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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)

2018 ANNUAL RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

- Operating income amounted to RMB105,157 million
- Total profit amounted to RMB10,008 million
- Profit attributable to shareholders of the Company amounted to RMB7,952 million
- Basic earnings per share amounted to RMB1.099 (2017: basic earnings per share after adjustment amounted to RMB0.917)
- The financial information contained in this announcement is prepared in accordance with the Accounting Standards for Business Enterprises in the PRC

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

“Angang”	Angang Group Company Limited* (鞍鋼集團有限公司), the ultimate controlling shareholder of the Company
“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), the controlling shareholder of the Company
“ANSC-TKS”	ANSC-TKS Automobile Steel Company Ltd. (鞍鋼蒂森克虜伯汽車鋼有限公司)
“Ansteel Weifang”	Ansteel Weifang Processing and Distribution Co., Ltd.* (鞍鋼濰坊鋼材加工配送有限公司)
“Anshan Iron & Steel Group Complex”	Angang Holding and the companies in which it holds 30% or above interests in (not including the Group)
“Anshan Steel Engineering”	Anshan Iron and Steel Group Engineering Technology Development Co., Ltd.* (鞍鋼集團工程技術發展有限公司)
“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
“Chaoyang Iron and Steel”	Angang Group Chaoyang Iron and Steel Co., Ltd. (鞍鋼集團朝陽鋼鐵有限公司)
“Chemical Technology”	Angang Chemical Technology Co., Ltd.* (鞍鋼化學科技有限公司)
“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)
“Energy Technology”	Angang Energy Technology Co., Ltd.* (鞍鋼能源科技有限公司), formerly known as Angang Gas Co., Ltd. (鞍鋼氣體有限公司)
“FAM Angang”	Changchun FAM Angang Steel Processing and Distribution Group Limited* (長春一汽鞍鋼鋼材加工配送有限公司)
“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)
“Shanghai Ansteel”	Shanghai Ansteel Steel Processing Co., Ltd.* (上海鞍鋼鋼材加工有限公司)
“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 Group Company, which was approved at the second extraordinary general meeting of the Company in 2015 on 12 October 2015

PRINCIPAL ACCOUNTING FIGURES AND FINANCIAL INDICATORS

Unit: RMB million

Items	2018	2017		Changes over the preceding year (%)	2016	
		Before adjustment	After adjustment	After adjustment	Before adjustment	After adjustment
Operating income	105,157	84,310	91,683	14.70	57,882	62,599
Operating profit	10,088	5,526	6,359	58.64	1,591	1,682
Total profit	10,008	5,480	6,313	58.53	1,620	1,713
Net profit attributable to shareholders of the Company	7,952	5,605	6,638	19.80	1,616	1,708
Net profit attributable to shareholders of the Company after extraordinary items	6,633	5,586	5,585	18.76	1,594	1,594
Net cash flow from operating activities	8,294	6,268	6,478	28.03	4,349	4,878
Basic earnings per share <i>(RMB/share)</i>	1.099	0.775	0.917	19.85	0.223	0.236
Diluted earnings per share <i>(RMB/share)</i>	1.088	0.775	0.917	18.65	0.223	0.236
Weighted average return on net assets <i>(%)</i>	14.82	11.81	14.02	Increased by 0.80 percentage point	3.67	3.99

Items	At the end of 2018	At the end of 2017		Changes over the preceding year (%)	At the end of 2016	
		Before adjustment	After adjustment	After adjustment	Before adjustment	After adjustment
		Total assets	90,024	89,204	94,886	-5.12
Total liabilities	37,559	38,818	42,174	-10.94	43,085	49,068
Owner's equity attributable to shareholders of the Company	51,962	49,973	52,291	-0.63	44,882	43,646
Net assets per share attributable to shareholders of the Company (RMB/share)	7.18	6.91	7.23	-0.63	6.20	6.03
Assets-liability ratio (%)	41.72	43.52	44.45	Decreased by 2.73 percentage points	48.75	52.69
Total share capital	7,235	7,235	7,235	-	7,235	7,235

Description: Reason for retrospective adjustment: the Group acquired Chaoyang Iron and Steel and Energy Technology from the business combination under common control during the year, and retrospectively adjusted the current and final data for 2017 and 2016.

Total share capital of the Company as at 17 March 2019:

Total share capital of the Company (<i>shares</i>)	7,234,807,847
Fully diluted earnings per share calculated based on the latest share capital (<i>RMB/share</i>)	1.099

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	21,513	25,369	30,931	27,344
Net profit attributable to shareholders of the Company	1,590	1,909	3,356	1,097
Net profit attributable to shareholders of the Company after extraordinary items	1,583	1,934	2,410	706
Net cash flow from operating activities	-658	2,565	5,833	554

Whether there is substantial difference between the aforesaid financial indicators or their sum and those disclosed in the quarterly report and interim report.

Yes

No

Reason explanation: The Group acquired Chaoyang Iron and Steel from business combination under common control on 30 September 2018, and the cumulative data of Chaoyang Iron and Steel for the first three quarters has been consolidated into that of the third quarter of the Group.

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

Unit: RMB million

Items of Non-Recurring Gains and Losses	2018	2017	2016	Description
1. Gains/losses from disposal of non-current assets	-103	-44	-15	-
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	86	72	40	-
3. Net gains or losses of subsidiaries arising from business combination under common control from the beginning of the year to the date of combination	1,268	-	4	-
4. Net gains or losses of subsidiaries arising from business combination under common control for the previous year	-	1,034	92	-
5. Changes in fair value of financial assets held for trading	-5	-	-	-
6. Changes in fair value of other non-current liabilities (part of derivative financial instruments)	68	-	-	-
7. Achievement by steps of business combination under non-common control, the earnings from re-measurement of original equity at fair value	-22	-	-	-

Items of Non-Recurring Gains and Losses	2018	2017	2016	Description
8. Achievement by steps of business combination under non-common control, the earnings from the lower merger cost than the fair value of the investee's identifiable net assets attributable to the investor when the investment is acquired.	26	-	-	-
9. Investment income from disposal of subsidiaries	2	-	-	-
10. Other non-operating revenue and expenses except those mentioned above	17	-2	-	-
Subtotal	<u>1,337</u>	<u>1,060</u>	<u>121</u>	-
Less: Effect on income tax	17	7	7	-
Effect on minority investors (after tax)	<u>1</u>	<u>-</u>	<u>-</u>	-
Total	<u>1,319</u>	<u>1,053</u>	<u>114</u>	-

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

OPERATING RESULTS FOR 2018

The Group recorded a net profit attributable to shareholders of the Company of RMB7,952 million and basic earnings per share of RMB1.099 for the year ended 31 December 2018 as compared to a net profit attributable to shareholders of the Company after adjustment of RMB6,638 million and basic earnings per share after adjustment of RMB0.917 for the year ended 31 December 2017.

PROFIT DISTRIBUTION

The Board recommended distributing RMB1,591,657,726.34 of distributable profits to all shareholders of the Company by way of cash dividend of RMB2.2 (tax inclusive) per 10 shares on the basis of the total share capital of 7,234,807,847 shares. At the same time, the Company will issue shares to all shareholders by way of capitalisation of capital reserve, on the basis of three(3) capitalisation shares for every ten(10) existing shares. If there is any change in the Company's total share capital as of the record date for dividend distribution in 2018, 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 proposal is subject to consideration at the 2018 annual general meeting.

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.

Pursuant to the Notice on the Tax Policies Concerning the Pilot Program of the Shenzhen-Hong Kong Stock Connect (Cai Shui [2016] No. 127) (《關於深港股票市場交易互聯互通機制試點有關稅收政策的通知》), for mainland corporate investors that invest in a company via the Shenzhen-Hong Kong Stock Connect, corporate income tax will be levied according to the law. In particular, for any dividend to be distributed to resident enterprises in the mainland China which hold H shares for more than 12 consecutive months, corporate income tax may be exempted according to the law. Such mainland enterprises shall declare and pay taxes by themselves in respect of such dividends, which will not be withheld by such H share company. In respect of dividends for the H shares of a company invested in by mainland individual investors on the Hong Kong Stock Exchange through the Shenzhen-Hong Kong Stock Connect, the H share company shall apply to China Securities Depository and Clearing Co., Ltd., which will then provide the H share company with the register of mainland individual investors. The H share company shall withhold an individual income tax at the rate of 20% on such dividends.

For dividends received by investors (including enterprise and individual investors) in the Hong Kong market from investing in A shares listed on the Shenzhen Stock Exchange, and before Hong Kong Securities Clearing Company Limited is able to furnish China Securities Depository and Clearing Co., Ltd. with the identity, holding period and other detailed data of the investors in the Hong Kong market, the differentiated tax treatment based on the holding period of shares will not be implemented temporarily. Listed companies shall withhold income tax at the rate of 10% and make withholding filings with the competent tax authorities. For those investors who are tax residents of other countries and the tax rate applicable to dividends is lower than 10% under the tax treaty between China and the relevant countries, such investors may, by themselves or request the withholding agent to act on their behalf to, apply to the competent tax authorities in respect of the listed company for the preferential relevant treatment under the relevant treaties. Once verified by the competent tax authorities, the amount being the difference between the tax withheld and the tax calculated at the rate as prescribed under the corresponding tax treaty shall be refunded.

All investors should consider the above contents carefully. The Company will strictly comply with the relevant PRC tax laws and regulations; and the Final Dividend will only be payable to the shareholders whose names appear on the 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

In 2018, the Company grasped the favorable opportunity for the picking up of steel market by focusing on three key elements of “efficiency, quality and reform”, and has achieved remarkable results in all aspects of production and operation through uniting and leading all cadres and employees and working hard for progress.

1. Operating results hit the best level in history

In 2018, the Group achieved an operating income of RMB105,157 million, representing an increase of 14.70% over the previous year. The total profit reached RMB10,008 million, representing an increase of 58.53% over the previous year. The net profit attributable to shareholders of the Company was RMB7,952 million, representing an increase of 19.80% over the previous year. The basic earnings per share was RMB1.099, representing an increase of 19.85% over the previous year.

In 2018, the Group produced 24.788 million tons of iron, representing an increase of 2.66% over the previous year; 26.155 million tons of steel, representing an increase of 5.12% over the previous year; and 24.1307 million tons of rolled steel, representing an increase of 5.24% over the previous year. Sale of rolled steel amounted to 24.098 million tons, representing an increase of 4.60% as compared with the previous year. The Group achieved a sales-output ratio of 99.86%.

In 2018, the Company successfully acquired 100% equity of Chaoyang Iron and Steel, which further improved the Company’s production capacity and profitability.

2. Continuous Optimization of Industrial Structure

The main business of irons and steels achieved a steady development. The upgrading of equipment was speeded up with respect of key areas regarding product adjustment and quality improvement, energy conservation and cost reduction, environmental protection and emission reduction, and process optimization. The upgrading and transformation project in relation to Dalian Foundry of Anshan Headquarters were completed successfully. The Company successfully acquired 100% equity of Chaoyang Iron and Steel to promote the coordinated development of three iron and steel production bases, namely Anshan Headquarters, Yingkou Base and Chaoyang Base, thus improving the profitability of the Company.

Coordinated development of related industries. The 180MW CCGT machine set project was steadily implemented, the reasonable use of residual heat to replace urban energy was carried out, and the revenue deriving from the clean power generation industry reached RMB3.944 billion; the projects of needle cokes and carbon microspheres witnessed stable progress, and the revenue deriving from the chemical science and technology industry reached RMB7.668 billion. The further processing of steel products and related extension services were promoted. The layout in the high-end auto parts industry were in the process, and the projects of EPS and thermoforming were accelerated; the capital increase and share enlargement were made in Angang Gas Co., Ltd. (currently renamed as Angang Energy Technology Co., Ltd.) to promote the development of the Company in gas and energy industry. The Company's resource advances were given full play so as to enhance the value creation efficiency of its surplus gas and energy resources.

3. Significant Improvement of Operation Efficiency

Optimization of production organization. The coordination and interaction between the three regions and three lines were strengthened, and the concurrent development of “coke, iron and steel” productions was promoted. Under the circumstance of heavy repair of 1# blast furnace in Bayuquan Iron & Steel Branch Company and 5# blast furnace in Anshan Headquarters, the productions of irons, steels and materials all exceeded expected output.

