

China Steel Corporation and Subsidiaries

**Consolidated Financial Statements for the
Three Months Ended March 31, 2011 and 2010 and
Independent Accountants' Review Report**

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Stockholders
China Steel Corporation

We have reviewed the accompanying consolidated balance sheets of China Steel Corporation (the "Corporation") and its subsidiaries as of March 31, 2011 and 2010, and the related consolidated statements of income and cash flows for the three months then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to issue a report on these consolidated financial statements based on our reviews.

Except for the matters described in the third paragraph, we conducted our reviews in accordance with Statement of Auditing Standards No. 36 - "Review of Financial Statements" issued by the Auditing Committee of the Accounting Research and Development Foundation ("ARDF") of the Republic of China. A review consists principally of applying analytical procedures to financial data and of making inquiries of officers responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of China, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

As discussed in Note 1 to the accompanying consolidated financial statements, investments in certain subsidiaries (all with shares having no quoted prices) included in the consolidated financial statements were unreviewed. As of March 31, 2011 and 2010, these subsidiaries' total assets amounted to NT\$64,666,187 thousand and NT\$70,915,853 thousand, or 12% and 14%, respectively, of total consolidated assets, and their total liabilities amounted to NT\$20,992,940 thousand and NT\$28,147,169 thousand, or 8% and 13%, respectively, of total consolidated liabilities. For the three months ended March 31, 2011 and 2010, their net sales amounted to NT\$12,423,012 thousand and NT\$12,649,408 thousand, or 13% and 16%, respectively, of consolidated net operating revenues, and their related net income amounted to NT\$1,519,776 thousand and NT\$2,293,079 thousand, or 20% and 17%, respectively, of consolidated net income. As discussed in Note 13 to the accompanying consolidated financial statements, the aggregate carrying value of the Corporation's investments accounted for by the equity method amounted to NT\$2,765,442 thousand and NT\$3,133,474 thousand, as of March 31, 2011 and 2010, respectively, and the net investment loss amounted to NT\$173,913 thousand and NT\$182,785 thousand for the three months ended March 31, 2011 and 2010, respectively. These investment amounts were based on the investees' unreviewed financial statements for the same reporting period as that of the Corporation.

Based on our reviews, except for the effects of any adjustments that might have been determined to be necessary had the financial statements of the investees referred to in the preceding paragraph been reviewed, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements of the Corporation and its subsidiaries for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, relevant requirements promulgated by the Financial Supervisory Commission (FSC), and accounting principles generally accepted in the Republic of China.

April 18, 2011

Notice to Readers

The accompanying consolidated financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to review such consolidated financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the accountants' review report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language accountants' review report and consolidated financial statements shall prevail.

CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
MARCH 31, 2011 AND 2010
(In Thousands of New Taiwan Dollars, Except Par Value)
(Reviewed, Not Audited)

