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鞍鋼股份有限公司

ANGANG STEEL COMPANY LIMITED*

(a joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 0347)

2017 ANNUAL RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

- Operating income amounted to RMB84,310 million
- Total profit amounted to RMB5,480 million
- Profit attributable to shareholders of the Company amounted to RMB5,605 million
- Basic earnings per share amounted to RMB0.775 (2016: basic earnings per share amounted to RMB0.223)
- The financial information contained in this announcement is prepared in accordance with the Accounting Standards for Business Enterprises in the PRC

* *For identification purposes only*

In this announcement, the following expressions shall have the following meanings unless the context indicates otherwise:

“Angang”	Angang Group Company Limited* (鞍鋼集團公司), the ultimate controlling shareholder of the Company
“Angang Energy Conservation”	Angang Group Energy-saving Technology Service Co., Ltd (鞍鋼集團節能技術服務有限公司), a company incorporated in the PRC with limited liabilities and an indirect wholly-owned subsidiary of Angang
“Angang Financial Company”	Angang Group Financial Company Limited* (鞍鋼集團財務有限責任公司)
“Angang Group”	Angang and subsidiaries held by it as to 30% or more (excluding the Group)
“Angang Holding”	Anshan Iron & Steel Co. Ltd* (鞍山鋼鐵集團有限公司)
“Angang Naihuo”	Angang Naihuo Co., Ltd* (鞍山鋼鐵集團耐火材料有限公司), a liability limited company incorporated in the PRC and a direct wholly-owned subsidiary of Anshan Iron & Steel
“ANSC-TKS”	ANSC-TKS Automobile Steel Company Ltd. (鞍鋼蒂森克虜伯汽車鋼有限公司)
“Anshan Iron & Steel Group Complex”	Angang Holding and the companies in which it holds 30% or above interests in (not including the Group)
“ANSI”	Angang New Steel and Iron Company Limited* (鞍鋼集團新鋼鐵有限責任公司), the former wholly-owned subsidiary of Angang Holding. In January 2006, the Company acquired the 100% equity interests in ANSI held by Angang Holding and cancelled the business registration of ANSI.

“Bayuquan Iron & Steel Branch Company”	Bayuquan Iron & Steel Branch Company* (鮫魚圈鋼鐵分公司) of Angang Steel
“Board”	the board of Directors of the Company
“Changchun Welded Plate”	Anshan Iron and Steel Laser Tailor Welded Plate (Changchun) Co., Ltd. (鞍鋼激光拼焊板(長春)有限公司)
“Company” or “Angang Steel”	Angang Steel Company Limited* (鞍鋼股份有限公司)
“Continuing Connected Transaction Agreements”	collectively, the Supply of Materials and Services Agreement (2016–2018), the Supply of Materials Agreement (2016–2018) and the Financial Service Agreement (2016–2018)
“Financial Service Agreement (2016–2018)”	the Financial Service Agreement (2016–2018) entered into between the Company and Angang Financial Company, which was approved at the third extraordinary general meeting of the Company in 2015 on 23 December 2015
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Karara”	Karara Mining Limited (卡拉拉礦業有限公司*)
“Pangang Vanadium & Titanium”	Pangang Group Steel Vanadium & Titanium Co., Ltd* (攀鋼集團釩鈦資源股份有限公司)

“Pangang Vanadium & Titanium Group”	Pangang Vanadium & Titanium and its subsidiaries
“PRC”	the People’s Republic of China (for the purpose of this announcement, excluding Hong Kong and Macau Special Administrative Region)
“Supply of Materials Agreement (2016–2018)”	the Supply of Materials Agreement (2016–2018) entered into between the Company and Pangang Vanadium & Titanium, which was approved at the second extraordinary general meeting of the Company in 2015 on 12 October 2015
“Supply of Materials and Services Agreement (2016–2018)”	the Supply of Materials and Services Agreement (2016–2018) entered into between the Company and Angang, which was approved at the second extraordinary general meeting of the Company in 2015 on 12 October 2015
“TKAS-SSC”	Angang Steel processing and distribution (Changchun) Co., Ltd. (鞍鋼鋼材加工配送(長春)有限公司)

PRINCIPAL ACCOUNTING FIGURES AND FINANCIAL INDICATORS

Unit: RMB million

Items	2017	2016		Changes over the preceding year (%)	2015
		Before adjustment	After adjustment	After adjustment	
Operating income	84,310	57,882	57,882	45.66	52,759
Operating profit	5,526	1,591	1,591	247.33	-3,873
Total profit	5,480	1,620	1,620	238.27	-3,763
Net profit attributable to shareholders of the Company	5,605	1,616	1,616	246.84	-4,593
Net profit attributable to shareholders of the Company after extraordinary items	5,586	1,594	1,594	250.44	-4,675
Net cash flow from operating activities	6,268	4,349	4,349	44.13	5,137
Basic earnings per share (<i>RMB/share</i>)	0.775	0.223	0.223	247.53	-0.635
Diluted earnings per share (<i>RMB/share</i>)	0.775	0.223	0.223	247.53	-0.635
Weighted average return on net assets (%)	11.81	3.67	3.67	Increased by 8.14 percentage points	-10.06

Items	At the end of 2017	At the end of 2016		Changes over the preceding year (%)	At the end of 2015
		Before adjustment	After adjustment	After adjustment	
Total assets	89,204	88,069	88,373	0.94	88,596
Total liabilities	38,818	42,781	43,085	-9.90	44,915
Owner's equity attributable to shareholders of the Company	49,973	44,882	44,882	11.34	43,274
Net assets per share attributable to shareholders of the Company (<i>RMB/share</i>)	6.91	6.20	6.20	11.45	5.98
Assets-liability ratio (%)	43.52	48.58	48.75	Decreased by 5.23 percentage points	50.70
Total share capital	7,235	7,235	7,235	-	7,235

Is there any corporate bond

Yes

No

MAJOR FINANCIAL INDICATORS BY QUARTER

Unit: RMB million

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Operating income	19,371	19,686	21,449	23,804
Net profit attributable to shareholders of the Company	1,069	754	1,462	2,320
Net profit attributable to shareholders of the Company after extraordinary items	1,060	774	1,478	2,274
Net cash flow from operating activities	437	173	2,680	2,978

ITEMS OF NON-RECURRING GAINS AND LOSSES AND EFFECT ON PROFIT:

Unit: RMB million

Items of Non-Recurring Gains and Losses	2017	2016	2015
1. Gains/losses from disposal of non-current assets	-44	-15	-17
2. Government grant recorded into profit/loss for current period except that relevant to enterprise operation and in compliance with government policies and continuously entitled for standard amount or quantities	72	40	128
3. Other non-operating revenue and expenses except those mentioned above	-2	4	-1
4. Effect on taxation	-7	-7	-28
Total	<u>19</u>	<u>22</u>	<u>82</u>

Note: For the figures of non-recurring gains and losses items, “+” indicates gains or income, “-” indicates losses or expenses.

OPERATING RESULTS FOR 2017

The Group recorded a net profit attributable to shareholders of the Company of RMB5,605 million and basic earnings per share of RMB0.775 for the year ended 31 December 2017 as compared to a net profit attributable to shareholders of the Company of RMB1,616 million and basic earnings per share of RMB0.223 for the year ended 31 December 2016.

PROFIT DISTRIBUTION

The Board recommended distributing RMB1,682 million of distributable profits to all shareholders of the Company by way of cash dividend, representing 30% of the net profit attributable to shareholders of the Company in 2017. Accordingly, the cash dividend per share for 2017 is expected to be RMB0.232 (tax inclusive) on the basis of the total share capital of 7,234,807,847 shares. If there is any change in the Company's total share capital as of the record date for dividend distribution in 2017, the total amount of cash dividend under the profit distribution proposal will remain unchanged, and the cash dividend per share will be adjusted on the basis of the Company's total share capital on the record date for dividend distribution. The balance of the distributable profits will be RMB5,922 million upon the implementation of the proposal. The proposal is subject to consideration at the 2017 annual general meeting. It is expected that dividends will be distributed on or around 30 June 2018. Information regarding the record date and register close date for the entitlement to the final dividend and attendance of the annual general meeting will be announced in due course.

Pursuant to the Corporate Income Tax Law of the PRC and its implementing regulations, which came into force on 1 January 2008, the Company is required to withhold corporate income tax at the rate of 10% before distributing the dividend to non-resident enterprise (as defined in the Corporate Income Tax Law of the PRC) shareholders whose names appear on the H Share register of members of the Company. Any H Shares registered in the name of non-individual shareholders, including HKSCC Nominees Limited, other nominees, trustees or other organizations and groups, will be treated as being held by non-resident enterprise shareholders. Thus, the Company will distribute the dividend to such non-individual shareholders after withholding the 10% corporate income tax. The 10% corporate income tax will not be withheld from the dividend payable to any natural person shareholders whose names appear on the H Share register of members of the Company.

Any natural person investor whose H Shares are registered under the name of any such non-individual shareholders and who does not wish to have any corporate income tax to be withheld by the Company may consider transferring the legal title of the relevant H Shares into his or her name and duly lodge all transfer documents with the relevant H Share certificates with the Company's H Share registrar for registration. All investors

should consider the above contents carefully. The Company will strictly comply with the relevant PRC tax laws and regulations to withhold for payment the 10% corporate income tax; and the dividend will only be payable to the shareholders whose names appear on the H Share register of members of the Company. The Company assumes no responsibility or liability whatsoever for confirming the identity of the shareholders of the Company and for any claims arising from any delay in or inaccurate determination of the identity of shareholders of the Company or any disputes over the withholding mechanism.

BUSINESS REVIEW

Following the guidance of five development concepts, namely “innovation, coordination, green, open and sharing”, and focusing on “clinging to reforms, securing survival, promoting transformation and seeking development”, the Company optimized the capacity layout and promoted upgrading and transformation; motivated innovative vitality and converged development forces. With the improvement of corporate value, innovation capacity and the comprehensive competitiveness as the core target, the Company transformed its development towards a mode in pursuit of quality, efficiency and benefit and made significant achievements in production and operation.

In 2017, the Company achieved business revenue of RMB84,310 million, representing an increase of 45.66% as compared with the previous year. Total profit reached RMB5,480 million, representing an increase of 238.27% as compared with the previous year. The net profit attributable to shareholders of the Company was RMB5,605 million, representing an increase of 246.84% as compared with the previous year. The basic earnings per share was RMB0.775, representing an increase of 247.53% as compared with the previous year.

1. Improving scale efficiency and strengthening production management and control capacity

In 2017, the Company seized favorable opportunities, optimized the production arrangement and gave full display to the capacity of rolling lines. As a result, the scale efficiency of the Company in steel production was improved.

During the Reporting Period, the Group produced 22.0757 million tons of iron, representing an increase of 1.11% as compared with the previous year; 22.5974 million tons of steel, representing an increase of 3.57% as compared with the previous year; and 20.6801 million tons of rolled steel, representing an increase of 4.14% as compared with the previous year. Sale of rolled steel amounted to 20.7786 million tons, representing an increase of 4.19% as compared with the previous year. The Group achieved a sales-output ratio of 100.48%.

2. Continuing to exploit internal potential with significant results in system cost reduction

The Company exploited the internal potential of all factors and formulated an objective system, which covered 12 major areas with 62 target missions to be accomplished. Significant achievements had been made in system cost reduction and efficiency improvement. The expenses for external energy procurement and logistics costs continued to decline. It implemented energy contracting projects and promoted the application of energy conservation technologies. It approved the implementation of 26 energy conservation projects with excellent energy conservation results. It facilitated the “three enhancements and three reductions (三提三降)” policy with remarkable results in “scrap steel enhancement and iron reduction (提廢降鐵)” measures.