Strengthening of cost reduction and efficiency improvement. The cost reduction index system consisting of 6 projects and 61 tasks in relation to three dimensions of ferrite flow, carbon flow and capital flow was established. The potential of cost reduction was explored to lower down the cost of outsourcing energy and logistics on a continuous basis. The cost-effective procurement and material life cycle management were implemented, with the ratio of cost-effective procurement reaching 36.39%. The previous fuel purchasing strategy was adjusted, and the “three enhancements and three reductions” scheme witnessed new progress.

Promotion of the intelligent manufacturing. The informatized and intelligent plans together with 2018 project implementation plans were prepared, with emphasis on informatization projects such as ERP transformation, big data platform and digital workshop. The construction of an intelligent and transparent factory under the new metallurgical process was accelerated, and centralized and integrated energy management and control of Bayuquan Iron & Steel Branch Company were realized. The 5,500mm thick plate project was rated as the National Intelligent Manufacturing Pilot Demonstration Project.

4. Effective Release of Reform Vigorousness

Steady advancement of the system and mechanism reform. The contractual management was promoted, and the contractual performance assessment, target responsibility assessment and quasi-contractual evaluation were implemented. According to the principle of “sharing risks, increasing profits, identifying responsibilities and operating pursuant to regulations”, the management of project follow-up investment was promoted. Taking the contracting of the small-scale production line as a model, seven companies and production lines, such as Seamless Steel Tube Factory and the 3,800mm production line of Bayuquan Iron & Steel Branch Company, were contracted to realize the transformation from being “internal production-driven” to “market-driven”. The structural reform was pushed forward, and the informatized management center and the quality measurement center were established. The reform of “simplifying administration and delegating power, combining control and power delegation, and optimizing services” was carried out to grant full authorization to Chaoyang Iron & Steel Company in six areas including procurement and sales. The incentive and restraint mechanism of “emphasizing precision, strong incentives, strong constraints and strict assessment” was set up and improved to enhance the endogenous power of the company.

Increasingly improvement of the scientific research system reform. The science and technology innovation management committee and the science and technology innovation and technology expert committee were in place. According to the “one office, two centers, three departments and ten institutes” scientific research management framework model, the institutional reform of the technology center was implemented and the “one factory, one institute” system was promoted. The technology center was given “equity, options and autonomy”, the salary incentive mechanism was improved, the channels of talent promotion were unlocked, and the enthusiasm of scientific researchers was further stimulated.

Continuous optimization of the marketing and operation model. The “1+4+N” marketing model was established. The operating and management system of steels for automotive application was optimized, the customer-centered rapid response and coordination mechanism was set up, and the integration of production, sales, research and service was realized. The importance of performance evaluation was emphasized, and the remuneration system of “basic salary + performance bonus” was reinforced with a view to fully mobilizing the enthusiasm of sales staff.

5. Continuous Strengthening of Brand Building

The brand influence continued to increase. The overall brand building strategy was formulated, and the brands of ANSTEEL, TAGAL and AHK were promoted as a whole. The cold rolled non-oriented electrical steels were recognized as Liaoning's key brand product, and 6 types of products such as the medium and thick plate steels applied in rails, ships and ocean engineering were known as famous brand products of Liaoning. The principle regarding expansion of direct supply and increase of direct sales was adhered to, with the direct supply customers increasing by 3% year-on-year, and the number of key projects won upon bidding increasing by 71% on a yearly basis. The Company's senior officers led teams to visit 25 key customers and enhanced the communication with the management thereof. The QCDDS service system was established to improve customer service quality, winning 11 awards for outstanding suppliers throughout the year. The crack arrest steels won the 2018 China Iron and Steel Industry Product Development – Market Exploration Award.

Building brands through premium qualities continued to be reinforced. The third "3.15" quality work conference was held to formulate and implement a three-year quality improvement plan as well to promote quality upgrading in key areas and of key varieties. The quality index system was improved, and the index evaluation method for first-pass ratio was formulated. The total of 97 quality improving "1+10+N" projects was completed. The construction of quality inspection system was strengthened and 10 quality inspection stations were added to the finished product factories. During the year, five products won the Gold Cup Award for Quality in Metallurgical Industry and one product won the Excellent Quality Award.

The product adjustment and brand building achieved remarkable results. The proportions of new products, leading unique products and strategic products reached 12.4%, 30% and 69% respectively, with 3 products achieving world debut and 5 products completing national debut throughout the year. The trial production of high-strength container steel, and the storage tank steel for PetroChina Tangshan LNG Phase II Project was completed. The process route for producing high-magnetic silicon steel by hot rolling 1,580mm line in Bayuquan Iron & Steel Branch Company was put into practice. The enamel steel plate for high-end decoration was successfully developed. The nuclear power plate research and development center was jointly set up with Shanghai Nuclear Engineering Research and Design Institute to help the localization of nuclear power steel.

The role of science and technology in improving brand image was prominent. The conference on scientific and technological innovation was held. The 2025 Science and Technology leading plans were released, 39 leading experts and chief experts were employed, and the 2018–2020 scientific research project plan covering 12 technological fields, 9 product fields and 491 projects was determined. The research and development of key projects were strengthened, 31 national scientific research projects were implemented and key research and development projects achieved important breakthroughs. Remarkable achievements in scientific and technological innovation were made, winning one first prize and one second prize of the National Scientific and Technological Progress Award, six Metallurgy Science Technology Awards, one China Iron and Steel Industry Market Development Award, nine Scientific and Technological Progress Award in Liaoning Province, and one first prize of China Railway Society Science and Technology Award.

6. Results Yielded in Three Crucial Tasks

Effectively preventing capital risks through optimization of debt structure. The zero-coupon H-share convertible bonds of HK\$1.85 billion were successfully issued, thus optimizing the Company's debt structure and enhancing the Company capital risk prevention capability. The principle of “reducing two types of amounts, increasing two kinds of rates, and operating with zero liability”, the debt structure was further optimized by repaying interest-bearing liabilities, and expanding financing channels. The futures tools were effectively utilized to avoid market risks, resulting in the futures hedging transactions involving products of 6.8 million tons throughout the year.

The environmental governance was promoted and the green development capability was enhanced. The environmental protection development plans were formulated, the implementation of environmental protection upgrading projects and the construction of green ecological steel mills were accelerated. All coke ovens were desulfurized and denitrated. Lingshan Stockyard went through the transformation of “three sheds and one net”. The coke dust suppression net and the mixed closed stockyard were completed and put into operation. The pollutant emissions of Angang Steel were greatly reduced, with drainage per ton of steel, COD and sulfur dioxide falling 68%, 76.2% and 15.5% respectively. Bayuquan Iron & Steel Branch Company won the title of “2018 Top Ten Outstanding Enterprises for Green Development”.

The poverty relief efforts made solid progress. The team focusing on poverty relief was established, and selected personnel for poverty relief were stationed in remote areas and rural areas. The designated poverty relief work was promoted, the poverty relief through industry development was strengthened, and the poverty relief through employment was reinforced. Sixteen poverty relief projects were implemented, and the actual funds allocated to poverty relief was RMB6.273 million, when compared with the poverty relief funds of RMB3 million budgeted at the beginning of the year, had an increase of RMB3.273 million, with a completion rate of 209.1%. The company's management led the team to conduct in-depth research on poverty relief points and solved 23 related challenging issues on the spot. It has made meaningful contributions to the counterpart to which aids were provided in achieving the schedule of taking targeted measures in poverty relief.

2019 DEVELOPMENT PLAN OF THE COMPANY

1. Landscape and development trend in the industry

The year 2019 is the 70th anniversary of the founding of the PRC, it is also a crucial year for building a well-off society in an all-round way, and an important period for implementing new development concepts and promoting high-quality development.

Macroscopically, the global economic growth has slowed down, and the external economic environment is becoming complicated and changeable due to the continued interest rate hike in the United States and trade friction and uncertainty, all of which have far-reaching impact on the international political and economic environment. Recently, the growth of domestic investment, consumption and export have weakened. According to the prediction of the Chinese Academy of Social Sciences, the Chinese GDP will increase by 6.3% in 2019, CPI by 1.8%, and PPI by 1.6%. The Central Economic Work Conference pointed out that China's economic operation has changed steadily with trepidation while the external environment is still complex and severe, the economy is facing downward pressure, and the development is still and will be in an important strategic opportunity period in the long run.

From the perspective of iron and steel industry, with the weak growth of steel demand, the supply elasticity becomes smaller and cyclical risks of market increase, which has been showed by a differentiation trend of the raw material market upstream and slowdown for steel demand downstream, and the market in running in fluctuations. However, with the gradual implementation of a series of policies for the steady growth of the national economy, the long-term positive trend of the economy has not changed. The supply side reform has achieved initial results, the “Belt and Road” strategy has provided rare development opportunities for Chinese iron and steel enterprises to “go out”.

The Company will make efforts to grasp the rhythm of market changes, work hard in preparing for difficulties and challenges and maintain a good momentum of rapid development, to promote the high-quality development of the Company.

2. Development strategy of the Company

The Company will guide its work with the development strategy of “strengthening quality steel, focusing on innovation, implementing green manufacturing, providing excellent service, accelerating layout adjustment, and promoting upgrading and transformation”.

– *Strengthening quality steel*

Focusing on “total volume, production lines and products”, we will comprehensively enhance the core competitiveness of the steel business; maximize the efficiency of equipment, accelerate the improvement of superior competitive advantages and development capabilities, and promote the scale; promote the product upgrading, build ten major product lines, such as automobiles, shipbuilding and marine engineering, railways and bridges, and solidly promote the development by quality products to consolidate and enhance our influence in the industry; promote the upgrading of production lines by focusing on key areas such as variety adjustment and quality improvement, green production and intelligent manufacturing, and promote the improvement and upgrading of key production lines. the

– *Focusing on innovation drivers*

To promote technological innovation, institutional innovation and marketing model innovation, deepen the reform of distribution system, and improve our development momentum and vitality.

– ***Implementing green manufacturing***

To improve the efficiency of resource and energy utilization, promote research and application of green manufacturing technology, reduce pollution emissions, and consciously assume social responsibility; to integrate into urban development, achieve a high degree of harmonic and sustainable development of enterprises and environment, and build a resource-saving and environment-friendly enterprise.

– ***Providing excellent services***

To accelerate the transition from manufacturing to integrated service provider, seek the best solution between expanding market share and increasing product profitability, and enhance market control (market influence, brand influence, price dominance, market share, etc.).

– ***Speed up layout adjustment***

The production capacity was transferred to low-cost areas. The first is to take the opportunity of the country's implementation of the "Belt and Road Initiative" strategy and the strengthening of international cooperation in production capacity, it has made great efforts to open up the international market and promote the transfer of production capacity overseas. Through the implementation of "going out" of the production capacity, it can not only make full use of inefficient and idle equipment and facilities, revitalize existing assets and save investment, but also develop international markets and enhance international competitiveness. The second is to optimize the layout of production capacity in various bases and promote the transformation of regional advantages to profitability. The Company will make full use of international and domestic resources and markets to increase production capacity and profitability.

– ***Promote upgrading and transformation***

The automated, informatized and intelligent measures were utilized to promote industrial upgrading and improve operating efficiency.

The level of equipment automation was increased and the human resources optimization was promoted to improve labor productivity. The key informatization projects such as the procurement and supply management information system, the sales business management platform, the logistics management and control platform, and the production scheduling management and control center were pushed forward to build an efficient and fast responding information operation system. The management process was optimized, and the “Internet plus”, Internet of Things, big data, cloud computing, mobile terminals and other information technologies were applied to enhance the data and information processing capacity as well as transmission efficiency, and realize the integration and development of traditional industries and information technology; tracking, controlling, analyzing, optimizing and guiding of the whole process of production and operation were implemented, the all-time and all-dimension marketing services respecting online transactions, dynamic tracking and inquiry of orders, and major customer channels were provided to improve the efficiency of enterprise operation and management as well the quality of marketing services.

3. Operation plan for the year of 2019

In 2019, the Company will keep focusing on three key elements, namely reform, efficiency and quality, make efforts to achieve six “adhere to” and six “create”, and strive to be the most competitive iron and steel flagship enterprise in the industry by proactive progressing, reform and innovation and accelerating quality development.

