.70	50,240,011.70	353,705,840.00
11,260,020,661.13	689,701,705.48	10,570,318,955.65
1,659,914,539.52	682,297,503.21	977,617,036.31
9,600,106,121.61	7,404,202.27	9,592,701,919.34
11,663,966,512.83	739,941,717.18	10,924,024,795.65

RMB

Available-for-sale debt instruments	Available-for-sale equity instruments	Total
2,272,024,467.97	1,647,727,656.13	3,919,752,124.10
2,229,660,580.00	1,298,984,193.06	3,528,644,773.06
7,876,123.73	333,554,040.14	341,430,163.87
50,240,011.70	682,297,503.21	732,537,514.91

RMB

Carrying balance	Opening balance			Provision	Proportion in the investee (%)	Cash bonus
Closing balance	Opening balance	increase	decrease	Closing balance		
9,508,999.34	-	-	-	-	6.28	-
1,500,000.00	-	-	-	-	15.00	-
600,000.00	-	600,000.00	-	600,000.00	15.00	-
1,000,000.00	-	-	-	-	7.13	-
3,000,000.00	-	-	-	-	15.00	-
370,269,254.56	-	-	-	-	12.96	103,680,755.16
279,000,000.00	-	-	-	-	7.78	-
45,569,714.27	-	-	-	-	4.91	-
3,000,000.00	666,024.47	1,044,049.45	-	1,710,073.92	5.00	-
5,600,000.00	-	-	-	-	10.00	-
1,618,750.00	-	-	-	-	0.09	-
3,000,000.00	-	3,000,000.00	-	3,000,000.00	3.53	-
3,311,720.00	3,311,720.00	-	-	3,311,720.00	20.00	-
103,282,213.00	-	-	-	-	50.00	18,996,768.00
88,734,096.00	-	-	-	-	12.00	-
980,000.00	-	-	-	-	0.15	28,000.00
3,000,000.00	-	-	-	-	6.90	-
5,000,000.00	-	-	-	-	6.25	-
16,870,363.80	3,426,457.80	-	-	3,426,457.80	14.29	-
14,746,583.76	-	-	-	-	10.00	-
8,643,900,787.20	-	-	-	-	3.52	-
9,603,492,481.93	7,404,202.27	4,644,049.45	-	12,048,251.72		122,705,523.16

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

## (VI) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS- continued

## (4) Provision movement of available-for-sale financial during reporting period

Categories	Available-for-sale debt instruments	Available-for-sale equity instruments	Total
Opening balance(Adjusted)	50,240,011.70	689,701,705.48	739,941,717.18
Accrued in current period	-	4,644,049.45	4,644,049.45
Including: transfer from other comprehensive income	-	-	-
Decrease in the current period	-	-	-
Including: transfer from fair value rebound	-	-	-
Closing balance	50,240,011.70	694,345,754.93	744,585,766.63

## 15. Long-term receivables

Item	Closing balance			Opening balance		
	Carrying balance	Impairment provision	Book value	Carrying balance	Impairment provision	Book value
Finance leases receivables	-	-	-	3,750,000.00	187,500.00	3,562,500.00
including: Unrealized finance income	-	-	-	(101,250.00)	-	(101,250.00)
Accounts receivable from disposal of assets (Note1)	4,500,000,000.00	-	4,500,000,000.00	9,000,000,000.00	-	9,000,000,000.00
Less: Accounts receivable from disposal of assets due within one year (Note1)	4,500,000,000.00	-	4,500,000,000.00	4,500,000,000.00	-	4,500,000,000.00
Accounts receivable from employee borrowings for down payment of first-time homebuyers (Note2)	218,565,000.00	-	218,565,000.00	72,180,000.00	-	72,180,000.00
Others	-	-	-	3,330,708.90	-	3,330,708.90
Total	218,565,000.00	-	218,565,000.00	4,579,260,708.90	187,500.00	4,579,073,208.90

RMB 187,500.00 of bad debt provision has been reserved in this current period.

Note 1: In accordance with the Connected Transaction Bulletin (Lin 2012-05) issued by the Company on February 29, 2012, and the Supplementary bulletin of Proposal on Sales of Related Assets of Stainless steel and Special Steel Business Division issued by the Company on March 14, 2012, the Company transferred the assets and equities of the Stainless and Special Steel Business Division at the valuation value based on 31 December 2011 on the asset valuation report issued by Zhongzi Asset Appraisal Co., Ltd..

The Company completed the abovementioned asset transfer on April 1, 2012. The accounts receivable from disposal of assets is RMB22.5 billion and will be paid equally in five years. From 2013 onwards, the Company will receive both the interest and principal on the accounts receivable from disposal of assets on April 1 every year and the last payment on April 1, 2017. As of December 31, 2015, the closing balance of accounts receivable from disposal of assets is RMB 4.5 billion, including RMB2.6 billion from Baosteel Stainless and RMB 1.9 billion from Baosteel Special Steel. All of the accounts receivable mentioned above from disposal of assets will be due within one year.

Note 2: Employee borrowings for down payment of first-time homebuyers is provided to some employees with different loan limits, and bearing borrowing rate at 50% of that for Housing Provident Fund. The tenure is within 10 years. Early repayment or equal repayment shall be made since the third year after the borrowing. Employees shall make full repayment within 8 years.

Long-term receivables due from shareholders holding at least 5%(including 5%) of the Company's shares with voting power in beginning and end of the current period are nil.

Long-term receivables due from related parties in beginning and end of the current period refer to Note (XI). 6(8).

In this reporting period, no long term account receivable is recognized due to transferring of financial asset.

In this reporting period, no asset and liability are formed due to long-term account receivable continuous involvement.

## 16. Long-term equity investments

## (1) Detail of long term equity investment are as following:

Name of investee	Opening balance	Movement of current year								Closing balance	Closing balance of impairment
		Increase	Decrease	Profit and loss recognized under equity method	Other comprehensive adjustment	Other equity movement	Cash dividend and profits when announced	Provision for impairment	Others		
<b>I. Joint ventures</b>											
BNA	1,709,806,023.00	-	-	128,121,753.93	-	(93,080.83)	(84,701,078.06)	-	-	1,753,133,618.04	-
Bao-Island Enterprise	571,868,624.40	-	-	7,623,763.00	39,048,686.10	-	-	-	-	618,541,073.50	-
Shandong Baohua	75,041,834.57	-	-	(10,505,618.54)	-	-	-	-	-	64,536,216.03	-
JFE Steel Sheet	1,528,680,972.01	-	-	112,893,384.03	-	-	-	-	-	1,641,574,356.04	35,000,000.00
Baowei Auto Part	150,409,079.04	-	-	37,135,866.85	-	-	-	-	-	187,544,945.89	-
Changsha Baosheng	5,741,212.21	-	-	(1,965,559.86)	-	-	-	-	-	3,775,652.35	-
Baosheng Fineblanking	75,758,737.99	-	-	(3,681,616.13)	-	-	-	-	-	72,077,121.86	-
Wuhan Baozhang Auto Steel Part Co.	30,028,626.34	-	-	(338,564.38)	-	-	(13,951.20)	-	-	29,676,110.76	-
Wuhan Baohan Welder Co., Ltd.	3,011,680.24	-	-	943.48	-	-	-	-	-	3,012,623.72	-
Subtotal	4,147,335,109.56	-	-	269,284,352.38	39,048,686.10	(93,080.83)	(84,715,029.26)	-	-	4,373,871,718.19	35,000,000.00

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

## (VI) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS- continued

Name of investee	Opening balance	Movement of current year							Closing balance	Closing balance of impairment	
		Increase	Decrease	Profit and loss recognized under equity method	Other comprehensive adjustment	Other equity movement	Cash dividend and profits when announced	Provision for impairment			Others
Associates											
Weld Company	125,983,674.52	-	-	22,770,911.23	-	-	(28,936,188.78)	-	-	119,818,396.97	-
Renwei Software	2,831,840.50	-	-	299,784.46	-	-	-	-	-	3,131,624.96	-
Henan Pingbao	411,604,835.83	-	-	53,724,555.05	-	1,440,000.00	-	-	-	466,769,390.88	-
Tianjin BCM	50,729,313.89	-	-	(12,570,592.58)	-	-	-	-	-	38,158,721.31	-
Wuxi Baomit	68,294,250.55	-	-	640,308.30	-	-	(1,083,832.91)	-	-	67,850,725.94	-
Sichuan Daxing	28,148,728.61	-	-	(3,499,010.82)	(66,691.35)	-	-	-	-	24,583,026.44	-
Vietnam Can Making	62,317,797.88	-	-	4,344,091.82	4,255,222.31	-	-	-	-	70,917,112.01	-
Beijing Qingke	8,695,219.83	-	-	1,501,251.90	-	-	-	-	-	10,196,471.73	-
Zhengzhou Hongzhong	22,706,467.33	-	-	2,718,369.49	-	-	-	-	-	25,424,836.82	-
Guangqi Baoshang	58,118,195.72	-	-	3,392,735.26	-	-	(1,247,085.73)	-	-	60,263,845.25	-
Wuxi Baomeifeng	27,182,613.20	-	-	(2,825,075.93)	-	-	-	-	-	24,357,537.27	-
Foreign Service Baosight	4,994,178.57	-	-	(4,994,178.57)	-	-	-	-	-	-	-
Guangzhou Nansha	6,600,000.00	-	-	(408,597.05)	-	-	-	-	-	6,191,402.95	-
Tianjin Zhongzhi	8,863,455.09	-	-	(2,323,800.70)	-	-	-	-	-	6,539,654.39	-
WuHan BaoHan Welding Equipment Co., Ltd.	3,011,680.24	-	-	943.48	-	-	-	-	-	3,012,623.72	-
Shanghai Zhiji Information Technology Co., Ltd.	-	7,000,000.00	-	147,877.36	-	-	-	-	-	7,147,877.36	-
Shanghai Runyi Incubator Management Corporation Limited	-	3,000,000.00	-	(592,372.84)	-	-	-	-	-	2,407,627.16	-
Shanghai Batchsight Pharmaceutical Technology Co., Ltd.	-	1,600,000.00	-	(362,360.00)	-	-	-	-	-	1,237,640.00	-
Guangdong Zhanjiang Port Longteng Shipping Co., Ltd.	-	27,000,000.00	-	482,258.14	-	-	-	-	-	27,482,258.14	-
Cangcang (Shanghai) Supply Chain Management Co., Ltd.	-	400,000.00	-	72,161.45	-	-	-	-	-	472,161.45	-
Subtotal	890,082,251.76	39,000,000.00	-	62,519,259.45	4,255,222.31	1,373,308.65	(31,267,107.42)	-	-	965,962,934.75	-
Equity transferred from old system trade right due to non-tradable share reform	7,949,489.18	-	-	-	-	-	-	-	-	7,949,489.18	-
Total	5,045,366,850.50	39,000,000.00	-	331,802,668.35	43,303,908.41	1,280,227.82	(115,982,136.68)	-	-	5,344,771,518.40	35,000,000.00

No significant differences noted of accounting policies between the Group and its associates and joint ventures. In addition, liquidity of long term investment and investment income do not have material limitation.

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

## (VI) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS- continued

## 17. Investment properties

Measurement model for investment properties

Investment properties measured on cost basis.

Item			RMB
	Building	Land use right	Total
<b>I. Total original carrying amount</b>			
1. Opening balance	209,756,400.58	318,321,681.83	528,078,082.41
2. Increase in the current year	32,069,710.02	-	32,069,710.02
(1) Transferred from fixed assets	32,069,710.02	-	32,069,710.02
3. Decrease in the current year	28,282,172.27	-	28,282,172.27
(1) Transferred to fixed assets	28,282,172.27	-	28,282,172.27
4. Closing balance	213,543,938.33	318,321,681.83	531,865,620.16
<b>II. Accumulated depreciation and accumulated amortization</b>			
1. Opening balance	94,344,350.13	60,396,566.96	154,740,917.09
2. Increase in the current year	20,118,741.16	8,226,162.64	28,344,903.80
(1) accrued or amortized amount	7,391,345.42	8,226,162.64	15,617,508.06
(2) Transferred from fixed assets	12,727,395.74	-	12,727,395.74
3. Decrease in the current year	15,532,964.54	-	15,532,964.54
(1) transferred to fixed assets	15,532,964.54	-	15,532,964.54
4. Closing balance	98,930,126.75	68,622,729.60	167,552,856.35
<b>III. Provision for impairment losses</b>			
1. Opening balance	-	-	-
2. Increase in the current year	-	-	-
3. Decrease in the current year	-	-	-
4. Closing balance	-	-	-
<b>IV. Carrying amount</b>			
1. Closing balance	114,613,811.58	249,698,952.23	364,312,763.81
2. Opening balance	115,412,050.45	257,925,114.87	373,337,165.32

As of 31 December 2016, buildings and land use right with net amount of RMB 60,884,421.78 has yet to obtain certificate of titles (2015: RMB 65,330,877.26).

## 18. Fixed assets

## (1) Fixed assets

Item					RMB
	Buildings	Machinery and equipment	Transportation vehicles	Office and other equipment	Total
<b>I. Original carrying amount</b>					
1. Opening balance	58,192,962,216.19	153,426,584,898.87	18,889,378,362.09	18,039,508,531.23	248,548,434,008.38
2. Increase in the current year	11,646,840,472.36	21,061,899,133.46	1,535,162,755.58	5,569,192,914.76	39,813,095,276.16
(1) Acquisition	3,571,339.86	224,117,350.80	27,059,397.49	193,190,334.86	447,938,423.01
(2) Transferred from CIP	11,577,883,843.35	20,795,795,479.07	1,471,760,944.22	5,356,163,203.83	39,201,603,470.47
(3) Transferred from investment properties	28,282,172.27	-	-	-	28,282,172.27
(4) Transferred from other non-current assets	-	-	33,248,402.07	16,076,814.91	49,325,216.98
(5) Translation differences of financial statements denominated in foreign currencies	37,103,116.88	41,986,303.59	3,094,011.80	3,762,561.16	85,945,993.43
3. Decrease in the current year	350,245,623.27	2,638,612,106.69	369,047,241.83	571,277,488.63	3,929,182,460.42
(1) disposal or retire	148,511,475.85	2,412,794,473.03	368,938,741.86	564,030,217.73	3,494,274,908.47
(2) Transferred to investment properties	32,069,710.02	-	-	-	32,069,710.02
(3) transferred to other non-current assets	169,664,437.40	225,817,633.66	108,499.97	7,247,270.90	402,837,841.93
4. Closing balance	69,489,557,065.28	171,849,871,925.64	20,055,493,875.84	23,037,423,957.36	284,432,346,824.12

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

## (VI) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS- continued

II. Accumulated depreciation :					
1. Opening balance	28,281,217,809.17	99,082,721,828.18	14,958,916,382.10	14,536,957,014.85	156,859,813,034.30
2. Increase in the current year	2,511,271,744.19	7,101,754,275.93	951,221,045.84	1,316,462,375.36	11,880,709,441.32
(1) Provision	2,490,783,287.56	7,097,792,407.36	940,451,087.55	1,303,591,965.97	11,832,618,748.44
(2) Transferred from investment properties	15,532,964.54	-	-	-	15,532,964.54
(3) Transferred from other non-current assets	-	-	9,527,806.62	10,570,255.70	20,098,062.32
(4) Translation differences of financial statements denominated in foreign currencies	4,955,492.09	3,961,868.57	1,242,151.67	2,300,153.69	12,459,666.02
3. Decrease in the current year	202,236,654.49	2,198,368,714.40	320,588,581.78	536,679,360.27	3,257,873,310.94
(1) disposal or retire	126,604,018.03	2,072,353,543.47	320,484,421.81	530,276,181.39	3,049,718,164.70
(2) Transferred to investment properties	12,727,395.74	-	-	-	12,727,395.74
(3) Transferred to other non-current assets	62,905,240.72	126,015,170.93	104,159.97	6,403,178.88	195,427,750.50
4. Closing balance	30,590,252,898.87	103,986,107,389.71	15,589,548,846.16	15,316,740,029.94	165,482,649,164.68
III. Provision for impairment losses					
1. Opening balance	86,912,759.34	520,719,316.70	3,311,755.79	10,116,826.70	621,060,658.53
2. Increase in the current year	160,780,970.01	235,498,278.09	23,958,688.96	7,174,194.95	427,412,132.01
(1) Provision	160,780,970.01	235,498,278.09	1,100,428.34	2,310,708.36	399,690,384.80
(2) Transferred from other non-current assets	-	-	22,858,260.62	4,863,486.59	27,721,747.21
3. Decrease in the current year	102,717,303.05	97,299,258.26	-	976,705.58	200,993,266.89
(1) disposal or retire	-	3,019,487.52	-	160,176.39	3,179,663.91
(2) transferred to other non-current assets	102,717,303.05	94,279,770.74	-	816,529.19	197,813,602.98
(3) Translation differences of financial statements denominated in foreign currencies	-	-	-	-	-
4. Closing balance	144,976,426.30	658,918,336.53	27,270,444.75	16,314,316.07	847,479,523.65
IV. Carrying amount					
1. Closing balance	38,754,327,740.11	67,204,846,199.40	4,438,674,584.93	7,704,369,611.35	118,102,218,135.79
2. Opening balance	29,824,831,647.68	53,823,143,753.99	3,927,150,224.20	3,492,434,689.68	91,067,560,315.55

## (2) Temporarily idle fixed assets

As at 31 December 2016 and 31 December 2015, the total carrying amount of temporarily idle fixed assets is Nil.

## (3) Fixed assets leased out under operating leases

Item	Closing balance	Opening balance
Buildings	980,789,823.91	416,723,646.04
Machinery and equipment	124,982,827.08	385,081,696.38
Transportation vehicles	16,084,244.42	127,315,264.45
Office and other equipment	6,170,063.06	32,516,114.08
Total	1,128,026,958.47	961,636,720.95

## (4) Fixed assets of which certificates of title have not been obtained

As at 31 December 2016, the property right of the buildings, amounting to RMB 21,584,311,054.36 (31 December 2015: RMB 2,868,428,719.17), is still in the process of being transferred to the Group.

## (5) Details of movement of fixed assets:

As at 31 December 2016, the net carrying balance of net value of fixed asset is RMB 591,507,715.71 (at 31 December 2015 RMB 72,864,992.38) and that of land use right is RMB 89,428,894.55 (31 December 2015 RMB 67,699,345.04). Amount which use collateral to obtain long-term borrowing is RMB 17,211,642.08, borrowing due within one year is RMB 52,104,216.33, short-term borrowing is RMB 366,482,211.39. Total borrowing amounting to RMB 435,798,069.80 (31 December 2015: 66,654,085.10).

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

## (VI) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS- continued

## 19. Construction in progress

## (1) Details of construction in progress:

Item	Closing balance		
	Carrying amount	Provision for impairment	Net carrying amount
Technical upgrade and infrastructure construction	10,347,418,988.98	1,037,512,765.77	9,309,906,223.21

As at 31 December 2016, the Group does not have construction in progress as collateral to obtain loan.

## (2) Changes in significant construction in progress:

Item	Budget	Opening balance	Increase in the current period	Transfer from fixed assets	Transfer from investment properties	Transfer to fixed assets	Transfer to intangible assets
Technical upgrade and infrastructure construction	37,408,493,583.17	34,438,681,114.96	15,540,727,661.64	-	-	(39,201,603,470.47)	(106,795,601.47)

## (3) Impairment of construction in progress :

Construction in progress	Opening balance
Nantong Steel	809,799,269.68
Chemical Co.,	492,371.60
Total	810,291,641.28

## 20. Materials for construction of fixed assets

Item
Special materials
Special equipment
Others
Total

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

(VI) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS- continued

RMB

Opening balance		
Carrying amount	Provision for impairment	Net carrying amount
34,438,681,114.96	810,291,641.28	33,628,389,473.68

RMB

Transfer to long-term prepayment	Transfer to other current assets	Closing balance	Amount invested as a proportion of budget amount (%)	Accumulated capitalized interest	Including: capitalized interest for the period	Capitalization rate for the period	Capital sources
(143,715,272.86)	(179,875,442.82)	10,347,418,988.98	28%	790,448,059.24	433,141,238.87	3.915%-4.275%	Self-funding & borrowing

RMB

Provision charged for current period	Closing balance
227,221,124.49	1,037,020,394.17
-	492,371.60
227,221,124.49	1,037,512,765.77

RMB

Opening balance	Closing balance
1,862,806.16	5,863,958.76
23,817,920.30	43,945,769.33
20,369,734.06	5,623,852.38
46,050,460.52	55,433,580.47



## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

## (VI) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS- continued

## 21. Intangible assets

## (1) Intangible assets

	RMB			
Item	Land use right	Software	Others	Total
<b>I. Total original carrying amount</b>				
1. Opening balance	10,052,379,524.84	568,733,420.73	271,415,357.72	10,892,528,303.29
2. Increase in the current year	2,594,629,483.29	156,075,039.78	29,369,097.72	2,780,073,620.79
(1) Purchase	29,793,169.78	57,994,211.21	20,531,159.18	108,318,540.17
(2) Transferred from construction in progress	-	97,957,662.93	8,837,938.54	106,795,601.47
(3) Transferred from other non-current assets(note)	2,561,017,958.00	-	-	2,561,017,958.00
(4) Translation differences of financial statements denominated in foreign currencies	3,818,355.51	123,165.64	-	3,941,521.15
3. Decrease in the current year	5,026,990.00	-	-	5,026,990.00
(1) disposal	5,026,990.00	-	-	5,026,990.00
4. closing balance	12,641,982,018.13	724,808,460.51	300,784,455.44	13,667,574,934.08
<b>II. Accumulated amortization</b>				
1. Opening balance	1,322,402,167.68	238,024,076.08	67,027,419.15	1,627,453,662.91
2. Increase in the current year	244,788,791.03	128,705,528.73	5,534,237.46	379,028,557.22
(1) Provision	244,773,864.60	128,644,984.19	5,534,237.46	378,953,086.25
(2) Translation differences of financial statements denominated in foreign currencies	14,926.43	60,544.54	-	75,470.97
3. Decrease in the current year	862,966.91	-	-	862,966.91
disposal	862,966.91	-	-	862,966.91
4. closing balance	1,566,327,991.80	366,729,604.81	72,561,656.61	2,005,619,253.22
<b>III. Provision for impairment losses</b>				
1. Opening balance	-	-	13,610,153.50	13,610,153.50
2. Increase in the current year	-	-	-	-
(1) Provision	-	-	-	-
3. Decrease in the current year	-	-	-	-
(1) Written off	-	-	-	-
4. Closing balance	-	-	13,610,153.50	13,610,153.50
<b>IV. Carrying amount</b>				
1. Closing balance	11,075,654,026.33	358,078,855.70	214,612,645.33	11,648,345,527.36
2. Opening balance	8,729,977,357.16	330,709,344.65	190,777,785.07	9,251,464,486.88

Note: According to the Prepaid Deposit Agreement for Land Use and the Supplementary Agreement of the Prepaid Deposit Agreement for Land Use signed and entered into by and between the Company's subsidiary Baosteel Zhanjiang Iron & Steel Co., Ltd. ("Zhanjiang Steel") and Zhanjiang People's Government, the prepaid deposit for land use will be transferred to intangible assets after the obtaining of land use right for the principal plant area.