Through the effective combination of the procurement method, procurement tool and communication mechanism, it achieved the rediscovery of market price. With such procurement strategies as avoiding purchases at peak times, procuring at appropriate opportunities and alternative replacement and the sale of raw materials and fuels, it finally achieved the target of system cost reduction. It has fixed the annual long-term price with Shanxi Coking Coal Group Co., Limited and Heilongjiang Longmay Mining Group Co., Ltd., which curbed the purchase price.

3. Optimizing the market system and consistently expanding sale channels

The Company made more efforts in market development to explore potential customers. In 2017, it developed 129 new direct sale customers and the proportion of direct sale reached 70.2%, representing an increase of 3.77% as compared with the corresponding period of the previous year. It completed a total of over 60 certifications of domestic and overseas products, including motor steel, seamless special equipment steel, ship plate steel for production line 3,800mm of Baiyuquan, quenched and tempered ultra-high strong marine steel, South Korean KS deformed bars, Japanese JIS steel products and Indian BIS steel products, which effectively expanded sales channels for products of the Company.

It optimized the product structure and expanded the price difference in the industry. It adhered to the market orientation, optimized the product structure and made more marketing efforts on product lines with high added value and key varieties and significant achievements have been made in product restructuring. The TWIP1180 hot rolled sheets and QP1400 cold-rolled ultra-high strong sheets for automobiles manufactured through the whole-process technology made their global debut. The extra-thick and ultra-high strong marine steel for “Blue Whale No. 1” (藍鯨1號) provided by the Company as an exclusive supplier facilitated the successful trial mining of combustible ice in the PRC. The weathering steel for railway vehicles covered all design specifications and the bogies of bullet

trains led the development of the industry. The S32101 nuclear grade ultra-wide 4,000mm duplex stainless steel plate, which was successfully developed by the Company, had shored up the weakness in special steel plate in the PRC, and reached the world-class standard. The quality of the high-strong LX86B tire cord steel is comparable with the same product of POSCO. The new non-oriented silicon steel has been exported to European markets. It supplied products to the new airport in Beijing, the Sino-Russian East pipeline, the Huanggou Pumped Storage Power Station of Guodian and other key projects.

It made innovations in production and sale models and improved the capacity of motor steel supply. It transformed the production arrangement from being based on current contracts and orders to optimal expected contracts and orders. The Company actively followed and learnt about production plans of customers and conducted scientific research to accurately master the product demands of key automobile manufacturers and reasonably lead the sale of motor steel in all areas. The sale volume of 1.47 million tons in motor steel for the year, representing an increase of approximately 17% over last year, far higher than the increment of 3% in the Chinese motor industry in 2017, hit a record high. In 2017, the Company was awarded an AAA enterprise among outstanding automobile sheet manufacturers in China's iron and steel industry.

Seizing the development opportunities in the "One Belt and One Road" strategy, the Company vigorously explored the international market and promoted export and quality improvement. Annual amount of export and settled rolled steel of the Company amounted to 1.75 million tons.

4. Strengthening informatization management and promoting the integration of "informatization and industrialization"

In 2017, centering on the integration of informatization and industrialization and seizing the opportunity in the transformation and upgrading of the enterprise, the Company focused on informatization planning, informatization construction, the operation and maintenance of the information system and the management system on the integration of informatization and industrialization and conducted the informatization management and control in an orderly way to promote the technology and management innovation of the enterprise. Firstly, it fully conducted the top design on automation and informatization with the target of digitalization and intelligentization, deeply promoted the integration of informatization and industrialization, deepened the application of intelligent equipment, intelligent factories, big data and the industrial Internet and enhanced the intelligent manufacturing capacity of the Company to the leading level in the PRC. Secondly, it continued to improve the management system on the integration

of informatization and industrialization and elaborately organized and conducted specific work on applying to be a demonstration enterprise in implementing the standards. In 2017, the Company was officially announced as a demonstration enterprise in implementing the standards on the management system integrating informatization and industrialization by the Ministry of Industry and Information Technology (MIIT). It became one of the first 50 demonstration enterprises in implementing the standards across the PRC.

5. Strengthening financial risk management to enhance risk prevention capability

The Company expanded financing channels to avoid capital risks. It adjusted the scale of interest-bearing liabilities as planned; actively promoted the mutual recognition of notes between financial institutes and Angang Financial Company; further enhanced the concentrated management of funds of subsidiaries and collected idle capitals on time; repaid debt financing instruments with higher interest rates in time; conducted notes pool business and made full use of stock notes to obtain pledge loans with low costs; continued to conduct the import trade financing business; and actively promoted the issuance of H Share convertible debentures in an orderly way.

It improved the inventory turnover rate to reduce inventory and control risks. It maintained operation with low inventory to minimize the inventory of high-price materials. It analyzed the inventory structure and prepared measures on reducing inventory to further reduce the funds set aside given that the production demands are met.

6. Strengthening innovation in scientific research to improve product competitiveness

With the innovation in technology and techniques as the core, the full coverage of products as the target and the technology management and innovation system as the guarantee, the Company sped up in the development of products with high quality, high added value and strong leading roles in the market as well as technology greatly improving the technic quality in 2017.

Among four technological achievements related to the “innovation and application of the whole-process key technology on corrosion-resistant steel for the new-generation railway vehicles (新一代鐵路車輛用耐蝕鋼全流程關鍵技術創新及應用)”, two were certified as the internationally leading level and two were certified as the internationally advanced level. Four products of the Company, namely hot-rolling wire rod based on the EDC technique, steel wire rod for steel cord, hot-rolling pickling plates and hot-rolling seamless steel tube for cylinder, were awarded the “Golden Cup Prize” for quality metallurgical products.

The “new-generation controlled rolling and controlled cooling technology and its application (新一代控軋控冷技術及應用)” won the second prize of National Scientific and Technological Progress Award (國家科技進步二等獎). Four achievements related to the “innovation and application of whole-process key technology for steels used in ultra-large container ships (超大型集裝箱船用鋼全流程關鍵技術創新及應用)” were awarded the Metallurgy Science Technology Award (冶金科學技術獎). Seven achievements related to the “key technology in the production of high alloy clean steel in converters and its integration and industrialization (轉爐流程生產高合金潔淨鋼關鍵技術及集成和產業化)” were granted the Scientific and Technological Progress Award in Liaoning Province (遼寧省科技進步獎) in 2017. 18 achievements related to the “study and application of the integrated metallurgical technology on the recycling and clean utilization of metallurgical dust of Angang (鞍鋼冶金粉塵再資源化清潔利用集成冶煉技術研究與應用)” obtained the Scientific and Technological Progress Award in Anshan City (鞍山市科技進步獎). The “3G steel plates used for the safety vessel of nuclear reactor (三代核電反應堆安全殼用鋼)”, a new product program under the Ministry of Science and Technology (MOST), passed the final acceptance inspection. Two key programmes related to the “R&D for key technology of extra thick and extra wide steel plate for high-end equipment (高端裝備用特厚特寬鋼板製造關鍵技術研發)” of the Group passed final acceptance inspection.

It sped up in enhancing the scientific and technological innovation capacity and promoted the deep integration of production, learning, research and application. Through signing strategic partnership agreements with the Institute of Metal Research (IMR) of Chinese Academy of Sciences (CAS), the Central Iron & Steel Research Institute, the University of Science and Technology Liaoning and other institutes and other methods, the Company realized application of over 100 achievements, reached over 50 cooperation intentions and signed 13 contracts on technical development and 48 contracts on technical services.

7. Strengthening in-process management and promoting green development

The Company strengthened the in-process management and control on environment and increased the input in environmental governance. It follows the green development concept. On the one hand, it strengthened the management of existing environmental facilities to ensure the stable and efficient operation of environmental facilities and reduce pollution from the source. On the other hand, it adopted more advanced environmental technologies and made greater efforts in the transformation of environmental facilities. The emission of pollutants will be significantly reduced after the completion of the renovation projects. In 2017, Bayuquan Iron & Steel Branch Company was on the list of first demonstration companies on green manufacturing released by the MIIT.

With the continuous improvement of the environmental management system, environmental factors have been effectively controlled. The environmental regulation mechanism with the trinity of environmental indicators, regulation and responsibility has been further improved and the environmental management and control capacity has been further enhanced. In 2017, the Company did not have any significant pollution accident, with 100% execution of the “three simultaneous” eco-friendly policy. The environment and air quality continued to be improved.

DEVELOPMENT PLAN OF THE COMPANY FOR 2018:

1. Landscape and development trend in the industry

The year 2018 will be the first year for thorough implementation of the spirit of the 19th National Congress of the Communist Party of China and also a critical year for the Company to implement the development strategy and promote industrial distribution in an all-round way. In light of the new situation and new tasks, the Company will optimise the industrial structure and accelerate transformation and upgrade to promote quality development. The year 2018 is expected to witness complex situation with both difficulties and opportunities.

Macroscopically, the overall situation in 2018 will improve despite of high uncertainties. The global economy will evolve into the critical stage of recovery and acceleration. The emerging market will lead the “shift for acceleration”. In particular, China will play an increasingly important role in the economic growth of the world. Domestically, the Chinese economy will maintain the development trend of improvement amidst stabilization and the economic development will change from scale and speed oriented development into the model in pursuit of quality and benefits. In respect of economic structure, the focus will shift from increment and capacity expansion to inventory optimization. The traditional growth driver for economic development will be replaced by the new one for high quality development. In the iron and steel industry, the demands of national economy for iron and steel industry will be featured by higher quality and performance as well as better services.

From the perspective of unfavourable factors, firstly, the excess capacity of iron and steel was not completely solved. In 2017, though the excess capacity was effectively alleviated and iron and steel enterprises generally saw profit growth, there was no radical change in the fundamentals of excess capacity of iron and steel; secondly, the costs of enterprises continued to rise. In 2017, in spite of the best permissive market environment in recent years, the continuous increase in labour costs, increasing pressure of environmental protection, continued adjustments to the downstream industrial structure and persistent fluctuation

in bulk raw materials and fuels pushed up the production and operation costs significantly; thirdly, trade barriers resulted in more difficult export. With the rising of protectionism for international trade, iron and steel enterprises will be involved in more and more disputes over international trade, giving rise to numerous adverse effects on export of steel products.

In terms of favourable factors, firstly, state-owned and state-controlled enterprises ushered in the development opportunity for reinforcement, optimization and expansion. The objective of “deepening reform of state-owned enterprises, development of mixed ownership economy, and cultivation of world first-rate enterprises with global competitiveness” as proposed at the 19th National Congress of the Communist Party of China offers a hard-won opportunity for the development of iron and steel industry and will promote state-owned and state-controlled enterprises to speed up industrial upgrade and stride towards the high end of industry value chain; secondly, the fulfillment of “three promotions” requirements has revealed the direction of corporate development. The “three promotions” requirements as raised by Xi Jinping, the CPC Secretary General, have indicated the direction for the vigorous development of real economy in Liaoning and also posed higher development requirements on our reform and innovation as well as transformation and upgrade; thirdly, continuous intensification of contractual management will fully release development vitality. The thorough implementation of contractual management by the Company will immensely motivate the enthusiasm and initiative of staff, spark new momentum and generate new vitality.

2. Development strategy of the Company

Upholding the “five development concepts”, the Company will comprehensively advance the layout integrating “leading by reform, driving by innovation, quality upgrade, intelligent manufacturing and green development” and execute the industrial development plan to optimise and reinforce the iron and steel industry and develop relevant industries in a coordinated way, so as to achieve revitalization and development of enterprises.