- (1) Adhere to political position, to create a flagship enterprise with the most affection.
- (2) Adhere to innovation driving, to create an innovative enterprise with the most potential for development.
- (3) Adhere to deepening reform, to create a transformational enterprise with the most dynamic.
- (4) Adhere to customer first, to create a service enterprise with the most brand value.
- (5) Adhere to synergy and efficiency, to create an efficient enterprise with the most operational capabilities.
- (6) Adhere to people-oriented, to create a sharing enterprise with the most development synergy.

4. Plans for funding requirements

In 2019, the proposed investments for engineering projects and external investments of the Group will amount to RMB3,128 million.

In 2019, the sources of funding for the Group 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	105,157	91,683	14.70	–
Operating costs	88,126	78,707	11.97	–
Marketing expenses	3,067	2,570	19.34	–
Administrative expenses	1,266	1,589	-20.33	–
Financial expenses	1,471	1,331	10.52	–
R&D expenditure	483	326	48.16	Increase in trial and R&D expenditure of new products.

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
Total profit	10,008	6,313	58.53	In 2018, the Company carried out a series of work around “efficiency, quality and reform” and achieved a record high in profits: firstly, the Company continued to promote system cost reduction and differentiated reduction of procurement costs, and to build a project cost-reducing index system and deepen the potential for cost reduction around the three dimensions of ferrite flow, carbon flow and cost flow, and has achieved new results in “three improvements and three reductions”; secondly, the Company established “T+4+N” marketing model and realized the integration of production, sales, research and services, allocated resources according to market demand, and continued to strengthen the brand’s influence through establishing brands with quality, creating brands by variety adjustment and enhancing brands by technology; thirdly, the Company completed the acquisition of Chaoyang Iron and Steel, by which we realized the overall listing of quality assets of the steel industry and improved the Company’s profitability.
Net profit attributable to shareholders of the Company	7,952	6,638	19.80	
Net cash flow	-516	325	-258.77	The net increase in cash and cash equivalents decreased by RMB841 million as compared to the same period of the previous year, which was mainly due to (i) increase of RMB1,816 million in net cash flow from operating activities over the same period of the previous year; (ii) decrease of RMB2,544 million in net cash flow from investing activities over the same period of the previous year; (iii) decrease of RMB128 million in net cash flow from financing activities over the same period of the previous year; and (iv) increase of RMB15 million in impact of exchange rate changes on cash flow over the same period of the previous year.

2. Income and Cost

(1) Composition of operating income

Unit: RMB million

	2018		2017		Year-on-year increase/decrease (%)
	Amount	As a percentage of the operating income (%)	Amount	As a percentage of the operating income (%)	
Total Operating Income	105,157	100	91,683	100	14.70
By industry					
Steel rolling and processing industry	104,849	99.71	91,370	99.66	14.75
Others	308	0.29	313	0.34	-1.60
By product					
Steel products	97,296	92.52	84,991	92.70	14.48
Others	7,861	7.48	6,692	7.30	17.47
By geographical location					
China	99,371	94.50	85,210	92.94	16.62
Export sales	5,786	5.50	6,473	7.06	-10.61

(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	104,849	87,845	16.22	14.75	12.06	2.02
By product						
Hot-rolled sheets products	32,328	25,502	21.11	5.58	0.50	3.98
Cold-rolled sheets products	34,487	29,106	15.60	12.78	15.57	-2.04
Medium and thick plates	16,639	14,401	13.45	35.68	26.55	6.25
By geographical location						
China	99,063	82,880	16.34	16.69	14.58	1.54
Export Sales	5,786	4,965	14.19	-10.61	-18.04	7.78

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	2018	2017	Year-on-year increase/decrease (%)
Steel rolling and processing industry	Sales volume (0'000 tons)	2,409.80	2,303.80	4.60
	Production volume (0'000 tons)	2,413.07	2,293.02	5.24
	Stock volume (0'000 tons)	120.06	109.60	9.54

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	2018		2017		Year-on-year increase/decrease in operating costs (Percentage point)
		Amount	As a percentage of operating costs (%)	Amount	As a percentage of operating costs (%)	
Steel rolling and processing industry	Raw materials and fuel	71,330	81.20	63,316	80.77	0.43
	Others	16,515	18.80	15,075	19.23	-0.43
	Total	87,845	100	78,391	100	-

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

Applicable Not applicable

During the year, the Company has added four subsidiaries, namely: (1) investment in and establishment of Chemical Technology; (2) acquisition of Energy Technology from business combination under common control; (3) acquisition of Chaoyang Iron and Steel from business combination under common control; and (4) acquisition of FAW Angang from business combination under non-common control.

During the year, the Company has disposed of two subsidiaries, namely: (1) Shanghai Ansteel was liquidated and de-registered in December 2018; and (2) Ansteel Weifang applied for bankruptcy and liquidation in December 2018, and the liquidation matters were transferred to the administrator designated by the People's Court.

(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>)	26,188
Proportion of total sales amount of the top five customers over total sales amount for the year (%)	24.98
Proportion of sales to related parties of total sales amount of the top five customers over total sales amount for the year (%)	21.87

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	7,195	6.86
2	Customer B	6,361	6.07
3	Customer C	5,673	5.41
4	Customer D	3,696	3.53
5	Customer E	3,263	3.11
Total		<u>26,188</u>	<u>24.98</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)	29,426
Proportion of total purchase amount of the top five suppliers over total purchase amount for the year (%)	37.06
Proportion of procurement from related parties of total purchase amount of the top five suppliers over total purchase amount for the year (%)	27.37

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	11,879	14.96
2	Supplier B	6,431	8.10
3	Supplier C	3,970	5.00
4	Supplier D	3,721	4.69
5	Supplier E	3,425	4.31
		<hr/>	<hr/>
Total		<u>29,426</u>	<u>37.06</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	2018	2017	Increase/ decrease in the Reporting Period as compared with the corresponding period of the previous year (%)	Explanations on material changes
Marketing expenses	3,067	2,570	19.34	–
Administrative expenses	1,266	1,589	-20.33	–
Financial expenses	1,471	1,331	10.52	–
R&D expenditure	483	326	48.16	Increase in trial and R&D expenditure of new products.
Income tax expenses	2,056	-332	719.28	This was mainly because (i) the Company made up for the previous year's losses, resulting in an increase in deferred income tax expenses of RMB1,639 million; and (ii) the Company increased RMB749 million in provision for income tax expenses accrued for the Reporting Period from its profits.

4. R&D expenditure

In 2018, the Company focused on vigorously cultivating and developing strategic iron and steel products, realizing full coverage of downstream industries and developing high-quality, high value-added and strong market-leading products and technologies that significantly improved process quality; With the fundamental goal of improving the ability to use high and new technologies to rapidly transform traditional production lines and accelerating the pace of development of low carbon, energy saving and emission reduction technologies and green manufacturing technologies, key scientific research work such as the formulation and implementation of 2025 Science and Technology Leading Plan was carried out in depth around the key points of production and operation as well the focusing points of environmental protection and emission reduction.

- (1) Complete the full layout of science and technology planning and increase investment in research and development. It focused on “strategic, forward-looking and overturning” technologies and the development of high-tech and advanced products, prepared and completed the 2018–2020 Scientific Research Project Plan. A total of 555 scientific research projects have been launched throughout the year, 31 national projects have been studied, and two national topic projects including titanium steel composite plates have been completed and accepted, and 84 scientific research projects have been completed and accepted.
- (2) Focus on breaking through difficulties, and speed up the fulfillment of technological leadership. It organized world debut of 3 types of products including 18MND5 steel plates applied in nuclear safety injection box base plates, Q420qFNH weather-resistant and extremely cold-resistant steels, and double bulb marine flat bulb steels, and national debut of 5 types of products including extremely wide and extremely thin steels applied in luxury cruises, 90 mm crack-resistant steels, 40 # non-standard symmetrical flat bulb steels, and two special types of flat bulb steels; it also realized the first ever “medium and thick plates + profiles” whole ship supply without defects in China; it took the lead in the country in successfully organizing the development of 1%Ni ultra-low carbon high nickel series of bridge steels resistant to marine corrosion. The fourteen projects, including the “Research on Ultra-fine and Ultra-pure High Speed Steel Powder and Manufacture Technology”, were selected into Liaoning Province’s Key Project Plan for Enterprise Technological Innovation.

- (3) A number of important scientific research results have been achieved. The “Clean and Efficient Coking Technology & Equipment Development and Application” and the “Whole Process Optimization of Coking Wastewater Highly Efficient Processing and Converting into Resources Technology and Application” projects were awarded the first and second prizes of the National Scientific and Technological Progress Award; six projects won the Metallurgy Science Technology Award, of which the project “Innovation and Application of Key Technologies in the Whole Process of New Generation of Corrosion-resistant Steels for Railway Vehicles” won the first prize; seven projects won the Scientific and Technological Progress Award in Liaoning Province, of which the “Personalized Series of High Strength Steels Based on Lightweight Body Design and Applied Technology Development” project won the first prize; the “Integration and Application of Manufacturing Technology of High Performance Steels for Super Large Container Ships of Angang” won the China Iron and Steel Association Market Development Award; the “Research, Development and Engineering Application of Structural Steel Q500qE for High Strength and Low Yield Ratio Bridges” project won the first prize of China Railway Association Science and Technology Award. At the same time, 115 achievements were selected and filed in the provincial scientific and technological achievements transformation platform; the evaluation of scientific and technological achievements of 13 projects, including the “Research and Development of SDS Dry Desulfurization Combined with SCR Medium and Low Temperature Denitrification Technology for Coke Oven Flue Gas”, were completed.
- (4) Further explore the layout of core patents, and form patent groups in key technical fields. In the year, 569 patent applications were accepted by the state, of which 303 were inventions, accounting for 53.2% of all the applications; 434 patents were authorized by the state, with 197 of which being inventions. 54 know-how certificates were issued by the Company. The patent regarding “A method of Coal and Rock Blending with Vitrinite Reflectance of Coking Coal as the Main Index” won the 20th China Patent Award. The “Development of High Strength Steel Plate for Steel Containment” project was selected as Liaoning Province’s “Post-incentive Subsidy Project for Transformation of Scientific and Technological Achievements”.

- (5) Strengthen academic exchanges and continuously improve the level of production, study, scientific research and practical application. Through participation in more than 20 domestic and foreign academic conferences such as the 10th China International Iron and Steel Conference, the Company has stepped up foreign cooperation and exchanges, given full play to the role of the State Key Laboratory and the Strategic Alliance for Corrosion Resistant Steels in leading the way in developing and applying technologies, and signed an agreement with Harbin Institute of Technology to build a joint laboratory for marine metal materials. Through academic exchanges with universities, 55 cooperation intentions were reached, 46 technology development contracts were signed, and 45 technology service contracts were entered into. This pushed forward the development of production, study, scientific research and practical application, and help created a brand new situation of “development, cooperation and sharing” with key universities.
- (6) Keep energy conservation, emission reduction and green manufacturing as key research and development strategies. The transformation of the oxygen-enriched combustion technology of the hot blast stove of 10# blast furnace, the optimization of the operation parameters of the hot blast stove checker bricks and the cold air distribution plates, the energy-saving technical renovation of the converter gas diffusion tower in Bayuquan, the pilot test of reverse osmosis concentrated brine and the optimization of the parameters of each module, the research and development of dust removal technology with high alkali metal content and dust removal technology with high chlorine content were all completed and greatly reduced energy consumption and pollutant emission continuously.

Item	2018	2017	Year-on-year increase/ decrease (%)
Number of R&D staff (<i>person</i>)	1,638	1,626	0.74
Percentage of the number of R&D staff in the Company (%)	5.47	5.39	Increased 0.08 percentage point
Amount of R&D expenditure (<i>RMB million</i>)	1,500	1,372	9.33
Percentage of R&D expenditure in operating income (%)	1.43	1.50	Decreased 0.07 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	2018	2017	Year-on-year increase/ decrease (%)
Sub-total of cash inflow from operating activities	87,018	74,488	16.82
Sub-total of cash outflow from operating activities	78,724	68,010	15.75
Net cash flow from operating activities	8,294	6,478	28.03
Sub-total of cash inflow from investing activities	558	628	-11.15
Sub-total of cash outflow from investing activities	4,440	1,966	125.84
Net cash flow from investing activities	-3,882	-1,338	-190.13
Sub-total of cash inflow from financing activities	21,564	25,269	-14.66
Sub-total of cash outflow from financing activities	26,507	30,084	-11.89
Net cash flow from financing activities	-4,943	-4,815	-2.66
Net increase of cash and cash equivalents	-516	325	-258.77

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

Applicable Not applicable

The cash outflow from investment activities for the year increased by RMB2,474 million as compared to the previous year, which was mainly due to (i) increase of RMB945 million in cash payment for the purchase and construction of fixed assets and construction in progress over the previous year; and (ii) increase of RMB1,486 million in cash payment for investment over the previous year.