Explanation of intangible assets:

As at 31 December 2016, land use rights without certificates is nil (at 31 December 2015: Nil).

As at 31 December 2016, the net carrying balance of fixed assets that the Group hold is RMB 591,507,715.71 (at 31 December 2015: RMB 72,864,992.38). The balance of land use right is RMB 89,428,894.55 (at 31 December 2015 RMB 67,699,345.04). Amount which use collateral to obtain long-term borrowing is RMB 17,211,642.08; long-term borrowings due within one year is RMB 52,104,216.33; short-term borrowing is RMB 366,482,211.39. Total borrowing is amounting to RMB 435,798,069.80 (at 31 December 2015: RMB 66,654,085.10).

## 22. Long-term prepaid expenses

	RMB				
Item	Opening balance	Addition in the current period	Amortization for the period	Recognized in the translation differences arising on translation of financial statements denominated in foreign currencies	Closing balance
Fees for decoration	150,769,291.99	164,341,445.19	32,091,476.68	-	283,019,260.50
Leasing expenses	8,676,914.56	565,508.09	1,480,095.64	2,169.42	7,764,496.43
Relocation expense of Mei steel coke oven (Note)	805,396,557.48	-	25,366,820.76	-	780,029,736.72
Huangshi Phase II Codling Rolling High voltage power expense	1,330,708.50	-	591,426.00	-	739,282.50
Others	91,003,915.84	1,990,238.24	33,263,958.09	8,711.69	59,738,907.68
<b>Total</b>	<b>1,057,177,388.37</b>	<b>1,66,897,191.52</b>	<b>92,793,777.17</b>	<b>10,881.11</b>	<b>1,131,291,683.83</b>

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

## (VI) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS- continued

Note: According to the "Agreement on Relocating Residents in Health Protection Area of Shanghai Meishan Iron and Steel Co., Ltd. in the 11th Five-Year Period" signed by Shanghai Meishan Iron and Steel Co., Ltd. ("Meishan Steel"), Banqiao sub-district office of Nanjing Yuhuatai District and Nanjing Yuhua Economic and Technological Development Zone Management Committee on 16 October 2012, residents within 1 kilometer from Meishan coke oven construction project are compensated by Meishan Steel at RMB 880,000,000, whereas Meishan Steel shall pay RMB 750,000,000.00 to Banqiao sub-district office of Nanjing Yuhuatai District, and RMB 130,000,000 to Nanjing Yuhua Economic and Technological Development Zone Management Committee, respectively. In accordance with the agreement, Meishan Steel has paid RMB 120,000,000 in 2012, RMB 510,000,000 in 2013, RMB 110,000,000.00 in 2014, RMB 70,000,000.00 in 2015, and RMB 1,000,000.00 in 2016, leaving RMB 60,000,000.00 unpaid to be recognized in non-current liabilities due within one year. The above compensation undertaken by Meishan Steel will be amortized in accordance with the remaining lives of the land for related construction project.

## 23. Deferred tax assets/deferred tax liabilities

## (1) Details of non-deductible deferred tax assets

RMB

Item	Closing balance		Opening balance	
	Deductible temporary differences	Deferred tax asset	Deductible temporary differences	Deferred tax asset
Provision for impairment losses of assets	2,736,439,692.09	712,292,280.42	4,049,428,220.68	1,013,353,762.28
Unrealized profit from inter-group transactions	269,353,478.15	67,338,369.59	48,827,028.32	12,206,757.08
Deductible losses	1,469,273,816.11	367,318,454.03	50,621,260.76	12,655,315.19
Difference in residuals of fixed assets	208,680.24	52,170.06	214,713.24	53,678.31
Termination benefits	358,776,288.68	89,694,072.17	490,283,167.08	122,570,791.77
Losses from changes in fair values	739,837,063.20	184,959,265.80	501,245,019.14	125,311,254.79
Others	1,289,746,121.65	313,680,024.25	937,187,688.55	234,804,423.19
Total	6,863,635,140.12	1,735,334,636.32	6,077,807,097.77	1,520,955,982.61

## (2) Details of non-deductible deferred tax liabilities

RMB

Item	Closing balance		Opening balance	
	Temporary taxable difference	Deferred tax liability	Temporary taxable difference	Deferred tax liability
Overdue tax payment from investment income	2,952,923,075.30	539,102,274.46	2,484,949,935.95	442,584,276.06
Profit or loss from unrealized internal transactions	1,442,564,624.67	360,641,156.17	-	-
Others	10,825,487.21	2,765,893.74	10,514,696.00	2,665,395.63
Total	4,860,890,160.26	1,016,153,567.64	2,533,272,437.95	454,701,623.19

## (3) Deferred tax assets or liabilities listed on a net basis

RMB

	Closing balance for offset	Closing balance after offset	Opening balance for offset	Opening balance after offset
Deferred tax assets	360,641,156.17	1,374,693,480.15	-	1,520,955,982.61
Deferred tax liabilities	360,641,156.17	655,512,411.47	-	454,701,623.19

## (4) Details of deductible temporary differences that have not recognized deferred tax asset

RMB

Item	Closing balance	Opening balance
Provision for impairment losses of assets	2,549,986,660.64	1,625,271,620.29
Deductible losses	9,235,230,011.97	9,883,597,331.62
Others	54,400,468.62	8,468,952.44
Total	11,839,617,141.23	11,517,337,904.35

## (5) Deductible losses, for which no deferred tax assets are recognized, will expire in the following years

RMB

Year	Closing balance	Opening balance
2016	-	784,374,042.91
2017	2,866,409,466.45	3,196,360,047.92
2018	890,105,323.77	1,952,719,366.97
2019	1,085,489,351.97	1,085,489,351.97
2020	2,864,654,521.85	2,864,654,521.85
2021	1,528,571,347.93	-
Subtotal	9,235,230,011.97	9,883,597,331.62

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

## (VI) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS- continued

## 24. Other non-current assets

Item	Closing balance	Opening balance
Prepayment for land use right of Zhanjiang Steel	-	2,759,830,784.03
Prepayment for construction equipment	264,533,426.61	914,569,629.24
Loans due from Bao-Island Enterprise	117,905,780.14	117,905,780.14
Payment for Trust financial products	1,221,324,397.65	720,039,507.00
Luoqing assets to be disposed (Note)	187,966,523.82	-
Others	38,432,039.98	1,629,299.59
Total	1,830,162,168.20	4,513,975,000.00

Note: As the plant of the Company in Luoqing Area stopped production in 2012, relevant assets have entered into the stage of disposal and reuse arguments. In 2013, the Company transferred into construction in progress for assets in Luoqing Area recognized as other non-current assets, which were intended to be used in fixed assets renovation projects subsequently. In this reporting period, the Company has argued the remaining assets in Luoqing Area and planned to dispose all of them in the future.

## 25. Short-term borrowings

## (1) Classification of short-term borrowings

Item	Closing balance	Opening balance
Secured loans with securities under the custody of lenders (note 1)	17,983,343.93	500,000,000.00
Mortgage loans (note 2)	366,482,211.39	39,348,927.24
Guaranteed loans	20,000,000.00	-
Unsecured and non-guaranteed loans	27,349,368,897.99	26,571,683,007.46
Total	27,753,834,453.31	27,111,031,934.70

At the balance sheet date, the interest rate of the Group's short-term borrowings dominated in RMB ranges from 2.95% to 4.785% per annum (2015: 3.30% to 5.89 % per annum); in USD from 1 month LIBOR+0.87% to 3 months LIBOR+2.45% per annum (2015: 3 months LIBOR+0.6% to 6 months LIBOR+2.8% per annum); in EURO from 0.25% to 1.50% per annum (2015: 0.95% to 3.49% per annum).

Note 1: Closing balances of 2016 refer to discounted but outstanding bank acceptance and commercial acceptance with right of recourse, seeing Note (VI). 3(1) for details. Closing balances of 2015 refer to borrowings obtained from factoring business through accounts receivable.

Note 2: Details are set out in Note (VI). 18(5) and Note (VI).21.

**Bank facilities**

As at 31 December 2016, the unutilized bank facilities of the Group approximate RMB121.889billion (at 31 December 2015: 85.908 billion). The management of the Company believes that the above mentioned facilities and the net cash flows from operating activities will be sufficient to repay the current liabilities due within one year.

## 26. Customer deposits and deposits from banks and other financial institutions

Item	Closing balance	Opening balance
Current deposits	1,378,410,006.53	1,296,771,357.09
Fixed deposits	7,937,556,142.50	8,713,208,778.73
Total	9,315,966,149.03	10,009,980,135.82

Customer deposits and deposits from banks and other financial institutions attributable to shareholders holding at least 5% of the Company's shares with voting power in the current period refer to Note (XI). 6(9).

## 27. Taking from banks and other financial institutions

Item	Closing balance	Opening Balance
Taking from domestic banks	-	198,000,000.00

## 28. Notes payable

Category	Closing balance	Opening balance
Commercial acceptances	6,105,948,920.91	3,339,883,539.09
Bank acceptances	1,662,024,399.98	1,094,008,830.86
Total	7,767,973,320.89	4,433,892,369.95

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

### (VI) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS- continued

The above notes payable will due in year 2017.

As at 1 December 2016 and 31 December 2015, notes payable attributable to any shareholders holding at least 5% of the Company's shares with voting power is Nil.

Notes payable due from any related parties refer to Note (VI). 6(10).

#### 29. Accounts payable

(1) Details of accounts payable are as follows:

Item	Closing balance	Opening balance
Accounts payable for equipment	4,768,859,566.36	5,282,089,642.19
Accounts payable for raw materials	21,441,779,283.24	16,103,815,633.32
Total	26,210,638,849.60	21,385,905,275.51

As at 31 December 2016, accounts payable aged over one year, i.e. RMB 986,668,752.41 in total (2015: RMB1,859,453,367.41), are construction fees for technical revamping and infrastructure projects with a long period of construction.

(2) Accounts payable due from any shareholder holding at least 5% of the Company's shares with voting power or from related parties in the current period refer to Note (XI). 6(11).

#### 30. Receipts in advance

(1) Details of receipts in advance are as follows:

Item	Closing balance	Opening balance
Receipts in advance	21,745,253,002.56	12,467,881,559.99

(2) As at 1 December 2016 and 31 December 2015, the receipts in advance with significant balances in the Group are all aged within one year.

(3) As at 1 December 2016 and 31 December 2015, receipts in advance due from any shareholders holding at least 5% of the Company's shares with voting power is nil.

(4) As at 1 December 2016 and 31 December 2015, receipts in advance from related parties refer to Note (XI). 6(12).

#### 31. Employee benefits payable

(1) Details of employee benefits payable

Item	Opening balance	Increase in the current year	Decrease in the current year	Closing balance
1.Short-term employee benefits	1,499,672,917.38	8,784,770,473.20	8,649,799,847.45	1,634,643,543.13
2.Post-retirement benefit – defined contribution plan	1,635,753.48	1,160,112,614.44	1,160,032,946.71	1,715,421.21
3.termination benefits	170,444,790.56	93,354,677.56	105,731,018.68	158,068,449.44
Total	1,671,753,461.42	10,038,237,765.20	9,915,563,812.84	1,794,427,413.78

(2) Details of short-term employee benefit

Item	Opening balance	Increase in the current year	Decrease in the current year	Closing balance
I. Wages or salaries, bonuses, allowances and subsidies	1,143,192,881.44	6,852,527,738.57	6,724,814,028.26	1,270,906,591.75
II. Staff welfare	-	372,399,505.04	372,399,505.04	-
III. Social security contributions	1,752,198.55	593,914,000.19	594,426,511.65	1,239,687.09
Including: Medical insurance	661,028.23	460,263,076.18	460,261,778.84	662,325.57
Work injury insurance	39,400.32	23,045,666.83	23,010,997.40	74,069.75
Maternity insurance	51,079.03	43,865,676.83	43,862,903.20	53,852.66
Disability employment insurance	15,270.14	52,721,748.86	52,634,805.46	102,213.54
Others	985,420.83	14,017,831.49	14,656,026.75	347,225.57
IV. Housing funds	1,713,263.24	573,440,412.72	575,006,682.96	146,993.00
V. Labor union and education fund	188,686,109.65	218,666,275.80	184,740,954.79	222,611,430.66
VI. Short-term paid absences	-	137,479,292.42	137,479,292.42	-
VII Others	164,328,464.50	36,343,248.46	60,932,872.33	139,738,840.63
Total	1,499,672,917.38	8,784,770,473.20	8,649,799,847.45	1,634,643,543.13

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

## (VI) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS- continued

## (3) Defined contribution plan

Item	Opening balance	Increase in the current year	Decrease in the current year	Closing balance
Basic pension insurance	1,139,790.50	927,724,683.28	927,497,049.40	1,367,424.38
Unemployment insurance	97,170.59	48,647,291.68	48,641,364.02	103,098.25
Annuity fund	398,792.39	183,740,639.48	183,894,533.29	244,898.58
<b>Total</b>	<b>1,635,753.48</b>	<b>1,160,112,614.44</b>	<b>1,160,032,946.71</b>	<b>1,715,421.21</b>

As at 31 December 2016, the employee benefits payable of the Group, amounting to RMB 947,040,898.48 (2015: RMB 947,040,898.48) is in line with pay-to-performance. There are no overdue employee benefits payable or non-monetary benefits as at 31 December 2016.

The Group has set up the pension fund insurance and employment insurance by the government regulation. According to the plan, the Group deposits employee's monthly basic salary into the insurance every month. Besides the mentioned expense above, the Group no longer bear any further payments. The relevant expenditure will be accounted into profit and loss or capitalized.

In the current year, the Group should deposit RMB 927,724,683.28 and RMB 48,647,291.68 into pension insurance and unemployment insurance, respectively (2015: RMB987,463,145.83 and RMB 69,907,786.80 respectively). As at December 31, 2016, the Group has outstanding payments of RMB 1,367,424.38 and RMB 103,098.25 (2015: RMB1,139,790.50 and RMB 97,170.59, respectively) for pension insurance and unemployment insurance. The relevant subsequent payments will be settled after reporting period.

## 32. Taxes payable

Item	Closing balance	Opening balance
Value-added tax	759,427,761.44	(557,122,801.25)
Business tax	1,921.73	14,967,514.50
Enterprise income tax	2,402,444,838.14	1,824,943,777.30
Individual income tax	128,450,070.49	94,921,564.31
City construction and maintenance tax	39,722,925.64	24,878,561.18
Property tax	88,611,357.14	28,089,124.91
Others	309,974,358.99	267,637,334.02
<b>Total</b>	<b>3,728,633,233.57</b>	<b>1,698,315,074.97</b>

## 33. Interest payable

Item	Closing balance	Opening balance
Interest payable on medium-term notes	135,467,397.26	13,272,131.15
Interest payable on borrowings	154,661,079.44	131,116,792.40
Interest payable on corporate bonds of Bao-trans	56,905,007.09	55,218,891.37
<b>Total</b>	<b>347,033,483.79</b>	<b>199,607,814.92</b>

Interest payable due to shareholders holding at least 5% of the Company's shares with voting power in the current period refer to Note (XI). 6(13).

## 34. Dividends payable

Name of entity	Closing balance	Opening balance
Xinjiang Ba Iron Jiayu Industry and Trade Corporation	27,706,314.65	-
Guizhou Aluminum Plant	603,743.23	603,743.23
Others	22,022.21	22,022.21
<b>Total</b>	<b>28,332,080.09</b>	<b>625,765.44</b>

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

### (VI) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS- continued

#### 35. Other payables

(1) Details of other payables are as follows:

Items	Closing balance	Opening balance
Guarantee and deposit fees	445,908,707.72	473,438,875.33
Advanced fund	107,608,075.44	232,618,756.66
Transportation and port fees	29,944,436.06	29,172,718.40
Construction fees payable	623,776,640.41	753,624,742.69
Safety production risk fund	59,939,504.70	55,017,424.30
Principal and interest payable of investors' wealth management products (note)	1,472,729,157.17	617,501,551.55
Commission fees	7,819,118.87	9,600,400.11
Others	53,826,087.80	112,069,657.12
<b>Total</b>	<b>2,801,551,728.17</b>	<b>2,283,044,126.16</b>

Note: This item consists of the principal and interest payable of entrusted products offered by Ouyee, the subsidiary of the Company invested by investors.

(2) As at 1 December 2016 and 31 December 2015, details of other payables attributable to shareholders holding at least 5% of the Company's shares with voting power or to related parties refer to Note (XI). 6(14).

(3) Description of significant other payables aged more than one year:

The other payables aged more than one year amount to RMB 88,281,748.04 (2015: RMB 80,876,110.33), which are mainly composed of deposits payable that the Company hasn't paid due to long-term service contracts.

#### 36. Non-current liabilities due within one year

(1) Details of non-current liabilities due within one year are as follows:

Item	Closing balance	Opening balance
Long-term borrowings due within one year	94,697,246.02	138,114,896.18
Long-term payables due within one year	60,000,000.00	70,000,000.00
<b>Total</b>	<b>154,697,246.02</b>	<b>208,114,896.18</b>

(2) Long-term borrowings due within one year

As at December 31 2016, the Group holds balance of long-term borrowing due within one year in RMB94,697,246.02 (December 31 2015: RMB 138,114,896.18). See note (VI). 18(5) for more details of collateral regarding long-term borrowings.

(3) Long-term payables due within one year

Item	Closing balance	Opening balance
Payables on compensation for relocation (note)	60,000,000.00	70,000,000.00
<b>Total</b>	<b>60,000,000.00</b>	<b>70,000,000.00</b>

Note: Details of the payables for on compensation for relocation refer to Note (VI). 22 Note.

#### 37. Other current liabilities

(1) Other current liabilities:

Item	Closing balance	Opening balance
Short-term financing bills	18,052,896,712.32	10,057,344,262.30
Others	897,742.97	-
<b>Total</b>	<b>18,053,794,455.29</b>	<b>10,057,344,262.30</b>

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

## (VI) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS- continued

## (2) Changes of short-term financing bills

Name	Par value	Issue date	Terms of financing bills	Issue amount
Bonds payable - short-term financing bills(Note1)	10,000,000,000.00	26/10/2015	1 years	10,000,000,000.00
Bonds payable - super-short-term financing bills (Note2)	5,000,000,000.00	21/01/2016	270 days	5,000,000,000.00
Bonds payable - super-short-term financing bills(Note2)	5,000,000,000.00	23/02/2016	270 days	5,000,000,000.00
Bonds payable - super-short-term financing bills(Note2)	3,000,000,000.00	14/11/2016	270 days	3,000,000,000.00
Bonds payable - super-short-term financing bills(Note2)	5,000,000,000.00	17/11/2016	180 days	5,000,000,000.00
Bonds payable - super-short-term financing bills(Note2)	5,000,000,000.00	24/11/2016	210 days	5,000,000,000.00
Bonds payable - super-short-term financing bills(Note2)	5,000,000,000.00	1/12/2016	240 days	5,000,000,000.00
Total	38,000,000,000.00			38,000,000,000.00

Note 1: According to the "Proposal on direct financing in domestic and overseas market" approved by the first extraordinary general meeting on 26 January 2015, the Company is eligible to issue short-term financing bills with principal no more than RMB 10 billion (including RMB 10 billion) in National Association of Financial Market Institutional Investors. The first issuance of RMB 10 billion was made on 26 October 2015 at par value of RMB 100 per bill. The tenure is 366 days and annual rate is 3.18%. Interests and the principle are paid in lump sum when it is due. According to the "Proposal on increment of issued super-short-term and short-term financing liabilities" approved by the second extraordinary general meeting on 18 November 2015, the Company is eligible to issue super-short-term financing bills with principal no more than RMB 30 billion (including RMB 30 billion) in National Association of Financial Market Institutional Investors.

## 38. Long-term borrowings

## (1) Categories of long-term borrowings

Item
Unsecured and non-guaranteed loans
Secured loans with securities under the custody of the Group (note)
Guaranteed loans
Total

Note: Details of secured loans with securities under the custody of the Group are set out in Note (V). 18(5) and Note (VI).21.

Among the borrowing mentioned above, the interest rate of borrowings dominated in USD ranges from 3 months LIBOR+1.75% to 3 months LIBOR+2.55% per annum; in JPY 1% per annum; in KRW 2.