- (1) The iron and steel industry will be optimized and reinforced. Riding on the “cultivation of world first-rate enterprises with global competitiveness” proposed at the 19th National Congress of the Communist Party of China as an opportunity, the competitiveness of the iron and steel business will be comprehensively enhanced. Aligning to the strategic direction, the Company will center on “gross, products and production lines” and vigorously propel the implementation of development plan for iron and steel business. The clear division of labour in production lines, accurate product positioning, process reengineering and accelerated equipment upgrade will generate excellent competitive advantage and development capacity. With the advancement of quality upgrade, the Company will create 10 product series including automobile, shipbuilding and marine engineering, railway and

bridges as well as manufacture iron and steel products of high quality, high technical content and high added value. Moreover, the Company will solidly boost the development of competitive products to elevate the brand influence and market competitiveness of iron and steel business, and consolidate and raise the position in industry. Great efforts will be exerted to develop key projects and the focus will be laid on critical fields including product quality enhancement, green production, and intelligent manufacturing while accelerating key investment projects.

- (2) Relevant industries will be developed in a coordinated way. Leveraging on the advantages of chain resources and platform of iron and steel business, the Company, while optimizing and reinforcing the iron and steel business, will prioritize the development in relevant industries and develop chemical technology. The Company will vigorously develop new technologies to extend the industrial chain and expand its presence to the downstream industries including pitch and coal gas by means of investment, acquisition and merger, strategic cooperation, etc. to enhance value creation capacity. In development of energy industry, the Company, aiming at becoming “an urban energy supplier and a leader in new energy industry”, will integrate the resources in three places to build the most competitive production and marketing platform for gas energy industry. Furthermore, the Company will develop auto parts industry to extend the industrial chain and create a value chain to realize closer combination of steel products with users and achieve the transformation from “a manufacturer to an integrated service provider”.

3. Operation plan for the year of 2018

In 2018, the Company will firmly keep on development as the primary task, stress three critical elements “efficiency, quality and reform”, and focus on “seven strengthening” to build “seven new patterns”.

- (1) Strengthening ideology to build the new pattern of revitalization and development.
- (2) Strengthening strategic positioning to build the new pattern of coordinate development of the principal businesses and relevant businesses.
- (3) Strengthening efficiency enhancement to build the new pattern of efficient management and control.
- (4) Strengthening brand upgrade to build the new pattern integrating production, marketing and research.
- (5) Strengthening management improvement to build the new pattern of innovative management.

- (6) Strengthening talent team construction to build the new pattern of reinforcing enterprise relying on talents.
- (7) Strengthening tenet consciousness to build the new pattern of green share development.

4. Plans for funding requirements

In 2018, the proposed investments for engineering projects and external investments of the Group will amount to RMB2,758 million.

The sources of funding for the Group in 2018 mainly include cash inflows from operating activities and bank loans.

ANALYSIS OF FINANCIAL INFORMATION

1. Overview

Unit: RMB million

Item	Reporting Period	Corresponding period of the previous year	Increase/decrease during the Reporting Period as compared with the corresponding period of the previous year (%)	Explanation and reasons for significant change
Operating income	84,310	57,882	45.66	Note 1
Operating costs	72,743	50,186	44.95	Note 2
Marketing expenses	2,334	1,928	21.06	–
Administrative expenses	1,807	1,626	11.13	–
Financial expenses	1,174	1,286	-8.71	–
Total profit	5,480	1,620	238.27	Note 3
Net profit attributable to shareholders of the Company	5,605	1,616	246.84	Note 3
Net cash flow	469	-1,633	128.72	Note 4

Note 1: The increase of RMB26,428 million in operating income for 2017 as compared with the corresponding period of the previous year was mainly due to the rise in product prices and increase in sales volume.

Note 2: The increase of RMB22,557 million in operating costs for 2017 as compared with the corresponding period of the previous year was mainly due to the rise in the prices of raw materials and fuels and the increase in sales volume.

Note 3: In 2017, the Company took advantage of the turnaround of the steel market in a timely manner, and achieved significant improvement in the operating results through the implementation of the following measures: strengthening production management and control and optimizing production organization to push for cost reduction and efficiency enhancement of the system forcibly; making differentiated and opportune purchases with thorough grasp of the timing for purchasing raw materials and fuels; reinforcing regional selling and corporate brand building; devoting greater efforts to the restructuring of product portfolio to make profits; deepening technical marketing; improving service quality; maintaining a stable relationship with direct supply clients and attaching greater importance to key projects.

Note 4: The increase of RMB2,102 million in net cash flow for the year as compared with the previous year was mainly due to:

- (1) The net cash inflow from operating activities of the Company amounted to RMB6,268 million, representing an increase of RMB1,919 million as compared with the corresponding period of the previous year, mainly due to:
 - ① Net profit for the year amounted to RMB5,612 million, representing an increase of RMB3,997 million as compared with the corresponding period of the previous year.
 - ② Inventories increased by RMB1,378 million from the beginning of the year, as compared to an increase of RMB2,716 million for the corresponding period of the previous year. The cash flow increased by RMB1,338 million year-on-year.
 - ③ Operating receivables increased by RMB1,138 million, while an increase of RMB1,605 million was recorded in the same period last year. Accordingly, cash flow recorded a year-on-year increase of by RMB467 million during the two years.
 - ④ Operating payables decreased by RMB1,242 million, while an increase of RMB2,731 million was recorded in the same period last year. Accordingly, cash flow recorded a year-on-year decrease of RMB3,973 million during the two years.
 - ⑤ Other items increased the cash flow by RMB90 million.
- (2) Net cash flow from investing activities decreased by RMB795 million as compared with the previous year, mainly due to: (i) a decrease of RMB304 million in net cash from disposal of fixed assets, intangible assets and other long-term assets and income from test run as compared with the previous year and (ii) an increase of RMB475 million in cash payment for purchase and construction of fixed assets and construction in progress as compared with the previous year.
- (3) Net cash flow from financing activities increased by RMB959 million as compared with the previous year, mainly due to: (i) a decrease of RMB6,027 million in cash flow from borrowings obtained as compared with the previous year and (ii) a decrease of RMB7,129 million in cash repayment for borrowings as compared with the previous year.
- (4) Cash flow increased by RMB19 million due to the effect of changes in exchange rate.

2. Income and Cost

(1) Composition of operating income

Unit: RMB million

	2017		2016		Year-on-year increase/decrease (%)
	Amount	As a percentage of the operating income (%)	Amount	As a percentage of the operating income (%)	
Total Operating Income	84,310	100	57,882	100	45.66
By industry					
Steel rolling and processing industry	84,000	99.63	57,742	99.76	45.47
Others	310	0.37	140	0.24	121.43
By products					
Steel products	77,693	92.15	53,396	92.25	45.50
Others	6,617	7.85	4,486	7.75	47.50
By geographical locations					
China	77,837	92.32	52,435	90.59	48.44
Export sales	6,473	7.68	5,447	9.41	18.84

(2) Industries, products and geographical locations accounting for more than 10% of the operating income or operating profit of the Company

Unit: RMB million

	Operating income	Operating cost	Gross profit margin (%)	Increase/decrease in operating income as compared with the corresponding period of the previous year (%)	Increase/decrease in operating cost as compared with the corresponding period of the previous year (%)	Increase/decrease in gross profit margin as compared with the corresponding period of the previous year (percentage point)
By industry						
Steel rolling and processing industry	84,000	72,428	13.78	45.47	44.70	0.47
By products						
Hot-rolled sheets products	23,322	19,409	16.78	30.01	27.81	1.44
Cold-rolled sheets products	30,579	25,186	17.64	46.82	44.71	1.20
Medium and thick plates	12,263	11,380	7.20	56.74	57.60	-0.51
By geographical locations						
China	77,527	66,370	14.39	48.25	47.56	0.40
Export Sales	6,473	6,058	6.41	18.84	19.35	-0.40

In case of adjustment in statistical calibers of principal businesses of the Company during the Reporting Period, the principal businesses data of the Company in the latest year according to adjusted calibers at the end of the Reporting Period.

Applicable Not applicable

(3) Whether the Company's income from the sale of goods is greater than its income from the provision of services

Yes No

Industry Classification	Item	2017	2016	Year-on-year increase/decrease (%)
Steel rolling and processing industry	Sales volume (0'000 tons)	2,077.86	1,994.25	4.19
	Production volume (0'000 tons)	2,068.01	1,985.72	4.14
	Stock volume (0'000 tons)	99.13	101.93	-2.75

Explanation should be given on year-on-year changes of more than 30% in relevant figures

Applicable Not applicable

(4) Performance of material sales contracts entered into by the Company as of the end of the Reporting Period

Applicable Not applicable

(5) Composition of operating costs

Unit: RMB million

Industry Classification	Item	2017		2016		Year-on-year increase/decrease in operating costs (%)
		Amount	As a percentage of operating costs (%)	Amount	As a percentage of operating costs (%)	
Steel rolling and processing industry	Raw materials and fuel	58,500	80.77	36,575	73.07	7.7
	Others	13,928	19.23	13,480	26.93	-7.7
	Total	72,428	100	50,055	100	-

(6) Whether the scope of consolidation had changed during the Reporting Period

Applicable Not applicable

The number of subsidiaries of the Company decreased by one in the year: Changchun Welded Plate, a subsidiary of the Company, was deregistered this year after it was merged by TKAS-SSC, another subsidiary of the Company.

As at 31 December 2017, 18 subsidiaries of the Company in total were included in the scope of consolidation.

(7) Material changes or adjustment in businesses, products or services during the Reporting Period

Applicable Not applicable

(8) Major customers and suppliers

Sales to major customers of the Company

Total sales amount of the top five customers (<i>RMB million</i>)	19,992
Proportion of total sales amount of the top five customers over total sales amount for the year (%)	23.80
Proportion of sales to related parties of total sales amount of the top five customers over total sales amount for the year (%)	20.56

Top five customers of the Company

No.	Customer name	Sales amount (<i>RMB million</i>)	Proportion of sales amount over total sales amount for the year (%)
1	Customer A	5,214	6.21
2	Customer B	4,620	5.50
3	Customer C	4,346	5.17
4	Customer D	3,094	3.68
5	Customer E	2,718	3.24
Total		<u>19,992</u>	<u>23.80</u>

Other explanations on major customers: the top five customers include companies under the control of the same parent company.

Major suppliers of the Company

Total purchase amount from the top five suppliers (RMB million)	30,438
Proportion of total purchase amount of the top five suppliers over total purchase amount for the year (%)	49.54
Proportion of procurement from related parties of total purchase amount of the top five suppliers over total purchase amount for the year (%)	38.02

Top five suppliers of the Company

No.	Supplier name	Purchase amount (excluding tax) (RMB million)	Proportion of purchase amount over total purchase amount for the year (%)
1	Supplier A	14,086	22.93
2	Supplier B	6,060	9.86
3	Supplier C	3,562	5.80
4	Supplier D	3,216	5.23
5	Supplier E	3,514	5.72
Total		<u>30,438</u>	<u>49.54</u>

Other explanations on major suppliers: the top five suppliers include companies under the control of the same parent company.

3. Expenses

Unit: RMB million

Financial indicators	2017	2016	Increase/ decrease in the Reporting Period as compared with the corresponding period of the previous year (%)	Explanations on material changes
Marketing expenses	2,334	1,928	21.06	–
Administrative expenses	1,807	1,626	11.13	–
Financial expenses	1,174	1,286	-8.71	–
Income tax expenses	-132	5	-2,740.00	The decrease in income tax expenses was due to recognition of deferred income tax assets including the losses not being covered in previous years, assets impairment and severance benefit.