The net cash flow from investing activities for the year decreased by RMB2,544 million as compared to the previous year, which was mainly due to the increase of RMB2,474 million in cash outflow from investment activities over the previous year.

The net increase in cash and cash equivalents decreased by RMB841 million as compared to the same period of the previous year, which was mainly due to (i) increase of RMB1,816 million in net cash flow from operating activities over the same period of the previous year; (ii) decrease of RMB2,544 million in net cash flow from investing activities over the same period of the previous year; (iii) decrease of RMB128 million in net cash flow from financing activities over the same period of the previous year; and (iv) increase of RMB15 million in impact of exchange rate changes on cash flow over the same period of the previous year.

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 2018, the Group had long-term loans (exclusive of loans due within one year) of RMB2,295 million with interest rates ranging from 4.2892–4.9% per annum. The terms of such loans range from 2 to 5 years, and the loans will fall due in 2023. The loans are mainly used for replenishing the working capital. The Group's long-term loans due within one year amounted to RMB2,648 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 or quarterly basis in accordance with the adjustments to the benchmark interest rate for loans of the same period made by the People's Bank of China.

In 2018, 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 2018, 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 2018, cash and bank balances of the Group denominated in foreign currencies was RMB1 million (31 December 2017: nil).

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

Unit: RMB million

	31 December 2018	31 December 2017
RMB	2,153	2,670
US dollars	1	–
HK dollars	–	–
Others	–	–
	<hr/>	<hr/>
Total	<u>2,154</u>	<u>2,670</u>

As at 31 December 2018, the Group had a total capital commitment of RMB2,977 million, which was primarily attributable to the construction and renovation 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 Group 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 Group makes contribution to the basic pension scheme at 20% of the gross salary recognized as cost (expenses) of the previous month. In 2018, the total contribution to the basic pension scheme amounted to RMB787 million (including the employer's contribution of RMB593 million and the employees' contribution of RMB194 million).

In addition, the Group maintains corporate annuity scheme for all of its employees, the contribution to which is made by the Group at 4% of the gross salary recognized as cost (expenses) of the previous year. The Group also made compensation to the employees for their years of service prior to the establishment of the corporate annuity scheme. The Group has resumed contribution in 2018, the total contribution to the corporate annuity scheme amounted to RMB299 million (including the employer's contribution of RMB242 million and the employees' contribution of RMB57 million) and the total compensation to the employees for their years of service prior to the establishment of the corporate annuity scheme amounted to RMB62 million.

8. Foreign exchange risk

The Group carries out import and export through agent trade by Angang Group International Economic and Trade Co., Ltd. for its main foreign currency transactions including the export of sales products, import of raw materials and engineering equipment. Foreign currency risk is mainly reflected in the impact of exchange rate changes when settling through agent on sales and procurement costs.

The Group issued HK \$1.85 billion of H-share convertible bonds whose foreign exchange risk depends on the exchange rate of the Renminbi against the Hong Kong dollar at the time of redemption of the unconverted bonds.

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	315	3.15	Investment income from long-term equity investments accounted by equity method and dividends of other equity instruments during holding period.	Yes
Gains or losses arising from changes in fair value	60	0.60	Changes in fair value of derivative financial assets and transaction financial assets.	Yes
Impairment losses on asset	-74	-0.74	Mainly included recycling of losses on inventory falling price.	No
Other gains	83	0.83	Mainly included government grants	Yes
Non-operating income	56	0.56	Mainly included gains on disposal of non-current assets.	Yes
Non-operating expenses	136	1.36	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 2018		Beginning of 2018		Increase/ decrease (percentage point)	Explanation for significant change
	Amount	As a percentage of total assets (%)	Amount	As a percentage of total assets (%)		
Monetary capital	2,154	2.39	2,670	2.82	-0.43	-
Notes and account receivables	9,644	10.71	13,372	14.11	-3.40	-
Inventories	13,125	14.58	12,269	12.94	1.64	-
Long-term equity investments	2,803	3.11	2,981	3.14	-0.03	-
Fixed assets	50,064	55.61	50,875	53.66	1.95	-
Construction in progress	1,458	1.62	1,072	1.13	0.49	-
Short-term loans	13,180	14.64	14,500	15.29	-0.65	-
Long-term loans	2,295	2.55	2,905	3.06	-0.51	-

2. Assets and liabilities measured at fair value

Unit: RMB million

Item	Opening balance (1 January 2018)	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)	39	-4					35
2. Derivative financial assets	7	-6					1
3. Other credit investment							
4. Other equity instrument investment	506		-319				519
Sub-total of financial assets	552	-10	-319				555
Investment properties							
Productive biological assets							
Others							
Total	552	-10	-319				555
Financial liabilities	13	-10					3

Material changes in measurement of major assets during the Reporting Period

Yes No

3. Gearing ratio

As at 31 December 2018 and 31 December 2017, the Group's ratio of equity to liability was 1.40 times and 1.25 times, respectively.

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

The Group pledged notes receivable with carrying amount of RMB261 million to bank to obtain short-term loans of RMB250 million for a pledge with term from 25 January 2018 to 24 January 2019.

5. Contingent liabilities

As at 31 December 2018, the Group had no contingent liabilities.

ANALYSIS ON THE CORE COMPETITIVENESS

(I) Development Conditions

1. Industry supply and demand conditions

In recent years, with the reduction of investment scale and structural adjustment, the GDP per unit of steel consumption intensity has gradually decreased, and the steel industry has entered the downward area of the peak arc area of production and consumption. Since 2016, in accordance with the decisions and arrangements of the Party Central Committee and the State Council, the steel industry has actively made efforts to reduce the excess capacity of steels. In the past two years, the total excess capacity of 115 million tons was reduced, and the substandard steels were completely eliminated. The market environment has been significantly improved, the contradiction regarding serious excess capacity has been effectively alleviated, and the steel industry has achieved a steady and sound development trend. The Report of the 19th CPC National Congress pointed out that China's economy had changed from a high-speed growth stage to a high-quality development stage. It is now in a crucial period of changing the development model, optimizing the economic structure and transforming the growth drivers. It puts higher requirements on the quality, service life, safety, environmental protection and practicability of iron and steel products. From 2018 to 2020, China's iron and steel industry is in a critical period of transformation from "big" to "strong". The deep-rooted contradictions that have plagued the healthy development of the iron and steel industry for a long time are still far from being resolved. The work of "De-capacity" and optimization of the production capacity structure has a long way to go. The de-leveraging process needs to be speeded up. There remains a certain gap between the level of energy conservation and environmental protection and the requirements for achieving green development. Iron and steel enterprises must accelerate structural adjustment as well as transformation and upgrading. The first is to further reduce production capacity by adjusting regional layout and enterprise layout; the second is to accelerate the merger and reorganization of enterprises; the third is to promote the pace of steel product development under the "Belt and Road Initiative"; the fourth is to push forward the adjustment of process structure and improve product quality standards.

2. *Conditions of regional layout*

The Company's main production bases are located in the northeast region with low economic activity, poor development trend and lack of growth momentum. The demand for steel is relatively low, and the demand in winter is especially insufficient; a large number of products need to be transported to the inside of the Pass, especially in eastern and southern China, which has a long distance and high logistics cost, thus affecting the competitiveness of products. At present, the Company has strengthened its sales efforts in the northeast core area, relying on the preliminarily formed multi-base layout, coastal layout and internationalized operation, and continuously expanding its development space to make up for the shortage of regional layout to a certain extent.

3. *Secured supply of resources*

The surrounding areas of Anshan have abundant reserves of iron ore, providing strong secured supply of resources. Mining companies of Angang Group have iron ore resources of 8,800 million tons and production stripping capacity of 230 million tons per year (ranking 1st in china) and mineral processing capacity of 65 million tons per year (rank the highest in the world). Leveraging domestic-leading mining technology and world-leading mineral processing technology and main processing economic indicators, such areas are well-positioned to provide supply high-quality products.

4. *Conditions of informatization and intellectualization*

The Company has fully applied automated production lines/equipment as well as MES and ERP systems. The application of information technology in production and manufacturing, storage, logistics and distribution and sales is deepening. The Company has met the conditions to implement digital workshops and intelligent factories, which has promoted the digitalization and intelligent transformation and upgrading of Angang Steel, comprehensively improved the Company's comprehensive competitiveness in the iron and steel industry, accelerated the application of intelligent manufacturing, artificial intelligence and big data technology, and constructed a new development pattern.

5. *Marketing conditions*

The Company's products are comprehensively competitive in the market and enjoy a historical reputation and high popularity both at home and abroad; the products are full of varieties and specifications, and it has strong advantages in providing supporting services to customers. Over the years, the Company has gradually established a long-standing cooperative relationship of mutual benefit and trust with strategic customers and suppliers, and a supply chain with competitive advantages. The proportion of domestically direct supply of products is about 70%. The utilization of e-commerce means and the service capability of TKAS-SSC lag behind leading enterprises. Markets around the world have successively adopted protective measures such as raising tariffs and anti-dumping measures, which have depressed the export of products.

(II) The Core Competitive Advantage

1. *Production organization capacity*

Adapting to the continuous mass production system, the management has excellent control ability to maintain stable and smooth production and the staff has high professional quality.

2. *Technical and equipment capabilities*

Anshan headquarters has been continuously updated and reformed. At present, the main production processes and technologies such as coking, sintering, ironmaking, steelmaking, continuous casting and steel rolling have reached the domestic advanced level as a whole. The rapid selection technology of coking coal, low-cost blast furnace ironmaking technology, ultra-pure steel production technology, defect-free continuous casting slab production technology as well as the 1,700mm medium and thin slab continuous casting and rolling coil production technology, self-integrated cold rolling wide strip production technology, self-developed and applied cold rolling mill shape control system core technology have all reached the internationally advanced level. The main part of Anshan headquarters is equipped with modern and large-scale equipment, and it has rich experience in the construction and construction management of iron and steel plants.

Bayuquan Iron & Steel Branch Company has advanced processing equipment and technology, with its leading main technical indexes in China. The hot rolling technology of 1,580mm hot rolling plate production line is internationally advanced, and it is the only hot rolling production line in the same industry equipped with a fixed width press, a hot coil box and 7 continuous rolling mills; the 5,500mm wide and thick plate production line is currently one of the largest wide and thick plate mills in the world.

Chaoyang Iron and Steel has public and auxiliary facilities and equipment in relation to energy power, coking, sintering, iron making, steel making, steel rolling, and raw material storage and railway transportation. It has an annual production capacity of 2 million tons of fine plates.

3. Technological innovation and product development ability

The Company's steel products are complete in types and specifications, and have certain differentiation advantages. Its brand has high popularity and credibility, and has strong advantages in providing supporting services to customers.

It has relatively strong strength in plate products, and has a leading position in producing automotive steel plates, home appliance plates and container plates. It can stably produce high-grade surface cold-rolled and galvanized automobile steel plates for automobile outer covers. The railway steels, container steels and shipbuilding plates won the title of "China Famous Brand Products".

Two types of products, namely the hull structural steels and ultra-deep drawing cold-rolled automobile steels, won the Excellent Quality Award; 81 types of products such as container hot-rolled steel plates and steel strips, hot-rolled acid pickling plates, hot-rolled seamless steel tubes for oil cylinders, wire rods for steel cords, EDC hot-rolled wire rods won the title of the "Gold Cup Award for Physical Quality of Metallurgical Products".