ASSETS	2011		2010		LIABILITIES AND STOCKHOLDERS' EQUITY	2011		2010	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Note 4)	\$ 16,787,950	3	\$ 32,429,170	7	Short-term loans and overdraft (Notes 19 and 31)	\$ 50,044,759	9	\$ 47,105,819	10
Financial assets at fair value through profit or loss - current (Notes 5 and 29)	5,277,653	1	15,478,447	3	Commercial paper payable (Note 20)	18,982,305	3	11,387,331	2
Available-for-sale financial assets - current (Notes 6 and 29)	6,085,824	1	6,170,432	1	Financial liabilities at fair value through profit or loss - current (Notes 5 and 29)	4,862	-	367	-
Held-to-maturity financial assets - current (Notes 10 and 29)	-	-	34,815	-	Hedging derivative liabilities - current (Notes 7 and 29)	631,568	-	102,163	-
Hedging derivative assets - current (Notes 7 and 29)	16,883	-	341,013	-	Notes payable (Notes 26 and 30)	493,330	-	543,986	-
Bond investments with no active market - current (Notes 12 and 29)	-	-	99,878	-	Accounts payable (Notes 26 and 30)	11,401,948	2	6,880,916	1
Notes receivable, net (Notes 8, 26 and 30)	2,156,949	-	1,870,738	1	Income tax payable	7,631,956	1	2,026,637	-
Accounts receivable, net (Notes 8, 26 and 30)	9,015,435	2	8,066,068	2	Accrued expenses (Note 21)	12,477,828	2	10,422,618	2
Other receivables	4,169,710	1	1,837,937	-	Other payables	10,451,104	2	4,276,174	1
Other financial assets - current (Notes 14 and 29)	5,255,340	1	5,225,922	1	Bonds payable - current portion (Notes 22 and 29)	13,698,709	3	-	-
Inventories (Notes 9 and 26)	95,251,024	17	50,489,028	10	Long-term debt - current portion (Notes 23, 29 and 31)	1,488,883	-	5,944,700	1
Deferred income tax assets - current	2,388,835	-	1,680,567	-	Reorganized loans payable - current portion (Notes 25 and 29)	-	-	400,000	-
Restricted assets - current (Notes 4 and 31)	5,978,197	1	5,648,046	1	Others (Note 26)	8,483,716	2	7,223,068	2
Others	5,726,139	1	6,177,657	1					
Total current assets	158,109,939	28	135,549,718	27	Total current liabilities	135,790,968	24	96,313,779	19
FUNDS AND INVESTMENTS					LONG-TERM LIABILITIES				
Financial assets at fair value through profit or loss - noncurrent (Notes 5 and 29)	1,345	-	-	-	Financial liabilities at fair value through profit or loss - noncurrent (Notes 5 and 29)	2,362	-	-	-
Available-for-sale financial assets - noncurrent (Notes 6, 29 and 31)	3,552,193	1	3,264,546	1	Hedging derivative liabilities - noncurrent (Notes 7 and 29)	123,074	-	325,734	-
Held-to-maturity financial assets - noncurrent (Notes 10 and 29)	182,456	-	315,711	-	Bonds payable (Notes 22 and 29)	29,531,631	5	43,221,244	9
Hedging derivative assets - noncurrent (Notes 7 and 29)	17,157	-	81,312	-	Long-term debt (Notes 23, 29 and 31)	76,095,408	14	59,303,984	12
Financial assets carried at cost - noncurrent (Notes 11 and 29)	9,847,409	2	8,245,195	2	Long-term notes payable (Notes 24 and 29)	10,700,471	2	6,598,286	1
Bond investments with no active market - noncurrent (Notes 12 and 29)	240,428	-	246,246	-	Reorganized loans payable (Notes 25 and 29)	-	-	4,565,816	1
Investments accounted for by the equity method (Note 13)	2,765,442	-	3,133,474	-	Total long-term liabilities	116,452,946	21	114,015,064	23
Investments in real estate	381,905	-	219,205	-					