4. R&D expenditure

The Company follows the green development trend featuring short flow, high efficiency, light weight, energy saving, cleanliness, high performance, and multi-functionality in steel materials production. The Company aims to meet the personalized needs of customers in terms of product varieties, center on the research and development of green technology and equipment, large-scale production capacity, precise control methods, digital design and development, and reliable operation of equipment, and focus on the full coverage of technology, technique innovation and products. In particular, the Company will promote the full range of coverage and development of major products in the automobiles, railways, marine engineering, ships, and energy sectors, and continuously meet the new demands of downstream users, striving to build itself into a green manufacturer advocating resource conservation, environmental friendliness, and sustainable development.

Through operation of open topic projects, appointment of visiting professors in specialized fields, construction of joint laboratory, joint establishment of fund projects with colleges and universities, and organization of academic exchange activities, the construction of national key laboratory for metallic materials of marine equipment and its application (海洋裝備用金屬材料及其應用國家重點實驗室) was strengthened and the Industrial Technology Innovation Alliance of Corrosion Resistant Steel (耐蝕鋼產業技術創新聯盟) has been successfully elevated to a pilot alliance of China Iron and Steel Industry Association; meanwhile, through promoting the upgrading of important basic testing laboratories such as automotive steel laboratories, the Company comprehensively improved the level and capability of testing and experiment equipment; by strengthening awards in intellectual property, the Company enhanced control over the core, cutting-edge and unique technologies. All these measures will greatly promote the Company to develop high-quality and high added value products with strong market leading function, significantly improve technique quality, achieve full coverage of downstream industries, and be equipped with the frontier, key, material, core and leading technologies featuring energy saving and emission reduction as well as green manufacturing.

Item	2017	2016	Year-on-year increase/ decrease (%)
Number of R&D staff (<i>person</i>)	1,555	1,789	-13.08
Percentage of the number of R&D staff in the Company (%)	5.39	5.86	Decreased by 0.47 percentage point
Amount of R&D expenditure (<i>RMB million</i>)	1,366	1,002	+36.33
Percentage of R&D expenditure in operating income (%)	1.62	1.73	Decreased by 0.11 percentage point
Amount of capitalization of R&D expenditure (<i>RMB million</i>)		–	–
Percentage of capitalization of R&D expenditure in the R&D expenditure (%)		–	–

Reasons for the significant change in the proportion of total R&D expenditure in operating income as compared with the previous year:

Applicable Not applicable

Reasons for and reasonableness of the significant change of the capitalization rate of R&D expenditure:

Applicable Not applicable

5. Cash flow

Unit: RMB million

Item	2017	2016	Year-on-year increase/ decrease (%)
Sub-total of cash inflow from operating activities	71,460	52,114	37.12
Sub-total of cash outflow from operating activities	65,192	47,765	36.48
Net cash flow from operating activities	6,268	4,349	44.13
Sub-total of cash inflow from investing activities	609	913	-33.30
Sub-total of cash outflow from investing activities	1,954	1,463	33.56
Net cash flow from investing activities	-1,345	-550	-144.55
Sub-total of cash inflow from financing activities	21,005	26,945	-22.04
Sub-total of cash outflow from financing activities	25,459	32,358	-21.32
Net cash flow from financing activities	-4,454	-5,413	17.72
Net increase of cash and cash equivalents	469	-1,633	128.72

Explanations of the main factors for significant year-on-year changes of the relevant figures:

Applicable Not applicable

(1) The net cash inflow from operating activities of the Company amounted to RMB6,268 million, representing an increase of RMB1,919 million as compared with the corresponding period of the previous year, mainly due to:

- ① Net profit for the year amounted to RMB5,612 million, representing an increase of RMB3,997 million as compared with the corresponding period of the previous year.

- ② Inventories increased by RMB1,378 million as compared with the beginning of the year, as compared to an increase of RMB2,716 million for the corresponding period of the previous year. The cash flow increased by RMB1,338 million year-on-year.
 - ③ Operating receivables increased by RMB1,138 million, while an increase of RMB1,605 million was recorded in the same period last year. Accordingly, cash flow recorded a year-on-year increase of RMB467 million during the two years.
 - ④ Operating payables decreased by RMB1,242 million, while an increase of RMB2,731 million was recorded in the same period last year. Accordingly, cash flow recorded a year-on-year decrease of RMB3,973 million during the two years.
 - ⑤ The cash flow from other items increased by RMB90 million.
- (2) The decrease of RMB795 million in net cash flow from investing activities for the year as compared to the previous year was mainly due to (i) the decrease of RMB304 million in net cash received from disposal of fixed assets, intangible assets and other long-term assets and income from test run as compared to the previous year; and (ii) the increase of RMB475 million in cash payment for the purchase and construction of fixed assets and construction in progress as compared to the previous year.
- (3) The increase of RMB2,102 million in net cash flow for the year as compared with the previous year was mainly due to (i) the increase of RMB1,919 million in net cash from operating activities as compared with the previous year; (ii) the decrease of RMB795 million in net cash flow from investing activities as compared with the previous year; (iii) the increase of RMB959 million in net cash flow from financing activities; and (iv) the increase of RMB19 million in cash due to the change in the exchange rate.

Explanations on Reasons for Significant Differences in Cash Flow from Operating Activities and Net Profit of the Company during the Reporting Period:

Applicable Not applicable

6. Liquidity and financial resources

As at 31 December 2017, the Group had long-term loans (exclusive of loans due within one year) of RMB2,905 million with interest rates ranging from 2.65–4.9% per annum. The terms of such loans range from 2 to 5 years, and the loans will fall due during the period from 2019 to 2022. The loans are mainly used for replenishing the working capital. The Group's long-term loans due within one year amounted to RMB437 million. The fixed interest rate as stipulated in the loan contract was adopted for all long-term borrowings of the Company. The interest rate was adjusted on monthly basis in accordance with the adjustments to the benchmark interest rate for loans of the same period made by the Central Bank.

In 2017, with good credibility, the Group was reviewed and rated by the rating committee of China Chengxin International Credit Rating Co., Ltd. (中誠信國際信用評級有限責任公司) with a credit rating of "AAA". In 2017, 19 financial institutions which had strategically cooperated with the Company provided credit facilities to the Company. The Group is capable of repaying its debts when they become due.

As at 31 December 2017, cash and bank balances of the Group denominated in foreign currencies was nil (31 December 2016: nil).

Cash and bank balances denominated in the currencies as set out below:

	<i>Unit: RMB million</i>	
	31 December 2017	31 December 2016
RMB	2,437	1,968
US dollars	–	–
HK dollars	–	–
Others	–	–
	<hr/>	<hr/>
Total	<u>2,437</u>	<u>1,968</u>

As at 31 December 2017, the Group had a total capital commitment of RMB1,139 million, which was primarily attributable to the construction and renovation contracts entered into but not yet performed or partially performed, and the external investment contracts entered into but not yet performed or partially performed.

7. Pension scheme

In accordance with the requirements of national insurance policies of the PRC, the Company provides all employees with basic pension (which are contributed as to 20% by the employer and as to 8% by the individual employee), pursuant to which the employee is entitled to receive pension payments on a monthly basis after retirement. For each month, the Company makes contribution to the basic pension scheme at 20% of the gross salary recognized as cost (expenses) of the previous month. In 2017, the total contribution to the basic pension scheme amounted to RMB701 million (including the employer's contribution of RMB522 million and the employees' contribution of RMB179 million).

In addition, the Company maintains corporate annuity scheme for all of its employees, the contribution to which is made by the Company at 4% of the gross salary recognized as cost (expenses) of the previous year. The Company also made compensation to the employees for their years of service prior to the establishment of the corporate annuity scheme. The Company has suspended contribution in 2017 and the total compensation to the employees for their years of service prior to the establishment of the corporate annuity scheme amounted to RMB41 million.

8. Foreign exchange risk

The Group adopts fixed exchange rates in settling its transactions with export and import agents for export of products for selling, import and procurement of raw materials for production and other equipment for projects. Therefore, the Group is not subject to any significant foreign currency risk arising from transactions.

ANALYSIS OF NON-PRINCIPAL BUSINESSES

Unit: RMB million

Item	Amount	As a percentage of total profit (%)	Reasons for the changes	Sustainable or not
Investment income	432	7.88	Investment income from long-term equity investments accounted by equity method and financial assets at fair value through profit or loss	Yes
Gains or losses arising from changes in fair value	-6	-0.11	Financial assets and financial liabilities at fair value through profit or loss	Yes
Impairment losses on asset	328	5.99	Mainly included losses on inventory falling price, provision for bad debts and impairment losses on available-for-sale financial assets	No
Other gains	72	1.31	Mainly included government grants	Yes
Non-operating income	17	0.31	Mainly included gains on disposal of non-current assets	Yes
Non-operating expenses	63	1.15	Mainly included losses on disposal of non-current assets	Yes

ANALYSIS OF ASSETS AND LIABILITY

1. Significant changes in composition of assets

Unit: RMB million

Item	End of 2017		End of 2016		Increase/ decrease (percentage point)	Explanation for significant change
	Amount	As a percentage of total assets (%)	Amount	As a percentage of total assets (%)		
Monetary capital	2,437	2.73	1,968	2.23	0.50	–
Account receivables	2,463	2.76	1,942	2.20	0.56	–
Inventories	11,644	13.05	10,466	11.84	1.21	–
Long-term equity investments	2,949	3.31	2,968	3.36	-0.05	–
Fixed assets	48,006	53.82	49,065	55.52	-1.70	–
Construction in progress	1,040	1.17	2,232	2.53	-1.36	–
Short-term loans	14,500	16.25	18,995	21.49	-5.24	–
Long-term loans	2,905	3.26	1,296	1.47	1.79	–

2. Assets and liabilities measured at fair value

Unit: RMB million

Item	Opening balance	Gains or losses arising from changes in fair value for the period	Changes in fair value reported in equity	Impairment made for the period	Purchases during the period	Disposals during the period	Closing balance
Financial assets							
Of which:							
1. Financial assets measured at fair value through profit and loss (excluding derivative financial assets)							
2. Derivative financial assets	0	7					7
3. Available-for-sale financial assets	52		1				39
Sub-total of financial assets	52	7	1				46
Investment properties							
Productive biological assets							
Others							
Total	52	7	1				46
Financial liabilities	0	13					13

Material changes in measurement of major assets during the Reporting Period

Yes No

3. Gearing ratio

As at 31 December 2017 and 31 December 2016, the Group's ratio of equity to liability was 1.30 times and 1.05 times, respectively.

4. Restrictions on assets power as at the end of the Reporting Period

The Group pledged notes receivable with carrying amount of RMB239 million to bank to obtain short-term loans of RMB200 million.

5. Contingent liabilities

As at 31 December 2017, the Group had no contingent liabilities.

ANALYSIS ON THE CORE COMPETITIVENESS

1. Secured supply of resources

The surrounding areas of Anshan have abundant reserves of iron ore. Presently subsidiary mining companies of Angang has iron ore resources of approximately 8,800 million tons and stands at the first place in the PRC and a leading position in the world in terms of production stripping capacity of 230 million tons per year and mineral processing capacity of 65 million tons per year. Its leading mining technology in the PRC and leading mineral processing technology in the world firmly secured the supply of resources for the sustainable development of the Company.

2. Technical and equipment capacity

The principal production techniques and technology in the Company's Anshan production base have reached national advanced level, and the main equipment are also modern and of large-scale. The Company also has extensive experience in the construction of steel factories and construction management.

The production base of Bayuquan Iron & Steel Branch Company possesses advanced technological equipment and techniques with a compact layout. It has a sound foundation for green development with leading key indicators for technology in the PRC.

3. Technological innovation and product development capability

The Company's products are rich in variety and complete in specifications, with certain advantages in respect of differentiation. In addition, with well-known and reputable brand, it has strong superiority in aspect of providing ancillary services to users.

The Company is relatively strong in plate products, and its sheets for automobiles, home appliances and containers are industry leading. Moreover, the Company is capable of steadily manufacturing high-grade surface cold-rolled and galvanized sheets used for covering external parts of automobiles.

