

Company code: 600019

Company abbreviation: Baosteel

Baoshan Iron & Steel Co., LTD.
Abstract of the Annual Report of Y2021

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Section I Important Notes

- 1 The abstract of the annual report is from the full text of the annual report. In order to have a comprehensive understanding of the Company's operating results, financial situation and future development plans, investors should read the full text of the annual report at <http://www.sse.com.cn>.
- 2 The Board of Directors, the Board of Supervisors, directors, supervisors and senior executives of the Company hereby guarantee that the information presented in this annual report is true, accurate, complete and free of any misrepresentations, misleading statements or material omissions, and are hereby willing to bear joint and several legal liabilities.
- 3 All directors of the Company have attended the meeting of the board of directors.
- 4 EY Huaming Certified Public Accountants LLP (Special General Partnership) has issued a standard and unqualified auditor's report for the Company.
- 5 The profit distribution plan of the current reporting period or the plan for increasing capital stock by capital accumulation fund that has been adopted by the board of directors

The profit distribution plan of the reporting period that has been deliberated is as follows: According to the cash dividend policies of the Company, the cash dividend distributed every year shall not be lower than 50% of the net profit attributable to parent company given in the current year consolidated statement that has been audited. It is hereby worked out that the cash dividend to be distributed to every share shall not be lower than RMB 0.55 yuan (tax included). Whereas the Company has been always attaching importance to return shareholders, the Company intends to distribute cash dividend by RMB 0.60 yuan/share (tax included) in the principle of long-term cash dividend distribution. Upon the deliberation and approval of the fourth extraordinary general meeting of shareholders in 2021, the Company has distributed semi-annual profits at the cash dividend of RMB 0.35 yuan per share in October 2021, and the total amount of dividends distributed is RMB 7,646,619,475.25 yuan. In the second half of 2021, the Company intended to pay a cash dividend of RMB 0.25 yuan per share (tax included). It was expected to distribute RMB 5,445,576,578.75 yuan (tax included) for 21,782,306,315 shares, which would account for 63.66% of the net profit attributable to the parent company for the second half of the year on the consolidated statement. Based on the share capital on the registration date confirmed in the dividend announcement (with shares recorded to the Company's special account for repurchase deducted), the actual dividend was distributed at RMB 0.25 (tax included) per share. The profit distribution plan for the second half of 2021 has not yet been approved by the Company's 2021 annual general meeting of shareholders. The total amount of dividend in 2021 is expected to be RMB

13,092,196,054.00 yuan (tax included), accounting for 55.40% of the net profit attributable to the parent company in the consolidated statement.

Section II Basic Information of the Company

1 Company profile

Type of stocks	Stock exchange	Stock abbreviation	Stock code
A shares	Shanghai Stock Exchange	Baosteel	600019

Contact person and contact information	Secretary of the board of directors	Representative for Securities Affairs
Name	Wang Juan	Xia Zhilong, Tao Yun
Business address	Baosteel Board Secretary's Office, Baosteel Command Center, No. 885, Fujin Road, Baoshan District, Shanghai City	Baosteel Board Secretary's Office, Baosteel Command Center, No. 885, Fujin Road, Baoshan District, Shanghai City
Telephone	86-21-26647000	86-21-26647000
E-mail	ir@baosteel.com	ir@baosteel.com

2 Introduction to main business of the Company in the reporting period

(I) Development stage, periodic characteristics of the industry and the industrial status of the Company in the reporting period

In 2021, China's economy recovered steadily with a year-on-year growth of 8.1%. The GDP reached RMB 114 trillion yuan. Overcoming adverse factors such as the spread of COVID-19, tight supply of production factors, persistently high commodity prices and others, China's industrial economy has maintained a recovery in overall growth. The industrial added value of large enterprises increased by 9.6% over the previous year, and the average growth rate for the two years was 6.1%, both higher than the economic growth rate of the same period.

In 2021, the strong market demand in the iron and steel industry drove the rapid growth of crude steel consumption, and the iron and steel industry's benefits reached the best level in history, giving a good start of the 14th Five-Year Plan. A series of products were issued around the world for the first time which has filled the gap in the world. A large number of iron and steel enterprises actively explore low-carbon metallurgy technology, and breakthroughs have been made in hydrogen metallurgy demonstration projects.

In 2021, in light of “double restriction” of the production capacity and “double control” of energy consumption of the iron and steel industry in the context of double-carbon as well as other complex risks such as severe market volatility, the Company carried out production and business operation as a whole, continued to deepen the change of management and achieved results beyond expectation. The total annual profit of the Company hit a new record high, remaining No.1 in the domestic industry.