Prepaid long-term stock investments	10,662	-	42,000	-	RESERVE FOR LAND VALUE INCREMENT TAX (Note 15)	8,673,466	2	8,673,466	2
Other financial assets - noncurrent (Notes 14 and 29)	363,326	-	281,325	-					
Total funds and investments	17,362,323	3	15,829,014	3	OTHER LIABILITIES				
PROPERTY, PLANT AND EQUIPMENT (Notes 15 and 31)					Accrued pension cost	568,836	-	733,970	-
Land	17,568,100	3	16,511,507	3	Others	918,665	-	855,524	-
Land improvements	4,382,537	1	4,291,679	1	Total other liabilities	1,487,501	-	1,589,494	-
Buildings	75,309,480	13	52,151,299	10	Total liabilities	262,404,881	47	220,591,803	44
Machinery and equipment	423,028,777	76	312,089,657	63					
Transportation equipment	19,277,315	3	19,404,180	4	STOCKHOLDERS' EQUITY OF PARENT COMPANY (Notes 7, 14, 15 and 27)				
Other equipment	18,374,756	3	13,192,273	3	Capital stock - authorized 17,000,000 thousand shares and 14,000,000 thousand shares at NTS\$10 par value as of March 31, 2011 and 2010, respectively				
Spare parts	8,948,319	2	9,495,601	2	Common shares - issued 13,527,901 thousand shares and 13,094,519 thousand shares as of March 31, 2011 and 2010, respectively	135,279,009	24	130,945,189	26
Total cost	566,889,284	101	427,136,196	86	Preferred shares - issued 38,268 thousand shares	382,680	-	382,680	-
Revaluation increment	42,999,519	8	43,665,919	9	Total capital stock	135,661,689	24	131,327,869	26
Cost and revaluation increment	609,888,803	109	470,802,115	95	Capital surplus	20,112,661	4	19,605,674	4
Less: Accumulated depreciation	301,564,035	54	284,882,225	58	Retained earnings				
Accumulated impairment	430,648	-	1,040,329	-	Legal reserve	49,070,526	9	47,117,709	9
	307,894,120	55	184,879,561	37	Special reserve	7,615,701	1	7,615,701	2
Construction in progress and prepayments for equipment	66,037,870	12	150,466,910	31	Unappropriated earnings	37,651,735	7	19,617,957	4
Total property, plant and equipment	373,931,990	67	335,346,471	68	Net income of parent company for the three months ended March 31	6,676,102	1	11,065,729	2
INTANGIBLE ASSETS (Note 16)					Total retained earnings	101,014,064	18	85,417,096	17
Intangible assets	2,222,234	1	1,886,214	-	Other equity				
OTHER ASSETS					Unrealized revaluation increment	21,866,410	4	21,913,046	5
Assets leased to others, net (Notes 17 and 31)	2,963,829	1	361,384	-	Unrealized gain on financial instruments	2,442,201	-	3,413,290	1
Idle assets, net (Notes 18 and 31)	1,981,133	-	4,332,077	1	Cumulative translation adjustments	(230,196)	-	294,985	-
Refundable deposits (Note 29)	259,780	-	259,571	-	Net loss not recognized as pension cost	(79,210)	-	(42,243)	-
Deferred income tax assets - noncurrent	1,164,926	-	2,020,612	1	Treasury stock - 280,140 thousand shares and 285,674 thousand shares as of March 31, 2011 and 2010, respectively	(8,034,850)	(1)	(8,399,496)	(2)
Restricted assets - noncurrent (Notes 4 and 31)	198,818	-	163,329	-	Total other equity	15,964,355	3	17,179,582	4
Deferred charges and others	972,708	-	989,716	-	Total stockholders' equity of parent company	272,752,769	49	253,530,221	51
Total other assets	7,541,194	1	8,126,689	2	MINORITY INTEREST				
					Minority interest	24,010,030	4	22,616,082	5
TOTAL	\$ 559,167,680	100	\$ 496,738,106	100	Total stockholders' equity	296,762,799	53	276,146,303	56
					TOTAL	\$ 559,167,680	100	\$ 496,738,106	100