## (2) Top five balances of long-term borrowings

As at 31 December 2016, the top five balances of long-term borrowings sum to RMB 295,774,017.08 (31 December 2015: RMB 2,367,500,000.00)

## 39. Bonds payable

## (1) Bond payable

Item
Bao-trans Corporate Bond
Medium-term notes
Total

## (2) Movement of bond payable

Name of bond	Par value	Issue date	Term of the bond	Issue amount	Opening balance	Issue in the current year
Bao-trans bonds (note 1)	USD 500,000,000.00	5-Dec-2013	5years	USD 500,000,000.00	3,218,167,625.69	-
Bao-trans bonds (note 2)	EUR 500,000,000.00	22-Feb-2015	3years	EUR 500,000,000.00	3,529,206,333.60	-
Total					6,747,373,959.29	-

Name of bills	Par value	Issue date	Term of the bills	Issue amount	Opening balance	Issue in the current year
Medium-term notes (15Baosteel MMT001)(Note3)	2,000,000,000.00	26-Oct-2015	3years	RMB 2,000,000,000.00	2,000,000,000.00	-
Medium-term notes (16Baosteel MMT001)(Note4)	5,000,000,000.00	22-Mar-2016	3years	RMB 5,000,000,000.00	-	5,000,000,000.00
Total					2,000,000,000.00	5,000,000,000.00

Note 1: In December 2013, Baotrans Co., Ltd ("Baotrans"), a subsidiary of the Company was approved by the year 2012 general shareholders' meeting on 26 April 2013 to issue bonds denominated in US dollar in Hong Kong with the amount of USD 0.5 billion and duration of 5 years in accordance with the resolution of the shareholders' meeting of Developing Direct Financing. Baotrans issued bonds with issuing price 99.199% of par value (USD 0.5 billion) and fixed interest rate 3.75% per annum on 5 December 2013. Interest will be paid semi-annually on June 12 and December 12 December, respectively. The bond will be due on 12 December, 2018.

Note 2: Baotrans Co., Ltd ("Baotrans"), a subsidiary of the Company was approved to issue bonds denominated in Euro with the amount no more than EUR 1 billion (including EUR 1 billion) in accordance with the resolution of the first interim meeting of shareholders' meeting of Developing Direct Financing on 26 January 2015. On 23 February 2015, Baotrans issued bonds with principal of EUR 500 million at discount of 99.713% of principal. The fixed interest rate is 1.625% per annum, interest will be paid on every 23 February annually and the bond will be due on 23 February, 2018.

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

## (VI) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS- continued

RMB					
Opening balance	Issue in this period	Accrued interest based on book value	The premium and discount amortization	Payment in the current year	Closing balance
10,057,344,262.30	-	261,369,863.01	-	10,318,714,125.31	-
-	5,000,000,000.00	107,260,273.97	-	5,107,260,273.97	-
-	5,000,000,000.00	102,441,095.89	-	5,102,441,095.89	-
-	3,000,000,000.00	12,321,369.86	-	-	3,012,321,369.86
-	5,000,000,000.00	15,791,780.82	-	-	5,015,791,780.82
-	5,000,000,000.00	13,482,191.78	-	-	5,013,482,191.78
-	5,000,000,000.00	11,301,369.86	-	-	5,011,301,369.86
10,057,344,262.30	28,000,000,000.00	523,967,945.19	-	20,528,415,495.17	18,052,896,712.32

Note 2: According to the "Proposal on increment of issued super-short-term and short-term financing liabilities " approved by the second extraordinary general meeting on 18 November 2015, the Company is eligible to issue super-short-term financing bills with principal no more than RMB 30 billion (including RMB30 billion) in National Association of Financial Market Institutional Investors. The first issuance of RMB 5 billion in 2016 was made on 21 January 2016 at par value of RMB 100 per bill, with tenure of 270 days and annual rate of 2.9%. The second issuance of RMB 5 billion in 2016 was made on 23 February 2016 at par value of RMB 100 per bill, with tenure of 270 days and annual rate of 2.78%. The third issuance of RMB 3 billion in 2016 was made on 14 November 2016 at par value of RMB 100 per bill, with tenure of 270 days and annual rate of 2.63%. The fourth issuance of RMB 5 billion in 2016 was made on 17 November 2016 at par value of RMB 100 per bill, with tenure of 180 days and annual rate of 2.62%. The fifth issuance of RMB 5 billion in 2016 was made on 24 November 2016 at par value of RMB 100 per bill, with tenure of 210 days and annual rate of 2.66%. The sixth issuance of RMB 5 billion in 2016 was made on 1 December 2016 at par value of RMB 100 per bill, with tenure of 240 days and annual rate of 2.75%.

RMB	
Closing balance	Opening balance
278,562,375.00	9,088,269,188.03
17,211,642.08	21,995,157.86
690,063.78	762,038.79
296,464,080.86	9,111,026,384.68

717% per annum; and in RMB from 4.275% to 5.39% per annum.

RMB	
Closing balance	Opening balance
7,076,920,848.12	6,747,373,959.29
7,000,000,000.00	2,000,000,000.00
14,076,920,848.12	8,747,373,959.29

RMB					
Opening interest payable	Accrued interest based on par value	Payment in the current year	Closing interest payable	Exchange gains or losses and others	Closing balance
6,087,750.00	124,840,937.51	127,201,875.00	6,503,437.50	232,487,148.75	3,447,878,149.45
49,131,141.37	59,718,196.63	57,614,941.15	50,401,569.59	99,003,537.81	3,629,042,698.67
55,218,891.37	184,559,134.14	184,816,816.15	56,905,007.09	331,490,686.56	7,076,920,848.12
Opening interest payable	Accrued interest based on par value	Payment in the current year	Closing interest payable	Exchange gains or losses and others	Closing balance
13,272,131.15	73,636,362.00	73,600,000.00	13,308,493.15	-	2,000,000,000.00
-	122,158,904.11	-	122,158,904.11	-	5,000,000,000.00
13,272,131.15	195,795,266.11	73,600,000.00	135,467,397.26	-	7,000,000,000.00

Note 3: According to the "Proposal on direct financing in domestic and overseas market" approved by first extraordinary shareholders meeting on 26 January 2015, the Company is eligible to issue medium-term notes with principal no more than RMB 20 billion (including RMB 20 billion). The principal of this issuance is RMB 20 billion in the current period at par value with tenure of 3 years and interest rate of 3.68% per annum. Interests are paid annually and the principle is paid in lump sum when it is due. The value date is 26 October 2015, and the principle will be paid on 26 October 2018.

Note 4: As at 22 March 2016, the Company made the first issuance of medium-term notes amounting RMB 5 billion at par value, with tenure of 3 years and annual interest rate of 3.14%. Interests are paid annually and the principle is paid in lump sum when it is due. The value date is 22 March 2016, and the principle will be paid on 22 March 2019.



## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

## (VI) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS- continued

## 40 Long-term payables

RMB

Item	Closing balance	Opening balance
Accounts payable for relocation expense of Mei steel coke oven	60,000,000.00	70,000,000.00
Less: Long-term payables due within one year	60,000,000.00	70,000,000.00
Repurchase Obligation for Employee Stock Option(Note)	49,879,268.00	82,585,917.00
Total	49,879,268.00	82,585,917.00

Note: As at December 31 2016, liability causing by repurchase obligation for employee stock option has recognized, amounting to RMB 49,879,268.00. Refer to Note (XII).I

## 41. Long-term employment benefits payable

RMB

Item	Closing balance	Opening balance
Termination benefits-net liability from defined benefit plan	-	-
Termination benefits	222,216,606.05	328,307,328.96
Other long-term employment benefits	-	-
Total	222,216,606.05	328,307,328.96

## 42. Special payables

RMB

Item	Opening balance	Increase in the current period	Decrease in the current period	Closing balance
Government appropriation	292,916,697.81	3,290,000.00	34,346,697.81	261,860,000.00

## 43. Deferred income

RMB

Item	Opening balance	Increase in the current period	Decrease in the current period	Closing balance
Government subsidies (note)	1,092,839,458.77	197,876,306.65	181,973,961.23	1,108,741,804.19

Note: Details of deferred income-Government grants:

RMB

Item	Opening balance	Increased subsidies	Recognized in non-operating income	Other increases	Closing balance	Assets related/Income related
Key industries and comprehensive technology transformation projects	735,125,069.31	192,095,791.44	95,913,094.77	36,690,433.95	794,617,332.03	Assets related
Interest allowance on special loan	129,612,595.96	-	9,733,692.14	-	119,878,903.82	Assets related
Compensation from relocation	95,377,267.33	-	6,288,560.02	-	89,088,707.31	Assets related
Allowance for infrastructure	96,470,782.40	-	8,026,318.07	-	88,444,464.33	Assets related
High-tech subsidies of Baosight	34,671,618.71	5,780,515.21	23,409,737.22	330,000.00	16,712,396.70	Income related
Other	1,582,125.06	-	769,031.00	813,094.06	-	Income related
Total	1,092,839,458.77	197,876,306.65	144,140,433.22	37,833,528.01	1,108,741,804.19	

## 44. Other non-current liabilities

RMB

Item	Closing balance	Opening balance
Other	315,720.00	7,134,514.14

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

### (VI) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS- continued

#### 45. Share capital

As at 31 December 2016 the registered and paid-in capital of the Company totals at RMB16,450,393,624.00 with par value of RMB1.00 each. The share class and structure are set out as follows:

	Opening balance	Changes for the period				Subtotal	Closing balance
		New issue of shares	Bonus issue	Capitalization of surplus reserve	Others		
<b>2016</b>							
I. Restricted share	43,238,700.00	-	-	-	(17,123,900.00)	(17,123,900.00)	26,114,800.00
II. Tradable shares							
1. Ordinary shares denominated in RMB	16,424,278,824.00	-	-	-	-	-	16,424,278,824.00
III. Total shares	16,467,517,524.00	-	-	-	(17,123,900.00)	(17,123,900.00)	16,450,393,624.00
<b>2015</b>							
I. Restricted share	46,747,200.00	-	-	-	(3,508,500.00)	(3,508,500.00)	43,238,700.00
II. Tradable shares							
1. Ordinary shares denominated in RMB	16,424,278,824.00	-	-	-	-	-	16,424,278,824.00
III. Total shares	16,471,026,024.00	-	-	-	(3,508,500.00)	(3,508,500.00)	16,467,517,524.00

According to "The Board's Resolution on the motion of repurchase shares of the Company by centralized bidding", "The creditors' notice about repurchase shares of Baoshan Iron & Steel Co., Ltd.", "The 2012 second Resolution of extraordinary shareholders meeting of Baoshan Iron & Steel Co., Ltd." and the Company's revised Articles of Association, the Company repurchased A-shares on Shanghai Stock Exchange by centralized bidding with price of no more than RMB 5 per share and amount of no more than RMB5 billion in total. The first repurchase began on 21 September 2012, and the Company has repurchased 414,055,508 shares as at 31 December 2012. According to the resolution of shareholders meetings and the Company's revised Articles of Association, the Company applied for reduction of share capital of RMB0.39 billion, and finished all procedures in China Securities Depository and Clearing Corporation Limited., Shanghai Branch on 20 December 2012. The Company updated all commercial registration, and the updated registered share capital is RMB 17,122,048,088.00 as at 31 December 2012. Deloitte Touche Tohmatsu CPA Ltd. has verified the change in share capital and issued the capital verification report (De Shi Bao (Yan) Zi (12) No.0078)...

Up to 2013, the Company has completed the implementation of the share repurchase scheme, whereby the Company repurchased 626,267,656 shares in 2013. According to the resolution of shareholders meeting and the Company's revised Articles of Association, the Company applied for reduction of share capital amounting to RMB 650,323,164 and finished all procedures in China Securities Depository and Clearing Corporation Limited., Shanghai Branch on 23 May 2013. The Company completed the above-mentioned procedures on 24 June 2013 and the registered capital and share capital of the Company was updated to RMB 16,471,724,924.00.

The share capital decreased 21,331,300 shares due to repurchase of restricted shares not meeting unlocked conditions in 2014, 2015 and 2016, including 698,900 shares in 2014, 3,508,500 shares in 2015 and 17,123,900 in 2016. As of the end of the reporting period, the registered capital and dividends of the Company amounts to RMB16,450,393,624, in which Baosteel Group held 11,523,385,833 shares out of 16,424,278,824 shares of unrestricted ordinary shares dominated in RMB, accounting for 70.05% of ownership interests.

#### 46. Capital reserve

Item	Opening balance	Increase in the year	Decrease in the year	Closing balance
<b>2016:</b>				
Capital premium				
Including: Reserve from conversion of state-owned shares	5,726,556,609.73	-	-	5,726,556,609.73
Share premium	26,142,311,333.40	16,489,538.77	24,842,815.23	26,133,958,056.94
Difference arising from business combination under common control	116,748,214.86	-	3,834,057.09	112,914,157.77
Share-based payment recognized in capital reserve	20,452,805.91	12,917,561.64	3,431,756.19	29,938,611.36
Provision for equity investment (Note 2)	47,799,329.25	1,440,000.00	159,772.18	49,079,557.07
Other capital reserves	1,686,013,797.47	30,607,341.84	-	1,716,621,139.31
Total	33,739,882,090.62	61,454,442.25	32,268,400.69	33,769,068,132.18
<b>2015:</b>				
Capital premium				
Including: Reserve from conversion of state-owned shares	5,726,556,609.73	-	-	5,726,556,609.73
Share premium (Note 1)	25,645,904,188.92	499,599,879.48	3,192,735.00	26,142,311,333.40
Difference arising from business combination under common control	116,748,214.86	-	-	116,748,214.86
Share-based payment recognized in capital reserve	16,017,078.49	12,917,561.63	8,481,834.21	20,452,805.91
Provision for equity investment (Note 2)	49,081,586.47	143,125.00	1,425,382.22	47,799,329.25
Other capital reserves (Note 3)	1,699,638,311.28	2,699,300.00	16,323,813.81	1,686,013,797.47
Total	33,253,945,989.75	515,359,866.11	29,423,765.24	33,739,882,090.62

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

## (VI) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS- continued

- Note 1: The increase in capital premium constitutes of the difference between the Company's capital contribution in Ouyeel and the net carrying amount of assets it holds in Ouyeel, as the Company transferring its equity from Baosteel E-commerce to Ouyeel in 2015.
- Note 2: Changes in provision for equity investment is due to the movement of capital reserve of joint ventures and associates the Group accounts for by using equity method.
- Note 3: The decrease in capital reserve mainly constitutes of the difference between the consideration payment for acquisition of Guangzhou Steel Sheet and the net assets of minority interests that the Company acquired.

## 47. Treasury shares

Item	RMB Amount
<b>2016</b>	
Opening balance	82,585,917.00
Decrease in the year	
Cancellation (Note(XII). 1)	(32,706,649.00)
Closing Balance	49,879,268.00

Item	RMB Amount
<b>2015</b>	
Opening balance	89,287,152.00
Decrease in the year:	
Cancellation	(6,701,235.00)
Closing Balance	82,585,917.00

## 48. Other Comprehensive income

Item	Opening balance (adjusted)	Change for the period					Closing balance
		Amount before tax	Less: transfer to profit or loss from other comprehensive income in previous years	Less: income tax expense	Attributable to the owner of the Company (after tax)	Minority interest (after tax)	
I. Items that will not be reclassified subsequently to profit or loss	-	-	-	-	-	-	-
II. Items that may be reclassified subsequently to profit or loss	(485,864,832.68)	484,801,582.15	13,371,166.10	31,044,447.87	425,775,007.09	14,610,961.09	(60,089,825.59)
Include: Amounts of other comprehensive income attributes to investees that are to be reclassified into profit or loss under equity method	(66,998,586.15)	43,303,908.41	-	-	43,303,908.41	-	(23,694,677.74)
Fair value gain/loss on available-for-sale financial assets	153,207,926.60	137,548,957.58	13,371,166.10	31,044,447.87	97,364,017.52	(4,230,673.91)	250,571,944.12
Translation differences arising on translation of financial statements denominated in foreign currencies	(572,074,173.13)	303,948,716.16	-	-	285,107,081.16	18,841,635.00	(286,967,091.97)
Other comprehensive income	(485,864,832.68)	484,801,582.15	13,371,166.10	31,044,447.87	425,775,007.09	14,610,961.09	(60,089,825.59)

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

## (VI) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS- continued

Item	Opening balance (adjusted)	Change for the period					Minority interest (after tax)	Closing balance
		Amount before tax	Less: transfer to profit or loss from other comprehensive income in previous years	Less: income tax expense	Attributable to the owner of the Company (after tax)			
I. Items that will not be reclassified subsequently to profit or loss	-	-	-	-	-	-	-	-
II. Items that may be reclassified subsequently to profit or loss	(561,561,251.09)	67,639,217.74	11,621,328.25	(13,826,514.61)	75,696,418.41	(5,852,014.31)	(485,864,832.68)	
Include: Amounts of other comprehensive income attributes to investees that are to be reclassified into profit or loss under equity method	(106,722,756.33)	39,724,170.18	-	-	39,724,170.18	-	(66,998,586.15)	
Fair value gain/loss on available-for-sale financial assets	196,551,056.47	(43,684,730.16)	11,621,328.25	(13,826,514.61)	(43,343,129.87)	1,863,586.07	153,207,926.60	
Translation differences arising on translation of financial statements denominated in foreign currencies	(651,389,551.23)	71,599,777.72	-	-	79,315,378.10	(7,715,600.38)	(572,074,173.13)	
Other comprehensive income	(561,561,251.09)	67,639,217.74	11,621,328.25	(13,826,514.61)	75,696,418.41	(5,852,014.31)	(485,864,832.68)	

## 49. Special reserve

Item	Opening balance	Increase in the year	Decrease in the year	Closing balance
2016:				
Production safety fee	10,915,599.63	388,573,640.97	373,834,855.98	25,654,384.62
2015:				
Production safety fee	10,040,556.78	479,597,276.10	478,722,233.25	10,915,599.63

Extracted the special reserve based on the "The Management Methods of the Extract and Use of the Enterprise Security Costs of Production" ([2012] No. 16) for the production safety fee.

## 50. Surplus reserve

Item	Opening balance	Increase in the year	Decrease in the year	Closing balance
2016:				
Statutory surplus reserve	11,622,601,293.28	688,914,729.37	-	12,311,516,022.65
Discretionary surplus reserve	14,894,053,633.06	688,914,729.37	-	15,582,968,362.43
Total	26,516,654,926.34	1,377,829,458.74	-	27,894,484,385.08
2015:				
Statutory surplus reserve	11,289,860,525.84	332,740,767.44	-	11,622,601,293.28
Discretionary surplus reserve	14,561,312,865.62	332,740,767.44	-	14,894,053,633.06
Total	25,851,173,391.46	665,481,534.88	-	26,516,654,926.34

According to China Company Laws and the Article of Association of the Company, the Company is required to transfer 10% of its net profit to the statutory surplus reserve. The discretionary surplus reserve is appropriated subsequent to the appropriation of statutory surplus reserve and subject to approval. Upon approval, the discretionary surplus reserve can be used to make up the losses from previous years or increase the Company's share capital.

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

(VI) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS- continued

## 51. Retained earnings

RMB

Item	Amount	Proportion of appropriation
<b>2016:</b>		
Retained earnings at beginning of year	37,148,447,581.69	
Retrospective adjustment	(511,723,127.41)	
Retained earnings at beginning of year after adjustment	36,636,724,454.28	
Add: Net profit attributable to owners of the Company for the period	8,965,514,090.86	
Less: Appropriation to statutory surplus reserve	688,914,729.37	10% of net profit of the Company
Appropriation to discretionary surplus reserve	688,914,729.37	10% of net profit of the Company
Declaration of dividends on ordinary shares	988,015,633.44	note 1
Retained earnings at end of year	43,236,393,452.96	
<b>2015:</b>		
Retained earnings at beginning of year	39,765,842,085.69	
Retrospective adjustment	(443,256,546.28)	
Retained earnings at beginning of year after adjustment	39,322,585,539.41	
Add: Net profit attributable to owners of the Company for the period	944,405,134.07	
Less: Appropriation to statutory surplus reserve	332,740,767.44	10% of net profit of the Company
Appropriation to discretionary surplus reserve	332,740,767.44	10% of net profit of the Company
Declaration of dividends on ordinary shares	2,964,784,684.32	
Retained earnings at end of year	36,636,724,454.28	

Note 1: According to the resolution in the 6th Session of the 6th Board Meeting on 31 March 2016, which was approved in 2015 annual general shareholders' meeting on 28 April 2016, the Company announced cash dividend to all registered shareholders as of the announcement date with total amount of RMB 988,015,633.44 (before tax) based on the total number of shares of 16,466,927,224 (See Note (VI). 45).

## 52. Operating income and operating costs

RMB

Item	Amount recognized in the current year		Amount recognized in the prior year	
	Income	Cost	Income	Cost
Principal businesses	184,264,965,573.72	160,835,842,908.55	162,583,262,452.11	148,232,241,363.14
Other businesses	1,193,684,009.49	1,015,531,238.65	1,206,286,043.13	1,026,114,885.84
Total	185,458,649,583.21	161,851,374,147.20	163,789,548,495.24	149,258,356,248.98

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

(VI) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS- continued

## 53. Taxes and levies

Item	Amount recognized in the current year	Amount recognized in the prior year	Basis of calculation
Business tax	23,193,026.40	63,353,779.73	Note
City construction and maintenance tax	255,984,816.68	206,846,208.69	Note
Education surcharges	231,836,436.85	181,205,380.74	Note
Others	12,484,839.97	14,796,066.21	Note
<b>Total</b>	<b>523,499,119.90</b>	<b>466,201,435.37</b>	

Note: Details of basis of calculation refer to Note (V).