In terms of comprehensive strength, the Company's R&D ranks the top in the steel industry.

4. Leadership in technology

The Company's intellectual property strength ranks the top tier in the metallurgical industry in terms of the number of patent applications, licenses and proprietary technologies. The Company also plays an important role in the stipulation and revision of national and industry standards. In 2017, the Company strengthened its work in respect of key patents comprehensively. On the basis of its research and analysis on "the production technology of medium-thick duplex stainless steel plates (中厚雙相不銹鋼板生產工藝)", it applied for 42 patents in technological areas including "technology of rotary injection of molten steel and iron" (鋼鐵水旋轉噴吹工藝), "coal compaction technique" (煤壓實工藝), "manufacturing technology and application of complex deoxidizer" (複合脫氧劑的製造工藝及其應用), "hot rolled composite plate (熱軋複合板)" and "galvanized hot formed steel plate" (鋅系鍍層熱成形鋼板). As a result, a patent portfolio has been successfully built in key technological fields, laying a foundation for optimizing the Company's portfolio of key patented technologies, providing basis for formulating and implementing patent strategy and giving powerful support for improving the effectiveness of scientific research. 14 projects (22 subjects) organized by the Company were selected as key special projects for technological upgrading and industrialization of key basic materials under the 2017 National Key Research and Development Program. The Company took the lead for 10 sub-subjects including "steel for high strength piping in low temperature and high pressure conditions" (低溫高壓服役條件下高強度管線用鋼) and "critical manufacturing and application technology of steel for high strength corrosion resistant auto body and bogie structure of high speed trains" (高強耐蝕車體和高鐵轉向架構架用鋼關鍵製造與應用技術).

The "new-generation controlled rolling and controlled cooling technology and its application (新一代控軋控冷技術及應用)" won the second prize of National Scientific and Technological Progress Award (國家科技進步二等獎). Four achievements related to the "innovation and application of whole-process key technology for steels used in ultra-large container ships (超大型集裝箱船用鋼全流程關鍵技術創新及應用)" were awarded the Metallurgy Science Technology Award (冶金科學技術獎). Seven achievements related to the "key technology in the production of high alloy clean steel in converters and its integration and industrialization (轉爐流程生產高合金潔淨鋼關鍵技術及集成和產業化)" were granted the Scientific and Technological Progress Award in Liaoning Province (遼寧省科技進步獎) in 2017. 18 achievements related to the "study and application of the integrated metallurgical technology on the recycling and clean utilization of metallurgical dust of Angang (鞍鋼冶金粉塵再資源化清潔利用集成冶煉技術研究與應用)" obtained the Scientific and Technological Progress Award in Anshan City (鞍山市科技進步獎). Among four technological achievements related to the "innovation and application of the whole-process key technology on corrosion-resistant steel for

the new-generation railway vehicles (新一代鐵路車輛用耐蝕鋼全流程關鍵技術創新及應用)”, two were certified as the internationally leading level and two were certified as the internationally advanced level.

5. Advantages in corporate culture

The Company abounds in heroic figures like Meng Tai, Lei Feng, Wang Chonglun as well as advanced models in the new period including Guo Mingyi and Li Chao, and they have become role models for the public. In the long history of development, the Company has established a profound corporate culture with “Innovation, Factualism, Hard Working and Contribution” as its core, which generalizes, extracts and sublimates the spirits of generations of Angang people and is instrumental for the solidarity and cohesion of the Company. With rich connotation and broad denotation, its corporate culture demonstrates the Chinese traditional virtues and the fine work styles of the working class in the PRC. In the new period, it has been complemented with new elements to facilitate the innovative development of the transformation and upgrading of the Company with distinctive culture of advantage, innovation, competition, and harmony.

SIGNIFICANT EVENTS

1. The profit distribution proposal of the Company for 2017

Net profit attributable to shareholders of the Company amounted to RMB5,605 million for the year of 2017, while profits distributable to shareholders of the Company amounted to RMB7,604 million at the end of 2017, in accordance with the PRC ASBE, as audited and confirmed by Ruihua Certified Public Accountants (Special General Partnership) (瑞華會計師事務所(特殊普通合夥)). The Board proposes to distribute RMB1,682 million of distributable profits to all the shareholders of the Company by way of cash dividends, accounting for 30% of the net profits attributable to shareholders of the Company. Accordingly, the cash dividend is expected to be RMB0.232 per share (tax inclusive) for the year of 2017, on the basis of the total share capital of 7,234,807,847 shares. In the case of any change in the total share capital of the Company as at the record date of the dividend distribution, the total amount of distributable profits to all shareholders of the Company will remain unchanged, while the cash dividend per share will be adjusted based on the total share capital of the Company as at the record date of the dividend distribution. Upon the implementation of such proposal, the balance of distributable profits will be RMB5,922 million. This proposal shall be subject to consideration and approval at the 2017 annual general meeting. It is expected that dividends will be distributed on or around 30 June 2018.

2. Performance of Undertaking

The undertakings performed by the Company, shareholders, actual controllers, offerors, Directors, Supervisors, senior management or other related parties during the Reporting Period as well as the undertakings that they have not yet performed as at the end of the Reporting Period.

Reason for Undertaking	Undertaking Party	Type of Undertaking	Contents of Undertaking	Date of Undertaking	Period of Undertaking	Performance of Undertaking
Undertaking made during the restructuring of assets	Angang Holding	Industry competition commitments	The Non-competition Undertaking Letter of Anshan Iron & Steel Group Complex 《鞍山鋼鐵集團公司避免同業競爭承諾函》:	20 May 2007	Indefinite	There was no breach of such undertaking
			(1) Angang Holding and its wholly-owned and holding subsidiaries have complied with relevant requirements of the state on the non-competition.			
			(2) Angang Holding and its wholly-owned and holding subsidiaries have never engaged in any business which directly or indirectly competes with the iron and steel business, the principal business of the Company.			
			(3) Angang Holding undertakes that the Company is entitled to the pre-emptive rights for the assets and business to be disposed by Angang Holding or the wholly-owned and controlling subsidiaries of Angang Holding, which are related to the iron and steel business of the Company.			

Reason for Undertaking	Undertaking Party	Type of Undertaking	Contents of Undertaking	Date of Undertaking	Period of Undertaking	Performance of Undertaking
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(4) If the enterprises in which Angang Holding holds equity interests produce products or engage in business which compete or may compete with the Company, Angang Holding undertakes that it will transfer all the capital contribution, shares or equity interests and grant the Company preemptive rights for such capital contribution, shares or equity interests.

(5) If Angang Holding and its wholly-owned and holding subsidiaries have assets and business which compete or may compete with the Company, when the Company proposes the purchase requirement, Angang Holding and its wholly-owned and holding subsidiaries will transfer relevant assets and business to the Company with priority based on reasonable prices and conditions according to the processes required by laws.

Reason for Undertaking	Undertaking Party	Type of Undertaking	Contents of Undertaking	Date of Undertaking	Period of Undertaking	Performance of Undertaking
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(6) During the effective period of the undertakings, on the premise of equal investment qualifications, Angang Holding shall inform the Company first for the opportunity of new business.

If the Company accepts such opportunity of new business, Angang Holding shall transfer such new business to the Company for free. Angang Holding and its wholly-owned and holding subsidiaries have the rights to invest in the new business only if the Company expressly refuses such opportunity.

If the Company proposes the purchase requirement in the future, Angang Holding and its wholly-owned and holding subsidiaries still need to transfer the assets and business formed by such opportunities to the Company with priority based on reasonable prices and conditions.

Reason for Undertaking	Undertaking Party	Type of Undertaking	Contents of Undertaking	Date of Undertaking	Period of Undertaking	Performance of Undertaking
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- (7) Other effective measures to avoid and eliminate horizontal competition.

The above undertakings do not limit the business of Angang Holding and its wholly-owned and holding subsidiaries which do not compete with the Company, especially the business of provision of required materials or services necessary for the operation of the Company.

All the undertakings made by Angang Holding are based on the national requirements and subject to the adjustments according to the national requirements. Angang Holding is eligible for engaging in business not prohibited by the state.

Such undertakings became effective from the date of issuance, and shall be terminated once one of following conditions occurs:

- (1) Angang Holding ceases to be the controlling shareholder of the Company.
- (2) The shares of the Company cease to be listed on any stock exchanges (except for temporary suspension of the shares of the Company due to any reason).

Reason for Undertaking	Undertaking Party	Type of Undertaking	Contents of Undertaking	Date of Undertaking	Period of Undertaking	Performance of Undertaking
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(3) When the state does not require the contents of certain undertakings, relevant section shall be terminated automatically.

Considering that Angang Holding does not have any iron and steel production projects in production which compete with the Company, therefore, the undertakings made in the undertaking letter shall prevail if any inconsistencies occur between such undertakings and all the undertakings made by Angang Holding concerning the competitions with the Company before the date of the issuance of the undertaking letter.

Whether the commitments are fulfilled on time Yes

3. Misappropriation of Non-operating Funds of the Company by Controlling Shareholders and Connected Persons

Applicable Not applicable

4. Explanation of Changes in Accounting Policies, Accounting Estimates and Accounting Method of the Group During this Year as Compared with the Financial Report of the Previous Year

(1) Changes in accounting policies

- ① Changes in accounting policies due to the adoption of the new Accounting Standards for Business Enterprises.

On 10 May 2017, the Ministry of Finance issued the Accounting Standards for Business Enterprises No. 16 – Government Grants (2017 Revision) (《企業會計準則第16號—政府補助(2017年修訂)》) (Cai Kuai [2017] No. 15), which came into effect on 12 June 2017. The Group adopted the accounting standards at the time as required by the Ministry of Finance.

Prior to the implementation of the Accounting Standards for Business Enterprises No. 16 – Government Grants (2017 Revision), the government grants received by the Group were included in non-operating revenue; and the government grants relevant to assets were recognized as deferred income that will be equally amortized through current profit and loss over the useful life of relevant assets. Following the implementation of the Accounting Standards for Business Enterprises No. 16 – Government Grants (2017 Revision), the government grants relevant to daily operation activities received subsequent to 1 January 2017 will be credit to other income; while those irrelevant to daily operation activities will be recorded as non-operating revenue.

The adoption of the accounting standards by the Group during the Reporting Period has no significant impact on its financial position or the operating results.

② *Changes in other policies*

In accordance with the Regulations for Accounting Treatment of VAT (《增值稅會計處理規定》) issued by the Ministry of Finance on 3 December 2016, the Group reclassified the debit balance of the breakdown items including “VAT payable”, “Outstanding VAT”, “Credit tax available for deduction”, “Credit tax pending verification” and “Outstanding VAT credit” under the entry “Tax payable” as at the beginning and the end of the period into the items of “other current assets” and “other non-current assets” based on liquidity.

The change in the policy of the Group has no significant impact on its financial position and operating results.

(2) There was no change in accounting estimates of the Group during the Reporting Period.

5. Reason for Retrospective Restatement to Correct Major Accounting Errors During the Reporting Period

Applicable Not applicable

6. Explanation of Changes of Scope in Consolidated Statements As Compared With the Financial Report of the Previous Year

Applicable Not applicable

The number of subsidiaries of the Company decreased by one in the year: Changchun Welded Plate, a subsidiary of the Company, was deregistered this year after it was merged by TKAS-SSC, another subsidiary of the Company.

As at 31 December 2017, 18 subsidiaries of the Company in total were included in the scope of consolidation.