The Company's comprehensive research and development strength leads the iron and steel industry. The TWIP1180HR hot coil and other new products produced by the full process technology were launched, demonstrating and leading the world's production of advanced high-strength steels in the high manganese steel series; the QP1400 cold-rolled high-strength automobile steel plates witnessed its world debut in Angang Shengang Cold Rolled High Strength Automobile Steel Plates Company, further consolidating Angang Steel's leading position in domestic automobile steel manufacturing. The Company's ultra-high strength marine steel is qualified and capable of supplying to the world's top drilling platforms. It has also become the world's first enterprise with the supply capacity of Cr-Mo steel plates for over 5m ultra-wide pressure vessels. The longitudinal variable thickness weatherproof LP steels are exclusively used in batch in bridge engineering. The 4,000mm ultra-wide nuclear grade duplex stainless steel plates S32101 were successfully developed, filling in the gap of our country regarding special steels and reaching the world leading level. The Company successfully won the bid for 18MND5 plates for Ningde 6# injection box of Hualong No.1 nuclear power unit. This type of steels is domestically

made for the first time to replace imports and has filled the domestic gap. The railway vehicle weather-resistant steels can be provided in all kinds of specifications, and the power car bogies lead the development of the industry. The successful development of wide-width martensitic stainless steels 4Cr13 for corrosion-resistant dies fills the blank of large martensitic stainless steel plates in China. The successful development of this product has made Angang the only domestic manufacturer of large martensitic stainless steel plates for high-quality corrosion-resistant abrasives with a width of over 2,000 mm. High strength LX86B cord steels have the same quality as POSCO's similar products. In 2018, a total of 25 projects including the research and production technology development of high manganese high toughness medium and thick plates for offshore platforms and the "titanium/steel" composite plates-industrial trial production and stabilization of high manganese steel medium and thick plates were included in the first batch of scientific research projects in the National Key Research and Development Plan.

4. *Technology leading ability*

After years of research and development, the Company has mastered a number of key, leading, basic and cutting-edge technologies, and has rich technical foundations. The progress regarding intellectual property rights marked by patent applications, number of licenses and number of know-hows are in the "first echelon" in the metallurgical industry; it takes an important role in modification of national standards and industry standards. Many achievements in intellectual property rights have been made in the fields of pre-ironmaking and iron and steel smelting systems, iron and steel products, environmental resources, etc. A number of invention patents such as "A Low Alloy Sulfuric Acid Dew Point Corrosion Resistant Steel Plates and Related Manufacturing Method", "A High Strength Cold Rolled Hot Dip Galvanized Dual Phase Steel Plates and Related Manufacturing Method" won the 18th China Patent Excellence Award, and a large number of achievements such as the "New-generation Controlled Rolling and Controlled Cooling Technology and Its Application" won national, industrial, provincial and municipal awards.

5. Corporate culture integration ability

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 plays an irreplaceable role in uniting the teams and making concerted efforts. Its extensive and profound corporate culture generalizes, extracts and sublimates the spirits of generations of Angang people, has rich connotation and broad denotation, and demonstrates the Chinese traditional virtues and the fine work styles of the working class in the PRC. Angang is the birthplace of the “Angang Constitution” which is praised as the fundamental law for running socialist enterprises. In 2017, Angang Group’s Cultural Charter was issued. The Angang Cultural Charter is a value concept condensed in the process of long-term production, operation, reform and development. It is the common value orientation and spiritual pursuit of all the employees, and also serves as an action guide for Angang’s sustainable development. A new model of corporate culture and work has been formed, which is internalized in thought, solidified in system, externalized in behavior, materialized in products and beautified in image. In the new period, the corporate culture has been continuously enriched the connotation of the new era, providing strong cultural support and spiritual impetus for the realization of the Company’s construction of a new pattern of revitalization and development with the distinctive features of dominant culture, innovative culture, competitive culture and harmonious culture.

SIGNIFICANT EVENTS

1. The profit distribution proposal of the Company for 2018

Net profit attributable to shareholders of the Company amounted to RMB7,952 million for the year of 2018, extraction of surplus reserve amounted to RMB48 million (as at 31 December 2018, the balance of surplus reserve amounted to RMB3,628 million accounting for 50% of the registered capital), in accordance with the PRC ASBE, as audited and confirmed by ShineWing Certified Public Accountants (Special General Partnership) (信永中和會計師事務所(特殊普通合夥)). The Board proposes to distribute RMB1,591,657,726.34 million of distributable profits to all the shareholders of the Company by way of cash dividends. on the basis of the total share capital of 7,234,807,847 shares. At the same time, the Company will issue shares to all shareholders by way of capitalisation of capital reserve, on the basis of three(3) capitalisation shares for every ten(10) existing 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. This proposal shall be subject to consideration and approval at the 2018 annual general meeting

2. Performance of Undertaking

The undertakings performed by the Company, shareholders, de facto 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.

(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.

Reason for Undertaking	Undertaking Party	Type of Undertaking	Contents of Undertaking	Date of Undertaking	Period of Undertaking	Performance of Undertaking
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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.

(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.

Reason for Undertaking	Undertaking Party	Type of Undertaking	Contents of Undertaking	Date of Undertaking	Period of Undertaking	Performance of Undertaking
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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

Particulars of and reasons for the changes

In 2017 and 2018, the Ministry of Finance (“MOF”) issued the following amendments to the Accounting Standards for Business Enterprises and relevant interpretations:

Accounting Standards for Business Enterprises No. 14 – Revenue (revised) (“New Revenue Standard”)

Accounting Standards for Business Enterprises No. 22 – Financial Instruments: Recognition and Measurement (revised), Accounting Standards for Business Enterprises No. 23 – Transfer of Financial Assets (revised), Accounting Standards for Business Enterprises No. 24 – Hedge Accounting (revised), Accounting Standards for Business Enterprises No. 37 – Financial Instruments: Presentation and Reporting (revised) (collectively “New Financial Instruments Standards”)

Accounting Standards for Business Enterprises Interpretation No. 9 – Accounting Treatment of Net Investment losses under Equity Method, Accounting Standards for Business Enterprises Interpretation No. 10 – Depreciation Method based on Revenue Generated from Use of Fixed Assets, Accounting Standards for Business Enterprises Interpretation No. 11 – Amortization Method based on Revenue Generated from Use of Intangible Assets and Accounting Standards for Business Enterprises Interpretation No. 12 – Whether the Provider and the Recipient of the Key Management Personnel Service are Related Parties (collectively “No.9 – No. 12 Interpretation”)

The Notice on Revision of the General Format of 2018 Financial Statements of Business Enterprises (Cai Kuai [2018] No. 15)

The Notice on Revision of the Format of 2018 Consolidated Financial Statements of Business Enterprises (Cai Kuai [2019] No. 1)

The Group has adopted the above revised Accounting Standards for Business Enterprises and interpretations since 1 January 2018 and made adjustments to relevant accounting policies accordingly.

Major impacts of the changes

A: New Revenue Standard replaced the Accounting Standards for Business Enterprises No. 14 – Revenue and the Accounting Standard for Business Enterprises No. 15 – Construction Contracts (collectively “Original Revenue Standard”) issued by the MOF in 2006.

Under the New Revenue Standard, the Group regards the transfer of control as the criteria for the time of revenue recognition:

The Group has fulfilled its performance obligations of the contract that the revenue is recognized when the customers take control of the relevant goods or services. The Group pertains to the category that performance obligations are to be fulfilled over a designated period of time only when meeting certain conditions, or otherwise, falls to the category that performance obligations are to be fulfilled at a particular point of time. Where there are two or more performance obligations, the Group shall allocate the transaction price to the corresponding individual performance obligation on the effective date of the contract based on the proportion of the individual selling price of goods or services committed under each individual performance obligation and recognise revenue as per the transaction price allocated to each individual performance obligation. Transaction price refers to the consideration to which the Group are expected to be entitled for the transfer of goods or services, and excludes the amount collected on behalf of the third-party suppliers. The transaction price recognised by the Group does not exceed the amount in the accumulated revenue that is likely not to be significantly reversed when the relevant uncertainty is eliminated. Where there are significant financing components in the contract, the Group determines the transaction price based on the amount payable assumed to be paid by the client in cash the moment the latter takes control of the goods or services. The difference between such transaction price and the consideration under the contract is amortised using the effective interest method during the contract period.

The Group has made adjustments to the relevant accounting policies in accordance with the specific requirements on specific matters or transactions under the New Revenue Standard.

The Group has presented contract assets and contract liabilities in the balance sheet based on the connection between the fulfilment of performance obligations and payment of the customers pursuant to the New Revenue Standard. At the same time, the Group, as per information disclosure requirements in respect of revenue under the New Revenue Standard, has made more disclosures on relevant accounting policies, judgement on the possibility to cause material impact (measurement on variable consideration, method to allocate transaction price to each individual performance obligation, assumptions used in evaluating the individual selling price of each individual performance obligation, etc.), customer contract information (revenue recognition for the year, contract balance, performance obligations), information of assets in relation to contract cost, etc.

The Group reviewed the sources of revenue and the customer contracting procedures so as to assess the impacts of the New Revenue Standard on the financial statements. As revenue of the Group is mainly derived from the sale of steel and steel products, the Group recognises revenue at the time point of delivery to the customers. The adoption of New Revenue Standard does not have any material impact on the Group except for the presentation of the financial statements.

B: New Financial Instruments Standards

The revision of the New Financial Instruments Standards have replaced the “Accounting Standards for Business Enterprises No. 22 – Financial Instruments: Recognition and Measurement”, the “Accounting Standard for Business Enterprises No. 23 – Transfer of Financial Assets” and the “Accounting Standard for Business Enterprises No. 24 – Hedge Accounting” promulgated by the MOF in 2006 as well as the “Accounting Standard for Business Enterprises No. 37 – Financial Instruments: Presentation” revised by the MOF in 2014 (collectively the “Original Financial Instruments Standards”).

On 1 January 2018, the Group presented only those financial assets and liabilities quoted in an active open market as financial assets and liabilities at fair value through profit or loss, and all other financial assets and liabilities were not presented as financial assets or liabilities at fair value through profit or loss.

The New Financial Instruments Standards adopt the “expected credit loss” model (“ECL model”) instead of the “incurred loss” model under the Original Financial Instruments Standards. The ECL model requires consistent evaluation on the credit risks of financial assets. As such, the credit loss recognition time of the Group under the New Financial Instruments Standards is earlier than that under the Original Financial Instruments Standards.

ECL model applies to the following items:

- Financial assets measured at amortized cost;
- Contract assets;
- debt securities measured at fair value through other comprehensive income;
- lease receivables;

The ECL model does not apply to equity instruments investments.

The adoption of the ECL model does not have any material impact on the financial position and operating results of the Group.

Save for certain exceptions, the Group has made retrospective adjustments to the classification and measurement (including impairment) of the financial instruments in accordance with the New Financial Instruments Standards. The difference between the original carrying amount of financial instruments and their carrying amount as at the adoption date of the New Financial Instruments Standards (i.e., 1 January 2018) is credited to other comprehensive income at the beginning of 2018. In addition, the Group did not make any adjustments to the comparative financial statements.

C: Interpretations No. 9 – 12

The Group adjusted the relevant accounting policies based on requirements under Interpretation No. 9 – 12 relating to the accounting treatments on investment net loss under equity method, the depreciation and amortisation methods of fixed assets and intangible assets and recognition and disclosure of related-party recipient of key management personnel service.

The adoption of Interpretations No. 9 – 12 does not have any material impact on the financial position and operating results of the Group.

D: Presentation of Financial Statements

The Group prepared its 2018 annual financial statements in accordance with the format for financial statements specified by Cai Kuai [2018] No.15 and Cai Kuai [2019] No.1, and retrospectively adjusted the presentation of the related financial statements.