## 54. Selling expenses

Item	Amount recognized in the current year	Amount recognized in the prior year
Shipping and storage expenses	1,040,991,217.53	1,027,894,426.98
Payroll	763,771,047.50	682,266,629.26
Depreciation and amortization expenses	80,807,017.20	64,132,214.28
Others	382,055,794.45	378,469,395.03
<b>Total</b>	<b>2,267,625,076.68</b>	<b>2,152,762,665.55</b>

## 55. Administrative expenses

Item	Amount recognized in the current year	Amount recognized in the prior year
Research and development expenses	3,661,526,215.08	3,449,361,287.96
Payroll	1,658,071,080.57	2,000,006,145.22
Tax expenses	656,303,720.04	520,039,979.24
Depreciation and amortization expenses	555,259,119.92	573,168,948.00
Inventory (gains)losses on current assets	202,703,590.25	(44,983,775.73)
Others	854,117,981.99	789,019,761.26
<b>Total</b>	<b>7,587,981,707.85</b>	<b>7,286,612,345.95</b>

## 56. Financial expenses

Item	Amount recognized in the current year	Amount recognized in the prior year
Interest expenses	2,664,242,668.01	1,879,174,816.44
Less: Capitalized interest expenses	433,141,238.87	672,929,742.76
Less: Interest income	289,993,701.63	560,770,818.45
Exchange differences	173,308,166.28	1,685,345,408.66
Others	71,556,271.37	61,747,582.24
<b>Total</b>	<b>2,185,972,165.16</b>	<b>2,392,567,246.13</b>

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

(VI) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS- continued

## 57. Impairment losses of assets

## (1) Impairment losses of assets

Item	Amount for the current year
I. Bad debt losses	190,911,123.96
II. Written-down of inventories	141,965,154.52
III. Impairment of available-for-sale financial assets	4,644,049.45
IV. Impairment of fixed assets	399,690,384.80
V. Impairment of materials for construction of fixed assets	-
VI. Impairment of construction in progress	227,221,124.49
VII. Loan losses	(99,135,822.74)
VIII. Impairment of intangible investment	-
IX. Impairment of other non-current assets	99,233,811.61
X. Others	16,154,560.59
Total	980,684,386.68

## (2) Provision for impairment of assets

Items	Opening balance of carrying amount (adjusted)	Increase in the current period		
		Provision	Other increase	Reversal
I. Bad debt provision	580,005,765.61	272,329,147.80	-	81,418,023.84
II. Provision for written-down of inventories	1,658,874,313.59	941,980,542.09	-	800,015,387.57
III. Provision for Impairment of available-for-sale financial assets	739,941,717.18	4,644,049.45	-	-
IV. Provision for Impairment of long-term equity investments	35,000,000.00	-	-	-
V. Provision for impairment of fixed assets	621,060,658.53	399,690,384.80	27,721,747.21	-
VI. Provision for impairment of materials for construction of fixed assets	280,136.39	-	-	-
VII. Provision for impairment of construction in progress	810,291,641.28	227,221,124.49	-	-
VIII. Provision for loan losses	164,523,818.63	34,999,177.26	-	134,135,000.00
IX. Provision for impairment of intangible investment	13,610,153.50	-	-	-
X. Provision for impairment of other non-current assets	1,733,409,139.47	99,233,811.61	197,813,602.98	-
XI. Others	-	16,154,560.59	-	-
Total	6,356,997,344.18	1,996,252,798.09	225,535,350.19	1,015,568,411.41

## 58. Gains or losses from changes in fair values

Items resulting in gains from changes in fair values	Amount recognized in the current year
Financial assets at fair value through profit or loss	136,256,344.66
Financial liabilities at fair value through profit or loss	(33,444,474.96)
Total	102,811,869.70

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

(VI) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS- continued

		RMB
		Amount recognized in the prior year(adjusted)
		27,108,554.33
		469,257,887.19
		141,528,786.54
		133,679,022.17
		280,136.39
		304,214,387.77
		44,659,119.63
		8,240,153.51
		449,050,393.63
		-
		1,578,018,441.16

						RMB
Disposal	Decrease in the current period		Differences from translation of foreign currency	Closing balance of carrying amount		
	Write-off	Other decrease				
-	480,654.42	-	4,216,084.70			774,652,319.85
-	137,997,388.34	-	1,905,795.17			1,664,747,874.94
-	-	-	-			744,585,766.63
-	-	-	-			35,000,000.00
3,179,663.91	-	197,813,602.98	-			847,479,523.65
-	-	-	-			280,136.39
-	-	-	-			1,037,512,765.77
-	-	-	-			65,387,995.89
-	-	-	-			13,610,153.50
153,834.29	1,915,565,717.04	27,721,747.21	-			87,015,255.52
-	-	-	-			16,154,560.59
3,333,498.20	2,054,043,759.80	225,535,350.19	6,121,879.87			5,286,426,352.73

		RMB
		Amount recognized in the prior year
		9,266,607.93
		(3,608,651.05)
		5,657,956.88



## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

## (VI) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS- continued

## 59. Investment income

Item	RMB	
	Amount recognized in the current year	Amount recognized in the prior year
Income from available-for-sale financial assets under cost method during the holding period	122,705,523.16	489,013,683.79
Income from disposal of available-for-sale financial assets (note 1)	-	644,247,021.18
Income from long-term equity investments under equity method	331,802,668.35	78,022,511.61
Stock investment income	15,128,651.74	34,453,932.21
Bond investment income	22,865,626.56	53,770,809.02
Fund investment income	12,000,782.30	38,445,137.32
Losses from disposal of derivative financial instruments (note 2)	(33,783,923.95)	(581,202,814.15)
Investment income from disposal of other wealth management products and others	906,357,742.71	281,457,218.28
<b>Total</b>	<b>1,377,077,070.87</b>	<b>1,038,207,499.26</b>

Note 1: In compliance with the resolution made by 6th session of the 3rd board meeting and the equity acquisition agreement entered into between the Company Petro China Pipeline Co., Ltd., this item mainly refers to investment income as the Group purchased 3.52% equity of PetroChina Pipeline Co., Ltd. by 12.8% equity of PetroChina northwest joint Pipeline Company Limited.

Note 2: This item mainly consists of investment losses arising from forward exchange transaction and ore swap transaction.

## 60. Non-operating income

## (1) Details of non-operating income:

Item	RMB		
	Amount for the current year	Amount for the prior year	Amount incurred in non-recurring gains and loss in the current period
Total gains on disposal of non-current assets	32,621,479.20	94,590,167.84	32,621,479.20
Including: Gains on disposal of fixed assets	29,211,892.64	94,590,167.84	29,211,892.64
Gains on disposal of intangible assets	3,409,586.56	-	3,409,586.56
Government grants	342,454,617.86	506,388,802.97	342,454,617.86
Compensation income	32,410,316.54	8,125,480.67	32,410,316.54
Others	31,608,645.76	59,123,581.54	31,608,645.76
<b>Total</b>	<b>439,095,059.36</b>	<b>668,228,033.02</b>	<b>439,095,059.36</b>

## (2) Government grants recognized in profit and loss in the current period:

Items	RMB		
	Amount for the current year	Amount for the prior year	Assets related/Income related
Transfer of prior year government grants related to technology improvement	76,962,801.67	225,994,534.00	Assets related
Subsidies for high-tech achievement transformation	137,736,740.02	106,920,549.52	Both income and assets related
Local fiscal subsidy	37,534,411.19	13,681,796.45	Income related
Tax refund	12,239,727.84	25,670,005.91	Income related
Compensation for relocation	6,288,560.02	6,292,073.91	Income related
Other fiscal subsidies	71,692,377.12	127,829,843.18	
<b>Total</b>	<b>342,454,617.86</b>	<b>506,388,802.97</b>	

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

(VI) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS- continued

## 61. Non-operating expenses

Item	Amount for the current year	Amount for the prior year	Amount incurred in non-recurring gains and loss in the current period
Total losses on disposal of non-current assets	471,537,530.23	638,690,137.29	471,537,530.23
Including: losses on disposal of fixed assets	471,537,530.23	638,690,137.29	471,537,530.23
Donations to third parties	13,039,591.00	11,556,922.00	13,039,591.00
Others	29,946,309.30	14,302,174.27	29,946,309.30
<b>Total</b>	<b>514,523,430.53</b>	<b>664,549,233.56</b>	<b>514,523,430.53</b>

## 62. Income tax expenses

Item	Amount for the current year	Amount for the prior year (adjusted)
Current tax expenses	2,003,559,573.23	914,326,864.72
Adjustment to prior period's income tax	(5,058,711.31)	(147,998,663.61)
Deferred tax expenses	316,028,842.87	350,910,159.05
<b>Total</b>	<b>2,314,529,704.79</b>	<b>1,117,238,360.16</b>

Reconciliation of income tax expenses to the accounting profit is as follows:

	Amount for the current year	Amount for the prior period
Accounting profit	11,519,828,142.46	1,762,841,954.34
Income tax expenses calculated at 25%	2,879,957,035.62	440,710,488.59
Adjustment to prior period's income tax	(5,058,711.31)	(147,998,663.61)
Effect of expenses that are not deductible for tax purposes	28,918,250.79	33,744,062.96
Effect of tax-free income	(343,618,308.38)	(141,759,048.85)
Effect of unrecognized deductible losses and deductible temporary differences (note)	556,353,463.07	1,305,398,664.07
Effect of using previously unrecognized deductible losses and deductible temporary differences	(387,793,955.75)	(6,576,680.84)
Additional tax incentives	(314,614,321.58)	(331,583,469.92)
Effect of different tax rates of subsidiaries	(98,972,891.80)	(43,475,702.69)
Others	(640,855.87)	8,778,710.45
<b>Total</b>	<b>2,314,529,704.79</b>	<b>1,117,238,360.16</b>

Note: Details are set out in Note (VI).23.

## 63. Other comprehensive income

Refer to Notes (VI), 48.

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

## (VI) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS- continued

## 64. Notes to items in the cash flow statement

## (1) Other cash receipts relating to operating activities

RMB

Item	Amount for the current year	Amount for the prior year
Non-operating income, government grant and etc.	2,112,150,868.78	1,545,990,823.45

## (2) Other cash payments relating to operating activities

RMB

Item	Amount for the current year	Amount for the prior year
Selling expenses	812,383,669.85	993,470,330.61
Administrative expenses	1,223,718,685.41	1,211,691,163.28
Others	1,507,028,248.49	198,964,288.49
Total	3,543,130,603.75	2,404,125,782.38

## (3) Other cash receipts relating to investing activities

RMB

Item	Amount for the current year	Amount for the prior year
Proceeds on disposal of assets and investments in Wusong area	4,879,536,386.73	5,208,894,246.60
Interest income	71,272,598.30	102,832,325.28
Others	604,736.95	-
Total	4,951,413,721.98	5,311,726,571.88

## (4) Other cash payments relating to investing activities

RMB

Item	Amount for the current year	Amount for the prior year
Cash payment upon the settlement of derivative instruments	37,320,304.46	576,233,258.39
Payment for borrowings by employees used for property purchase	146,085,000.00	72,180,000.00
Total	183,405,304.46	648,413,258.39

## (5) Other cash receipts relating to financing activities

RMB

Item	Amount for the current year	Amount for the prior year
Repayment to the Group's entities for advances for purchase	-	1,500,000,000.00
Repurchase of restricted shares not meeting unlocked conditions	27,154,088.00	-
Acquisition of equity interest held by minority shareholders of subsidiaries	9,280,000.00	-
Total	36,434,088.00	1,500,000,000.00

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

(VI) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS- continued

### 65. Supplementary information to the cash flow statement

#### (1) Supplementary information to the cash flow statement

Supplementary information	Amount for the current year	Amount for the prior year (adjusted)
1. Reconciliation of net profit to cash flow from operating activities:		
Net profit	9,205,298,437.67	645,603,594.18
Add: Provision for impairment losses of assets	980,684,386.68	1,578,018,441.16
Depreciation of fixed assets and investment properties	11,848,236,256.50	10,260,470,235.91
Amortization of intangible assets	378,953,086.25	287,971,092.26
Amortization of long-term prepaid expenses	92,793,777.17	75,308,084.21
Losses(gains) on disposal of fixed assets, intangible assets and other long-term assets	438,916,051.03	544,099,969.45
Gains on changes in fair values	(102,811,869.70)	(5,657,956.88)
Financial expenses	2,116,696,661.67	2,330,819,663.89
Investment income	(1,377,077,070.87)	(1,038,207,499.26)
Decrease in deferred tax assets	192,600,510.55	329,986,968.89
Increase in deferred tax liabilities	123,428,332.32	29,782,019.35
Decrease in inventories	(12,405,413,505.91)	2,806,755,958.27
Decrease in receivables from operating activities	(11,561,737,719.73)	2,449,414,715.94
Increase in payables from operating activities	16,441,972,993.08	882,431,156.69
Net cash flow from operating activities	16,372,540,326.71	21,176,796,444.06
2. Net changes in cash and cash equivalents:		
Closing balance of cash	9,473,511,710.09	6,968,888,292.15
Less: Opening balance of cash	6,968,888,292.15	10,550,257,587.98
Add: Closing balance of cash equivalents	-	2,140,000,000.00
Less: Opening balance of cash equivalents	2,140,000,000.00	741,031,995.09
Net increase in cash and cash equivalents	364,623,417.94	(2,182,401,290.92)

#### (2) Composition of cash and cash equivalents

Item	Closing balance	Opening balance
I. Cash	9,473,511,710.09	6,968,888,292.15
Including: Cash on hand	823,717.72	664,508.04
Bank deposits	9,410,525,921.32	6,903,794,819.63
Other monetary funds	62,162,071.05	64,428,964.48
II. Cash equivalents	-	2,140,000,000.00
III. Closing balance of cash and cash equivalents	9,473,511,710.09	9,108,888,292.15

Cash and cash equivalents exclude restricted cash and cash equivalents of the Company or subsidiaries within the Group.

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

## (VI) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS- continued

## 66. Assets with restricted ownership or right of use

			RMB
Item	Closing carrying balance	Reason to be restricted	
Cash and bank balances	1,003,231,967.25	Statutory reserves deposited with People's Bank of China by financial company	
Notes receivable	524,480,027.36	The restricted notes receivable amounting to RMB 506,496,683.43 were pledged to banks for issue of notes payable by related parties while notes receivable amounting to RMB 17,983,343.93 were discounted in exchange of banks' borrowings of RMB 17,983,343.93.	
Fixed asset	591,507,715.71	Mortgage loan	
Intangible asset	89,428,894.55	Mortgage loan	
<b>Total</b>	<b>2,208,648,604.87</b>		

## 67. Foreign Currency Item

## (1) Foreign Currency Item

				RMB
Item	Closing balance (Foreign currency)	Rate	Closing balance (RMB)	
<b>Cash</b>				
Including: USD	395,825,032.90	6.9370	2,745,838,253.23	
JPY	5,211,030,036.79	0.0596	310,530,490.59	
EUR	72,096,106.05	7.3068	526,791,827.69	
HKD	7,283,110.71	0.8945	6,514,815.36	
Others			84,866,471.31	
<b>Account Receivables</b>				
Including: USD	625,402,689.60	6.9370	4,338,418,456.51	
EUR	95,566,170.48	7.3068	698,282,894.46	
JPY	1,347,883,635.00	0.0596	80,333,864.56	
<b>Short-term borrowings</b>				
Including: USD	228,080,870.19	6.9370	1,582,196,996.51	
EUR	27,039,744.82	7.3068	197,574,007.45	
WON	6,000,000,000.00	0.0058	34,542,000.00	
<b>Long-term borrowings</b>				
Including: USD	28,584,994.00	6.9370	198,294,103.38	
JPY	11,580,000.00	0.0596	690,063.78	
WON	2,989,689,436.00	0.0058	17,211,642.08	

## 68. Calculation for basic earnings per share and diluted earnings per share

The current net profit attributable to ordinary shareholders at the calculation of basic earnings per share:

			RMB
	2016	2015	
Current net profit attributable to ordinary shareholders	8,963,943,134.17	936,600,015.99	
Including: Net profit attributable to continuing operations	8,963,943,134.17	936,600,015.99	

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

### (VI) NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS- continued

	Unit: Share	
	2016	2015
Quantity of outstanding ordinary shares at the beginning of the year	16,424,278,824	16,424,278,824
Less: Weighted average quantity of repurchased ordinary shares in the current period		
Weighted average quantity of outstanding ordinary shares at the beginning of the year	16,424,278,824.00	16,424,278,824.00

#### Earnings per share

	2016	2015
Calculation of net profit attributable to shareholders of the Company		
Basic earnings per share	0.55	0.06
Diluted earnings per share	0.55	0.06
Calculation of net profit attributable to shareholders of the Company on continuing operations:		
Basic earnings per share	0.55	0.06
Diluted earnings per share	0.55	0.06

Calculation of earnings per share has considered the effects from restricted shares.

## (VII) CHANGES OF SCOPE OF CONSOLIDATION

### 1. Changes of scope of consolidation due to other reasons

Company's short name	Company's full name	Place of principal operation	Place of incorporation	Business nature	Proportion of ownership interest (%)		Reasons for change
					Direct	Indirect	
Subsidiary newly established and included in the scope of consolidation							
Baosteel Asset	Shanghai Baosteel Asset Management Co., Ltd.	Shanghai	Shanghai	Asset management	100%		New established company

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

## (VIII) EQUITY IN OTHER ENTITIES

## (VII) EQUITY IN OTHER ENTITIES

## 1. Interests in subsidiaries

## (1) Composition of the Group

Name of the subsidiary	Place of operation	Place of incorporation	Nature of operation	Equity interest held (%)		Ways of acquisition
				Directly	Indirectly	
Yantai Lubao Steel Tubes Co., Ltd. (Yantai Baosteel)	China	Yantai city	Manufacture	100	-	business combinations involving enterprises under common control
Baosteel Huangshi Coating & Galvanizing Co., Ltd. (Huangshi Coating & Galvanizing)	China	Huangshi city	Manufacture	50.63	-	business combinations involving enterprises under common control
Shanghai Baosteel International Economic & Trading Co., Ltd. (Baosteel International)	China	Shanghai	Steel trading	100	-	business combinations involving enterprises under common control
Shanghai Meishan Iron & Steel Co., Ltd. (Meishan Steel)	China	Nanjing city	Manufacture	77.04	-	business combinations involving enterprises under common control
Shanghai Baosight Software Co., Ltd. (Baosight Software)	China	Shanghai	Information technology	55.5	-	business combinations involving enterprises under common control
Baosteel America Inc (Baosteel America)	USA	Texas, USA	Steel trading	100	-	business combinations involving enterprises under common control
Howa Trading Co., Ltd. (Howa Trading)	Japan	Tokyo, Japan	Steel trading	100	-	business combinations involving enterprises under common control
Baosteel Europe GmbH (Baosteel Europe)	Germany	Hamburg, Germany	Steel trading	100	-	business combinations involving enterprises under common control
Baosteel Singapore PTE Ltd. (Baosteel Singapore)	Singapore	Singapore	Steel trading	100	-	business combinations involving enterprises under common control
Bao-Trans Enterprises Ltd. (Bao-Trans Enterprises)	HK SAR, China	HK SAR, China	Steel trading	100	-	business combinations involving enterprises under common control
Shanghai Baosteel Chemical Co., Ltd. (Baosteel Chemical)	China	Shanghai	Manufacture	100	-	business combinations involving enterprises under common control
Baosteel Group Finance Co., Ltd. (Finance Co.)	China	Shanghai	Finance	62.1	-	business combinations involving enterprises under common control
Baosteel Zhanjiang Iron & Steel Co., Ltd. ("Zhanjiang Steel")	China	Zhanjiang city	Manufacture	90	-	business combinations involving enterprises under common control
Yantai Baosteel Steel Tubes Co., Ltd. (Yantai Baosteel)	China	Yantai city	Manufacture of sales of steel pipes	80	20	business combinations involving enterprises under common control
Shanghai Huagongbao E-commerce Co., Ltd. (Huagongbao)	China	Shanghai	E-commerce	-	53.85	acquired through establishment or investment
Xinjiang Karamay Steel Pipe Ltd. (Baoma Tube)	China	Keramay city	Manufacture of sales of steel pipes	75	-	acquired through establishment or investment
Poly Pipe (Thailand) Co., Ltd. (Poly Pipe)	Thailand	Thailand	Steel pipe processing	-	51	acquired through establishment or investment
BGM Co., Ltd. (BGM) (Note 1)	Republic of Korea	Gyeonggi, ROK	Manufacture of sales of steel products	-	50	acquired through establishment or investment
Ouyeel Cloud Commerce Corporation Limited ("Ouyeel Cloud Commerce")	China	Shanghai	E-business	8.67	42.33	acquired through establishment or investment
Shanghai Baosteel Asset Management Co., Ltd. ("Baosteel Asset")(Note 2)	China	Shanghai	Asset management	100	-	acquired through establishment or investment

Note 1: As at balance sheet date, the Group held 50% of shares in BGM, however, the Group has over 50% voting rights in the board of directors, so BGM is included in the consolidation scope of the Group.

Note 2: In accordance with the Proposal to Establish Shanghai Baosteel Asset Management Co., Ltd. and Transfer of Relevant Assets, Equity and Debenture approved in Announcement for Resolution in 11th Session of the 6th Board Meeting, the Company has established the asset management company solely funded by itself and transferred to Baosteel Asset 95.82% shares it held in Baotong Iron & Steel.

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

## (VIII) EQUITY IN OTHER ENTITIES- continued

## (2) Significant non-wholly owned subsidiaries

Investees holding long-term equity investment balances amounting over RMB 5 billion at year-end and financial company as the financial segment of the Group shall be disclosed as significant non-wholly owned subsidiaries

RMB'000

Name of subsidiary	Equity interest held by minority interests	Profit or loss attributable to minority interests during the year	Dividend declared to minority interests during the year	Minority interests at December 31, 2015
Meishan Steel	22.96%	83,752	450	2,252,464
Zhanjiang Steel	10.00%	(66,077)	-	1,874,929
Finance Co.,	37.90%	48,350	16,019	745,781

## (3) Major financial information of significant non-wholly owned subsidiaries

RMB'000

Name of subsidiary	Closing balance						Opening balance					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Meishan Steel	7,573,253	23,190,142	30,763,395	20,745,140	230,793	20,975,933	4,902,620	24,480,962	29,383,582	19,760,453	198,366	19,958,819
Zhanjiang Steel	11,179,393	51,866,501	63,045,894	42,370,966	2,796,659	45,167,625	5,992,409	45,466,151	51,458,560	21,937,141	10,947,042	32,884,183
Finance Co.,	5,408,477	9,683,412	15,091,889	13,119,437	4,692	13,124,129	5,434,504	8,886,162	14,320,666	12,429,397	8,814	12,438,211

RMB'000

Name of subsidiary	Amount for the current year				Amount for the prior year			
	Operating income	Net profits	Total comprehensive income	Net cash flow from (used in) operating activities	Operating income	Net profits	Total comprehensive income	Net cash flow from (used in) operating activities
Meishan Steel	19,284,706	363,150	363,150	1,295,802	19,633,628	(1,716,559)	(1,716,559)	4,455,834
Zhanjiang Steel	6,764,161	(696,108)	(696,108)	(26,408)	597,795	(323,815)	(323,815)	(705,593)
Finance Co.,	404,117	127,572	127,306	(802,347)	506,479	133,988	148,183	2,057,205

There is no significant restrictions for above subsidiaries in utilizing the Group's assets and settling the Group's debt.