7. Appointment and Dismissal of Accounting Firm

(1) Accounting firm currently engaged by the Company

Name of the PRC accounting firm	Ruihua Certified Public Accountants (Special General Partnership)
Remuneration of the PRC accounting firm (RMB0'000)	372
Continued term of service of the PRC accounting firm	5 years
Name of certified public accountants of the PRC accounting firm	Cao Bin and Deng Li

(2) Whether appointed another accounting firm during the period

Yes No

(3) Particulars on recruitment of accounting firms, financial consultants or sponsors for internal control

The Company engaged Ruihua Certified Public Accountants (Special General Partnership) as the internal control and auditing firm of the Company for 2017 and the remuneration was RMB0.88 million.

8. Material Litigation and Arbitration

The Company has no material litigation and arbitration during the Reporting Period.

9. Penalty and Rectifications

The Company has not been subject to any penalty or rectification during the Reporting Period.

10. Credibility of the Company, Its Controlling Shareholders and De Facto Controllers

Applicable Not applicable

11. Implementation of the Share-Based Incentives, Employee Stock Ownership Scheme and Other Employee Incentive Measures of the Company

The Company had no share-based incentives, employee stock ownership scheme or other employee incentive measures and relevant implementation thereof during the Reporting Period.

12. Major Connected Transactions

(1) Continuing connected transactions related to daily operations

A. Connected party: Angang Group

Connected relationship: Controlling shareholder of the Company

Settlement method of the connected transaction: Cash payment

Details	Pricing principle	Price (RMB)	Amount (RMB million)	As a percentage of the amount of similar transactions (%)	Transaction cap approved (RMB million)	Whether exceeding approved cap	Market price of available similar transactions	
Procurement of principal raw materials from the connected party	Iron concentrate	Not higher than the average value of medium price of Platts 65% CFR price for the northern part of China (Qingdao Port) announced daily by SBB Steel Markets Daily (《SBB 鋼鐵市場日報》) in the first month preceding the month of the transaction (T-1)*, plus the transportation cost from Bayuquan Port to Angang Steel, and adjusted upwards or downwards based on each iron concentration calculated by reference to the average value of Platts 65%, in the first month preceding the month of the transaction (T-1)*. A discount equal to 3% of the average value of Platts 65% in the first month preceding the month of the transaction (T-1)* shall apply to the price determined pursuant to the formula set out above.	623/ton	6,987	52.28	-	-	571/ton ^{note1}
	Pellet	Market price	705/ton	4,283	97.55	-	-	737/ton ^{note1}
	Sinter ore	The price of iron concentrate plus processing cost in the preceding one month (T-1)*, the processing cost of which should not be higher than that of similar products produced by Angang Steel.	688/ton	2,139	100.00	-	-	-

Details	Pricing principle	Price (RMB)	Amount (RMB million)	As a percentage of the amount of similar transactions (%)	Transaction cap approved (RMB million)	Whether exceeding approved cap	Market price of available similar transactions	
Karara magnetite	<p>Premium products (iron grade\geq67.2%): not higher than the average price of such products in Mainland China sold to independent third parties in the corresponding period (which is the shipment month). The sales of premium products of Karara Mining in Mainland China sold to independent third parties are not less than 30% of the then total sales of Karara Mining's premium products</p> <p>Standard products (67.2% > iron grade\geq65%): the price is calculated by reference to the average value of medium price of Platts 65% CFR price for the northern part of China (Qingdao Port) announced daily by SBB Steel Markets Daily, plus the difference of the transportation cost of shipping in dry metric ton from Qingdao Port to Bayuquan, Liaoning Province, as divided by 65 and multiplied by the actual grade after loading in the place of loading in the corresponding month.</p> <p>Low standard products (65% > iron grade \geq59%): the price is calculated by reference to the average value of medium price of Platts 62% iron CFR price for the northern part of China (Qingdao Port) announced daily by SBB Steel Markets Daily, plus the difference of the transportation cost of shipping in dry metric ton from Qingdao Port to Bayuquan, Liaoning Province, as divided by 62 and multiplied by the actual grade after loading in the place of loading in the corresponding month.</p>	630/ton	1,096	100.00	-	-	595/ton ^{note1}	
Scrap steel	Market price	-	191	9.03	-	-	-	
Billets		-	249	95.06	-	-	-	
Alloy and non-ferrous metal		-	31	0.75	-	-	-	
Sub-total		-	14,976	54.65	19,800	No	-	
Procurement of energy and power from the connected party	Electricity	State price	0.43/kwh	1,637	57.09	-	-	0.43/kwh
	Water	State price	2.10/ton	43	44.57	-	-	2.10/ton
	Steam	Cost of production plus gross profit margin of 5%	52/GJ	1	100.00	-	-	52/GJ
Sub-total		-	1,681	56.68	2,805	No	-	

Details	Pricing principle	Price (RMB)	Amount (RMB million)	As a	Transaction cap approved (RMB million)	Whether exceeding approved cap	Market price of available similar transactions	
				percentage of the amount of similar transactions (%)				
Purchase of ancillary products from the connected party	Lime stone	Not higher than the selling prices offered by Angang Group to independent third parties	61/ton	164	75.90	-	-	-
	Lime powder		407/ton	659	94.09	-	-	-
	Refractory materials		-	638	44.30	-	-	-
	Coke		-	17	1.09	-	-	-
	Other ancillary materials		-	307	15.01	-	-	-
	Spare parts and tools		-	278	12.75	-	-	-
	Sub-total		-	2,063	25.21	2,915	No	-
Purchase of support services from the connected party	Railway transportation service	State price	-	555	57.64	-	-	-
	Road transportation service	Market price	-	677	93.24	-	-	-
	Pipeline transportation service		-	54	100.00	-	-	-
	Agency services:							
	- Import of raw materials, equipment, components and ancillary materials	Commission not higher than 1.5% (not more than the commissions levied by major state-owned import and export companies of China)	-	117	100.00	-	-	-
	- Export of products							
	- Tendering							
	Repair and maintenance of equipment and service	Market price	-	632	28.45	-	-	-
	Design and engineering services	Market price	-	263	72.34	-	-	-
	Educational facilities, education for occupational skills, on-the-job training and translation	Market price	-	7	65.29	-	-	-
	Newspaper and other publications	State price	-	3	69.60	-	-	-
	Telecommunication business and services and information system	State price or the sum of depreciation expenses and maintenance fees	-	61	82.79	-	-	-
	Production assistance and maintenance	Costs of labor and materials and management fees as paid based on market prices	-	859	59.37	-	-	-
Welfare assistance and maintenance	Costs of labor and materials and management fees as paid based on market prices	-	218	85.62	-	-	-	

Details	Pricing principle	Price (RMB)	Amount (RMB million)	As a percentage of the amount of similar transactions (%)	Transaction cap approved (RMB million)	Whether exceeding approved cap	Market price of available similar transactions
Company vehicle services	Market price	-	-	-	-	-	-
Environmental protection and security inspection services	State price	-	26	96.05	-	-	-
Business reception and meeting expenses	Market price	-	2	28.76	-	-	-
Supply of heating fee	State price	-	-	-	-	-	-
Greening services	Costs of labor and materials and management fees as paid based on market prices	-	45	100.00	-	-	-
Security services	Costs of labor and materials and management fees as paid based on market prices	-	0.003	0.05	-	-	-
Port agent services	Market price	-	231	0.05	-	-	-
Sub-total		-	3,751	58.63	6,000	No	-
Buyout of steel products from connected party	Steel products				550	No	-
Sale of goods to the connected party	Steel products	3,519/ton	1,102	1.43	-	-	-
Molten iron		2,280/ton	107	100.00	-	-	-
Billets		-	-	-	-	-	-
Coke		867/ton	44	85.71	-	-	-
Chemical by products		-	89	4.62	-	-	-
Sub-total		-	1,343	1.70	5,050	No	-

Details	Pricing principle	Price (RMB)	Amount (RMB million)	As a percentage of the amount of similar transactions (%)	Transaction cap approved (RMB million)	Whether exceeding approved cap	Market price of available similar transactions	
Sale of scrap steel and abandoned material to the connected part	Scrap steel	Market price	-	277	57.81	-	-	-
	Abandoned material		-	5	48.18	-	-	-
	Obsolete assets or idle assets	Market price or appraised price	-	0.6	100.00	-	-	-
Sub-total		-	282	57.66	305	No	-	
Sale of comprehensive services to the connected party	Fresh water	State price	3.14/ton	34	88.71	-	-	3.19/ton
	Clean recycled water	Market price or production cost plus a gross profit margin	0.74/ton	12	47.77	-	-	-
	Soft water	of not lower than 5% %	-	-	-	-	-	-
	Gas		45/GJ	562	85.87	-	-	-
	Blast furnace gas		20/GJ	314	99.65	-	-	-
	Steam		52/GJ	16	71.05	-	-	52/GJ
	Nitrogen		200/km3	2	39.88	-	-	-
	Oxygen		503/km3	2	84.36	-	-	-
	Argon		1,000/km3	0.7	91.51	-	-	-
	Compressed air		106/km3	0.4	27.18	-	-	-
	Hydrogen		2,535/km3	0.1	19.28	-	-	-
	Used hot water		28/GJ	44	48.77	-	-	28/GJ
	Liquid nitrogen		590/ton	12	100.00	-	-	590/ton
	Liquid oxygen		520/ton	20	100.00	-	-	520/ton
	Liquid argon		1,091/ton	7	88.17	-	-	1,091/ton
	Product testing service	Market price	-	4	67.55	-	-	-
	Transportation service		-	0.2	100.00	-	-	-
	Lease of production line		-	2	67.58	-	-	-
	Entrusted asset management		-	2	100.00	-	-	-
	Sub-total		-	1,034	52.52	1,450	No	-

Particulars on refund of bulk sale	–
Estimated total amount for continuing connected transactions to be conducted during the period (by types of transactions) and their actual implementing during the reporting period	The estimated data of Continuing Connected Transactions of the Company for the last year was based on the content and estimated caps of transactions set out in the Continuing Connected Transaction Agreements approved at the 2015 extraordinary general meeting of the Company. The total amount of Continuing Connected Transactions of the Company in 2017 did not exceed the relevant applicable caps as specified under the Continuing Connected Transaction Agreements.
Reason for the difference between transaction price and market reference price	<i>Note 1:</i> As “market prices of available similar transactions” of iron concentrate, pellet and karara magnetite were derived from average purchase prices of domestically made iron concentrate (grade of 63.31%), pellet (grade of 60.42%) and karara magnetite (grade of 61.74%) in 2017 by the China Iron and Steel Association, respectively, which were not consistent with the Platts prices applied by the Company’s pricing principle, the difference of prices was relatively larger.
Relevant explanation on connected transactions	As production in the iron and steel industry is on a continuous basis, Angang Holding has been engaged in mining, supplying, processing and manufacturing of raw materials, auxiliary materials and energy and power, which is a part of the supply chain of the Company. In the meantime, its subsidiaries have a high technological level and service capabilities, which can provide necessary support services for production and operation of the Company. The Company would sell certain products, abandoned steel, abandoned materials and integrated services to Angang Holding which is a client of the Company

B. Connected party: Angang Financial Company

Connected relationship: Indirectly controlled by the same controlling shareholder of the Company

Settlement method of the connected transaction: Cash payment

Type	Details	Pricing principle	Price	Amount (RMB million)	As a percentage of the amount of similar transactions (%)	Transaction cap approved (RMB million)	Whether exceeding approved cap
Financial services provided to the Company by the connected party	Interest on deposits of settlement fund	Based on the benchmark annual interest rates on agreement deposits as stipulated by the People's Bank of China	-	14	35.10	50	No
	Maximum daily balance of deposit (including accrued interests)	-	-	1,995	-	2,000	No
	Credit interest rates	Not higher than the interest rate obtained by the Group from commercial banks during the same period	-	3	0.26	150	No
	Interest on entrusted loans		-	-	-	100	No
	Particulars on refund of bulk sale		-				