(II) Major impact of newly issued laws, administrative regulations, departmental rules and industrial policies on the industry of the Company

According to the *Administrative Measures for Carbon Emission Trading (Trial)* issued in January 2021, it is planned to include steel, cement, chemical and other industries in the carbon emission trading market. In the *Implementation Measures for Capacity Replacement in the Iron and Steel Industry* adopted in April 2021, it is required that the replacement ratio in key areas of air pollution prevention should not be less than 1.5:1 and the replacement ratio in other areas should not be less than 1.25:1. According to the *Opinions on the Recording Management of Steel Smelting Projects* adopted in May 2021, it is required to strictly control the recording of steel smelting projects and standardize the development of steel smelting projects. The steel smelting projects must be equipped with advanced technological equipment and meet leading indexes of the steel industry so as to ensure green and intelligent development.

In terms of policies on steel product export, the *Notice on the Cancellation of Export Tax Rebates for Some Steel Products* was released in April. From May 1, export tax rebate was cancelled for some iron and steel products. In July, the *Notice on the Cancellation of Export Tax Rebates for Steel Products* was released. Export rebate was cancelled for iron and steel products included in the list attached to the Notice on August 1. In July, the *Notice on Further Adjusting Export Tariffs on Iron and Steel Products* was released. From August 1, export tariffs were further adjusted for some iron and steel products.

According to the *14th Five-year Plan for the Development of Raw Material Industry*, the production capacity of major raw material and bulk products such as crude steel and cement will only decrease rather than increase. Besides, the *Guidance on Promoting High-Quality Development of the Iron and Steel Industry* and the *Carbon Peak implementation Plan of the Iron and Steel Industry* will be promulgated soon. Then, large iron and steel groups in China will respond to the call of the country and the industry and make effort to realize "double carbon" goals in advance.

Based on the above policies, steel supply will be strictly restricted in the context of "double restriction" of production capacity and productivity and "double control" of energy consumption and the industry will enter the inventory based or reduction based development stage.

(III) Main businesses, main products and their uses, business model and main performance drivers of the Company during the reporting period

The Company adheres to the development path of "innovation, coordination, green, open and sharing", and has a world-renowned brand, world-class manufacturing level and service ability. The Company specializes in the production of high-tech, high value-added carbon steel sheets, thick plates and steel pipes and other steel products. Main products are widely used in automobile, home appliances, petrochemical, machinery manufacturing, energy transportation and other industries. The Company focuses on core strategic products group and unique leading products, optimizes product structure and promotes labor division of a number of bases so as to keep maintaining the market leading position. It has formed six strategic product lines from four dimensions of manufacturing, research and development, marketing and services. The six strategic products are automotive steel, silicon steel, energy and major engineering steel, premium plates, tinplates and long logs

The Company focuses on the cultivation of innovation ability, actively develops and applies advanced manufacturing and energy saving and environmental protection technology and has established a worldwide marketing and processing service network. The Company has independently researched and developed a new generation of automotive high strength steel, oriented silicon steel, high-grade

household appliances steel, energy marine steel, bridge steel and other high-end products in the international advanced level. The Company sticks to the strategy to develop high-quality goods characterized with leading technology, pays close attention to the quick growth of China's high-end manufacturing such as military industry, nuclear power, high-speed rail, marine engineering equipment, new energy vehicles industry and others and develops premium products including high-strength steel, oriented silicon steel and others. Besides, the Company has also developed and reserved high-end new material technologies and tries to pursue economic benefit brought by premium product structure “from steel to materials”.

As the most trustable partner of customers, the Company focuses on the transformation “from manufacturing to service” and “from China to the world”. With advanced service provision, a sound driving mechanism to address customers’ needs, the production and marketing balancing and decision making supporting system, Baosteel intelligent innovation platform, a sound marketing and service system with rapid response as well as rapid strategic layout of the steel service platform, the Company is actively providing customers with first class products, technology and services with its worldwide marketing network. In addition to meeting domestic market needs, the products of the Company are also sold to more than seventy countries around the world, such as Japan, South Korea and other European and American countries.


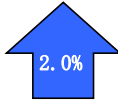
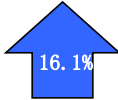
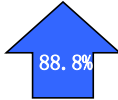
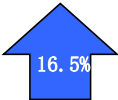
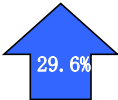
From the perspective of production technology and technical research and development, the Company's overall technology and equipment is in the leading position of the iron and steel industry and can realize large scale continuous and automatic processing based on advanced technologies of modern iron and steel smelting, hot and cold processing, hydraulic sensing, electronic control, computer and information communication and others.