## 2. Information of structured entities that are included in the scope of the consolidated financial statements

The following entrusted products issued by Hua Bao Trust entrusted by Ouyee are included in consolidated financial statement as at 31 December 2016.

Name of structured entities	Business type	Trustee agency	Business nature & operating scope	Registered capital (RMB)	Actual capital contribution by year-end (RMB)	Consolidated or not
No. 1 Baoxiang	Entrusted products	Hua Bao Trust	Securities investment	N/A	533,258,995.59	Yes
No.11 Baoxiang	Entrusted products	Hua Bao Trust	Securities investment	N/A	240,459,483.46	Yes
No.13 Baoxiang	Entrusted products	Hua Bao Trust	Securities investment	N/A	434,295,065.37	Yes
No. 1 Honor	Entrusted products	Hua Bao Trust	Securities investment	N/A	270,764,697.12	Yes
Total					1,478,778,241.54	



## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

## (VIII) EQUITY IN OTHER ENTITIES- continued

## 3. Interests in joint ventures s and associates

## (1) Significant Joint ventures and associates

The investees holding long-term equity investment over RMB 0.6 billion as at 31 December 2016 are disclosed as significant JECs, and those over RMB 0.1 billion as at 31 December 2016 are disclosed as significant associates.

Name of joint ventures and associates	Place of operation	Place of incorporation	Nature of operation	Equity interest held (%)		Equity interest held (%)
				Directly	Indirectly	
<b>I. joint ventures</b>						
Baosteel-NSC/Arcelor Automotive Steel Sheets Co., Ltd. (BNA)	China	Shanghai	Manufacturing	50	-	Equity method
Baojin Enterprise Co., Ltd. ("Baojin Enterprise")	China	HK SAR	Ship chartering	50	-	Equity method
Guangzhou JFE Steel Sheet Co.,Ltd. (Guangzhou JFE)	China	Guangzhou city	Steel manufacturing	-	50	Equity method
<b>II. Associates</b>						
Shanghai Baosteel & Arcelor Tailor Weld Co., Ltd. ("Weld Company")	China	Shanghai	Manufacturing	-	38	Equity method
Henan Pingbao Coal Industry Co., Ltd. (Henan Pingbao)	China	Xuchang city	Extractive Industries	-	40	Equity method

## (2) Major financial information of significant joint ventures

RMB'000

	Closing balance / Amount for the current year		
	BNA	Baojin Enterprise	Guangzhou JFE
Current assets	2,968,592	302,419	1,576,931
Including: Cash and cash equivalents	973,855	216,157	527,265
Non-current assets	2,061,187	1,279,578	3,795,306
Total assets	5,029,779	1,581,997	5,372,237
Current liabilities	1,500,261	251,265	2,276,977
Non-current liabilities	23,250	93,650	375,097
Total liabilities	1,523,511	344,915	2,652,074
Minority interests	-	-	-
Shareholders' equity attributable to shareholders of the Company	3,506,268	1,237,082	2,720,163
Share of net assets according to portion of shareholding	1,753,134	618,541	1,360,081
Reconciliations			
—Net increase of identifiable net assets under appraisal	-	-	317,981
—Net investment losses of investees from the evaluation base date to the investment date	-	-	49,647
—Reconciliations of accounting policies of investees	-	-	(86,136)
—Provision for impairment losses	-	-	(35,000)
Carrying amount of equity investment in joint ventures	1,753,134	618,541	1,606,573
Operating income	11,879,270	462,074	4,586,288
Financial expenses	(21,258)	3,510	179,772
Income tax expenses	85,911	617	-
Net profits	256,244	15,248	282,641
Other comprehensive income	-	-	-
Total comprehensive income	256,244	15,248	282,641
Dividends received from joint ventures in the current period	84,701	-	-

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

### (VIII) EQUITY IN OTHER ENTITIES- continued

	Opening balance / Amount for the prior year			RMB'000
	BNA	Baojin Enterprise	Guangzhou JFE	
Current assets	2,742,477	510,468	1,353,706	
Including: Cash and cash equivalents	962,741	437,051	398,124	
Non-current assets	2,377,932	1,132,763	4,115,260	
Total assets	5,120,409	1,643,231	5,468,966	
Current liabilities	1,674,207	230,009	2,256,493	
Non-current liabilities	26,590	269,484	774,952	
Total liabilities	1,700,797	499,493	3,031,445	
Minority interests	-	-	-	
Shareholders' equity attributable to shareholders of the Company	3,419,612	1,143,738	2,437,521	
Share of net assets according to portion of shareholding	1,709,806	571,869	1,218,760	
Reconciliations				
— Net increase of identifiable net assets appraisal	-	-	317,981	
— Net investment losses of investees from the evaluation base date to the investment date	-	-	49,647	
— Reconciliations of accounting policies of investees	-	-	(57,707)	
— Provision for impairment losses	-	-	(35,000)	
Carrying amount of equity investment in joint ventures	1,709,806	571,869	1,493,681	
Operating income	9,913,506	532,709	4,155,415	
Financial expenses	(9,718)	4,208	231,964	
Income tax expenses	64,433	571	-	
Net profits	195,841	(105,456)	7,851	
Other comprehensive income	-	-	-	
Total comprehensive income	195,841	(105,456)	7,851	
Dividends received from joint ventures in the current period	59,077	16,420	-	

### (3) Major financial information of significant associates

	Closing balance / Amount for the current year		Opening balance / Amount for the prior year		RMB'000
	Henan Pingbao	Weld Company	Henan Pingbao	Weld Company	
Current assets	101,024	554,308	19,934	510,137	
Non-current assets	1,937,533	215,305	1,818,083	243,373	
Total assets	2,038,557	769,613	1,838,017	753,510	
Current liabilities	871,634	448,988	774,005	417,718	
Non-current liabilities	-	5,313	35,000	4,256	
Total liabilities	871,634	454,301	809,005	421,974	
Minority interests	-	-	-	-	
Shareholders' equity attributable to shareholders of the Company	1,166,923	315,312	1,029,012	331,536	
Share of net assets according to portion of shareholding	466,769	119,818	411,605	125,983	
Carrying amount of equity investment in joint ventures	466,769	119,818	411,605	125,983	
Operating income	854,855	1,139,613	680,825	1,144,589	
Net profits	134,311	59,923	69,758	54,932	
Other comprehensive income	-	-	-	-	
Total comprehensive income	134,311	59,923	69,758	54,932	
Dividends received from joint ventures in the current year	-	28,936	12,000	26,852	

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

### (VIII) EQUITY IN OTHER ENTITIES- continued

#### (4) Summarized financial information of insignificant joint ventures and associates

RMB'000

	Closing balance / Amount for the current year	Opening balance / Amount for the prior year
joint ventures:		
Total carrying amount of investments	357,610	336,979
The following items are calculated according to portion of shareholding		
--Net profits	20,645	(19,542)
--Other comprehensive income	-	-
-- Total comprehensive income	20,645	(19,542)
Associates:		
Total carrying amount of investments	379,375	352,494
The following items are calculated according to portion of shareholding		
--Net profits	(13,976)	(332)
--Other comprehensive income	4,189	3,182
-- Total comprehensive income	(9,787)	2,850

The accounting policies for joint ventures and associates of the Group has no significant differences with those for the Group on the basis of equity method, and there is no significant restriction on investment realization and investment income remittance.

## (IX) FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group's major financial instruments include cash and bank balances, financial assets at fair value through profit or loss, notes receivable, accounts receivable, interest receivable, dividend receivable, other receivables, financial assets purchased under resell agreements, non-current assets due within one year, wealth management products of other current assets, customer deposits and deposits from banks and other financial institutions, taking from banks and other financial institutions, financial liabilities at fair value through profit or loss, notes payable, accounts payable, financial assets sold under repurchase agreements, interest payable, dividend payable, other payables, non-current liabilities due within one year, other current liabilities, long-term borrowings, and bonds payables etc. Details of these financial instruments are disclosed in Note (V). The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure the risks are monitored at a certain level.

The Group conducted sensitivity analysis to analyze the impact of reasonable and possible changes of risk variables on profit or loss and equity of the current period. Any risk variables may not change in isolation, so there might be certain relativity between the variables that will have significant effect on the amount influenced by one variable. Thus, the statements below are based on the assumption that every variable changes in isolation.

### 1. Risk management objectives and policies

The Group's risk management objectives are to achieve proper balance between risks and yield, minimize the adverse impacts of risks on the Group's operation performance, and maximize the benefits of the shareholders and other equity investors. Based on these risk management objectives, the Group's basic risk management strategy is to identify and analyze the industry's exposure to various risks, establish appropriate bottom line for risk tolerance, implement risk management, and monitor these exposures to ensure that appropriate measures are implemented on a timely and effective manner.

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

### (IX) FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

#### 1.1 Market risk

Market risk is the fluctuation of fair value of financial instruments. It is sensitive to market price fluctuation due to the change of foreign currency exchange rates (exchange rate risk), market price (price risk), market interest rates (interest rate risk), and etc.. All fluctuation is caused by the specific impact as a single financial instrument or the issuers or the entire market transactions of all financial instruments.

##### 1.1.1 Currency risk

Currency risk is the risk that losses will occur because of changes in foreign exchange rates. The exchange rate risk which the Group faced is mainly dealt with in the operating activities (when settled by foreign currencies).

The iron ore imports of the Group are mainly settled in US dollars, which lead to unfavorable balance of US dollars. The Group prioritizes and selects financing activities in USD and financing activities in RMB according to the comprehensive financing cost ratio with the most preferential financing cost ratio in RMB currently available as the benchmark. At the same time, the Group traces the exchange trend of RMB against USD and evaluates the exchange rate risk related to liabilities in US dollars. In view of the practical situation of more bilateral fluctuations in the exchange rate of RMB against USD, the Group conducts financing activities in USD matched with forward exchange contracts or change financing currencies to mitigate the exchange rate risk.

The risk management measure is to ensure that the risk of exchange rate fluctuation is set within an acceptable level at the beginning. The above mentioned synthetic fund cost is the netting of the loan interest paid and gain/loss upon the settlement of the forward contracts. During the period of US dollar borrowing, the foreign exchange rate will not have substantial effect upon the Group's operations but will probably have effect during different reporting period due to the revaluation of foreign exchange rate.

##### 1.1.2 Interest rate risk

Interest rate risk refers to the risk that the fair value of financial instruments or future cash flow fluctuates due to changes in interest rate. The risk of the interest rate that the Group faces mainly related to the debt whose interest is on a floating basis. The Group's policy is that the fixed-rate debt and the floating-rate debt are combined as a portfolio to facilitate the interest cost management.

The Group's risks in the fair value fluctuation of financial instruments which caused by changes in interest rate are mainly related with available-for-sale bond investment, loans issued and long-term receivables.

Interest rate risks of the financial instruments of the Group as presented in terms of dates to maturity and actual interest rates:

	31 December 2016		31 December 2015	
	Available-for-sale financial assets		Available-for-sale financial assets	
More than 1 year	2,279,900,591.70		403,945,851.70	
Effective interest rate (per annum)	2.50%-4.61%		3.41%-4.65%	

	31 December 2016				31 December 2015			
	Placements with banks and other financial institutions	Financial assets purchased under resale agreements	Loans granted	Long-term receivables (within 1 year)	Placements with banks and other financial institutions	Financial assets purchased under resale agreements	Loans granted	Long-term receivables (within 1 year)
Within 1 year	-	-	3,383,079,937.05	4,500,000,000.00	-	-	-	4,500,000,000.00
More than 1 year	-	-	-	218,565,000.00	-	-	2,402,928,796.11	4,579,260,708.90
Total	-	-	3,383,079,937.05	4,718,565,000.00	-	-	2,402,928,796.11	9,079,260,708.90
Effective interest rate (per annum)	-	-	3.22%-7.3950%	3.915%-5.04%	-	-	2.7881%-7.92%	3.915%-5.04%

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

## (IX) FINANCIAL INSTRUMENTS AND RISK MANAGEMENT- continued

								RMB
31 December 2016								
	Short term financing bonds	loan	Taking from banks and other financial institutions	Customer deposits	Bonds payable	Financial assets sold under repurchase agreements	Accounts payable	Long-term payables (within 1 year)
Within 1 year	18,052,896,712.32	27,848,531,699.33	-	9,315,966,149.03	-	152,321,609.86	-	60,000,000.00
More than 1 year	-	296,464,080.86	-	-	14,076,920,848.12	-	-	49,879,268.00
Total	18,052,896,712.32	28,144,995,780.19	-	9,315,966,149.03	14,076,920,848.12	152,321,609.86	-	109,879,268.00
Effective interest rate (per annum)	2.62%-2.75%	0.25%-6.00%	-	0.3500%-4.2500%	1.625%-3.75%	2.2544%-2.2690%	-	-

								RMB
31 December 2015								
	Short term financing bonds	loan	Taking from banks and other financial institutions	Financial assets purchased under resale agreements	Bonds payable	Financial assets sold under repurchase agreements	Accounts payable	Long-term payables (within 1 year)
Within 1 year	10,057,344,262.30	27,249,146,830.88	198,000,000.00	10,009,980,135.82	-	-	-	70,000,000.00
More than 1 year	-	9,111,026,384.68	-	-	8,747,373,959.29	-	-	82,585,917.00
Total	10,057,344,262.300	36,360,173,215.56	198,000,000.00	10,009,980,135.82	8,747,373,959.29	-	-	152,585,917.00
Effective interest rate (per annum)	3.18%	0.56%-6.22%	3.40%	0.4550%-4.6750%	1.920%-4.070%	-	-	-

## 1.1.3. Other price risk

The Group's available-for-sale financial assets and held-for-trading financial assets are measured at fair value at each balance sheet date. Therefore, the Group is exposed to the risks of changes in the security prices. The Group minimises the equity security price risks by holding a portfolio of equity securities with different risks.

## EQUITY PRICE RISK

Equity price risk refers to potential loss in fair value of equity security resulting from adverse changes in a particular stock or stock index. As at 31 December 2016, the Group was exposed to equity price risks from individual equity investment, which belongs to held-for-trading equity investment (Note (VI). 2) and available-for sale equity investment (Note (VI). 14). The exchange traded investment of the Group is at Shanghai Stock Exchange and Shenzhen Stock Exchange, and is measured on basis of market quota at the balance sheet date. The stock index on the day nearest to the balance sheet date at the following stock exchange and the highest and lowest closing prices in the year are shown as follows:

	2016	Highest/Lowest	2015	Highest/Lowest
	31.December	2016	31.December	2015
Shanghai—A share indexes of Shanghai Stock Exchange	3,104	3,362/2656	3,539	5,166/2,927
Shenzhen—A share indexes of Shenzhen Stock Exchange	10,177	1,1725/9083	12,665	18,098/9,291

The following table represents the sensitivity of the pre-tax profit and equity against every 5% change in fair value of equity instruments (on basis of the book value as at the balance sheet date), while all other variables remain constant and before any impact of taxation is considered. From the perspective of sensitivity analysis, the impact upon available-for-sale equity instrument investment can be regarded as one upon the change in fair value of the investment, without taking into consideration of possible deduction in income statements.

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

### (IX) FINANCIAL INSTRUMENTS AND RISK MANAGEMENT- continued

				RMB'000
2016	Book value of equity investment	Increase/decrease of pre-tax profit	Increase/decrease of other comprehensive income	
Investments at following stock exchanges:				
Shanghai—Available-for-sale investment	251,332	-		12,567
Shenzhen—Available-for-sale investment	373,998	-		18,700

				RMB'000
2015	Book value of equity investment	Increase/decrease of pre-tax profit	Increase/decrease of other comprehensive income	
Investments at following stock exchanges:				
Shanghai—Available-for-sale investment	212,337	-		10,617
Shenzhen—Available-for-sale investment	270,044	-		13,502

### 1.2 Credit risk

Credit risk refers to the risk that one party of financial instruments is not able to perform obligations, which causes the financial loss of the other party. For fixed-income investment, credit risk is the risk of financial losses caused by the debtors who could not pay the principal or interest on time. For equity investment, it is the risk of losses incurred by the failure of the business operation of the invested companies.

Credit risks of the Group mainly result from all types of receivable and loans and advances to customers. In order to control the credit risks, the Group conducts transactions with authorized well-known third parties. In accordance with the Group's policy, all customers who need credit transactions are required to be assessed under credit review. In addition, the Group performs ongoing monitoring on accounts receivable balance to ensure that the Group will not face significant risks of bad debts. In the relevant sales settlement, the Group mainly requests full advances or deposit with delivery on cash. For only a few strategic clients, the Group applies lines of credit and deadlines of payment after credit assessments and transactions are settled via bank acceptance notes when possible. In the relevant purchase settlement, the Group mainly applies cash on demand and payment with credit to settle. Only for building contractors of construction object, part of demand of long-cycle constructions and resources in short supply, the Group provides a certain advance to suppliers subject to lines of credit and deadlines after they pass the credit assessments.

The disbursement of loans and advances of the Group is due to principal operations of Finance Co. and debtors are only limited to members of Baowu Group with a good credit assessment. The credit risk is controlled within an appropriate level.

The Group's credit risk of other financial assets and liabilities result from the default of the counterparties. When there is no collateral or other credit enhancement, the maximum credit exposure of the Group is the carrying amount of these financial instruments. The Group has not provided any form of guarantee which may put itself in a situation of risks. As at 31 December 2016, 22% of the receivables were due from the top five debtors, the Group is not found to be exposed to significantly intensive credit risks.

### 1.3 Liquidity risk

Liquidity risk is the risk that the Group may encounter deficiency of funds in meeting obligations associated with financial liabilities. The Group exercises trade financing, convertible loan notes, medium-term notes, long-term and short-term loans, other interest-bearing loans and other means to strike a balance between continuity and flexibility of financing. The Group also acquires sufficient credit from major financial institutions to satisfy short-term and long-term demands for funds. The Group monitors the short-term and long-term demands for funds on a real time basis to ensure the abundance of cash reserves and security for cash outflows at any time. Bonds issuance, medium-term notes and bank borrowings are the Group's main sources of fund. The Group's current liabilities exceed current assets at RMB 17.685billion. As at 31 December 2016, the Group has obtained unutilized bank loan facilities of approximately RMB121.889billion. Consequently, the management of the Company believes that no significant liquidity risk was noted for the Group.

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

### (X) FAIR VALUE DISCLOSURE

#### (X) FAIR VALUE DISCLOSURE

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. Fair value for measurement and disclosure purposes in the financial statements is determined on such a basis.

Fair values of the financial assets and financial liabilities are determined as follows:

The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active markets are determined with reference to quoted market bid prices and ask prices respectively;

The fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions;

The fair value of derivative instruments are determined with reference to quoted market prices. Where such quoted prices are not available, the fair value of a non-option-based derivative is estimated using discounted cash flow analysis and the applicable yield curve. For an option-based derivative, the fair value is estimated using option pricing model (for example, the binomial model).

Fair value measurements are categorized into 3 levels based on the degree to which the inputs to the fair value measurements are observable and the significances of the inputs to the fair value measurement in its entirety, which are described as follows:

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Level 1 to 3 based on the degree to which the fair value is observable.

Level 1 - those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities, including equity instruments (stocks, funds), listed securities, etc.;

Level 2 - those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3 - those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

I Closing balances of fair values of the financial assets and financial liabilities measured at fair value

Items	Closing Balance			RMB
	Level 1	Level 2	Level 3	Total
I. Fair value measurement on recurring basis				
1. Financial assets measured in fair value through profit or loss	982,885,872.64	139,977,912.03	-	1,122,863,784.67
Debt instrument investment	5,516,613.20	-	-	5,516,613.20
Equity instrument investment	977,369,259.44	-	-	977,369,259.44
(3) Derivative financial assets	-	139,977,912.03	-	139,977,912.03
2. Available-for-sale financial assets	3,528,644,773.06	-	-	3,528,644,773.06
Equity instrument investment	1,298,984,193.06	-	-	1,298,984,193.06
Debt instrument investment	2,229,660,580.00	-	-	2,229,660,580.00
Total assets measured at fair value on recurring basis	4,511,530,645.70	139,977,912.03	-	4,651,508,557.73
Total liabilities measured at fair value on recurring basis	-	35,161,856.12	-	35,161,856.12
- Derivative financial liabilities	-	35,161,856.12	-	35,161,856.12

There is no transfer between Level 1 and Level 2 for current year and prior year.

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

### (XI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

#### (XI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

##### 1. Parent of the Company

Name of Company	Place of incorporation	Legal representative	Nature of business	Registered capital RMB	Proportion of the Company's ownership interest held by the parent (%)	RMB
						Proportion of the Company's voting power held by the parent (%)
China Baowu Steel Group Corporation Limited (Note)	Shanghai	Ma Guoqiang	Iron and steel manufacturing & processing	52,791,100,998.89	70.05	70.05

Note: The formal parent company of the Company was Baosteel Group Co., Ltd. As at 22 September 2016, Baosteel Group and Wuhan Iron and Steel Group were jointly reorganized as approved by State-owned Assets Supervision and Administration Commission of the State Council in Notice on Reorganization of Baosteel Group and Wuhan Iron and Steel Group, and renamed as "China Baowu Steel Group Corporation Limited." after reorganization. Wuhan Iron and Steel Group was merged into Baowu Group as its wholly owned subsidiary without any consideration. The ultimate holding party of the Company is the State-owned Assets Supervision and Administration Commission of the State Council.

##### 2. Subsidiaries of the Group

Please refer to Note (VIII) for details of subsidiaries of the Group.

##### 3. Associates and joint ventures of the Group

The significant associates and joint ventures of the Group are set out in Note (VIII). Following presents the associates and joint ventures who had related party transactions with the Group and formed balances in current or prior period.