Estimated total amount for continuing connected transactions to be conducted during the period (by types of transactions) and their actual implementing during the reporting period	The estimated data of Continuing Connected Transactions of the Company for the last year was based on the content and estimated caps of transactions set out in the Continuing Connected Transaction Agreements approved at the 2015 extraordinary general meeting of the Company. The total amount of Continuing Connected Transactions of the Company in 2017 did not exceed the relevant applicable caps as specified under the Continuing Connected Transaction Agreements.
Reason for the difference between transaction price and market reference price	The difference among credit interest rates, interest on entrusted loans and the estimated amount was relatively larger, as a result of more credit and entrusted facility applied for maximum protection of capital of the Company while entering into the Continuing Connected Transaction Agreements. As more adequate capital was available to the Company in 2017 instead of significantly utilizing credit of Angang Financial Company, the difference among credit interest rates, interest on entrusted loans of Angang Financial Company and the estimated amount was relatively larger.
Relevant explanation on connected transactions	<p>The Company utilized the free settlement platform provided by Angang Financial Company and deposited a part of saving for the use of daily settlement in order to improve the operational efficiency of capital settlement of the Company. Meanwhile, the Company can also acquire a financing channel from Angang Financial Company to provide a safe protection for the capital of the Company.</p> <p>The Company carried out strict budget control for the capital settlement in Angang Financial Company and, through online financial service system (i.e. N9 System) implemented monthly budget control, weekly expenditure plan, and daily implementation break down in accordance with the capital expenditure item. Each capital expenditure shall have a corresponding budget limit and weekly expenditure plan to ensure the security of the use of the Company's capital settlement.</p> <p>According to the Financial Service Agreement entered into between the Company and Angang Financial Company, the Company set up an alert function for the maximum daily deposit in the N9 System. When the deposit balance reaches 80% of the limit, the N9 System will alert the Company. The department in charge will adjust the deposit amount in a timely manner in accordance with the collection and payment plan of the period.</p>

C. Connected party: Pangang Vanadium & Titanium Group

Connected relationship: Indirectly controlled by the same controlling shareholder of the Company

Settlement method of the connected transaction: Cash payment

Type	Details	Pricing principle	Price (RMB)	Amount (RMB million)	As a percentage of the amount of similar transactions (%)	Transaction cap approved (RMB million)	Whether exceeding approved cap	Market price of available similar transactions
Purchase of raw materials from the connected party	Iron concentrate	Not higher than the average value of medium price of Platts 65% iron CFR price for the northern part of China (Qingdao Port) announced daily by SBB Steel Markets Daily in the first month preceding the month of the transaction (T-1)*, plus the transportation cost from Bayuquan Port to Angang Steel, and adjusted upwards or downwards based on each iron concentration calculated by reference to the average value of Platts 65%, in the first month preceding the month of the transaction (T-1)*. A discount equal to 3% of the average value of Platts 65% in the first month preceding the month of the transaction (T-1)* shall apply to the price determined pursuant to the formula set out above	-	-	-	-	-	-
	Alloy	Market price	-	169	4.18	-	-	-
	Total		-	169	4.18	1,890	No	-

Particulars on refund of bulk sale	-
Estimated total amount for continuing connected transactions to be conducted during the period (by types of transactions) and their actual implementing during the reporting period	The estimated data of Continuing Connected Transactions of the Company for the last year was based on the content and estimated caps of transactions set out in the Continuing Connected Transaction Agreements approved at the 2015 extraordinary general meeting of the Company. The total amount of Continuing Connected Transactions of the Company in 2017 did not exceed the relevant applicable caps as specified under the Continuing Connected Transaction Agreements
Reason for the difference between transaction price and market reference price	-
Relevant explanation on connected transactions	A subsidiary of Pangang Vanadium & Titanium is engaged in the sales of alloy and one of the suppliers of alloy materials of the Company.

For the above Continuing Connected Transactions, the independent non-executive Directors of the Company expressed their opinions as follows:

- 1) the Continuing Connected Transactions of the Company in 2017 were carried out in the ordinary and usual course of business of the Company;
- 2) the Continuing Connected Transactions of the Company in 2017 were conducted (A) in accordance with the normal commercial terms (with reference to transactions of a similar nature made by similar entities in the PRC); (B) on terms no less favorable than the terms available to or offered by the third parties (if no comparable case is available); and (C) on terms which are fair and reasonable to shareholders of the Company (if no reference is available);
- 3) the Continuing Connected Transactions of the Company in 2017 were conducted in accordance with the terms set out in the Continuing Connected Transaction Agreements, which are fair and reasonable and in the interest of the Company and shareholders as a whole;
- 4) the total amount of Continuing Connected Transactions of the Company in 2017 did not exceed the relevant applicable caps as specified under the Continuing Connected Transaction Agreements. The difference between actual amounts of certain connected transactions and estimated amounts was relatively larger, due to the impact of changes in prices of commodities and trading volumes during actual operation. As the originally estimated data represented the estimated caps of transactions, the existence of difference was reasonable which did not prejudice the interests of non-controlling shareholders and the Company.

The auditors of the Company have reviewed the above non-exempt connected transactions and issued a letter to the Board. In respect of the Continuing Connected Transactions disclosed by the Company, the auditors are of the opinion that nothing has come to their attention that causes them to believe that:

- 1) the disclosed Continuing Connected Transactions have not been approved by the Board of the Company.
- 2) for the transactions involving provision of the Group's goods and services, the connected transactions were not carried out in accordance with the pricing policies of the Group in all material aspects.
- 3) the connected transactions were not carried out in accordance with the relevant agreements in all material aspects.
- 4) the Continuing Connected Transactions have exceeded the cap.

(2) *Connected transactions in relation to asset or equity acquisition or disposal*

There was no connected transaction in relation to asset or equity acquisition and disposal during the Reporting Period.

(3) *Connected transactions in relation to joint external investments*

There was no connected transaction in relation to joint external investment during the Reporting Period.

(4) *Connected party credit and debt transaction*

As at 31 December 2017, bank borrowings of RMB20 million were guaranteed by Angang Holding whereas bank borrowings of RMB1,000 million were guaranteed by Angang.

(5) *Other major connected transactions*

On 25 July 2017, the resolution on entering into the first batch of the Energy Management Contracts between the Company and Angang Group Energy-saving Technology Service Co., Ltd in 2017 was approved at the fourteenth meeting of the seventh session of the Board of the Company.

On 20 October 2017, the resolution on entering into the second batch of the Energy Management Contracts between the Company and Angang Group Energy-saving Technology Service Co., Ltd in 2017 was approved at the eighteenth meeting of the seventh session of the Board of the Company.

On 23 November 2017, the resolution on sales of coal to Angang Holding by the Company was approved at the twenty-first meeting of the seventh session of the Board of the Company.

13. MATERIAL CONTRACTS AND THEIR IMPLEMENTATION

(1) Trust, contractual or lease arrangement

1) Trust arrangement

The Company approved the Supply of Materials and Services Agreement (2016–2018) between the Company and Angang Group Company at the second extraordinary general meeting of the Company in 2015 on 12 October 2015. The Company entered into the Entrusted Management Services of Asset and Business Agreement with Angang Holding on 22 October 2015 as the specific agreement for execution under the approved Supply of Materials and Services Agreement (2016–2018). Pursuant to the Entrusted Management Services of Asset and Business Agreement, Angang Holding entrusts the Company to daily operate and manage the assets, businesses, additional future assets and businesses of the unlisted units under its control.

During the Reporting Period, the Company did not address any entrusted projects which resulted in profit or loss of the Company amounting to more than 10% of the Company's total profit during the Reporting Period.

2) Contractual arrangement

The Company did not enter into any contractual arrangement during the Reporting Period.

3) Lease arrangement

The Company did not enter into any lease arrangement during the Reporting Period.

(2) Material guarantee

During the Reporting Period, there was no material guarantee provided by the Company, nor was there any material guarantee subsisting during the Reporting Period.

(3) *Entrusted cash assets management.*

1) *Entrusted wealth management*

During the Reporting Period, the Company did not have entrusted wealth management.

2) *Entrusted loans*

During the Reporting Period, the Company did not have entrusted loan.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

During the Reporting Period, there was no purchase, sale or redemption by the Company or any of its subsidiaries of its listed securities.

EVENTS AFTER THE REPORTING PERIOD

On 30 January 2018, the Company and Angang Energy Conservation entered into an energy management contract (the “**2018 Energy Management Contract**”) to implement energy conservation project involving construction of a 180MW gas-steam combined cycle power generation unit, pursuant to which Angang Energy Conservation will construct energy conservation facilities for the Company to implement the energy conservation project, and title to the fixed assets formed by the project will be vested in the Company upon satisfactory performance of the 2018 Energy Management Contract. For details, please refer to the announcement of the Company dated 30 January 2018.

On 9 February 2018, (i) the Company and Anshan Iron & Steel entered into the Anshan Iron & Steel Land Lease Contract, pursuant to which the Company agreed to lease the state-owned land use rights of 33 parcels of land with a total area of 8,427,508.8 square metres at RMB74,683,780.07 (land use tax exclusive) from Anshan Iron & Steel for a term of 11 months from 9 February 2018 to 8 January 2019; and (ii) the Company and Angang Naihao entered into the Naihao Land Lease Contract, pursuant to which the Company agreed to lease the state-owned land use rights of two parcels of land with a total area of 320,148.1 square metres at RMB4,360,950.70 (land use tax exclusive) from Angang Naihao for a term of 11 months from 9 February 2018 to 8 January 2019. For details, please refer to the announcement of the Company dated 9 February 2018.

Saved as disclosed above, there were no significant subsequent events since 31 December 2017 up to the date of this announcement which would have material effect to the Group.

CORPORATE GOVERNANCE PRACTICE

With shares listed in both Hong Kong and Shenzhen, the Company is committed to improving its corporate governance in accordance with international corporate governance standards. The Board and the management understand that they are responsible for establishing good corporate governance practices and procedures and the strict implementation of such practices and procedures, in order to protect the interests of the shareholders and to create value for the shareholders in the long term.

The Company has adopted the code provisions set out in Appendix 14 to the Hong Kong Listing Rules as currently in force. The Company has periodically reviewed its corporate governance practices. Save as set out below, the Company has properly complied with the code provisions of the Corporate Governance Code:

- (1) According to provision A.1.8 in Appendix 14 to the Hong Kong Listing Rules, “an issuer should arrange appropriate insurance cover in respect of legal action against its directors.”

In 2017, the Company did not make any insurance arrangement in respect of the Directors.

In strict compliance with the requirements of the Company Law, the Securities Law, the relevant requirements of the China Securities Regulatory Commission, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Rules Governing the Listing of Shares on the Shenzhen Stock Exchange, and other regulations, the Company has standardized the operation, and established a comprehensive corporate governance system and an effective internal control system, which have lowered the legal risks to the Directors. Therefore, no insurance arrangement is made in respect of the Directors.

AUDIT COMMITTEE

The Audit Committee and the management of the Company have jointly examined the Company’s accounting policy and have discussed issues in relation to the auditing, internal control and financial statements of the Company, including a review of the audited financial statements for the year ended 31 December 2017.

ANNUAL GENERAL MEETING

The annual general meeting of the Company for the year of 2017 will be held on Tuesday, 5 June 2018. A notice to convene the annual general meeting of the Company and the 2017 annual report of the Company will be published and delivered to H shareholders of the Company as required by the Hong Kong Listing Rules in due course.