The accompanying notes are an integral part of the consolidated financial statements.

(With Deloitte & Touche review report dated April 18, 2011)

CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME THREE MONTHS ENDED MARCH 31, 2011 AND 2010 (In Thousands of New Taiwan Dollars, Except Earnings Per Share) (Reviewed, Not Audited)

	2011		2010	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 5 and 30)	\$ 97,574,993	100	\$ 78,980,001	100
OPERATING COSTS (Notes 5, 9, 13 and 30)	<u>85,264,946</u>	<u>87</u>	<u>59,866,267</u>	<u>76</u>
GROSS PROFIT	12,310,047	13	19,113,734	24
REALIZED GAIN FROM AFFILIATES	<u>9,963</u>	<u>-</u>	<u>7,613</u>	<u>-</u>
REALIZED GROSS PROFIT	<u>12,320,010</u>	<u>13</u>	<u>19,121,347</u>	<u>24</u>
OPERATING EXPENSES				
Research and development	390,206	1	364,550	-
Selling	1,316,694	1	1,094,762	1
General and administrative	<u>1,334,686</u>	<u>1</u>	<u>1,155,628</u>	<u>2</u>
Total operating expenses	<u>3,041,586</u>	<u>3</u>	<u>2,614,940</u>	<u>3</u>
OPERATING INCOME	<u>9,278,424</u>	<u>10</u>	<u>16,506,407</u>	<u>21</u>
NONOPERATING INCOME AND GAINS				
Interest income (Note 29)	67,618	-	66,960	-
Exchange gain, net	201,701	-	50,590	-
Others (Notes 5, 15 and 30)	<u>171,640</u>	<u>-</u>	<u>121,367</u>	<u>-</u>
Total nonoperating income and gains	<u>440,959</u>	<u>-</u>	<u>238,917</u>	<u>-</u>
NONOPERATING EXPENSES AND LOSSES				
Interest expense (Notes 15 and 29)	468,013	1	278,777	-
Investment loss recognized under equity method, net (Note 13)	173,876	-	182,270	-
Others (Notes 5)	<u>144,529</u>	<u>-</u>	<u>81,777</u>	<u>-</u>
Total nonoperating expenses and losses	<u>786,418</u>	<u>1</u>	<u>542,824</u>	<u>-</u>
CONSOLIDATED INCOME BEFORE INCOME TAX	8,932,965	9	16,202,500	21
INCOME TAX	<u>1,162,948</u>	<u>1</u>	<u>2,992,336</u>	<u>4</u>
CONSOLIDATED NET INCOME	<u>\$ 7,770,017</u>	<u>8</u>	<u>\$ 13,210,164</u>	<u>17</u>
ATTRIBUTABLE TO				

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CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

THREE MONTHS ENDED MARCH 31, 2011 AND 2010

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

(Reviewed, Not Audited)

	2011		2010	
	Amount	%	Amount	%
The Corporation's stockholders	\$ 6,676,102	7	\$ 11,065,729	14
Minority interest	<u>1,093,915</u>	<u>1</u>	<u>2,144,435</u>	<u>3</u>
	<u>\$ 7,770,017</u>	<u>8</u>	<u>\$ 13,210,164</u>	<u>17</u>
	2011		2010	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE				
Basic	<u>\$ 0.55</u>	<u>\$ 0.50</u>	<u>\$ 0.99</u>	<u>\$ 0.84</u>
Diluted	<u>\$ 0.55</u>	<u>\$ 0.50</u>	<u>\$ 0.98</u>	<u>\$ 0.83</u>

The accompanying notes are an integral part of the consolidated financial statements.

(With Deloitte & Touche review report dated April 18, 2011)

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CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS THREE MONTHS ENDED MARCH 31, 2011 AND 2010 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	\$ 7,770,017	\$ 13,210,164
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	6,600,577	4,776,041
Amortization	65,605	86,364
Deferred income tax	(28,140)	1,914,160
Realized gain from affiliates, net	(9,963)	(7,613)
Provision for (recovery of) loss on inventories	(55,142)	109,369
Loss on purchase commitments	205,326	-
Investment loss recognized under equity method, net	173,913	182,785
Loss on disposal of property, plant and equipment, net	12,310	10,252
Others	(76,864)	(147,750)
Net changes in operating assets and liabilities		
Financial instruments held for trading	(77,982)	375,897
Notes receivable	(260,998)	(457,327)
Accounts receivable	(1,196,065)	(826,973)
Other receivables	(2,372,199)	(186,106)
Inventories	(5,421,227)	4,456,366
Other current assets	625,752	(1,258,101)
Notes payable	17,060	(32,151)
Accounts payable	1,274,611	262,420
Income tax payable	1,359,851	1,088,281
Accrued expenses	(3,292,967)	(1,171,580)
Other payables	239,657	(253,834)
Other current liabilities	<u>1,304,685</u>	<u>1,353,003</u>
Net cash provided by operating activities	<u>6,857,817</u>	<u>23,483,667</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets designated as at fair value through profit or loss	(2,163,071)	(8,625,491)
Proceeds from disposal of financial assets designated as at fair value through profit or loss	2,208,517	2,575,745
Acquisition of available-for-sale financial assets	(1,588,320)	(2,917,830)
Proceeds from disposal of available-for-sale financial assets	1,571,488	2,572,639
Acquisition of held-to-maturity financial assets	(8,820)	(63,629)
Proceeds from disposal of held-to-maturity financial assets	464	146,990
Acquisition of financial assets carried at cost	(133,470)	(66,541)
Proceeds from disposal of financial assets carried at cost	24,968	20,718
Proceeds from the capital reduction on financial assets carried at cost	2,500	-
Acquisition of bond investments with no active market	-	(99,878)
Increase in other financial assets	(1,022,330)	(572,293)
Increase in prepaid long-term stock investments	(471)	(42,000)