Name of associates and joint ventures	Relation with the Company
Wuxi Baojing Steel Processing and Delivery Co., Ltd. ("Wuxi Baojing")	Associate
Tianjin Baosteel Chuling Materials Delivery Co., Ltd. ("Tianjin BCM")	Associate
Firsttech Inc.	Associate
Beijing QKCT Information Technology Co., Ltd. ("Beijing Qingke")	Associate
Hangzhou Baowei Auto Parts Co., Ltd. ("Hangzhou Baowei")	Joint venture
Shandong Baohua Abrasion Resistant Steel Co., Ltd. ("Shandong Baohua")	Associate
Wuhan Baozhang Auto Steel Part Co., Ltd. ("Wuhan Baozhang")	Joint venture
Wuxi Baomeifeng Metal Processing and Delivery Co. Ltd. ("Wuxi Baomeifeng")	Associate



## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

## (XI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS- continued

## 4. Other related parties of the Group

Name of other related party	Relationship between other related parties and the Company
Baosteel Resources (International) Limited (Baosteel Resources (International))	Fellow subsidiary
Baosteel Metals Co., Ltd. and its subsidiaries( "Baosteel Metals and its subsidiaries" )	Fellow subsidiary
Baosteel Engineering Technology Group Co., Ltd. and its subsidiaries( "Engineering Technology Co., and its subsidiaries" )	Fellow subsidiary
Hwabao Trust Co., Ltd. (Hwabao Trust)	Fellow subsidiary
Hwabao Investment Co., Ltd. (Hwabao Investment)	Fellow subsidiary
Baosteel Group Baoshan Hotel (Baoshan Hotel)	Fellow subsidiary
Baosteel Development Co., Ltd. and its subsidiaries (Baosteel Development and its subsidiaries)	Fellow subsidiary
Baosteel Group Shanghai Pipes Co., Ltd. ("Pipes Co.")	Fellow subsidiary
Baosteel Group Shanghai Meishan Co., Ltd. and its subsidiaries (Meishan Steel and its subsidiaries)	Fellow subsidiary
Baosteel Group Shanghai Pudong Iron & Steel Co., Ltd. and its subsidiaries (Pudong Steel and its subsidiaries)	Fellow subsidiary
Baosteel Group Shanghai No.5 Iron & Steel Co., Ltd. and its subsidiaries (No. 5 Steel and its subsidiaries)	Fellow subsidiary
Baosteel Group Xinjiang Bayi Iron & Steel Co., Ltd. and its subsidiaries (Xinjiang Bayi and its subsidiaries)	Fellow subsidiary
Baosteel Resource Co., Ltd. and its subsidiaries (Baosteel Resource and its subsidiaries)	Fellow subsidiary
Shanghai Institute of Iron & Steel (Institute of Iron & Steel)	Fellow subsidiary
Guangdong Baosteel Real Estate Co., Ltd. (Guangdong Real Estate)	Fellow subsidiary
Baosteel Group Guangdong Shaoguan Iron & Steel Group Co., Ltd. and its subsidiaries (Shaoguan Steel and its subsidiaries)	Fellow subsidiary
Shanghai Baosteel Stainless Steel Co., Ltd. (Shanghai Stainless)	Fellow subsidiary
Baosteel Stainless Steel Co., Ltd. (Baosteel Stainless)	Fellow subsidiary
Baosteel Special Material Co., Ltd. and its subsidiaries (Baosteel Special Steel and its subsidiaries)	Fellow subsidiary
Baosteel Desheng Stainless Steel Co., Ltd. (Baosteel Desheng)	Fellow subsidiary
Shanghai Baohua International Tendering Co., Ltd. (Baohua Tendering)	Fellow subsidiary
Beijing Huili Property Development Co., Ltd. (Beijing Huili)	Fellow subsidiary
Shanghai Baosteel Technical and Economic Development Corporation (Technical & Economic Development Co., Ltd. and its subsidiaries)	Fellow subsidiary
Ningbo Baoxin Stainless Steel Co., Ltd. and its subsidiaries (Ningbo Baoxin and its subsidiaries)	Fellow subsidiary
Baosteel Australia Mining Co., Ltd. (Bao-Aus Mining)	Fellow subsidiary
Baosteel Group (Shanghai) Real Estate Co., Ltd.( Baosteel Real Estate)	Fellow subsidiary
Fujian Baosteel Real Estate Co., Ltd. (Fujian Real Estate)	Fellow subsidiary
Baosteel Hong Kong Investment Co., Ltd. (Baosteel Hong Kong)	Fellow subsidiary
Shanghai Baodi Real Estate Co., Ltd. (Baodi Real Estate)	Fellow subsidiary
Wuhan Iron & Steel (Group) Company and its subsidiaries (Wuhan Iron & Steel Group and its subsidiaries) (Note)	Fellow subsidiary
Shanghai Wusongkou Pioneer Park Co., Ltd. (Wusongkou)	Fellow subsidiary
Shanghai Baosteel Xinyue Human Resources Service Co., Ltd. (Xinyue)	Fellow subsidiary

Note: Disclosure of Wuhan Iron & Steel (Group) Company and its subsidiaries ("Wuhan Iron & Steel Group and its subsidiaries") are retrospective disclosure of amount incurred from transactions with related party and balances due from or to related parties, based on reorganization of Baosteel Group and Wuhan Iron & Steel Group included in scope of business combination involving enterprises under common control.

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

## (XI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS- continued

## 5. Related party transactions

Sales and purchases of goods, provision of services and receiving services

## (1) Sales of goods, provision and receipt of services

Related party	Transaction type	RMB'000	
		Amount for the current year	Amount for the prior year
		Amount	Amount
BNA	Steel and iron products, raw material and energy	9,961,171	8,185,653
Baosteel Resources (International)	Raw materials	3,915,533	1,241,693
Meishan Steel and its subsidiaries	Steel and iron products, energy, and spare parts	2,123,639	1,777,628
Baosteel Special Steel and its subsidiaries	Steel and iron products, raw materials, spare parts and energy	2,022,351	1,782,014
Baosteel Metals and its subsidiaries	Steel and iron products, energy, and spare parts	1,598,069	955,114
Baosteel Resource and its subsidiaries	Raw materials	1,565,368	360,000
Baosteel Stainless	Steel and iron product raw materials and spare parts and energy	809,631	1,457,496
Baosteel Development and its subsidiaries	Steel and iron products, spare parts and energy	735,517	743,880
Ningbo Baoxin and its subsidiaries	Steel and iron products and raw material	639,772	180,158
Engineering & Technology Co. and its subsidiaries	Steel and iron products, energy, and spare part	402,532	239,023
Guangzhou JFE	Steel and iron products and equipment	337,706	290,756
Weld Company	Steel and iron products and raw materials	263,720	328,703
Wuhan Iron & Steel Group and its subsidiaries	Steel and iron products	195,607	72,270
Shaoguan Steel and its subsidiaries	Energy and spare parts	152,567	164,592
Wuxi Baomit	Steel and iron products	75,585	81,198
Wuxi Baomeifeng	Steel and iron products	26,111	102
Shandong Baohua	Steel and iron products	21,030	-
Baowu Group (formerly named as "Baosteel Group")	Energy and spare parts	13,580	11,213
Hwabao Investment	Equipment	11,083	9,057
Hwabao Trust	Equipment	1,375	93
Shanghai Stainless	Raw materials	1,213	-
Baosteel Desheng	Energy and spare parts	592	8,201
Pudong Steel and its subsidiaries	Spare parts and equipment	-	32
Xinjiang Bayi and its subsidiaries	Steel and iron products and equipment	-	242
Tianjin BCM	Steel and iron products and raw material	-	70,886
Others	Energy, raw material and Spare parts	471	132
<b>Total</b>		<b>24,874,223</b>	<b>17,960,136</b>

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

## (XI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS- continued

## (2) Purchase of goods

Related party	Transaction type	RMB'000	
		Amount for the current year	Amount for the prior year
		Amount	Amount
BNA	Steel and iron products, energy and raw material	10,520,932	8,783,107
Baosteel Stainless	Steel and iron products	6,569,934	9,729,054
Baosteel Resource and its subsidiaries	Raw materials and energy	5,284,174	3,535,890
Ningbo Baoxin and its subsidiaries	Steel and iron products and energy	4,828,694	5,203,882
Baosteel Special Steel and its subsidiaries	Steel and iron products and energy	4,743,473	4,711,576
Shaoguan Steel and its subsidiaries	Steel and iron products	1,997,845	298,569
Engineering & Technology Co. and its subsidiaries	Raw materials and equipment	1,982,426	2,776,789
Baosteel Development and its subsidiaries	Steel and iron products, spare parts and energy	987,543	1,081,347
Meishan Steel and its subsidiaries	Raw materials and energy	698,808	737,259
Baosteel Desheng	Steel and iron products	610,253	466,155
Guangzhou JFE	Steel and iron products	570,312	554,570
Xinjiang Bayi and its subsidiaries	Steel and iron products	449,942	510,838
Wuhan Iron & Steel Group and its subsidiaries	Steel and iron products	433,881	22,231
Baosteel Resource International	Raw materials	416,265	37,592
Baosteel Metal and its subsidiaries	spare parts	392,289	379,991
Weld Company,	Steel and iron products and raw materials	12,945	153
Baowu Group(formerly named as “Baosteel Group” )	Fuels	4,056	4,459
Others	Spare parts, energy and etc.	1,490	2,283
<b>Total</b>		<b>40,505,262</b>	<b>38,835,745</b>

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

## (XI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS- continued

## (3) Provision of labor services

Related party	Related party transactions	RMB'000	
		Amount for the current year	Amount for the prior year
		Amount	Amount
Meishan Steel and its subsidiaries	Transportation services and technical supports	218,161	62,167
Baosteel Stainless	Transportation services and technical supports	145,908	114,850
Engineering & Technology Co. and its subsidiaries	Technical supports	112,034	59,911
Baosteel Resource and its subsidiaries	Transportation services and technical supports	76,134	86,763
Baosteel Special Material and its subsidiaries	Process, technical and transportation services	58,981	97,489
Baowu Group(formerly named as "Baosteel Group")	Technical supports	56,920	30,384
Hwabao Investment	Technical supports and examination and maintenance services	43,218	23,679
Baosteel Stainless	Technical supports	38,758	98,480
Shaoguan Steel and its subsidiaries	Technical supports	32,187	56,280
Xinjiang Bayi and its subsidiaries	Technical supports	28,717	38,014
Baosteel Development and its subsidiaries	Transportation services and technical supports	26,457	33,735
Ningbo Baoxin and its subsidiaries	Technical supports	26,103	19,012
Baosteel Resources (International)	Technical supports	25,968	17,319
Guangzhou JFE	Technical supports	21,913	219
Baosteel Metal and its subsidiaries	Transportation services and technical supports	19,827	22,387
Fortune Trust	Technical supports	16,901	12,601
Baosteel Desheng	Technical supports	12,641	15,866
Beijing Huili	Technical supports	7,137	461
Baodi Real Estate	Technical supports	3,655	824
Baohua Tendering	Technical supports	3,536	1,901
Weld Company	Technical supports	1,693	2,061
Wuhan Iron & Steel Group and its subsidiaries	Transportation services	1,254	-
No. 5 Steel and its subsidiaries	Technical supports	403	227
Pudong Steel and its subsidiaries	Technical supports	378	330
Baosteel Resource International	Transportation services	22,746	207,015
Others	Transportation services and technical supports	1,077	6,122
<b>Total</b>		<b>1,002,707</b>	<b>1,008,097</b>

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

## (XI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS- continued

## (4) Receipt of services

Related party	Transaction type	RMB'000	
		Amount for the current year	Restated Amount for the prior year
		Amount	Amount
Engineering & Technology Co. and its subsidiaries	Project, examination, and maintenance fees	1,987,367	2,240,140
Baosteel Development and its subsidiaries	Logistics, project, transportation, examination, and maintenance fees	1,334,647	1,703,452
Meishan Steel and its subsidiaries	Logistics, project, transportation, examination, and maintenance fees	1,032,758	1,369,888
Baosteel Resource and its subsidiaries	Project, examination, and maintenance fees	614,698	526,935
BNA	Logistics, project, transportation, examination, and maintenance fees	121,056	220,533
Firsttech	Logistics, project, transportation, examination, and maintenance fees	47,745	36,592
Baowu Group(formerly named as "Baosteel Group")	Transportation fees	33,903	52,241
Baosteel Stainless	Processing fees	22,686	8,935
Baosteel metal and its subsidiaries	Education and training fees	3,562	8,251
Baosteel Resource International	Technical service fees	8,199	16,862
Weld Company	Project and logistics fees	4,711	1,139
Fortune Trust	Administration fees	1,625	1,394
Baohua Tendering	Transportation fees	2,548	2,454
Baosteel Special Material and its subsidiaries	Project service fees	2,525	13,814
Ningbo Baoxin and its subsidiaries	Other services fees	1,148	605
No. 5 Steel and its subsidiaries	Logistics fees	1	1,530
Bao-Island Enterprise	Labor outsource service fees	177,040	107,234
Wuhan Iron & Steel Group and its subsidiaries	Transportation fees	47,926	-
Others	Logistics fees	4,724	1,056
<b>Total</b>	<b>Logistics and transportation service fees</b>	<b>5,448,869</b>	<b>6,313,055</b>

## (5) Other related party transactions

Items	Note	RMB'000	
		Amount for the current year	Amount for the prior year
Rental expenses of land, property and automobile	1	343,596	399,856
Rental income of property land and equipment	1	77,130	33,729
Financial service and interest expenses	3	171,796	253,030
Financial service and interest income	2	45,385	155,573

Note 1: When the Company was established, the Company signed a twenty-year agreement with Baowu Group for the lease of the plant site land use right. In September 2001, the Company entered into a further twenty-year lease agreement with Baowu Group for the use of the land for the plant site for assets acquired for Phase 3. In November 2002, the Company signed a new twenty-year lease agreement with Baowu Group for the land use of the plant site for assets in custody due to acquisitions. In November 2010, the Company signed a supplementary agreement with Baowu Group for the increase of land use expenses due to increment of land use tax. In year 2016, land use right lease expense of the Company amounted to RMB234,186,471 (2015: RMB234,186,471).

The Group leased properties from such related parties as Baowu Group, BNA, Baosteel Metal, lease equipment from Baosteel Stainless, leased vehicles from Baosteel Development and its subsidiaries and Baosteel Metal and its subsidiaries; in the meantime, the Group leased properties to BNA and Baosteel Resources and its subsidiaries, leased land use right to BNA. These leases are priced at negotiated price.

Note 2: The Group provided, via Finance Co., one of its subsidiaries, with loans, discounting and entrusted financing services to Baowu Group and its subsidiaries, and hereby obtained interest income, discounting income and fees from entrusted financing.

Note 3: The Group collected deposits from Baowu Group and its subsidiaries, and paid interest expenses at the RMB interest rate on saving as stipulated by the People's Bank of China.

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

## (XI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS- continued

## (6) Related entrust

Detailed related entrust of the Group:

RMB'000

Entrustor	Entrustee	Type of entrusted asset	Closing balance	Accumulated amount during current period	Income during current period
Baoshan Iron & Steel Co.	Hwabao Trust	Trust Plan	5,408,778	14,848,000	186,676

## 6. Amounts due from / to related parties

## (1) Notes receivable

RMB'000

Item	Related party	Closing balance		Opening balance	
		Carrying balance	Provision	Carrying balance	Provision
Note receivable	Baosteel Metal and its subsidiaries	404,031	-	85,568	-
Note receivable	Baosteel Special Steel and its subsidiaries	268,417	-	274,390	-
Note receivable	Baosteel Development and its subsidiaries	87,537	-	39,157	-
Note receivable	Meishan Steel and its subsidiaries	26,686	-	900	-
Note receivable	Engineering & Technology Co. and its subsidiaries	23,980	-	23,502	-
Note receivable	Shaoguan Steel and its subsidiaries	21,980	-	47,176	-
Note receivable	Guangzhou JFE	4,920	-	288	-
Note receivable	Baosteel Resource and its subsidiaries	3,957	-	500	-
Note receivable	Xinjiang Bayi and its subsidiaries	2,962	-	2,100	-
Note receivable	Shandong Baohua	2,526	-	-	-
Note receivable	Wuhan Iron & Steel Group and its subsidiaries	1,200	-	-	-
Note receivable	Baosteel Desheng	-	-	100	-
Note receivable	Ningbo Baoxin and its subsidiaries	-	-	7,206	-
Note receivable	Others	99	-	2,244	-
	Total	848,295	-	483,131	-

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

## (XI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS- continued

## (2) Accounts receivable

RMB'000

Item	Related party	Closing balance		Opening balance	
		Carrying balance	Provision	Carrying balance	Provision
Account receivable	Meishan Steel and its subsidiaries	911,439	-	464,442	-
Account receivable	Baosteel Special Material and its subsidiaries	529,057	-	356,413	-
Account receivable	BNA	212,387	-	152,377	-
Account receivable	Engineering & Technology Co. and its subsidiaries	144,838	-	137,454	-
Account receivable	Baosteel Stainless	103,954	-	138,277	-
Account receivable	Baosteel Development and its subsidiaries	87,989	-	76,873	-
Account receivable	Xinjiang Bayi and its subsidiaries	85,436	-	78,489	-
Account receivable	Baosteel Resource and its subsidiaries	37,599	-	103,932	-
Account receivable	Shaoguan Steel and its subsidiaries	33,480	-	86,068	-
Account receivable	Ningbo Baoxin and its subsidiaries	21,615	-	13,146	-
Account receivable	Baosteel Metal and its subsidiaries	17,260	-	18,048	-
Account receivable	Wuhan Iron & Steel Group and its subsidiaries	10,751	-	-	-
Account receivable	Baosteel Desheng	11,192	-	12,477	-
Account receivable	Guangzhou JFE	14,138	-	8,708	-
Account receivable	Baosteel Resource(International)	10,371	-	-	-
Account receivable	Hwabao Investment	3,984	-	3,669	-
Account receivable	Baodi Real Estate	3,245	-	135	-
Account receivable	Baowu Group(formerly named as "Baosteel Group")	2,479	-	14,266	-
Account receivable	Beijing Qingke	1,530	-	1,314	-
Account receivable	Fortune Trust	1,010	-	10,077	-
Account receivable	Weld Company	356	-	27,180	-
Account receivable	Others	8,610	-	1,262	-
	Total	2,252,720	-	1,704,607	-

## (3) Prepayments

RMB'000

Item	Related party	Closing balance	Opening balance
Prepayments	BNA	554,139	986,836
Prepayments	Shaogang Steel and its subsidiaries	477,122	240,611
Prepayments	Xinjiang Bayi and its subsidiaries	236,486	91,343
Prepayments	Baosteel Resource and its subsidiaries	166,615	107,173
Prepayments	Wuhan Iron & Steel Group and its subsidiaries	88,836	148
Prepayments	Engineering & Technology Co. and its subsidiaries	48,004	81,632
Prepayments	Baosteel Metal and its subsidiaries	45,717	33,176
Prepayments	Guangzhou JFE	37,779	37,015
Prepayments	Baosteel Stainless	25,199	82,191
Prepayments	Baosteel Development and its subsidiaries	23,856	-
Prepayments	Wuhan Baozhang	21,740	-
Prepayments	Baosteel Special Material and its subsidiaries	19,559	7,343
Prepayments	Meishan Steel and its subsidiaries	14,725	9,533
Prepayments	Baosteel Desheng	1,216	-
Prepayments	Ningbo Baoxin and its subsidiaries	-	90,637
Prepayments	Others	2,202	134
	Total	1,763,195	1,767,772

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

## (XI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS- continued

## (4) Interest receivables

		RMB'000	
Item	Related party	Closing balance	Opening balance
Interest receivable	Baosteel Stainless (note)	76,203	168,115
Interest receivable	Baosteel Special Steel (note)	55,687	122,853
Interest receivable	Others	231	-
	Total	132,121	290,968

Note: Interest receivables from Baosteel Stainless and Baosteel Special Material refer to Note (VI). 6(1).

## (5) Other receivables

		RMB'000	
Item	Related party	Closing balance	Opening balance
Other receivable	Hwabao Investment	20,500	-
Other receivable	Baosteel Development and its subsidiaries	10,654	11,462
Other receivable	Meishan Steel and its subsidiaries	6,208	3,389
Other receivable	Baowu Group (formerly named as "Baosteel Group")	3,826	5,960
Other receivable	Fortune Trust	2,997	3,231
Other receivable	Xinjiang Bayi and its subsidiaries	2,042	692
Other receivable	Baohua Tendering	1,692	1,753
Other receivable	Shaoguan Steel and its subsidiaries	1,166	2,020
Other receivable	Weld Company	1,109	1,166
Other receivable	Engineering & Technology Co. and its subsidiaries	342	-
Other receivable	Ningbo Baoxin and its subsidiaries	135	126
Other receivable	Baosteel Special Steel and its subsidiaries	9	171
Other receivable	Baosteel Stainless	2	20,119
Other receivable	Others	2,992	4,666
	Total	53,674	54,755

## (6) Non-current assets due within one year

		RMB'000	
Item	Related party	Closing balance	Opening balance
Non-current assets due within one year	Baosteel Stainless (Note)	2,600,000	2,600,000
Non-current assets due within one year	Baosteel Special Steel (Note)	1,900,000	1,900,000
	Total	4,500,000	4,500,000

Note: Details of non-current assets due within one year from Baosteel Stainless and Baosteel Special Steel receivable refer to Note (VI). 11(1).



## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

## (XI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS- continued

## (7) Loans and advances to customers

RMB'000

Item	Related party	Closing balance	Opening balance
Loans and discounts to customers	Baosteel Resource and its subsidiaries	296,503	350,715
Loans and discounts to customers	Engineering & Technology Co. and its subsidiaries	139,257	62,197
Loans and discounts to customers	Baosteel Metal and its subsidiaries	32,000	32,000
Loans and discounts to customers	Xinjiang Bayi and its subsidiaries	-	500,000
Loans and discounts to customers	Weld Company,	50,000	80,000
Loans and discounts to customers	Shaoguan Steel and its subsidiaries	-	149,127
	Total	517,760	1,174,039

## (8) Long-term receivables

RMB'000

Item	Related party	Closing balance	Opening balance
Long-term receivables	Baosteel Stainless(Note)	-	2,600,000
Long-term receivables	Baosteel Special Steel (Note)	-	1,900,000
Long-term receivables	Engineering & Technology Co. and its subsidiaries	-	3,750
	Baosteel Stainless(Note)	-	4,503,750

Note: Details of non-current assets due within one year receivables from Baosteel Stainless and Baosteel Special Material refer to Note (VI). 15(1).