The Company has been promoting the construction of intelligent factories and has related indexes continuously rising. The Company has made comprehensive layout of digital upgrading, and promoted network based, digital and intelligent development of iron and steel manufacturing “5+5+8” in various fields. The Company has initiated data domain development for manufacturing bases and built a cross-base big data center. The “three-span integration” framework of the Company has been established and achieved great effect for the current stage. The Baoshan base of the Company has been included in the “lighthouse factory” network as the third in the world and the first in China.

Adhering to environmental protection, the Company has been increasing investment in energy conservation, environmental protection, ecological environment and sustainable development. It promoted ultra-low exhaust gas discharge, zero waste water discharge, zero solid waste from the factory, factory cleaning, greening, beautification and corporate cultural development and has sped up the development of green city steel mills. The main environmental protection indexes have been constantly improved and no major environment risk event occurred last year. All the four major bases exist harmoniously in the city.

(IV) Selling points of the Company

Total business income	Net profit attributable to the listed company
365.3 billion	23.63 billion
29.4%	86.1

2020: 282.3 billion		2020: 12.7 billion	
Net asset income rate		Gross profit of iron and steel products	
12.4%		13.6%	
2020: 7.0%		2020: 11.6%	
Net cash flow from operating activities (excluding the financial company)		Profit per ton of steel	
47.15 billion		641 yuan	
2020: 40.61 billion		2020: 340 yuan	
Sales of competitive products		R&D cost	
12.446 million tons		11.37 billion	
2020: 10.68 million tons		2020: 8.77 billion	

- The business performance hit a record high. The Company has overcome market volatility and achieved balanced development of production, marketing and R&D. Taking advantage of coordinated operation of multiple manufacturing bases, the Company optimized labor division of production lines in dynamic ways and built an efficient operation control mechanism. It deepened production operation and professional management reform so as to achieve constant improvement of product structure, quality and services. In 2021, the Company realized the total profit of RMB 30.71 billion as a record high, representing an increase of 91% over the previous year, and maintained the first in terms of business performance in the domestic industry.
- The Company continued to lower the cost. The Company has carried out comprehensive benchmarking work focusing on improving the efficiency of entering and leaving factories, reducing energy costs, optimizing the structure of coal blending and ore blending, and improving technical and economic indicators. In 2021, the Company reduced the cost by RMB 1.15 billion, exceeding the annual target, effectively contributing to the business performance of the Company.
- The advantages of technological innovation have been enhanced constantly. The *Development and Application of Ultra-Low Loss Oriented Silicon Steel for Ultra-High Voltage and High Energy Efficiency Transmission and Transformation Equipment* won the second prize of the National Science and Technology Progress Award. The technology of very low iron loss oriented silicon steel for high efficiency environmental protection transformer use has realized large scale production. Besides, 13 products represented by B23HS075 heat-resistant notch products and B96SiQL high-strength and high-torsion bridge cable wire rod made their world debut.
- New breakthrough has been achieved for intelligent manufacturing. The “three-span integration” demonstration project has been put into operation to support better production and

operation. The big data platform has covered four bases and all functions of the big data center have been completed. The third smart factory of silicon steel and the intelligent production line group of Dongshan No. 3 blast furnace system have also been put into operation.

- Green and low-carbon development has been promoted across the board. On February 15, 2022, the one-million-ton hydrogen-based shaft furnace of the zero-carbon demonstration plant was started at Dongshan Base, which is expected to reduce carbon dioxide emission by more than 500,000 tons annually. The Company has actively developed ultra-low emission level-A enterprise construction and Dongshan Base has been certified as the first ultra-low emission level-A enterprise in China. The first order for carbon neutral steel products for more than 1,700 tons of high steel grade straight seam submerged arc welded pipe has been successfully shipped. The first 4,000 cubic meters blast furnace hot blast stove flue gas purification device has been built and put into operation at Baoshan Base. Baoshan and Dongshan bases have realized zero solid waste discharge out of the factory. The solid waste comprehensive utilization rate of Meishan and Qingshan bases has also reached 99.7% and 99.9%.
- The Company has maintained the highest credit rating in the industry. Moody's has adjusted the credit rating of the Company to A2. Fitch has adjusted the credit rating of the Company to "positive". At present, all three credit rating organizations, Standard & Poor's, Moody's, and Fitch have rated the Company as A-steady, A2-steady and A positive. The Company continued to maintain the highest credit rating among comprehensive iron and steel enterprises in the world.
- Besides, the Company continued to be accepted by the market. The Company has been listed in the "Central Government Enterprises ESG • Pioneer Top 50" ranking at the 7th place. In the first investment value evaluation of Chinese listed enterprises, the Company was honored as the enterprise with the best investment value. Besides, our rating by MSCI, CDP and other external ESG has also been enhanced. The Company has been honored as China Top 100 Enterprises and China Top 100 Enterprises with the Best Operation and Management in China Top 100 Summit Forum. The Company has also been awarded as the first Sina Finance "Industrial Pioneer of China Low-Carbon Enterprises".