The relevant presentation adjustments are as follows:

Items affected in the consolidated balance sheet and the balance sheet of the Company:

Unit: RMB million

Statement	CONSOLIDATED BALANCE SHEET					2018-1-1
	2017-12-31 Before retrospect adjustment of the format of new statement	Consolidation impact under the common control	Impact of changes in the format of new statement	2017-12-31 After retrospect adjustment of new statement	Impact of changes in accounting policies of new revenue and new finance tools	
ASSETS:						
Bills receivables	9,693	1,196	(10,889)			
Trade receivables	2,463	20	(2,483)			
Bills receivables and trade receivables			13,372	13,372	1	13,373
Other receivables	261	5		266	(4)	262
Available-for-sale financial assets	719			719	(719)	
Other investments in equity instrument					506	506
Other non-current financial assets					39	39
Construction in progress	1,040	23	9	1,072		1,072
Project supplies	2	7	(9)			
Deferred income tax assets	1,713	201		1,914	97	2,011
LIABILITIES:						
Note payables	240	21	(261)			
Trade payables	8,436	662	(9,098)			
Note payables and trade payables			9,359	9,359		9,359
Advances from customers	5,581	1,066		6,647	(6,647)	
Contract liabilities					6,647	6,647
Other payables	1,544	1,110	131	2,785		2,785
Interest payables	93		93			
Dividend payables		38	(38)			
Deferred income tax liabilities	6			6	52	58
SHAREHOLDERS' EQUITY:						
Other comprehensive income	(3)			(3)	247	(250)
Retained profit	7,604	(8,262)		(658)	115	(543)

Balance Sheet

Statement	2017-12-31 Before retrospect adjustment of the format of new statement	Consolidation impact under the common control	Impact of changes in the format of new statement	2017-12- 31 After retrospect adjustment of new statement	Impact of changes in accounting policies of new revenue and new finance tools	2018-1-1
ASSETS:						
Bills receivables	9,632		(9,632)			
Trade receivables	3,121		(3,121)			
Bills receivables and trade receivables			12,753	12,753		12,753
Other receivables	258			258	(3)	255
Available-for-sale financial assets	719			719	(719)	
Other investments in equity instrument					506	506
Other non-current financial assets					39	39
Construction in progress	947		2	949		949
Project supplies	2		(2)			
Deferred income tax assets	1,648			1,648	97	1,745
LIABILITIES:						
Note payables	240		(240)			
Trade payables	8,271		(8,271)			
Note payables and trade payables			8,511	8,511		8,511
Advances from customers	4,869			4,869	(4,869)	
Contract liabilities					4,869	4,869
Other payables	1,393		85	1,478		1,478
Interest payables	85		(85)			
Dividend payables	6			6	52	58
Deferred income tax liabilities						
SHAREHOLDERS' EQUITY:						
Other comprehensive income	(3)			(3)	(247)	(250)
Retained profit	7,510			7,510	115	7,625

Items of the compacted consolidated income statement and income statement of the Company in 2017:

Unit: RMB million

Statement	Consolidated Income Statement			
	Before changes in the accounting policies 2017	Consolidation impact under the common control	Impact of changes in the accounting policies	After changes in the accounting policies 2017
Administration expenses	1,807	105	(323)	1,589
R&D expenditure		3	323	326

Statement	Income Statement			
	Before changes in the accounting policies	Consolidation impact under the common control	Impact of changes in the accounting policies	After changes in the accounting policies 2017
Administration expenses	1,758		(323)	1,435
R&D expenditure			323	323

(2) Changes in accounting estimates

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

During the year, the Company has added four subsidiaries, namely: (1) investment in and establishment of Chemical Technology; (2) acquisition of Energy Technology from business combination under common control; (3) acquisition of Chaoyang Iron and Steel from business combination under common control; and (4) acquisition of FAW Angang from business combination under non-common control.

During the year, the Company has disposed of two of subsidiaries, namely: (1) Shanghai Ansteel was liquidated and de-registered in December 2008; and (2) Ansteel Weifang applied for bankruptcy and liquidation in December 2018, and the liquidation matters were transferred to the administrator designated by the People’s Court.

7. Appointment and Dismissal of Accounting Firm

(1) Accounting firm currently engaged by the Company

Name of the PRC accounting firm	ShineWing Certified Public Accountants (Special General Partnership)
Remuneration of the PRC accounting firm (RMB0’000)	500
Continued term of auditing service of the PRC accounting firm	1 year
Continued term of auditing services by certified public accountants of the PRC accounting firm	1 year
Name of certified public accountants of the PRC accounting firm	Fan Jianping and Fu Yangyi

(2) Whether appointed another accounting firm during the period

Yes No

Whether appointed another accounting firm during the auditing period

Yes No

Whether performed approval procedure for appointing another accounting firm

Yes No

Explanation on the appointment and change of another accounting firm:

In view of the fact that Ruihua Certified Public Accountants (Special General Partnership) (hereinafter referred to as “Ruihua”) has provided the Company with continuous annual audit services for 5 years, and according to the relevant requirements of the SASAC, the Company needs to change the accounting firm for 2018. The Company has notified Ruihua of the matter in advance and conducted friendly communication, and confirmed that there are neither inconsistency in any of important opinions between the Company and Ruihua, nor disagreement or unresolved matters regarding the proposed change of the accounting firm.

As approved in the 2017 annual general meeting, the Company appointed ShineWing Certified Public Accountants (Special General Partnership) as the Company's auditor for 2018, for a term beginning on the date of approval of the 2017 annual general meeting and ending at the 2018 annual general meeting, and Board is authorized to determine its remuneration.

(3) *Particulars on appointment of accounting firms, financial consultants or sponsors for internal control and auditing purposes*

The Company engaged ShineWing Certified Public Accountants (Special General Partnership) as the internal control and auditing firm of the Company for 2018 and the remuneration was RMB0.70 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

The connected transactions set out below fall within the definition relating to "Connected Transaction" or "Continuing Connected Transaction" under Chapter 14A of the Hong Kong Stock Exchange Listing Rules. Relevant connected transactions have complied with the disclosure requirements under Chapter 14A of the Hong Kong Stock Exchange Listing Rules.

(1) Connected transactions related to daily operations

Connected party	Connected relationship	Type of connected transaction	Content of connected transaction	Pricing principle of connected transaction	Connected transaction price	Connected transaction amount (RMB 100 million)	As a percentage of the amount of similar transactions	Transaction cap (RMB 100 million)	Whether exceeding approved cap	Settlement method of connected transactions	Market price of available similar transactions
Angang Holding	Controlled by the same controlling shareholder	Purchase goods/ Receive services	Purchase main materials	Market principle	-	6,442	20.28	21,700	No	In cash	-
Angang Group Mining Gongchangling Co., Ltd.	Controlled by the same controlling shareholder	Purchase goods/ Receive services	Purchase main materials	Market principle	-	3,480	10.95	-	-	In cash	-
Angang Mining Co., Ltd.	Controlled by the same controlling shareholder	Purchase goods/ Receive services	Purchase main materials	Market principle	-	2,433	7.66	-	-	In cash	-
Angang Group Anqian Mining Company Limited	Controlled by the same controlling shareholder	Purchase goods/ Receive services	Purchase main materials	Market principle	-	1,210	3.81	-	-	In cash	-
Angang Group Guanbaoshan Mining Co. Ltd.	Controlled by the same controlling shareholder	Purchase goods/ Receive services	Purchase main materials	Market principle	-	1,072	3.37	-	-	In cash	-

Connected party	Connected relationship	Type of connected transaction	Content of connected transaction	Pricing principle of connected transaction	Connected transaction price	Connected transaction amount (RMB 100 million)	As a percentage of the amount of similar transactions	Transaction cap (RMB 100 million)	Whether exceeding approved cap	Settlement method of connected transactions	Market price of available similar transactions
Angang Holding International Economic and Trading	Controlled by the same controlling shareholder	Purchase goods/ Receive services	Purchase main materials	Market principle	-	792	2.49	-	-	In cash	-
Pangang Vanadium & Titanium Group	Controlled by the same controlling shareholder	Purchase goods/ Receive services	Purchase main materials	Market principle	-	431	1.36	-	-	In cash	-
Other subsidiaries of Angang Group	Controlled by the same controlling shareholder	Purchase goods/ Receive services	Purchase main materials	Market principle	-	593	1.86	-	-	In cash	-
Sub-total	-	-	Purchase main materials	-	-	16,453	51.78	-	-	-	-

Connected party	Connected relationship	Type of connected transaction	Content of connected transaction	Pricing principle of connected transaction	Connected transaction price	As a percentage of the amount of similar transactions		Whether exceeding approved cap	Settlement method of connected transactions	Market price of available similar transactions
						Transaction amount (RMB 100 million)	Transaction cap (RMB 100 million)			
Chaoyang Iron & Steel	Controlled by the same controlling shareholder	Purchase goods/ Receive services	Purchase steel products	Market principle	-	376	77.07	600 No	In cash	-
Pangang Group International Economic & Trade Co., Ltd.	Controlled by the same controlling shareholder	Purchase goods/ Receive services	Purchase steel products	Market principle	-	112	22.93		In cash	-
Sub-total	-	-	Purchase steel products	-	-	488	100.00		-	-
Anshan Angang Vesuvius Refractory Co., Ltd.	Controlled by the same controlling shareholder	Purchase goods/ Receive services	Purchase auxiliary materials	Market principle	-	893	7.53	3,015 No	In cash	-
Angang Naihao Co., Ltd.	Controlled by the same controlling shareholder	Purchase goods/ Receive services	Purchase auxiliary materials	Market principle	-	790	6.66		In cash	-

Connected party	Connected relationship	Type of connected transaction	Content of connected transaction	Pricing principle of connected transaction	Connected transaction price	Connected transaction amount (RMB 100 million)	As a percentage of the amount of similar transactions	Transaction cap (RMB 100 million)	Whether exceeding approved cap	Settlement method of connected transactions	Market price of available similar transactions
Other subsidiaries of Angang Group	Controlled by the same controlling shareholder	Purchase goods/ Receive services	Purchase auxiliary materials	Market principle	-	1,303	10.99	-	-	In cash	-
Sub-total	-	-	Purchase auxiliary materials	-	-	2,986	25.17	-	-	-	-
Angang Holding	Controlled by the same controlling shareholder	Purchase goods/ Receive services	Procurement of energy and power	Market principle	-	1,699	54.92	2,855	No	In cash	-
Other subsidiaries of Angang Group	Controlled by the same controlling shareholder	Purchase goods/ Receive services	Procurement of energy and power	Market principle	-	43	1.39	-	-	In cash	-
Sub-total	-	-	Procurement of energy and power	-	-	1,742	56.31	-	-	-	-

Connected party	Connected relationship	Type of connected transaction	Content of connected transaction	Pricing principle of connected transaction	Connected transaction price	Connected transaction amount (RMB 100 million)	As a percentage of the amount of similar transactions	Transaction cap (RMB 100 million)	Whether exceeding approved cap	Settlement method of connected transactions	Market price of available similar transactions
Dejin Land Ports (Anshan) Co., Ltd.	Controlled by the same controlling shareholder	Purchase goods/ Receive services	Receive supporting services	Market principle	-	793	8.52	6,500	No	In cash	-
Angang construction Consortium Co., Ltd.	Controlled by the same controlling shareholder	Purchase goods/ Receive services	Receive supporting services	Market principle	-	707	7.60	-	-	In cash	-
Angang Holding	Controlling shareholder	Purchase goods/ Receive services	Receive supporting services	Market principle	-	580	6.23	-	-	In cash	-
Angang Cold Rolled Steel Plate Co., Ltd. (Putian)	Controlled by the same controlling shareholder	Purchase goods/ Receive services	Receive supporting services	Market principle	-	493	5.30	-	-	In cash	-
Angang Group Engineering Technology Co., Ltd.	Controlled by the same controlling shareholder	Purchase goods/ Receive services	Receive supporting services	Market principle	-	427	4.59	-	-	In cash	-

Connected party	Connected relationship	Type of connected transaction	Content of connected transaction	Pricing principle of connected transaction	Connected transaction price	As a percentage of the amount of similar transactions		Whether exceeding approved cap	Settlement method of connected transactions	Market price of available similar transactions
						Transaction cap (RMB 100 million)	Transaction cap (RMB 100 million)			
Other subsidiaries of Angang Group	Controlled by the same controlling shareholder	Purchase goods/ Receive services	Receive supporting services	Market principle	-	2,709	29.11		In cash	-
Sub-total	-	-	Receive supporting services	-	-	5,709	61.35		-	-
Dejin Land Ports (Anshan) Co., Ltd.	Controlled by the same controlling shareholder	Sales of goods/ Provide services	Sales of products	Market principle	-	1,166	1.17	5,310	No	In cash
Angang International Economic Trading Co., Ltd.	Controlled by the same controlling shareholder	Sales of goods/ Provide services	Sales of products	Market principle	-	670	0.67			In cash
Angang Green Resources Technology Co., Ltd.	Controlled by the same controlling shareholder	Sales of goods/ Provide services	Sales of products	Market principle	-	315	0.31			In cash

Connected party	Connected relationship	Type of connected transaction	Content of connected transaction	Pricing principle of connected transaction	Connected transaction price	Connected transaction amount (RMB 100 million)	As a percentage of the amount of similar transactions (RMB 100 million)	Transaction cap (RMB 100 million)	Whether exceeding approved cap	Settlement method of connected transactions	Market price of available similar transactions
Other subsidiaries of Angang Group	Controlled by the same controlling shareholder	Sales of goods/ Provide services	Sales of products	Market principle	-	1,092	1.09	-		In cash	-
Sub-total	-	-	Sales of products	-	-	3,243	3.24	-		-	-
Angang Group	Controlled by the same controlling shareholder	Sales of goods/ Provide services	Sell scrap steel material, abandoned material, minus sieve powder	Market principle	-	330	93.75	330	No	In cash	-
Sub-total	-	-	Sell scrap steel material, abandoned material, minus sieve powder	-	-	330	93.75	-		-	-