CONSOLIDATED BALANCE SHEET

As of 31 December 2017

Prepared by Angang Steel Company Limited

Unit: RMB' million

Items	Note	31 December 2017	31 December 2016
Current assets:			
Cash at banks and on hand		2,437	1,968
Financial assets at fair value through profit or loss		7	
Notes receivable		9,693	8,352
Accounts receivable	2	2,463	1,942
Prepayments		1,772	2,586
Dividend receivable			
Other receivables		261	362
Inventories		11,643	10,466
Non-current assets due within 1 year			
Other current assets		300	304
Total current assets		28,576	25,980
Non-current assets:			
Available-for-sale financial assets		719	839
Long-term equity investments		2,949	2,968
Investment properties			
Fixed assets		48,006	49,065
Construction in progress		1,040	2,232
Construction material		2	9
Intangible assets		6,199	5,755
Long term deferred expenses			
Deferred income tax assets		1,713	1,525
Other non-current assets			
Total non-current assets		60,628	62,393
Total assets		89,204	88,373

CONSOLIDATED BALANCE SHEET (Continued)

Items	Note	31 December 2017	31 December 2016
Current liabilities:			
Short-term loans		14,500	18,995
Financial liabilities at fair value through profit or loss		13	
Notes payable		240	1,766
Accounts payable	3	8,436	10,055
Advances from customers		5,581	4,065
Employee benefits payable		347	124
Tax and surcharges payable		407	173
Interest payable		93	76
Other payables		1,544	1,678
Non-current liabilities due within 1 year		437	161
Other current liabilities		1,500	
Total current liabilities		33,098	37,093
Non-current liabilities:			
Long-term loans		2,905	1,296
Bonds payable		2,004	3,944
Long-term employee benefits payable		123	
Deferred income		682	739
Deferred income tax liabilities		6	13
Other non-current liabilities			
Total non-current liabilities		5,720	5,992
Total liabilities		38,818	43,085

CONSOLIDATED BALANCE SHEET *(Continued)*

Items	<i>Note</i>	31 December 2017	31 December 2016
Shareholders' equity:			
Share capital		7,235	7,235
Capital reserve		31,519	31,519
Other comprehensive income		(3)	12
Special reserve		38	52
Surplus reserve		3,580	3,580
Undistributed profits	4	7,604	2,484
Differences from translation of foreign currency		_____	_____
Subtotal of Shareholders' equity attributable to shareholders of parent company		49,973	44,882
Minority interests		413	406
Total shareholders' equity		<u>50,386</u>	<u>45,288</u>
Total liabilities and shareholders' equity		<u>89,204</u>	<u>88,373</u>

CONSOLIDATED INCOME STATEMENT

12 months ended 31 December 2017

Prepared by Angang Steel Company Limited

Unit: RMB' million

Items	Note	For the 12 months ended	
		31 December 2017	2016
1. Operating income		84,310	57,882
Including: Operating income	5	84,310	57,882
2. Operating costs		79,282	56,718
Including: Operating costs	5	72,743	50,186
Taxes and surcharges	6	896	271
Marketing expenses		2,334	1,928
Administrative expenses		1,807	1,626
Financial expenses	8	1,174	1,286
Impairment losses on assets		328	1,421
Add: gains/losses from fair value variation (“-” for losses)		(6)	
Investment income (“-” for losses)		432	427
Including: Income from investment in joint ventures and associates		351	335
Asset disposal income (“-” for losses)			
Other income		72	
3. Operating profit (“-” for losses)		5,526	1,591
Add: Non-operating income		17	61
Less: Non-operating expenses		63	32
Including: The loss on destroy or scrap of non-current assets		55	23
4. Profit before income tax (“-” for losses)		5,480	1,620
Less: Income tax expenses	9	(132)	5
5. Net profit (“-” for losses)		5,612	1,615
(1) Classification according to the continuity of operation			
1. Continuous operating net profit		5,612	1,615
2. Termination of net profit			
(2) Classification according to ownership			
1. Net profit attributable to shareholders of parent company		5,605	1,616
2. Gains/losses attributable to minority shareholders		7	(1)

CONSOLIDATED INCOME STATEMENT *(Continued)**12 months ended 31 December 2017*

Items	Note	For the 12 months ended 31 December	
		2017	2016
6. The net amount after tax of Other comprehensive income		(15)	(6)
(1) The other comprehensive income which can not be reclassified into profits or losses			
1. The changes of the net assets or liabilities of the remeasurement of benefits plan			
2. The shares of the other comprehensive income which can not be reclassified in profits or losses of the invested company in equity method			
(2) The other comprehensive income which can be classified into profits or losses		(15)	(6)
1. The shares of the other comprehensive income which can be reclassified in profits or losses of the invested company in equity method		(5)	1
2. The profits or losses from the change of the fair value of available-for-sale financial assets		(10)	(7)
3. The profits or losses of available-for-sale financial assets from the reclassification of held-for-sale investment			
4. The effective portion of profits or losses from cash flows hedges			
5. The differences converted in foreign currency of financial statement			
6. Others			
7. Earnings per share			
(1) basic earnings per share <i>(RMB/share)</i>	10	0.775	0.223
(2) diluted earnings per share <i>(RMB/share)</i>	10	0.775	0.223
8. Total comprehensive income		5,597	1,609
The other comprehensive income belongs to the owners of the company		5,590	1,610
The other comprehensive income belongs to the minority		7	(1)

NOTES

(Expressed in million RMB unless otherwise indicated)

1. BASIS OF PREPARATION

The financial statements of the Group are prepared on the assumption of going concern principle based on the actual transactions and events, and prepared in accordance with the Basic Standard and 42 specific standards of the Accounting Standards for Business Enterprises (Ministry of Finance issued No. 33, the Ministry of Finance to amend No. 76) issued by the Ministry of Finance on 15 February 2006, and the Application Guidance for Accounting Standards for Business Enterprises, Interpretations of Accounting Standards for Business Enterprises and other relevant regulations issued thereafter (hereafter collectively referred to as “the Accounting Standards for Business Enterprises” or “CAS”) and the disclosure requirements in the Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No. 15 – General Rules on Financial Reporting (2014 revised) issued by the China Securities Regulatory Commission.

According to the Accounting Standards for Business Enterprises, the group accounting is based on the accrual system. The financial statements are based on historical cost except some financial instruments. The group will calculate the related devalued allowance if varieties of assets of a corporation devalue.

2. ACCOUNTS RECEIVABLE

(1) Nature of accounts receivable

Items	Closing balance			
	Book value		Bad debt provision	
	Balance	Percentage (%)	Balance	Percentage (%)
Accounts receivable with significant single amount subject to individual impairment	2,173	86	66	99
Other accounts receivable with insignificant single amount subject to individual impairment	357	14	1	1
Total	<u>2,530</u>	<u>100</u>	<u>67</u>	<u>100</u>

2. ACCOUNTS RECEIVABLE (Continued)

(1) Nature of accounts receivable (Continued)

Items	Opening balance			
	Book value		Bad debt provision	
	Balance	Percentage (%)	Balance	Percentage (%)
Accounts receivable with significant single amount subject to individual impairment	1,489	77		
Other accounts receivable with insignificant single amount subject to individual impairment	454	23	1	100
Total	<u>1,943</u>	<u>100</u>	<u>1</u>	<u>100</u>

(2) Aging of account receivables

Aging	Closing balance		Opening balance	
	Balance	Percentage (%)	Balance	Percentage (%)
Within 1 year	2,422	96	1,851	95
1 to 2 years	17	1	19	1
2 to 3 years	18	1	72	4
Over 3 years	73	2	1	
Total	<u>2,530</u>	<u>100</u>	<u>1,943</u>	<u>100</u>

3. ACCOUNTS PAYABLE

Aging	Closing balance		Opening balance	
	Balance	Percentage (%)	Balance	Percentage (%)
Within 1 year	8,346	99	9,971	99
1 to 2 years	9		24	
2 to 3 years	22		2	
Over 3 years	59	1	58	1
Total	<u>8,436</u>	<u>100</u>	<u>10,055</u>	<u>100</u>

4. UNDISTRIBUTED PROFITS

Items	This year
Opening balance	2,484
Increase of the year	5,605
Including: Net profit transferred this year	5,605
Other adjustment factors	
Decease of the year	
Including: Extraction of surplus reserve this year	
Extraction of general risk provisions this year	
Distribution of cash dividend this year	485
Conversed capital	
Other decreases	
Closing balance	<u>7,604</u>

Note: On 26 March 2018, the Board has proposed for the Company to distribute dividend of RMB1,682 million. Based on the current total share capital of 7,235 million shares, a cash dividend of RMB0.232 per share (including tax) is expected for 2017. This proposal is subject to approval of the 2017 annual general meeting. The cash dividend proposed after the balance sheet date was not recognised as liabilities at the balance sheet date.

5. OPERATING INCOME AND OPERATING COSTS

Items	This year	Last year
Operating income from main business	84,001	57,742
Other operating income	309	140
Total	<u>84,310</u>	<u>57,882</u>
Operating cost for main business	72,428	50,055
Other operating cost	315	131
Total	<u>72,743</u>	<u>50,186</u>

6. TAXES AND SURCHARGES

Items	This year	Last year
City maintenance and construction tax	188	156
Educational surcharge and local educational surcharge	135	112
Land use tax	373	
Property tax	133	
stamp tax	64	
Resources tax	3	3
Total	<u>896</u>	<u>271</u>

7. DEPRECIATION AND AMORTIZATION

Items	This year	Last year
Depreciation of fixed assets	3,331	3,295
Amortization of intangible assets	161	156
Total	<u>3,492</u>	<u>3,451</u>

8. FINANCIAL EXPENSES

Items	This year	Last year
Interest expense	1,240	1,360
Including: The interest on bank loans and other loans must be fully repaid within 5 years	1,074	937
Finance charges during the financing lease period		
Other Interest expense	166	423
Less: Interest income	43	43
Less: Capitalized interest expense	38	79
Exchange gain or loss	8	43
Less: Capitalized exchange gain or loss		
Others	7	5
Total	<u>1,174</u>	<u>1,286</u>

9. INCOME TAX EXPENSES

Items	This year	Last year
Income tax calculated according to the Tax Law and the relevant regulations	60	27
Changes on deferred income tax expenses	(192)	(22)
Total	<u>(132)</u>	<u>5</u>

10. BASIC EPS AND DILUTED EPS

Items	This year	Last year
(1) Basic EPS (<i>RMB/share</i>)	0.775	0.223
(2) Diluted EPS (<i>RMB/share</i>)	0.775	0.223

11. SEGMENT REPORTING

The Group has one segment according to business category which is production and sale of iron and steel products.

12. COMMITMENTS

Items	As at 31 December 2017	As at 31 December 2016
Investment contracts entered but not performed or performed partially	18	18
Construction and renovation contracts entered but not performed or performed partially	<u>1,121</u>	<u>1,058</u>
Total	<u>1,139</u>	<u>1,076</u>

13. NET CURRENT ASSETS

Items	Closing balance	Opening balance
Current assets	28,576	25,980
Less: current liabilities	<u>33,098</u>	<u>37,093</u>
Net current assets/(liabilities)	<u>(4,522)</u>	<u>(11,113)</u>

14. TOTAL ASSETS LESS CURRENT LIABILITIES

Items	Closing balance	Opening balance
Total assets	89,204	88,373
Less: current liabilities	33,098	37,093
Total assets less current liabilities	<u>56,106</u>	<u>51,280</u>

By Order of the Board
ANGANG STEEL COMPANY LIMITED*
Wang Yidong
Executive Director and Chairman of the Board

Anshan City, Liaoning Province, the PRC
26 March 2018

As at the date of this announcement, the Board comprises the following Directors:

Executive Directors:

Wang Yidong
Li Zhen
Ma Lianyong
Xie Junyong

Independent Non-executive Directors:

Wu Dajun
Ma Weiguo
Luo Yucheng