## (9) Customer deposits and deposits from banks and other financial institutions

RMB'000

Item	Related party	Closing balance	Opening balance
Customer deposits and deposits from banks and other financial institutions	Baowu Group(formerly named as "Baosteel Group")	8,250,821	8,150,003
Customer deposits and deposits from banks and other financial institutions	BNA	374,231	910,436
Customer deposits and deposits from banks and other financial institutions	Fortune Trust	358,706	170,637
Customer deposits and deposits from banks and other financial institutions	Shaoguan Steel and its subsidiaries	100,430	190,321
Customer deposits and deposits from banks and other financial institutions	Institute of Steel and Iron	53,099	51,002
Customer deposits and deposits from banks and other financial institutions	Baosteel Resource and its subsidiaries	39,742	58,217
Customer deposits and deposits from banks and other financial institutions	Baosteel Development and its subsidiaries	20,104	137,219
Customer deposits and deposits from banks and other financial institutions	Engineering & Technology Co. and its subsidiaries	4,265	27,716
Customer deposits and deposits from banks and other financial institutions	Fortune Investment	292	160,006
Customer deposits and deposits from banks and other financial institutions	Others	21,166	45,501
	Total	9,222,856	9,901,058

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

## (XI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS- continued

## (10) Notes payable

RMB'000

Item	Related party	Closing balance	Opening balance
Notes payable	Baosteel Resource and its subsidiaries	1,282,680	399,302
Notes payable	BNA	644,486	805,214
Notes payable	Engineering & Technology Co. and its subsidiaries	150,169	175,050
Notes payable	Ningbo Baoxin and its subsidiaries	146,692	150,608
Notes payable	Baosteel Stainless	73,599	54,707
Notes payable	Baosteel Special Steel and its subsidiaries	21,648	19,475
Notes payable	Wuhan Iron & Steel Group and its subsidiaries	10,808	-
Notes payable	Meishan Steel and its subsidiaries	-	32,726
Notes payable	Xinjiang Bayi and its subsidiaries	-	6,040
Notes payable	Shaoguan Steel and its subsidiaries	-	1,451
	Total	2,456,618	1,748,361

## (11) Accounts payable

RMB'000

Item	Related party	Closing balance	Opening balance
Account payable	Engineering & Technology Co. and its subsidiaries	1,024,011	820,478
Account payable	Meishan Steel and its subsidiaries	618,233	730,804
Account payable	Baosteel Resource and its subsidiaries	571,988	450,535
Account payable	Shanghai Stainless	414,094	878,033
Account payable	Baosteel Development and its subsidiaries	351,414	349,414
Account payable	Baosteel Special Steel and its subsidiaries	329,652	143,378
Account payable	Baowu Group(formerly named as "Baosteel Group")	250,563	5,599
Account payable	Ningbo Baoxin and its subsidiaries	187,365	403,923
Account payable	Shaoguan Steel and its subsidiaries	76,635	16,388
Account payable	BNA	70,777	148,273
Account payable	Baosteel Metal and its subsidiaries	22,013	20,272
Account payable	Xinjiang Bayi and its subsidiaries	9,490	27,317
Account payable	Weld Company	2,757	14,468
Account payable	Wuhan Iron & Steel Group and its subsidiaries	2,218	1,460
Account payable	Others	2,037	1,556
	Total	3,933,247	4,011,898

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

## (XI) RELATED PARTY RELATIONSHIPS AND TRANSACTIONS- continued

## (12) Receipts in advance

RMB'000

Item	Related party	Closing balance	Opening balance
Receipts in advance	Baosteel Metal and its subsidiaries	342,208	229,862
Receipts in advance	Wuhan Iron & Steel Group and its subsidiaries	22,771	-
Receipts in advance	Guangzhou JFE	67,042	42,850
Receipts in advance	Baosteel Development and its subsidiaries	36,866	46,295
Receipts in advance	Engineering & Technology Co. and its subsidiaries	24,210	20,351
Receipts in advance	Xinjiang Bayi and its subsidiaries	22,377	10,593
Receipts in advance	Welding Co	16,290	1,428
Receipts in advance	Shaoguan Steel and its subsidiaries	14,324	193
Receipts in advance	Hangzhou Baowei	-	79,614
Receipts in advance	Meishan Steel and its subsidiaries	13,989	73,859
Receipts in advance	Wuxi Baomit	11,019	6,402
Receipts in advance	Baosteel Special Steel and its subsidiaries	6,623	6,608
Receipts in advance	Ningbo Baoxin and its subsidiaries	4,194	4,649
Receipts in advance	Baosteel Stainless	1,878	7,731
Receipts in advance	Baosteel Desheng	1,105	131
Receipts in advance	Baosteel Resource and its subsidiaries	771	3,494
Receipts in advance	No. 2 Steel and its subsidiaries	200	200
Receipts in advance	Pudong Steel and its subsidiaries	153	153
Receipts in advance	Tianjin BCM	14	1,263
Receipts in advance	Others	47,346	33,268
	Total	633,380	568,944

## (13) Interest payable

RMB'000

Item	Related party	Closing balance	Opening balance
Interest payable	Baowu Group(formerly named as "Baosteel Group")	92,441	55,616
Interest payable	Hwabao Trust	2,438	-
Interest payable	Institute of Steel and Iron	444	434
Interest payable	Others	142	647
	Total	95,465	56,697

## (14) Other payables

RMB'000

Item	Related party	Closing balance	Opening balance
Other payable	Meishan Steel and its subsidiaries	8,826	924
Other payable	Baowu Group(formerly named as "Baosteel Group")	5,911	5,842
Other payable	Xinjiang Bayi and its subsidiaries	2,526	-
Other payable	Engineering & Technology Co. and its subsidiaries	2,314	3,449
Other payable	Baosteel Development and its subsidiaries	2,255	2,085
Other payable	Baosteel Resource and its subsidiaries	2,104	2,108
Other payable	Baosteel Metal and its subsidiaries	680	665
Other payable	Baosteel Special Steel and its subsidiaries	200	200
Other payable	No. 5 Steel and its subsidiaries	-	3
Other payable	Others	507	313
	Total	25,323	15,589

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

(XII) SHARE-BASED PAYMENTS

### (XII) SHARE-BASED PAYMENTS

#### 1. Summary of share-based payments

The interim shareholder meeting of the Company approved Restricted A Share Scheme, First Phase Granting Proposal of Restricted A Share Scheme and a series of proposals (hereinafter referred to as "Restricted Share Scheme") on 20 May 2014, and in succession, the Company approved The Proposal for Determining Participants and Grant Quantity of Restricted Share Scheme and First Phase Granting Proposal of Restricted Share Scheme in the 5th session of 15th board meeting on 22 May 2014. According to the approved incentive participants list and granting quantity, the Company granted the repurchased a share from Shanghai Stock Exchange as the restricted shares to incentive participants via open bidding. In compliance with Restricted Share Scheme, the restricted shares are forbidden to sell nor transfer in the following 2 years upon granting date, and get unlocked in the following 3 years from the next day of the maturity of forbidden period. The incentive participants can apply for unlocking and transferring the restricted shares on uniform unlocking proportion (1/3 for each year) in any of the three years given unlocking conditions are satisfied. If unlocking conditions fail to be satisfied in any one of the three years, the Company shall repurchase such unlocked restricted shares at grant price.

As of 11 June 2014, the Company repurchased 47,446,100 shares for share incentive scheme at cost of RMB187,734,750.08. The repurchased shares are designated into treasury stocks.

According to first phase granting proposal, there are 136 incentive participants, with granting price of RMB1.91/share and quantity of 47,446,100 shares. The incentive participants totally paid RMB 90,622,051.00 for acquisition of restricted shares. The Company recognized repurchase obligation for restricted share in liability and treated as acquisition of treasury stocks. As of 24 June 2014, the 47,446,100 non-restricted circulating stocks granted in the first phase had fully changed into restricted circulating stocks, and all the corresponding transfers of ownership had completed.

The Company repurchased and cancelled restricted shares which unqualified to be unlocked at cost of RMB 1,334,899.00 from Mr. Zhang Yong and Ms. Zhang Xiaobo, 434,400 shares and 264,500 shares respectively. The ownership of above mentioned 698,900 shares has been fully transferred to the special repurchase account of the Company and been cancelled on 16 December 2014. Meanwhile, the Company decreased share capital and capital reserve RMB698,900 and RMB635,999 respectively.

In 2015, the Company repurchased and cancelled 3,508,500 shares of restricted shares which unqualified to be unlocked, namely 488,700 shares from Mr. Li Shiping, 434,400 shares from Mr. Fu Jianguo, 434,400 shares from Ms. Hu Yuliang, 380,100 shares from Ms. Jia Yiyun, and 264,500 shares from Pei Shibin, Sun Dale and Lu Junyong respectively, and 488,700 shares from Guo Bin and Hou Angui respectively. The ownership of above mentioned 3,508,500 shares has been fully transferred to the special repurchase account of the Company and been cancelled in 2015. Meanwhile, the Company decrease RMB 3,508,500 of share capital and the registered capital reduced to RMB16,467,517,524.

In 2016, the Company repurchased and cancelled restricted shares which unqualified to be unlocked, namely 325,800 shares from Ms Jiang Laizhu, 264,500 shares from Mr. Huang Aijun, 1,592,800 shares from Zhao Zhouli and other 4 persons, 724,000 shares from Wei Chengwen, Zhu Jianchun and Wang Huaqiang. In addition, the Company cancelled 14,216,800 shares unqualified to be unlocked according to the Proposal for Repurchase of First Restricted Share Scheme Unqualified to be Unlocked approved in the 7th session of 6th board meeting on 28 April 2016. The ownership of above mentioned 17,123,900 shares has been fully transferred to the special repurchase account of the Company and deregistered in 2016. Meanwhile, the Company decrease RMB 17,123,900.00 of share capital and the registered capital reduced to RMB 16,450,393,624.

Total number of the Company's equity instruments granted during the period	-
Total number of the Company's equity instruments vested during the period	-
Total number of the Company's equity instruments lapsed during the period	17,123,900.00 shares

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

### 2. Equity-settled share-based payments

RMB

The method of determining the best estimate of the number of equity instruments expected to be vested	Determining by performance evaluation of each unlocking period for restricted share scheme	
Vest conditions	Determining by unlocking conditions of each unlocking period for restricted share scheme	
Total equity-settled share-based payment for employees' services		39,448,979.56
Accumulated equity-settled share-based payment recognized in capital reserve		29,938,611.36
Total equity-settled share-based payment		9,485,805.45

### 3. The method of determining the fair value of equity instruments at the grant date

On the basis of Black-Scholes Option Pricing Model, the fair value of the Company's equity instrument is assessed in respect of market price of stock on granting date and terms and conditions of option granting. Following presents input variables for the model.

Estimate volatility (%)	18.3-22.9
Risk-free interest rate (%)	2.7-2.9
Estimated lock period( year)	2-5
Stock price at granting date(RMB/share)	3.86

Volatility refers to the historic stock price volatility; estimated lock period is assessed on the basis of annual share transfer ratio of incentive participants, however, it is not always the actual result.

The fair value of restricted share on granting date is set out as below:

Lockable restricted shares in the first year upon maturity of forbidden period	RMB3.59/share
Lockable restricted shares in the second year upon maturity of forbidden period	RMB3.51/share
Lockable restricted shares in the third year upon maturity of forbidden period	RMB3.36/share

## (XIII) COMMITMENTS

### 1. Significant commitments

#### (1) Capital commitments

RMB'000

	Closing balance	Opening balance
Capital commitments that have been entered into but have not been recognized in the financial statements:		
Contracted but not provided	18,425,276	15,863,814
Approved by the Board but not contracted	2,322,154	2,715,314
Total	20,747,430	18,579,128

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

### (2) Operating lease commitments

At the balance sheet date, the Group had the following commitments in respect of non-cancellable operating leases:

	Closing balance	Opening balance
RMB'000		
Minimum lease payments under non-cancellable operating leases:		
1st year subsequent to the balance sheet date	331,375	401,927
2nd year subsequent to the balance sheet date	298,727	382,436
3rd year subsequent to the balance sheet date	287,927	351,049
Subsequent periods over 3 years	555,423	1,238,037
<b>Total</b>	<b>1,473,452</b>	<b>2,373,449</b>

### 2. Contingencies

At the balance sheet date, the Group had no contingencies that need to be disclosed.

## (XIV) EVENTS AFTER THE BALANCE SHEET DATE

### 1. Repurchase of restricted shares

According to the Proposal for Adjustment of Incentive Participants of Restricted Share Scheme as approved in the 14th session of 6th board meeting of the Company, the Company repurchased from the incentive participant Zhu Hanming at the cost of granting price 253,400 shares of restricted shares which were unqualified to be unlocked in the First Phase Granting Proposal of Restricted A Share Scheme, and cancelled all of such shares. At present, the 253,400 shares of restricted shares has been fully transferred to the account of the Company and been cancelled on 7 February 2017.

### 2. Share conversion for Merger

Pursuant to the Promulgated Announcement on the Implementation of Share Conversion for Merger issued by the Company on 17 February 2017, the merger of Wuhan Iron & Steel Co., Ltd. ("Wuhan Iron & Steel Company") by the Company (the "Merger") has fulfilled internal decision procedures of the Company and Wuhan Iron & Steel Company respectively and been approved by China Securities Regulatory Commission ("CSRC") in Reply to Approve the merge of Wuhan Iron & Steel Co., Ltd. by Baoshan Iron & Steel Co., Ltd. (Zheng Jian Xu Ke [2016] No.3199) and all other competent regulatory authorities. The registration date of share conversion for the Merger is 14 February 2017. At the closing of such registration date, shares of Wuhan Iron & Steel Company held by its shareholders will be converted to shares of the Company at a proportion of 1:0.56, namely, one share of Wuhan Iron & Steel Co., Ltd. can be converted to 0.56 share of the Company. New shares of the Company involved in the Merger were registered on 17 February 2017. For the Merger, the Company newly issued 5,652,516,701 A shares, which were unrestricted tradable shares and listed on 27 February 2017.

When the Merger is completed, all shares of Wuhan Iron & Steel Company will be controlled by the Company.

### 3. Distribution of dividends

In accordance with the 17th session of the 6th board of directors held in 27 April 2017, the Company intends to distribute cash dividends at RMB 0.21 per share (inclusive of tax) on the basis of 22,102,656,925 shares to all shareholders registered in the dividend distribution announcement at the equity registration date. The distributed dividends in total accounts for approximate 51.77% of net profits attributable to shareholders of the Company in 2016 consolidated financial statements. The aforementioned distribution plan is still in need of the approval in the general shareholder meeting.

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

### (XV) OTHER SIGNIFICANT EVENTS

#### 1. Key terms of annuity plan and major changes therein

In accordance with the Reply to Baosteel Group's Application for Trial Enterprise Annuity Plan (Guo Zi Fen Pei [2008] No. 1268), by the State-owned Asset Supervision and Administration Commission of the State Council (SASAC), and the Announcement of Proportion in Enterprise Annuity Plan by the Human Resource Department of Baosteel Group, the annuity plan has been practiced in the Company since 1 January 2008. The portion assumed by the Company is 4% of the base amount of the individual salary, while the portion by the individual is 1%-7% of the base amount (1% of primary portion and no more than 6% of additional portion). The above annuity has been managed by Baosteel Group's subsidiary, Huabao Trust Co., Ltd. since 2009.

#### 2. Segment reporting

According to the Group's internal organization structure, management requirement and internal report system, the business segment is divided into 6 operating segments based on their operating activities. Six reporting segments are determined based on these operating segments. The group divided its reporting segments into steel and iron, processing and distribution, information technology, E-commerce, chemical and finance. As day-to-day activities of the Finance Co. are financial in nature, the investment income of Finance Co. has been included in the segment business income. The main products and services that each report segment provides are as follows:

Subsidiaries of each segment:

- (1) Iron & steel manufacturing: the Company, Meishan Steel, Yantai Baosteel, Huangshi Coating & Galvanizing, Yantai Baosteel, Baoma Tube, Poly Pipe, Zhanjiang Iron & Steel and other steel and iron producing units;
- (2) Processing and distribution: Baosteel International, Baosteel America, Baosteel Europe, Baosteel Singapore, Howa Trading, Bao-trans, BGM and other trading subsidiaries;
- (3) Information technology: Baosight Software.
- (4) E-commerce: Ouyeel and Huagongbao
- (5) Chemical: Baosteel Chemical
- (6) Finance: Finance Co.,

For disclosure of the Group's operating data, the revenues are classified and disclosed in the region where the customers are situated, and the assets are classified and disclosed in the region where the assets are situated.

Financial expenses, impairment losses of assets, gains or losses from changes in fair value and investment income (excluding Finance Co.) have been excluded from the segment business profit. The deferred tax assets are not included in the segment assets, while short-term borrowings, non-current liabilities due within one year, long-term borrowings, long-term payables, bonds payable, and deferred tax liabilities have not been included in the segment liabilities.

Segment reports are disclosed according to internal accounting policies and measuring standards, which are consistent with the policies and standards used in preparing financial statements.

The sales to individual customer of the Group has not accounted for more than 10% of the total revenue.

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

### (1) Segment information

RMB'000

	Iron & steel manufacturing		Processing and distribution		Information technology		E-commerce		Chemical		Finance		Inter-segment eliminations		Total	
	Current year	Prior year	Current year	Prior year	Current year	Prior year	Current year	Prior year	Current year	Prior year	Current year	Prior year	Current year	Prior year	Current year	Prior year
Operating income																
External revenue	24,646,783	18,607,162	121,578,136	120,380,933	2,666,422	2,276,194	33,797,319	19,869,055	2,764,354	2,650,257	383,515	455,487	-	-	185,836,529	164,239,088
Inter-segment revenue	78,596,655	78,208,743	36,613,825	20,308,619	1,289,669	1,661,491	4,955,856	192,234	4,894,437	4,976,393	146,844	172,945	(126,497,286)	(105,520,425)	-	-
Total segment operating income	103,243,438	96,815,905	158,191,961	140,689,552	3,956,091	3,937,685	38,753,175	20,061,289	7,658,791	7,626,650	530,359	628,432	(126,497,286)	(105,520,425)	185,836,529	164,239,088
Operating expenses	92,832,193	94,894,945	155,364,825	138,188,868	3,621,534	3,659,253	39,113,243	20,261,354	7,411,730	7,549,093	332,448	391,809	(126,247,709)	(105,514,070)	172,428,264	159,431,252
Operating profit	10,411,245	1,920,960	2,827,136	2,500,684	334,557	278,432	(360,068)	(200,065)	247,061	77,557	197,911	236,623	(249,577)	(6,355)	13,408,265	4,807,836

RMB'000

	Iron & steel manufacturing		Processing and distribution		Information technology		E-commerce		Chemical		Finance		Inter-segment eliminations		Total	
	Current year	Prior year	Current year	Prior year	Current year	Prior year	Current year	Prior year	Current year	Prior year	Current year	Prior year	Current year	Prior year	Current year	Prior year
Total segment assets	252,732,735	213,557,552	60,982,912	51,829,534	6,791,534	6,326,394	14,343,073	3,970,024	5,256,269	4,971,435	15,023,814	14,258,585	(88,522,316)	(62,311,333)	266,608,021	232,602,191
Total segment liabilities	118,888,965	55,758,099	34,228,009	24,117,298	2,581,355	2,323,754	8,429,222	1,463,254	1,539,082	1,205,991	13,118,771	12,428,100	(103,264,977)	(41,091,953)	75,520,427	56,204,543
Supplementary information:																
Depreciation and amortization	11,130,401	9,902,532	587,461	549,689	127,819	99,354	82,033	38,031	382,846	354,442	9,423	8,167	-	-	12,319,983	10,952,215
Impairment loss recognized in the Current year	2,944,253	1,144,855	336,947	231,513	14,260	23,575	18,417	(289)	124,664	51,095	34,812	80,697	(2,492,669)	46,572	980,684	1,578,018
Capital expenditures	14,295,837	24,978,185	861,492	639,549	563,489	573,165	241,228	228,838	216,316	493,493	7,760	6,691	-	-	16,186,122	26,919,921

### (2) External revenue by geographical area of source and non-current assets by geographical location

RMB'000

Item	Amount for the current year	Amount for the prior year
External revenue from domestic customers	162,082,779	142,714,545
External revenue from foreign customers	23,753,750	21,524,543
Sub-total	185,836,529	164,239,088



## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

RMB'000

Item	Closing balance	Opening balance
Non-current assets located in domestic country	162,086,853	162,207,582
Non-current assets located in foreign countries	3,686,343	2,012,581
Sub-total	165,773,196	164,220,163

External revenue includes:

RMB'000

Item	Amount for the current year	Amount for the prior year
Investment income of Finance Co.	126,241	121,952

The items excluding segment profit, segment assets and segment liabilities are set out as follows:

The segment profit does not include:

RMB'000

Item	Amount for the current year	Amount for the prior year
Financial expenses	2,185,972	2,392,567
Impairment losses of assets	980,684	1,486,730
Losses from changes in fair values	102,812	(5,658)
Investment income (excluding Finance Co.)	(1,250,836)	(916,255)
Total	2,018,632	2,957,384

Segment assets do not include:

RMB'000

Item	Closing balance	Opening balance
Deferred tax assets	1,374,791	1,520,956

Segment liabilities do not include:

RMB'000

Item	Closing balance	Opening balance
Short-term borrowings	27,753,835	27,111,032
Non-current liabilities due within one year	154,697	208,115
Other current liabilities	18,053,795	10,057,344
Long-term borrowings	296,464	9,111,026
Long-term payables	49,879	82,586
Bonds payable	14,076,921	8,747,374
Deferred tax liabilities	655,512	454,702
Total	61,041,103	55,772,179

Notes To The Financial Statements – continued  
FOR THE YEAR ENDED 31 DECEMBER 2016

(XVI) NOTES TO KEY ITEMS IN THE COMPANY'S FINANCIAL STATEMENTS

1. Accounts receivable

(1) Disclosure of accounts receivable by categories:

RMB

Category	Closing balance					Opening balance				
	Carrying amount		Bad debt provision		Book value	Carrying amount		Bad debt provision		Book value
	Amount	Proportion (%)	Amount	Proportion (%)		Amount	Proportion (%)	Amount	Proportion (%)	
Accounts receivable that are individually significant and for which bad debt provision has been assessed individually	17,645,736,286.64	85	-	-	17,645,736,286.64	12,575,050,722.06	86	-	-	12,575,050,722.06
Accounts receivables with provision accrued according to credit risk characteristic portfolios	2,986,212,051.70	15	14,778,541.10	-	2,971,433,510.60	1,967,783,259.80	14	14,044,314.84	1	1,953,738,944.96
Accounts receivable that are not individually significant but for which bad debt provision has been assessed individually	22,361,492.44	-	22,361,492.44	100	-	22,086,689.81	-	22,086,689.81	100	-
<b>Total</b>	<b>20,654,309,830.78</b>	<b>100</b>	<b>37,140,033.54</b>	<b>-</b>	<b>20,617,169,797.24</b>	<b>14,564,920,671.67</b>	<b>100</b>	<b>36,131,004.65</b>	<b>-</b>	<b>14,528,789,667.02</b>

Accounts receivable that are individually significant or not individually significant but for which bad debts has been assessed individually as at 31 December 2016:

RMB

Accounts receivable (by unit)	Closing balance			
	Accounts receivable	Bad debt provision	Proportion of provision (%)	Reasons for provision
Receivables with significant balances	17,645,736,286.64	-	-	Note 1
Receivables with long age	22,361,492.44	22,361,492.44	100	Note 2
<b>Total</b>	<b>17,668,097,779.08</b>	<b>22,361,492.44</b>		

Accounts receivable that are individually significant or not individually significant but for which bad debts has been assessed individually as at 31 December 2015:

RMB

Accounts receivable (by unit)	Opening balance			
	Carrying amount	Bad debt provision	Proportion of provision (%)	Reasons for provision
Receivables with significant balances	12,575,050,722.06	-	-	Note 1
Receivables with long age	22,086,689.81	22,086,689.81	100	Note 2
<b>Total</b>	<b>12,597,137,411.87</b>	<b>22,086,689.81</b>		

Note 1: Accounts receivables within one year have no significant obstacle to recollect and those with significant balance are all due from related parties. Hence no provision is recognized pursuant to the Company bad debt provision policies.