Connected party	Connected relationship	Type of connected transaction	Content of connected transaction	Pricing principle of connected transaction	Connected transaction price	Connected transaction amount (RMB 100 million)	As a percentage of the amount of similar transactions	Transaction cap (RMB 100 million)	Whether exceeding approved cap	Settlement method of connected transactions	Market price of available similar transactions
Angang Holding	Controlled by the same controlling shareholder	Sales of goods/ Provide services	Provide comprehensive services	Market principle	-	769	28.45	1,500	No	In cash	-
Other subsidiaries of Angang Group	Controlled by the same controlling shareholder	Sales of goods/ Provide services	Provide comprehensive services	Market principle	-	313	11.58			In cash	-
Sub-total	-	-	Provide comprehensive services	-	-	1,082	40.03			-	-
Angang Financial Company	Controlled by the same controlling shareholder	Receive finance services	Settle fund and deposit interest	Market principle	-	21	74.74	50	No	In cash	-
Angang Financial Company	Controlled by the same controlling shareholder	Receive finance services	Maximum daily deposit balance	Market principle	-	1,999	-	2,000	No	-	-
Angang Financial Company	Controlled by the same controlling shareholder	Receive finance services	Credit business interest	Market principle	-	32	2.41	150	No	In cash	-

Connected party	Connected relationship	Type of connected transaction	Content of connected transaction	Pricing principle of connected transaction	Connected transaction price	Connected transaction amount	As a percentage of the amount of similar transactions	Transaction cap	Whether exceeding approved cap	Settlement method of connected transactions	Market price of available similar transactions
Angang Financial Company	Controlled by the same controlling shareholder	Receive finance services	Entrusted loan interest	Market principle	-	0	0	100	No	In cash	-

Particulars on refund of bulk sale

Estimated total amount for Continuing Connected Transactions to be conducted during the period and their actual implementing during the reporting period

The estimated data of Continuing Connected Transactions of the Company for the previous year was based on the content and estimated caps of transactions set out in the Continuing Connected Transaction Agreements approved at the 2015 general meeting of the Company. The total amount of Continuing Connected Transactions of the Company in 2018 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.

Reason for the difference between transaction price and market reference price

Relevant explanation on connected transactions

- As production in the iron and steel industry is on a continuous basis, Angang Group 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 Group which is a client of the Company

Note: the data of the above Continuing Connected Transactions are presented according to the actual amount occurred in the Continuing Connected Transactions of the Group other than restated and adjusted under the business combination under same control.

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 2018 were carried out in the ordinary and usual course of business of the Company; 2) the Continuing Connected Transactions of the Company in 2018 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 2018 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 2018 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 transactions were not carried out in accordance with the relevant agreements in all material aspects.
- (4) the connected transactions have exceeded the cap.

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

Monetary unit: RMB million

Connected Party	Connected Relationship	Connected Transaction Type	Connected Transaction Details	Connected Transaction Pricing principle	Carrying amount of transferred assets on valuation base date	Appraised value of transferred assets on valuation base date	Final transfer price	Transaction settlement method	Profit and loss of the transaction
Angang Holding	Controlling shareholder of the Company	Equity acquisition	The acquisition of 100% equity interest in Chaoyang Iron and Steel	Determine the transaction amount according to the appraised value	3,034	5,904	6,415	Cash and acceptances	0

Reasons for the substantial difference between the transfer price and the book value or the appraised value (if any) The difference of RMB 511 million between the transfer value and the appraised value is the profit and loss of the transition period from the valuation base date to the date of delivery.

Impact on the operating result and the financial condition of the Company Net profit for the period increased by RMB 1,370 million.

If the relevant transaction involves the results agreement, the results during the reporting period are as: None

Description of connected transactions

In order to improve the Company's steel industry and improve the Company's profitability, on 17 July 2018, the Company's Thirty Ninth Meeting of the Seventh Board of Directors approved the Company's acquisition of 100% equity interest in Chaoyang Iron and Steel held by Angang Holding. On 15 September 2018, the Company approved the matter at the 2018 second extraordinary general meeting. On 30 September 2018, the Company completed the relevant acquisition of equity interest.

(3) Connected transactions in relation to joint external investments

Monetary unit: RMB million

Joint investment parties	Connected relationship	Investee	Principal business of the investee	Registered capital of the investee	Total assets of the investee	Net assets of the investee	Net profit of the investee
Anshan Steel Engineering	Controlled by the same shareholder	Energy Technology	Production and operation of the industrial gas	50	68	58	3

Progress of significant projects under construction of the investee (if any)
Description of connected transactions

In order to give full play to the Company's energy and gas resources advantages, to achieve rapid advancement of the Company's goal of gas business, on 25 June 2018, the Company's Thirty Sixth Meeting of the Seventh Board of Directors approved the injection of capital into Energy Technology.

The Company increased Energy Technology's capital by cash of RMB 31.3873 million (equivalent to RMB 30 million of the registered capital), accounting for 60% of the total registered capital of the target company; Anshan Steel Engineering increased its capital to Energy Technology in two ways of cash and undistributed profit. A total of RMB 20.9249 million, equivalent to RMB 20 million of registered capital, was contributed by Anshan Steel Engineering to the target company, accounting for 40% of the total registered capital of Energy Technology. The injection of capital was completed on 29 June 2018.

(4) *Connected party credit and debt transaction*

As at 31 December 2018, bank borrowings of RMB1,000 million were guaranteed by Angang.

There were no claims or obligations for non-operating purpose during the Reporting Period.

(5) *Other major connected transactions*

On 30 January 2018, the Resolution on Entering into the First Batch of the Energy Management Contracts between the Company and Angang Group Energy Conservation Technology Service Co., Ltd. in 2018 was approved at the 26th meeting of the seventh session of the Board.

On 9 February 2018, the Resolution on Entering into the Land Lease Agreements between the Company and each of Anshan Iron & Steel Group Co. Ltd. and Angang Naihuo Co., Ltd.* was approved at the 27th meeting of the seventh session of the Board.

On 30 May 2018, the Resolution on Entering into the Counter-guarantee Agreement between the Company and Angang Group Company Limited was approved at the 34th meeting of the seventh session of the Board.

On 12 July 2018, the Resolution on the Company's Capital Injection into An Steel International Co., Ltd. was approved at the 38th meeting of the seventh session of the Board. Up to now, the Company has not made its capital contribution to An Steel International Co., Ltd.

On 28 September 2018, the Resolution on Entering into the Agreement on Purchase and Sale of Imported Minerals between the Company and Anshan Iron & Steel Group Complex was approved at the 42nd meeting of the seventh session of the Board.

On 18 December 2018, the Resolution on the Materials and Services Supply Agreement (2019 – 2021) entered into between the Company and Angang Group Company Limited, the Resolution on the Materials Supply Agreement (2019 – 2021) entered into between the Company and Pangang Group Steel Vanadium & Titanium Co., Ltd. and the Resolution on the Financial Service Agreement (2019 – 2021) entered into between the Company and Angang Group Financial Company Limited were approved at the 2018 third extraordinary general meeting 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.

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 2018, 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 2018.

ANNUAL GENERAL MEETING

The annual general meeting of the Company for the year of 2018 will be held on Tuesday, 28 May 2019. A notice to convene the annual general meeting of the Company and the 2018 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

December 31, 2018

Prepared by: Angang Steel Company Limited

Monetary unit: RMB million

Items	Notes	December 31, 2018	January 1, 2018	December 31, 2017
Current assets:				
Cash at bank and on hand		2,154	2,670	2,670
Financial assets at fair value through profit or loss				7
Derivative financial assets		1	7	
Notes receivable and accounts receivable	2	9,644	13,373	13,372
Including: Notes receivable	2	7,184	10,891	10,891
Accounts receivable	2	2,460	2,482	2,481
Prepayments		1,408	1,121	1,121
Other receivables		50	262	266
Including: Interest receivable				
Dividends receivable				
Inventories		13,125	12,269	12,269
Contract assets				
Other current assets		526	300	300
Total current assets		26,908	30,002	30,005
Non-current assets:				
Available-for-sale financial assets				719
Long-term equity investments		2,803	2,981	2,981
Other equity investment		519	506	
Other non-current financial assets		35	39	
Fixed assets		50,064	50,875	50,875
Construction in progress		1,458	1,072	1,072
Intangible assets		6,315	6,464	6,464
Deferred income tax assets		781	2,011	1,914
Other non-current assets		1,141	856	856
Total non-current assets		63,116	64,804	64,881
Total assets		90,024	94,806	94,886

CONSOLIDATED BALANCE SHEET (Continued)

Items	<i>Notes</i>	December 31, 2018	January 1, 2018	December 31, 2017
Current liabilities:				
Short-term loans		13,180	14,500	14,500
Financial liabilities at fair value through profit or loss				13
Derivative financial liabilities		3	13	
Notes payable and accounts payable	3	9,063	9,359	9,359
Advances from customers				6,647
Contract liabilities		4,795	6,647	
Employee benefits payable		183	365	365
Tax payable		589	495	495
Other payables		2,286	2,785	2,785
Including: Interests payable		9	93	93
Dividends payable			38	38
Non-current liabilities due within 1 year		2,648	787	787
Other current liabilities			1,500	1,500
		<hr/>	<hr/>	<hr/>
Total current liabilities		32,747	36,451	36,451
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

CONSOLIDATED BALANCE SHEET (Continued)

Items	Notes	December 31, 2018	January 1, 2018	December 31, 2017
Non-current liabilities:				
Long-term loans		2,295	2,905	2,905
Bonds payable		1,574	2,004	2,004
Long-term employee benefits payable		97	126	126
Deferred income		630	682	682
Deferred income tax liabilities		77	58	6
Other non-current liabilities		139		
Total non-current liabilities		4,812	5,775	5,723
Total liabilities		37,559	42,226	42,174
Shareholders' equity:				
Share capital		7,235	7,235	7,235
Capital reserve		35,655	42,080	42,080
Other comprehensive income		(241)	(250)	(3)
Special reserve		49	57	57
Surplus reserve		3,628	3,580	3,580
Undistributed profit	4	5,636	(543)	(658)
Subtotal of Shareholders' equity attributable to shareholders of parent company		51,962	52,159	52,291
Minority interests		503	421	421
Total shareholders' equity		52,465	52,580	52,712
Total liabilities and shareholders' equity		90,024	94,806	94,886

CONSOLIDATED INCOME STATEMENT

For the year 2018

Prepared by: Angang Steel Company Limited

Monetary unit: RMB million

Items	Notes	2018	2017
1. Operating income		105,157	91,683
Including: Operating income	5	105,157	91,683
2. Operating costs		95,533	85,831
Less: Operating costs	5	88,126	78,707
Tax and surcharges	6	1,184	977
Marketing expenses		3,067	2,570
Administrative expenses		1,266	1,589
Research and development expenses		483	326
Financial expenses	8	1,471	1,331
Including: Interests expenses	8	1,416	1,376
Interests revenue	8	36	59
Impairment losses on assets		(74)	331
Credit impairment loss		10	
Add: Other income		83	72
Investment income (“-” for losses)		315	433
Income from investment in jointly ventures and associates		286	352
Gains/losses from fair value variation (“-” for losses)		60	(6)
Asset disposal income (“-” for losses)		6	8
3. Operating profit (“-” for losses)		10,088	6,359
Add: Non-operating income		56	19
Less: Non-operating expenses		136	65

CONSOLIDATED INCOME STATEMENT *(Continued)*

Items	<i>Notes</i>	2018	2017
4. Profit before income tax			
(“-” for losses)		10,008	6,313
Less: Income tax expenses	9	2,056	(332)
5. Net profit for the period			
(“-” for losses)		7,952	6,645
(1) Classification according to the continuity of operation		7,952	6,645
i. Continuous operating net profit			
(“-” for losses)		7,954	6,645
ii. Termination of net profit (“-” for losses)		(2)	
(2) Classification according to ownership		7,952	6,645
i. The net profit belongs to the owners of the company		7,952	6,638
ii. Minority interest income			7
6. The net amount after tax of other comprehensive income		9	(15)
Net after-tax net of other comprehensive income attributable to the parent company owner		9	(15)
(1) The other comprehensive income which can not be reclassified into profit or loss		6	
i. Changes in fair value of other equity instruments investment		6	

CONSOLIDATED INCOME STATEMENT (Continued)

Items	Notes	2018	2017
(2) The other comprehensive income which can be classified into profit or loss		3	(15)
i. The shares of the other comprehensive income which can be reclassified in profit or loss of the invested company in equity method		3	(5)
ii. The profit or loss from the change at fair value of available-for-sale financial assets			(10)
Net after-tax net of other comprehensive income attributable to minority shareholders			
7. Total comprehensive income		7,961	6,630
The other comprehensive income attributed to the owners of the company		7,961	6,623
The other comprehensive income attributed to the minority			7
8. Earning per share			
(1) Basic earning per share (RMB/share)	10	1.099	0.917
(2) Diluted earning per share (RMB/share)	10	1.088	0.917

In the case of a business combination under the same control this year, the net profit realized by the merged party before the merger was RMB1,268 million, and the net profit realized by the combined party in the previous year was RMB1,034 million.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2018

(Expressed in million RMB unless otherwise indicated)

1. BASIC PREPARATION OF FINANCIAL STATEMENTS

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(abbreviated as ASBE)(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 regulation in the Preparation Convention of Information Disclosure of information of public listed companies, No. 15 – General Requirements on Financial Reports revised by the China Securities Regulatory Commission 2014.