3 Major accounting data and financial indicators of the Company

3.1 Major accounting data and financial indicators in the latest three years

Unit: million yuan Currency: RMB

	2021	2020		Increase /decrease over the previous year (%)	2019	
		After adjustment	Before adjustment		After adjustment	Before adjustment
Total assets	380,398	357,781	356,225	6.3	347,360	345,938
Net asset attributable to shareholders of the listed company	190,934	184,676	184,371	3.4	178,474	178,172
Operating income	364,349	281,519	283,674	29.4	289,769	291,600
Net profit attributable to shareholders of	23,632	12,695	12,677	86.1	12,574	12,563

listed company						
Net profit attributable to shareholders of the listed company after deducting non-recurring gains and losses	23,525	12,434	12,434	89.2	11,060	11,060
Net cash flows from operating activities	59,869	28,153	28,084	112.7	33,115	33,074
Weighted average return on equity (%)	12.36	7.02	7.03	Increased by 5.34%	7.09	7.09
Basic earnings per share (yuan/share)	1.07	0.57	0.57	87.7	0.56	0.56
Diluted earnings per share (yuan/share)	1.07	0.57	0.57	87.7	0.56	0.56

3.2 Main accounting data by quarters in the reporting period

Unit: million yuan Currency: RMB

	Q1 (Jan.- Mar.)	Q2 (Apr.-Jun.)	Q3 (Jul.-Sept.)	Q4 (Oct.-Dec.)
Operating income	82,846	100,481	90,668	90,355
Net profit attributable to shareholders of listed company	5,363	9,726	6,502	2,042
Net profits attributable to shareholders of the listed company after deducting non-recurring gains and losses	5,204	9,365	6,441	2,515
Net cash flows from operating activities	14,013	14,196	1,297	30,363

Description on difference between quarterly data and regular reporting data that have been disclosed

☒ Applicable ☐ Not Applicable

Data adjustment and comparison due to combination of enterprises under the same control.

4 Shareholders

4.1 The number of ordinary shareholders, the number of preferred shareholders with voting rights resumed and the number of shareholders with voting rights at the end of the reporting period and at the end of the month before the disclosure of the annual report as well as the top ten shareholders

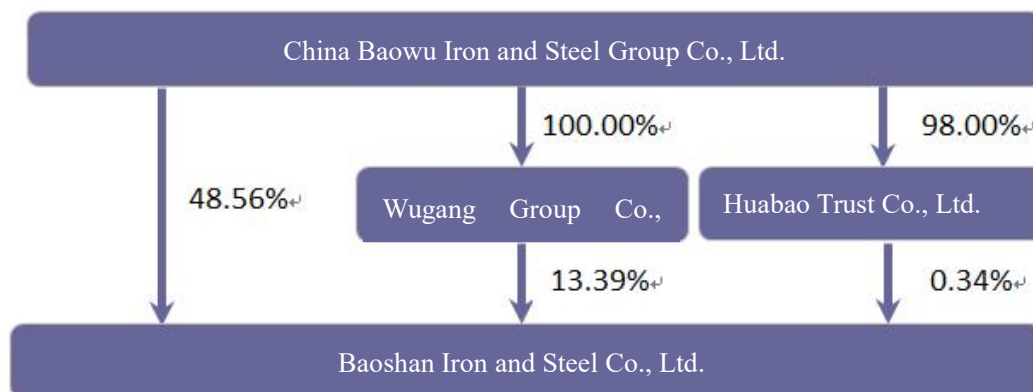
Unit: share

Total number of ordinary shareholders by the end of the reporting period					323,106		
Total number of ordinary shareholders at the end of the previous month before the annual report disclosure date					309,788		
Total number of preferred shareholders with voting power resumed by the end of the reporting period							
Total number of preferred shareholders with voting power resumed (if any) at the end of the previous month before the annual report disclosure date (see Note 9)							
Shareholding by the top ten shareholders							
Name of the shareholders (full name)	Increase and decrease during the reporting period	Shareholding quantity at the end of the period	Proportion (%)	Quantity of restricted stocks held	Shares pledged, marked or frozen		Nature of the shareholder
					Shares Status	Quantity	
China Baowu Iron and Steel Group Co., Ltd.	0	10,813,395,355	48.56	0	No	0	State-owned corporation
Wugang Group Co., Ltd.	0	2,982,172,472	13.39	0	No	0	State-owned corporation
Hong Kong Securities Clearing Company Ltd.	-96,500,893	1,386,930,620	6.23	0	No	0	Foreign legal person
China National Petroleum Corporation	0	710,487,060	3.19	0	No	0	State-owned corporation
China Securities Finance Corporation	0	666,600,578	2.99	0	No	0	State-owned corporation