Note 2: Bad debt provision is fully made for accounts receivable not from related parties due to long aging and a slim chance of recollection.

Aging analysis of account receivable:

RMB

Aging	Closing balance				Opening balance			
	Amount	Proportion (%)	Bad debt provision	Carrying amount	Amount	Proportion (%)	Bad debt provision	Carrying amount
Within 1 year	17,952,186,378.45	87	14,596,566.88	17,937,589,811.57	13,397,632,571.61	92	13,791,861.10	13,383,840,710.51
More than 1 year but not exceeding 2 years	2,512,365,308.16	12	8,928.71	2,512,356,379.45	777,498,367.05	5	87,572.16	777,410,794.89
More than 2 years but not exceeding 3 years	29,387,232.48	0	173,045.51	29,214,186.97	275,909,400.52	2	164,881.58	275,744,518.94
More than 3 years	160,370,911.69	1	22,361,492.44	138,009,419.25	113,880,332.49	1	22,086,689.81	91,793,642.68
<b>Total</b>	<b>20,654,309,830.78</b>	<b>100</b>	<b>37,140,033.54</b>	<b>20,617,169,797.24</b>	<b>14,564,920,671.67</b>	<b>100</b>	<b>36,131,004.65</b>	<b>14,528,789,667.02</b>

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

The aging analysis of bad debt provision in portfolio basis:

RMB

Aging	Closing balance		
	Account receivable	Bad debt provision	Proportion (%)
Within 1 year	2,949,656,460.69	14,596,566.88	-
More than 1 year but not exceeding 2 years	22,889,374.10	8,928.71	-
More than 2 years but not exceeding 3 years	11,835,875.20	173,045.51	1
More than 3 years	1,830,341.71	-	-
Total	2,986,212,051.70	14,778,541.10	-

RMB

Aging	Opening balance		
	Account receivable	Bad debt provision	Proportion (%)
Within 1 year	1,527,546,249.54	13,791,861.10	1
More than 1 year but not exceeding 2 years	224,693,354.58	87,572.16	-
More than 2 years but not exceeding 3 years	215,543,655.68	164,881.58	-
Total	1,967,783,259.80	14,044,314.84	1

## (2) Bad debt allowance accrual and reversal

For the year, the Company recorded a bad debt allowance of RMB 1,009,028.89, reversed bad debt allowance of RMB 0.00.

## (3) Accounts receivable written off

Accounts receivable written off in the reporting period is nil.

## (4) Accounts receivable due to shareholders holding at least 5% of the Company's shares with voting power in the reporting period are set out below:

RMB

Name of entity	Closing balance		Opening balance	
	Carrying amount	Bad debt provision	Carrying amount	Bad debt provision
Baowu Group	1,904,345.05	-	1,125,650.91	-

## (5) Top five customers with the largest balances are set out below:

As of 31 December 31 2016, top five balances of account receivables amounted to RMB 17,645,736,286.64, accounting for 85% of total account receivables.

## (6) At the end of the reporting period, no other receivables should be derecognized due to transfer of financial assets.

## (7) At the end of the reporting period, no assets or liabilities have been formed due to transferring of other receivable and the related continuous involvement.

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

### 2. Other receivables

#### (1) Disclosure of other receivables by categories:

RMB

Category	Closing balance					Opening balance				
	Carrying amount		Bad debt provision		Book value	Carrying amount		Bad debt provision		Book value
	Amount	Proportion (%)	Amount	Proportion (%)		Amount	Proportion (%)	Amount	Proportion (%)	
Other receivables that are individually significant and for which bad debt provision has been assessed individually	285,730,445.71	82	1,676,150.00	1	284,054,295.71	169,651,203.67	66	-	-	169,651,203.67
Accounts receivables with provision accrued according to credit risk characteristic portfolios	58,711,838.44	17	2,008,373.10	3	56,703,465.34	84,230,416.86	33	3,995,257.95	5	80,235,158.91
Other receivables that are not individually significant but for which bad debt provision has been assessed individually	4,947,795.33	1	4,947,795.33	100	-	3,723,534.36	1	3,723,534.36	100	-
<b>Total</b>	<b>349,390,079.48</b>	<b>100</b>	<b>8,632,318.43</b>	<b>2</b>	<b>340,757,761.05</b>	<b>257,605,154.89</b>	<b>100</b>	<b>7,718,792.31</b>	<b>3</b>	<b>249,886,362.58</b>

Other receivables that are individually significant or not individually significant but for which bad debt provision has been assessed individually as at 31 December 2016:

RMB

Other receivables (by unit)	Closing balance			
	Other receivables	Bad debt provision	Proportion of provision (%)	Reasons for provision
Receivables with significant balances	285,730,445.71	1,676,150.00	1	Note1
Receivables with long age	4,947,795.33	4,947,795.33	100	Note2
<b>Total</b>	<b>290,678,241.04</b>	<b>6,623,945.33</b>	<b>2</b>	

Accounts receivable that are individually significant or not individually significant but for which bad debts has been assessed individually as at 31 December 2015:

RMB

Other receivables (by unit)	Opening balance			
	Other receivables	Bad debt provision	Proportion of provision (%)	Reasons for provision
Receivables with significant balances	169,651,203.67	-	-	Note1
Receivables with long age	3,723,534.36	3,723,534.36	100	Note2
<b>Total</b>	<b>173,374,738.03</b>	<b>3,723,534.36</b>	<b>2</b>	

Note 1: Other receivables with significant balances are mainly advances to projects, deposits and temporarily estimated input tax from the purchase to subsidiaries. Hence no provision is recognized due to low recoverable risk.

Note 2: Bad debt provision is fully made for other receivables not from related parties due to long aging and a slim chance of recollection.

#### Aging analysis of other receivable:

RMB

Aging	Closing balance				Opening balance			
	Amount	Proportion (%)	Bad debt provision	Carrying amount	Amount	Proportion (%)	Bad debt provision	Carrying amount
Within 1 year	208,076,742.23	60	2,688,183.46	205,388,558.77	112,192,571.16	44	3,075,599.82	109,116,971.34
More than 1 year but not exceeding 2 years	3,130,358.80	1	667,126.95	2,463,231.85	1,178,114.95	-	164,606.35	1,013,508.60
More than 2 years but not exceeding 3 years	1,001,731.01	0	329,212.69	672,518.32	120,278,558.42	47	755,051.78	119,523,506.64
More than 3 years	137,181,247.44	39	4,947,795.33	132,233,452.11	23,955,910.36	9	3,723,534.36	20,232,376.00
<b>Total</b>	<b>349,390,079.48</b>	<b>100</b>	<b>8,632,318.43</b>	<b>340,757,761.05</b>	<b>257,605,154.89</b>	<b>100</b>	<b>7,718,792.31</b>	<b>249,886,362.58</b>

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

The aging analysis of bad debt provision in portfolio basis:

Aging	Closing balance			RMB
	Other accounts receivable	Bad debt provision	Proportion (%)	
Within 1 year	34,396,936.62	1,012,033.46	3	
More than 1 year but not exceeding 2 years	3,130,358.80	667,126.95	21	
More than 2 years but not exceeding 3 years	1,001,731.01	329,212.69	33	
More than 3 years	20,182,812.01	-	-	
Total	58,711,838.44	2,008,373.10	3	

Aging	Opening balance			RMB
	Other accounts receivable	Bad debt provision	Proportion (%)	
Within 1 year	80,252,717.78	3,075,599.82	4	
More than 1 year but not exceeding 2 years	749,780.76	164,606.35	22	
More than 2 years but not exceeding 3 years	3,227,918.32	755,051.78	23	
Total	84,230,416.86	3,995,257.95	5	

## (2) Bad debt allowance accrual and reversal

For the year, the Company recorded a bad debt allowance of RMB 913,526.12, reversed bad debt allowance of RMB 0.00.

## (3) Other accounts receivable written off

Other accounts receivable written off in the reporting period is nil.

## (4) Other receivables due to shareholders holding at least 5% of the Company's shares with voting power in the reporting period are set out below:

Name of Entity	Closing balance		Opening balance		RMB
	Carrying amount	Bad debt provision	Carrying amount	Bad debt provision	
Baowu Group	3,826,272.62	-	5,959,916.60	-	

## (5) Top five entities with the largest balances of other receivables

As of December 31, 2016, top five balances of other receivables amounted to RMB 285,730,445.71, accounting for 82% of total other receivables.

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

### 3. Long-term equity investment

RMB

Item	Closing balance			Opening balance		
	Carrying amount	Impairment provision	Carrying amount	Carrying amount	Impairment provision	Carrying amount
Investment in subsidiaries	44,317,971,120.33	-	44,317,971,120.33	43,972,938,406.84	-	43,972,938,406.84
Investment in associates and joint ventures	2,371,674,691.54	-	2,371,674,691.54	2,281,674,647.40	-	2,281,674,647.40
Total	46,689,645,811.87	-	46,689,645,811.87	46,254,613,054.24	-	46,254,613,054.24

#### (1) Details of long-term equity investments are as follows:

RMB

Name of investees	Opening balance	Increase	Decrease	Closing balance	Proportion of equity interest held by the Company (%)	Proportion of voting power in the investee held by the Company (%)	Explanation of the inconsistency between the proportion of equity interest and the proportion of voting power	Provision for impairment losses	Provision for impairment losses for the period	Cash dividends for the period
Yantai Baosteel	872,484,905.16	-	-	872,484,905.16	100	100	-	-	-	-
Huangshi Coating & Galvanizing	175,658,477.39	-	-	175,658,477.39	50.63	50.63	-	-	-	-
Baosteel International	6,013,886,552.67	-	-	6,013,886,552.67	100	100	-	-	-	963,950,000.00
Meishan Steel	8,938,982,988.14	-	-	8,938,982,988.14	77.04	77.04	-	-	-	-
Baosight Software	1,291,314,360.40	-	-	1,291,314,360.40	55.5	55.5	-	-	-	54,341,360.00
Baosteel America	187,562,180.98	-	-	187,562,180.98	100	100	-	-	-	-
Howa Trading	221,975,780.12	-	-	221,975,780.12	100	100	-	-	-	-
Baosteel Europe	328,631,981.58	-	-	328,631,981.58	100	100	-	-	-	-
Baosteel Singapore	154,883,364.09	-	-	154,883,364.09	100	100	-	-	-	-
Bao-Trans Enterprises	370,550,495.27	-	-	370,550,495.27	100	100	-	-	-	-
Baosteel Chemical	3,006,227,819.74	-	-	3,006,227,819.74	100	100	-	-	-	104,073,967.21
Finance Co.	754,570,003.65	-	-	754,570,003.65	62.1	62.1	-	-	-	26,101,575.49
Zhanjiang Steel	17,262,206,889.41	-	-	17,262,206,889.41	90	90	-	-	-	-
Yantai Tubes	3,200,000,000.00	-	-	3,200,000,000.00	80	80	-	-	-	-
Nantong Steel(Note 4)	948,520,310.51	-	(948,520,310.51)	-	95.82	95.82	-	-	-	-
Baoma Tube	36,673,650.00	-	-	36,673,650.00	75	75	-	-	-	-
Baosteel Brazil Trading (Note 1)	728,647.73	-	-	728,647.73	26.96	26.96	-	-	-	-
Ouyeel(Note2)	208,080,000.00	-	-	208,080,000.00	8.67	8.67	-	-	-	-
Ouyeel Finance (Note3)	-	293,553,024.00	-	293,553,024.00	20.91	20.91	-	-	-	-
Baosteel Asset (Note 4)	-	1,000,000,000.00	-	1,000,000,000.00	100	100	-	-	-	-
Total	43,972,938,406.84	1,293,553,024.00	(948,520,310.51)	44,317,971,120.33						1,148,466,902.70

Note 1: The Company indirectly holds 73.04% equity in Baosteel Brazil Trading, so Baosteel Brazil Trading is taken as subsidiary of the Company, the corresponding long-term equity investment is calculated by using cost method.

Note 2: The Company directly acquired 8.67% equity in Ouyeel by disposing its 17% equity held in Baosteel E-commerce, meanwhile, the subsidiary of the Company, Baosteel International acquired 42.33% equity in Ouyeel by disposing its 83% equity held in Baosteel E-commerce. Hence the Company's total equity held in Ouyeel amounting to 51%, resulting in Ouyeel taken as subsidiary of the Company and the corresponding long-term equity investment calculated by using cost method.

Note 3: As the Company held 20.91% equity in Ouyeel Finance and 34% equity in Ouyeel, the subsidiary of the Company, the Company's total equity held in Ouyeel Finance amounting to 54.91%. Hence Ouyeel Finance is taken as subsidiary of the Company, with the corresponding long-term equity investment calculated by using cost method.

Note 4: In accordance with the Proposal to Establish Shanghai Baosteel Asset Management Co., Ltd. and Transfer of Relevant Assets, Equity and Debenture approved in Announcement for Resolution in Eleventh Session of the Sixth Board of Directors, the Company has established the asset management company solely funded by itself and transferred to Baosteel Asset 95.82% shares it held in Baotong Iron & Steel.

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

## (2) Investment in joint venture

RMB

Name of investees	Opening balance	Changes for Current year								Closing balance	Closing impairment provision
		Increase	Decrease	Investment profit or loss under equity method	Adjustment of other comprehensive income	Other equity movement	Declared cash dividends or profits	Accrued impairment losses	Others		
BNA	1,709,806,023.00	-	-	128,121,753.93	-	(93,080.83)	(84,701,078.06)	-	-	1,753,133,618.04	-
Bao-Island Enterprise	571,868,624.40	-	-	7,623,763.00	39,048,686.10	-	-	-	-	618,541,073.50	-
Total	2,281,674,647.40	-	-	135,745,516.93	39,048,686.10	(93,080.83)	(84,701,078.06)	-	-	2,371,674,691.54	-

## 4. Operating income and operating costs

RMB

Item	Amount for the current year		Amount for the prior year	
	Revenue	Cost	Revenue	Cost
Principal operating income	90,687,991,837.23	75,135,827,371.72	86,311,970,853.78	77,535,971,106.08
Other operating income	325,305,761.99	275,693,449.31	221,241,689.27	180,918,781.29
Total	91,013,297,599.22	75,411,520,821.03	86,533,212,543.05	77,716,889,887.37

## 5. Investment income

RMB

Item	Amount recognized in the current year	Amount recognized in the prior year
Income from long-term equity investments under cost method	1,148,466,902.70	1,246,922,964.66
Investment income of available-for-sale financial asset during holding	19,024,768.00	264,051,573.32
Investment income from disposal of available-for-sale financial asset	-	643,900,787.20
Investment income from other wealth management products	622,853,960.98	217,084,098.70
Income from long-term equity investments under equity method	135,745,516.93	45,192,289.46
Income from bonds investment	-	1,840,520.55
Investment losses from disposal of derivative financial instrument and others (Note1)	(32,224,526.00)	(573,072,826.95)
Total	1,893,866,622.61	1,845,919,406.94

Note 1: This item mainly consists of investment losses from forward exchange transaction.

## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

### 6. Bank facilities

As at 31 December 2016, the unutilized bank facilities of the Company reached RMB81.909billion. The management of the Company believes that the above mentioned facilities and the net cash flow from operating activities would be sufficient within one year to repay the current liabilities due in the coming period.

### 7. Supplementary information to the cash flow statement

Supplementary information	Current amount	Prior amount
1. Reconciliation of net profit to cash flow from operating activities:		
Net profit	6,889,147,293.69	3,327,407,674.42
Add: Provision for impairment losses of assets	2,766,717,219.90	571,907,628.07
Depreciation of fixed assets and investment properties	6,536,052,886.79	6,921,142,264.00
Amortization of intangible assets	82,168,174.82	82,187,379.36
Amortization of long-term prepaid expenses	25,957,080.44	25,957,082.14
Losses(Gains) on disposal of fixed assets, intangible assets and other long-term assets	319,040,702.25	408,340,361.29
Losses (gains) on changes in fair values	(111,528,367.77)	6,102,202.15
Financial expenses	1,047,034,117.23	1,365,536,403.83
Gains arising from investments	(1,893,866,622.61)	(1,845,919,406.94)
Increase (decrease) in deferred tax assets	361,763,839.74	(128,684,864.76)
Decrease in deferred tax liabilities	124,400,090.34	28,590,269.23
Decrease in inventories	(4,210,790,090.54)	2,563,822,673.60
Decrease(Increase) in receivables from operating activities	(7,928,571,188.94)	(1,528,371,881.02)
Increase(Decrease) in payables from operating activities	6,298,560,522.88	(11,481,058,687.31)
Net cash flow from operating activities	10,306,085,658.22	316,959,098.06
2. Net changes in cash and cash equivalents:		
Closing balance of cash and cash equivalents	3,761,841,278.83	2,609,809,152.05
Less: Opening balance of cash and cash equivalents	2,609,809,152.05	6,283,129,815.02
Net increase in cash and cash equivalents	1,152,032,126.78	(3,673,320,662.97)

## (XVII) SUPPLEMENTARY INFORMATION

### 1. Breakdown of non-recurring profit or loss

Items	Amount
Profit or (loss) on disposal of non-current assets	(438,916,051.03)
Government grants recognized in profit or loss (other than grants which are closely related to the Company's business and are either in fixed amounts or determined under quantitative methods in accordance with the national standard)	342,454,617.86
The excess of attributable fair value of identifiable net assets over the consideration paid for the acquisition of subsidiaries, associates and joint venture, except effective hedging, held-for-trade financial assets, tradable financial liabilities	626,318,565.91
Other items qualifying non-recurring profit or loss(Impairment loss on other non-current assets)	(562,667,777.66)
Other non-operating income or expenses other than the above	21,033,062.00
Tax effects	11,721,561.51
Effects attributable to minority interests (after tax)	(28,365,129.95)
Total	(28,421,151.36)

Note: As financial instrument investment is included in the main business scope of Finance Co. and Ouyeel, so the investment income of relevant wealth management products is exclusive from non-recurring profit or (loss).



## Notes To The Financial Statements – continued

FOR THE YEAR ENDED 31 DECEMBER 2016

### 2. Return on net assets and earnings per share ("EPS")

The return on net assets and EPS have been prepared by Baoshan Iron & Steel Co., Ltd. in accordance with Information Disclosure and Presentation Rules for Companies Making Public Offering of Securities No. 9 - Calculation and Disclosure of Return on Net Assets and Earnings Per Share (Revised in 2010) issued by China Securities Regulatory Commission.

Profit for the reporting period	Weighted average yield rate on net assets (%)	Earnings per share ("EPS")	
		Basic EPS	Diluted EPS
Net profit attributable to ordinary shareholders of the Company	7.68	0.55	0.55
Net profit after deduction of non-recurring profits or losses attributable to ordinary shareholders of the Company	7.70	0.55	0.55

RMB

## Section XII Catalog of Documents Available for Inspection

Catalog of documents available for inspection	Accounting statement with signature and seal of legal representative, principal of competent accounting work and accounting institution principal.
Catalog of documents available for inspection	Original of audit report with signature and seal of the accounting firm and certified public accountant.
Catalog of documents available for inspection	Originals of all documents and announcements of the Company publicly disclosed on the newspapers designated by the CSRC within the report period.

Chairman: Dai Zhihao

Approval and submission date of the Board of Directors: Apr. 27, 2017

### Revision information

Applicable  Not applicable