According to the relevant provisions of Accounting Standards, the Group adopted an accrual accounting basis. Except for certain financial instruments, the financial statements are reported at historical cost. If assets are impaired, relevant provisions are made in accordance with relevant standards.

2. NOTES RECEIVABLE AND ACCOUNT RECEIVABLE

Items	31 December 2018	1 January 2018	31 December 2017
Notes receivables	7,184	10,891	10,891
Account receivables	<u>2,460</u>	<u>2,482</u>	<u>2,481</u>
Total	<u><u>9,644</u></u>	<u><u>13,373</u></u>	<u><u>13,372</u></u>

2. NOTES RECEIVABLE AND ACCOUNT RECEIVABLE *(Continued)*

2.1. Note receivable

(1) Classification of notes receivable

Items	31 December	1 January
	2018	2018/ 31 December 2017
Bank Acceptance Notes	6,837	9,908
Commercial Acceptance Notes	347	983
Total	<u>7,184</u>	<u>10,891</u>

(2) Notes receivable of the Company pledged as at 31 December 2018

Items	31 December 2018 Pledged Notes
Bank Acceptance Notes	<u>261</u>
Total	<u>261</u>

Note: The group has pledged notes receivable which values RMB261 million to the bank to gain the short-term loan of RMB250 million, of which the pledge period is from January 25, 2018 to January 24, 2019.

2. NOTES RECEIVABLE AND ACCOUNT RECEIVABLE *(Continued)*

2.1. Note receivable *(Continued)*

(3) *Outstanding Notes receivable endorsed or discounted by the Company as at 31 December 2018*

Items	31 December	31 December
	2018	2018
	Amount of Termination Confirmation	Amount of Non-termination Confirmation
Bank Acceptance Notes	25,455	–
Commercial Acceptance Notes	<u>603</u>	<u>–</u>
Total	<u><u>26,058</u></u>	<u><u>–</u></u>

(4) *No notes receivable were transferred to accounts receivable due to insolvency of the issuer as of 31 December 2018.*

2. NOTES RECEIVABLE AND ACCOUNT RECEIVABLE (Continued)

2.2. Accounts receivable

(1) Classification of Accounts Receivable

Items	31 December 2018				
	Book Value		Bad Debt Provision		Net Book Value
	Amount	Percentage (%)	Amount	Percentage (%)	
Accounts receivable subject to separate assessment for bad debts provision	83	3.26	82	98.80	1
Account receivable for which bad debt is prepared based on group combination	2,460	96.74	1	0.04	2,459
Including: Risk-free group combination	828	32.56			828
Risk group combination on the basis of aging-matrix	1,632	64.18	1	0.06	1,631
Total	2,543	100.00	83	3.26	2,460

Items	1 January 2018				
	Book Value		Bad Debt Provision		Book Value
	Amount	Percentage (%)	Amount	Percentage (%)	
Accounts receivable subject to separate assessment for bad debts provision	68	2.66	67	98.53	1
Account receivable for which bad debt is prepared based on group combination	2,489	97.34	8	0.32	2,481
Including: Risk-free group combination	949	37.13			949
Risk group combination on the basis of aging-matrix	1,540	60.21	8	0.52	1,532
Total	2,557	100.00	75	2.93	2,482

3. NOTES PAYABLE AND ACCOUNT PAYABLE

Items	31 December	
	2018	2017/ 1 January 2018
Notes payable	1,400	262
Account payable	<u>7,663</u>	<u>9,097</u>
Total	<u>9,063</u>	<u>9,359</u>

3.1 Notes payable

Items	31 December	
	2018	2017/ 1 January 2018
Bank acceptance	1,400	262
Trade acceptance	<u> </u>	<u> </u>
Total	<u>1,400</u>	<u>262</u>

Note: There are no notes payable that have expired but have not been paid at of 31 December 2018.

3. NOTES PAYABLE AND ACCOUNT PAYABLE *(Continued)*

3.2 Account payable

(1) Aging of account payable

Items	31 December 2018		31 December 2017/ 1 January 2018	
	Balance	Percentage	Balance	Percentage
Within 1 year	7,563	98.70	9,006	99.00
1 to 2 years	15	0.20	10	0.11
2 to 3 years	5	0.07	22	0.24
Over 3 years	80	1.03	59	0.65
Total	<u>7,663</u>	<u>100.00</u>	<u>9,097</u>	<u>100.00</u>

(2) Significant account payable aging over 1 year

Creditors	Balance owe	Aging
Tangyuan Tianyu Coal & Coke Energy Co., Ltd.	61	3–4year, More than 5 years
Total	<u>61</u>	<u>–</u>

4. UNDISTRIBUTED PROFIT

Items	This year	Last year
Opening balance	7,604	2,484
Changes in accounting policies	115	
Business combination under the same control	(8,262)	(9,258)
Opening balance	(543)	(6,774)
Increase of the period	7,952	6,638
Including: Net profit transferred this period	7,952	6,638
Other adjustment factors		
Decrease of the period	1,773	522
Including: Extraction of surplus reserve this period	48	
Extraction of general risk provisions in this period		
Distribution of cash dividend this period	1,678	522
Conversed capital		
Other decreases	47	
Closing balance	<u>5,636</u>	<u>(658)</u>

Note 1: According to the resolution of the 2017 Annual General Meeting of Shareholders on June 5, 2018, the Company distributed cash dividends to all shareholders at RMB0.232 per share, which was based on the current total share capital of 7,234,807,847 shares (RMB1,678 million in total). The dividend has been fully issued as of December 31, 2018.

Note 2: The other decreases counting 47 million the undistributed profit presented the perpetual bond (equity instrument) dividend which was paid by Chaoyang Iron & Steel Co. Ltd., a subsidiary of the Company, according to the “Debt-to-equity swap agreement” signed by Chaoyang Iron and Steel and Anshan Iron and Steel Group Co. Ltd, this type of perpetual debt was converted into an investment in common stock of Chaoyang Iron and Steel on 31 May 2018.

Note 3: The board of directors proposed to distribute a cash dividend of RMB2.2 (including tax) to every 10 shares of the company based on the existing total share capital of 7,234,807,847 shares, with a total distribution profit of RMB1,592 million on 18 March 2019. The proposal is still subject to approval by the shareholders meeting in 2018. Cash dividends proposed after the balance sheet date are not recognized as liabilities on the balance sheet date.

5. OPERATING INCOME AND OPERATING COSTS

(1) Classified by production

Items	This year		Last year	
	Income	Cost	Income	Cost
Prime operating	104,849	87,845	91,370	78,391
Other operating	308	281	313	316
Total	<u>105,157</u>	<u>88,126</u>	<u>91,683</u>	<u>78,707</u>

Note: The Group is classified into an operating segment based on the type of business: production and sale of steel products.

(2) Classified by region

Items	This year	Last year
Foreign transaction income from the within borders	99,371	85,210
Foreign exchange income from outside borders	<u>5,786</u>	<u>6,473</u>
Total	<u>105,157</u>	<u>91,683</u>

(3) Classified by the time when the revenue is confirmed

Items	This year	Last year
Confirm at a certain point	<u>105,157</u>	<u>91,683</u>
Total	<u>105,157</u>	<u>91,683</u>

6. TAX AND SURCHARGES

Items	This year	Last year
City maintenance and construction tax	267	196
Educational surcharge and local educational surcharge	191	140
Land use tax	398	417
Property tax	149	150
Stamp tax	83	67
Resources tax	3	3
Environmental protection tax	92	0
Other tax	1	4
Total	<u>1,184</u>	<u>977</u>

7. DEPRECIATION AND AMORTIZATION

Items	This year	Last year
Depreciation of fix assets	3,516	3,437
Amortization of intangible assets	173	167
Total	<u>3,689</u>	<u>3,604</u>

8. FINANCIAL EXPENSES

Items	This year	Last year
Interest expense	1,430	1,414
Including: Interests expense from the long-term loans and long-term bonds	324	365
The financial charges during the financial lease period		
Other interest expenditures	1,106	1,049
Interest income	36	59
Capitalized interest expense	14	38
Exchange gain or loss	77	8
Capitalized exchange gain or loss		
Others	14	6
Total	<u>1,471</u>	<u>1,331</u>

9. INCOME TAX EXPENSES

(1) Income tax expenses

Items	This period	Last period
Income tax during this period	810	61
Changes on deferred income tax expenses	1,246	(393)
Others		
Total	<u>2,056</u>	<u>(332)</u>

(2) The reconciliation between accounting profit and income tax expenses

Items	This year
Total profit	10,008
Income tax expenses calculated at statutory/applicable tax rates	2,502
Effect of income not subject to tax	
Effect of adjustments for income tax for prior period	
Effect of income not subject to tax	(106)
Effect of additional deductible expenses	11
Effect of deductible loss of deferred income tax assets not recognized in prior periods	(330)
Effect of current unrecognised deductible temporary difference or deductible loss arising from deferred tax income assets	
Effect of current unrecognised deductible temporary difference or deductible loss arising from deferred tax income assets	
Others	<u>(21)</u>
Income tax expenses	<u>2,056</u>

10. RETURN ON EQUITY (ROE) AND EARNINGS PER SHARE (EPS)

Profit in this period	Weighted average (ROE) (%)	EPS (RMB per share)	
		Basic EPS	Diluted EPS
Net profit attributable to ordinary shareholders	14.82	1.099	1.088
Net profit (exclusive of non-operating profit) attributable to ordinary shareholders	12.36	0.917	0.908
	<u>12.36</u>	<u>0.917</u>	<u>0.908</u>

Note: The net asset as of 1 January 2018 used to calculate ROE is adjusted due to the application of new financial instrument standards.

11. SEGMENT INFORMATION

Note: The Group is classified into an operating segment based on the type of business: production and sale of steel products.

12. COMMITMENTS

Items	As of 31 December 2018	As of 31 December 2017/ 1 January 2018
	Investment contracts entered but not yet performed or performed partially	–
Construction and renovation contracts entered but not yet performed or performed partially	<u>2,977</u>	<u>1,121</u>
Total	<u>2,977</u>	<u>1,139</u>

13. NET CURRENT ASSETS

Items	31 December 2018	1 January 2018	31 December 2017
Current assets	26,908	30,002	30,005
Less: Current liabilities	<u>32,747</u>	<u>36,451</u>	<u>36,451</u>
Net current assets/(liabilities)	<u>(5,839)</u>	<u>(6,449)</u>	<u>(6,446)</u>

14. TOTAL ASSETS LESS CURRENT LIABILITIES

Items	31 December 2018	1 January 2018	31 December 2017
Total assets	90,024	94,806	94,886
Less: Current liabilities	<u>32,747</u>	<u>36,451</u>	<u>36,451</u>
Total assets less current liabilities	<u>57,277</u>	<u>58,355</u>	<u>58,435</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
18 March 2019

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
Feng Changli

* For identification purposes only