Central Huijin Asset Management Co., Ltd.	-4,105,600	190,118,580	0.85	0	No	0	State-owned corporation
Beijing Shouxi Investment Management Co., Ltd.	151,604,609	151,604,609	0.68	0	No	0	State-owned corporation
Dacheng Fund- Agricultural Bank of China- Dacheng Zhongzheng Financial Assets Management Plan	0	80,221,150	0.36	0	No	0	Others
Huabao Trust Co., Ltd.- Juxin No, 3 Single Capital Trust	0	76,711,403	0.34	0	No	0	Others
Wang Yingying	-45,863,403	74,169,597	0.33	0	No	0	Domestic natural person
Association or connected actions of aforesaid shareholders		Wugang Group is a wholly-owned subsidiary of China Baowu Iron and Steel Group Co., LTD. Huabao Trust Co., Ltd. is a shareholding subsidiary of China Baowu Iron and Steel Group Co., LTD. Besides, we don't know whether aforesaid shareholders are affiliated to each other or are persons acting in concert as stipulated in the <i>Measures for the Administration of the Takeover of Listed Companies</i> .					
Explanation of the shareholders of preferred stock with resumed voting rights and their shareholding quantity							

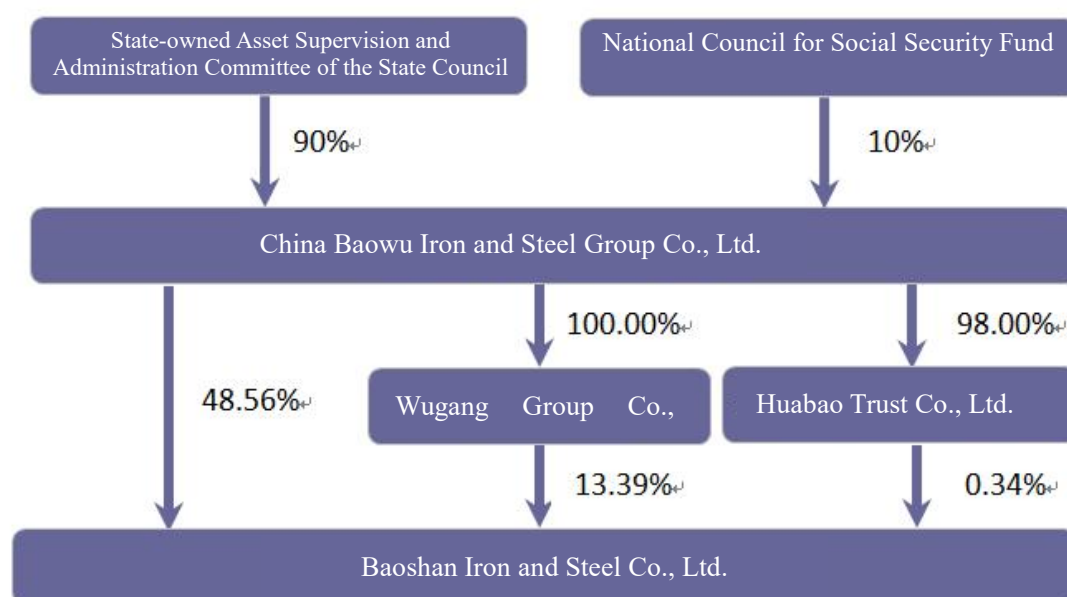
4.2 A block diagram of the property rights and control relationship between the Company and the controlling shareholder

☒ Applicable ☐ Not Applicable



4.3 The block diagram of the property right and control relationship between the Company and the actual controller

☒ Applicable ☐ Not Applicable



4.4 Total number of preferred shareholders and top 10 shareholders by the end of the reporting period

☐ Applicable ☒ Not Applicable

5 Corporate bonds

☒ Applicable ☐ Not Applicable

5.1 The status of all bonds remaining on the date of approval of the annual report

Unit: 100 million yuan Currency: RMB

Bond name	Abbreviation	Code	Expiry date	Bond balance	Interest rate (%)
2020 corporate bonds (first issue) publicly issued by Baoshan Iron & Steel Co., LTD. (Pandemic prevention and control bonds)	20 Baosteel 01	163225.SH	March 6, 2023	30	2.95
The first issue of midterm notes of Baoshan Iron & Steel Co., LTD. in 2019	19 Baosteel MTN001	101900117.IB	January 24, 2022	30	3.69
The second issue of midterm notes of Baoshan Iron & Steel Co., LTD. in 2019	19 Baosteel MTN002	101900354.IB	March 19, 2022	30	3.65
The third issue of midterm notes of Baoshan Iron & Steel Co., LTD. in 2019	19 Baosteel MTN003	101900404.IB	March 26, 2022	30	3.64
First term MTN of Baoshan Iron & Steel Co., LTD. in 2021 (sustainable linking)	21Baogang MTN001 (sustainable linking)	102101795.IB	September 6, 2024	50	2.99