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CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS THREE MONTHS ENDED MARCH 31, 2011 AND 2010 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	2011	2010
Acquisition of investments accounted for by the equity method	\$ (51,737)	\$ -
Proceeds from disposal of investments accounted for by equity method	45,875	9,512
Proceeds of capital reduction on investments accounted for by equity method	-	51,780
Acquisition of property, plant and equipment	(13,708,761)	(18,817,973)
Proceeds from disposal of property, plant and equipment	4,748	2,412
Decrease (increase) in refundable deposits	(39,754)	13,131
Decrease (increase) in restricted assets	15,106	(486,658)
Increase in intangible assets	(136,358)	(3,712)
Decrease in other assets	<u>184,657</u>	<u>138,645</u>
Net cash used in investing activities	<u>(14,794,769)</u>	<u>(26,164,433)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term loans and overdraft	2,894,601	(2,969,010)
Increase (decrease) in commercial paper payable	2,120,318	(7,234,194)
Proceeds from long-term debt	2,321,018	25,139,965
Repayments of long-term debt and reorganized loans payable	(5,194,113)	(1,786,624)
Increase (decrease) in long-term notes payable	5,303,812	(196,021)
Increase in other liabilities	23,344	27,782
Cash dividends paid by parent company	(2,826)	(22,249)
Purchase of parent company's shares by subsidiaries	-	(381,055)
Disposal of parent company's shares held by subsidiaries	287,786	-
Increase in minority interest	132,880	191,033
Others	<u>-</u>	<u>(44,000)</u>
Net cash provided by financing activities	<u>7,886,820</u>	<u>12,725,627</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(50,132)	10,044,861
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>16,838,082</u>	<u>22,384,309</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 16,787,950</u>	<u>\$ 32,429,170</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 123,244	\$ 296,714
Capitalized interest	<u>(62,056)</u>	<u>(142,998)</u>
Interest paid (excluding capitalized interest)	<u>\$ 61,188</u>	<u>\$ 153,716</u>
Income tax paid	<u>\$ 90,838</u>	<u>\$ 50,109</u>
INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS		
Cash paid for acquisition of property, plant and equipment		

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CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS THREE MONTHS ENDED MARCH 31, 2011 AND 2010

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	2011	2010
Acquisition of property, plant and equipment	\$ 12,478,607	\$ 18,957,922
Decrease (increase) in payable for equipment purchased	<u>1,230,154</u>	<u>(139,949)</u>
	<u>\$ 13,708,761</u>	<u>\$ 18,817,973</u>
NON-CASH FINANCIAL ACTIVITIES		
Current portion of long-term liabilities	<u>\$ 15,187,592</u>	<u>\$ 6,344,700</u>

The accompanying notes are an integral part of the consolidated financial statements.

(With Deloitte & Touche review report dated April 18, 2011)

(Concluded)