Interest payment for bonds in the in the reporting period

Bond name	Interest payment description
2020 corporate bonds (first issue) publicly issued by Baoshan Iron & Steel Co., LTD. (Pandemic prevention and control bonds)	The Company paid interests fully in time in the reporting period
The first issue of midterm notes of Baoshan Iron & Steel Co., LTD. in 2019	The Company paid interests fully in time in the reporting period
The second issue of midterm notes of Baoshan Iron & Steel Co., LTD. in 2019	The Company paid interests fully in time in the reporting period
The third issue of midterm notes of Baoshan Iron & Steel Co., LTD. in 2019	The Company paid interests fully in time in the reporting period
First term MTN of Baoshan Iron & Steel Co., LTD. in 2021 (sustainable linking)	The Company paid interests fully in time in the reporting period
The first ultra short term financing notes of Baoshan Iron & Steel Co., LTD. in 2021	The Company paid interests fully in time in the reporting period
The second ultra short term financing	The Company paid interests fully in time in the reporting period

notes of Baoshan Iron & Steel Co., LTD. in 2021	period
The third ultra short term financing notes of Baoshan Iron & Steel Co., LTD. in 2021	The Company paid interests fully in time in the reporting period
The fourth ultra short term financing notes of Baoshan Iron & Steel Co., LTD. in 2021	The Company paid interests fully in time in the reporting period
The fifth ultra short term financing notes of Baoshan Iron & Steel Co., LTD. in 2021	The Company paid interests fully in time in the reporting period
The sixth ultra short term financing notes of Baoshan Iron & Steel Co., LTD. in 2021	The Company paid interests fully in time in the reporting period
The seventh ultra short term financing notes of Baoshan Iron & Steel Co., LTD. in 2021	The Company paid interests fully in time in the reporting period
The eighth ultra short term financing notes of Baoshan Iron & Steel Co., LTD. in 2021	The Company paid interests fully in time in the reporting period
The ninth ultra short term financing notes of Baoshan Iron & Steel Co., LTD. in 2021	The Company paid interests fully in time in the reporting period
The tenth ultra short term financing notes of Baoshan Iron & Steel Co., LTD. in 2021	The Company paid interests fully in time in the reporting period
The eleventh ultra short term financing notes of Baoshan Iron & Steel Co., LTD. in 2021	The Company paid interests fully in time in the reporting period
The twelfth ultra short term financing notes of Baoshan Iron & Steel Co., LTD. in 2021	The Company paid interests fully in time in the reporting period
The thirteenth ultra short term financing notes of Baoshan Iron & Steel Co., LTD. in 2021	The Company paid interests fully in time in the reporting period
The fourteenth ultra short term financing notes of Baoshan Iron & Steel Co., LTD. in 2021	The Company paid interests fully in time in the reporting period
The fifteenth ultra short term financing notes of Baoshan Iron & Steel Co., LTD. in 2021	The Company paid interests fully in time in the reporting period
The sixteenth ultra short term financing notes of Baoshan Iron & Steel Co., LTD.	The Company paid interests fully in time in the reporting period

in 2021	
The seventeenth ultra short term financing notes of Baoshan Iron & Steel Co., LTD. in 2021	The Company paid interests fully in time in the reporting period
The eighteenth ultra short term financing notes of Baoshan Iron & Steel Co., LTD. in 2021	The Company paid interests fully in time in the reporting period
The nineteenth ultra short term financing notes of Baoshan Iron & Steel Co., LTD. in 2021	The Company paid interests fully in time in the reporting period
The twentieth ultra short term financing notes of Baoshan Iron & Steel Co., LTD. in 2021	The Company paid interests fully in time in the reporting period
The twenty-first ultra short term financing notes of Baoshan Iron & Steel Co., LTD. in 2021	The Company paid interests fully in time in the reporting period

Adjustment of credit rating results made by credit rating agencies to the company or bonds during the reporting period

☐ Applicable ☒ Not applicable

5.2 Major accounting data and financial indicators in the latest two years

☒ Applicable ☐ Not Applicable

Unit: million yuan Currency: RMB

Main indicators	2021	2020	Increase/ decrease over the previous year (%)
Asset-liability ratio (%)	44.61	43.87	0.74
Net profit after deducting non-recurring gains and losses	23,525	12,434	89.20
EBITDA total debt ratio	0.31	0.23	32.22
Interest coverage ratio	17.14	10.05	70.55

Section III Important Matters

1 The Company shall, in accordance with the materiality principle, state the major changes in the Company's business conditions during the reporting period and the events that occurred during the reporting period and are expected to have a major impact on the Company's business conditions in the future

Main operating conditions during the reporting period:

1.1 Analysis on changes of related items in the income statement and the cash flow statement

Unit: million yuan Currency: RMB

Item	Current period amount	Previous year amount	Change ratio (%)
Operating income	364,349	281,519	29.4
Operating cost	316,048	251,989	25.4
Selling expenses	1,720	1,542	11.6
Administrative expenses	4,396	4,400	-0.1
Financial expenses	1,788	1,450	23.3
R&D expenses	11,371	8,773	29.6
Net cash flows from operating activities	59,869	28,153	112.7
Net cash flows from investing activities	-27,034	-13,683	97.6
Net cash flows from financing activities	-31,344	-13,719	128.5

Reasons for changes in operating income: The operating income of the Company increased largely over the same period last year due to significant steel demand growth in the downstream industry and significant rising of steel prices both at home and abroad as well as the low base effect of the same period last year.

Reasons for changes in operating cost: The main reasons for substantial increase of the Company's operating cost as compared with the same period last year are the general rise in raw fuel prices.

Reasons for changes in sales expenditure: a littler higher over the same period last year because of the slight increase of staff salary.

Reasons for changes in management fee: no big change.

Reasons for changes in financial expense: Slightly higher than the same period last year, mainly due to the implementation of new leasing standards, the recognition of leasing interest expense and the combined impact of changes in the exchange rate of RMB against US dollar.

Reasons for changes in R&D expenses: the Company strengthened R&D investment to improve technology leading ability; so investment in the R&D of cold rolling and silicon steel production lines has increased.

Reasons for changes in net cash flows from operating activities: see "5. Cash Flow Analysis" for details.

Reasons for changes in net cash flows from investing activities: see "5. Cash Flow Analysis" for details.

Reasons for changes in net cash flows from financing activities: see "5. Cash Flow Analysis" for details.

1.2 Description on main business situation by industry, product, region and sales mode

Unit: million yuan Currency: RMB

Main business situation by industry						
By industry	Operating income	Operating cost	Gross profit	Increase/decrease of	Increase /	Increase or decrease in gross profit rate

			rate (%)	operating income over the previous year (%)	decrease of operatin g cost over the previous year (%)	over the previous year (%)
Steel manufacturing	295,265	257,916	12.6	37.3	34.4	Increased by 1.9%
Processing and distribution	350,770	345,518	1.5	32.2	32.2	Increased by 0.1%
Others	23,522	17,313	26.4	39.2	33.8	Increased by 2.9%
Offset among different departments	-304,062	-304,699	-	-	-	
Total	365,495	316,048	13.5	29.5	25.4	Increased by 2.9%
Main business situation by product						
By product	Operating income	Operating cost	Gross profit rate (%)	Increase/ decrease of operating income over the previous year (%)	Increase / decrease of operatin g cost over the previous year (%)	Increase or decrease in gross profit rate over the previous year (%)
Cold rolled carbon steel coil	126,590	104,574	17.4	44.2	37.1	Increased by 4.2%
Hot rolled carbon steel coil	102,853	89,878	12.6	49.0	46.0	Increased by 1.8%
Steel pipe products	14,049	13,890	1.1	21.8	26.9	Decreased by 3.9%
Long rod products	8,735	8,433	3.5	10.5	24.5	Decreased by 10.9%
Other steel products	21,392	19,668	8.1	5.2	7.8	Decreased by 2.3%
Total	273,620	236,443	13.6	39.2	36.1	Increased by 2.0%
Main business situation by region						
By region	Operating income	Operating cost	Gross profit rate (%)	Increase/ decrease of operating	Increase / decrease	Increase or decrease in gross profit rate over the previous

				income over the previous year (%)	of operatin g cost over the previous year (%)	year (%)
Domestic market	327,111	278,881	14.7	28.1	23.3	Increased by 3.3%
Foreign market	38,383	37,167	3.2	42.2	42.1	Increased by 0.1%
Total	365,495	316,048	13.5	29.5	25.4	Increased by 2.9%
Main business situation by sales mode						
By sales mode	Operating income	Operating cost	Gross profit rate (%)	Increase/ decrease of operating income over the previous year (%)	Increase / decrease of operatin g cost over the previous year (%)	Increase or decrease in gross profit rate over the previous year (%)
Centralized sales	260,723	225,200	13.6	32.8	27.7	Increased by 3.5%
Non-centralize d sales	104,772	90,848	13.3	18.9	20.2	Decreased by 1.0%
Total	365,495	316,048	13.5	29.5	25.4	Increased by 2.9%

Description on main business situation by industry, product, region and sales mode

According to the internal organization, the Company is divided into three divisions: iron and steel manufacturing, processing and distribution, and others. The iron and steel manufacturing division includes various steel manufacturing units. The processing and distribution division includes Baosteel International, overseas companies and other trading entities. The others division includes information technology, carbon industry and finance business.

In 2021, the Company seized the opportunity of the recovery of domestic and foreign steel demands after the epidemic, dynamically optimized the purchase and sale end price strategy, grasped the market fluctuation, and realized good purchasing and sales prices. Overcoming difficulties like the reduction of production and marketing resources, stricter requirements on energy conservation and emission reduction and others, the Company further lowered the cost and constantly improved operation efficiency so as to effectively offset drastic price increase of raw materials and auxiliary materials. In 2021, the comprehensive gross profit of the Company's steel products increased compared with the previous year.

1.3 Production and sales volume analysis table

Main products	Unit	Production	Sales volume	Inventory	Increase/decrease of production over the previous year (%)	Increase/decrease of sales volume over the previous year (%)	Increase/decrease of inventory over the previous year (%)
Cold rolled carbon steel coil	10,000 tons	1,886	1,879	133	4.9	4.4	4.7
Hot rolled carbon steel coil	10,000 tons	1,971	1,994	55	5.9	5.2	25.0
Steel pipe products	10,000 tons	207	209	20	2.5	5.3	5.3
Long rod products	10,000 tons	166	167	4	-14.9	-14.3	-20.0
Other steel products	10,000 tons	403	409	11	-20.5	-19.8	-35.3
Total	10,000 tons	4,633	4,658	223	1.5	1.3	5.7

Production and sales volume analysis table

In 2021, the Company exported 3.99 million tons of steel products with the expert distribution channels and sales as follows:

Region	2021	2020	Increase/decrease over the previous year
East Asia, Australia	27.4%	23.3%	Increased by 4.1%
Europe and Africa	23.4%	20.3%	Increased by 3.1%
America	17.2%	10.0%	Increased by 7.2%
Southeast Asia, South Asia	32.0%	46.4%	Decreased by 14.4%
Total	100.0%	100.0%	-

In 2021, the Company continued to develop overseas markets. It played a leading role in balancing production and sales in Southeast Asia and South Asia, and contracted about 1.28 million tons in a year. Sales reached 1 million for the second time in East Asia and Australia. Europe and Middle East regions also achieved 1 million tons in sales. Orders from American region realized a big increase to 690,000 tons.

2 If there is a delisting risk warning or suspension of listing after the disclosure of the annual

report, the Company shall disclose the reasons leading to such delisting risk warning or suspension of listing

☐ Applicable ☒ Not Applicable

3. Statement of the Company on cause and impact analysis for change of accounting policy, accounting estimate

In 2018, the Ministry of Finance promulgated the revised *Accounting Standards for Business Enterprises No. 21- Leasing*. The Company began to follow the revised Standard from January 1, 2021. According to the provisions, information in the comparable periods will not be adjusted, and the differences between the new standards and the current standards will be retrospectively adjusted to the retained earnings at the beginning of the reporting period.

The Company began to implement the new standards for financial instrument from January 1, 2019 and the new standards for income from January 1, 2020. Shanghai Ouye Financial Information Service Co., Ltd., Shanghai Metro Electronic Technology Co., Ltd, and Shanghai Baochi Pharmaceutical Technology, the Company's associates, began to implement the new standards for financial instrument from January 1, 2021 and made adjustments to the beginning data of 2021 financial statement only. Information in the comparable period has not been adjusted. Due to limitations of the objective conditions, the Company did not adjust the financial statements of some associates and joint ventures according to the new standards for financial instrument and income when the equity method was adopted for accounting. When adopting the equity method for accounting this year, the beginning data of the financial statement has been adjusted according to the *Q&A on the Implementation of Long-term Equity Investment Standards* issued by the Ministry of Finance on November 2, 2021.

According to the provisions on the presentation of centralized fund management in the *Accounting Standards Interpretation for Business Enterprises No. 15* issued by the Ministry of Finance on December 30, 2021, the Company has adjusted the presentation of other receivables and other current assets at the end of 2021.

Chairman: Zou Jixin
Baoshan Iron & Steel Co., LTD.
April 28, 2022