China Steel Corporation and Subsidiaries

Consolidated Financial Statements for the Years Ended December 31, 2012 and 2011 and Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

The Board of Directors and the Stockholders
China Steel Corporation

We have audited the accompanying consolidated balance sheets of China Steel Corporation (the "Corporation") and its subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the consolidated financial position of the Corporation and its subsidiaries as of December 31, 2012 and 2011, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

March 22, 2013

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 audit such consolidated financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the auditors' 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 auditors' report and consolidated financial statements shall prevail. As stated in Note 2 to the consolidated financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.

CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2012 AND 2011
(In Thousands of New Taiwan Dollars, Except Par Value)

	2012		2011	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 20,545,123	3	$ 17,480,092	3
Financial assets at fair value through profit or loss - current (Notes 2, 5 and 32)	3,635,688	-	3,124,636	-
Available-for-sale financial assets - current (Notes 2, 6 and 32)	4,763,787	1	5,375,249	1
Held-to-maturity financial assets - current (Notes 2, 10 and 32)	-	-	60,550	-
Hedging derivative assets - current (Notes 2, 7 and 32)	45,950	-	115,768	-
Notes receivable, net (Notes 8, 27 and 33)	1,490,986	-	1,901,604	-
Accounts receivable, net (Notes 2, 3, 8, 27 and 33)	10,560,747	2	10,213,979	2
Other receivables (Note 29)	1,530,801	-	2,346,521	-
Other financial assets - current (Notes 2, 14 and 32)	4,237,454	1	3,710,158	1
Inventories (Notes 2, 9 and 27)	84,282,534	14	115,961,466	19
Deferred income tax assets - current (Notes 2 and 29)	2,058,931	-	3,623,367	1
Restricted assets - current (Notes 4 and 34)	6,942,080	1	6,906,442	1
Others	4,775,299	1	5,776,246	1
Total current assets	144,869,380	23	176,596,078	29
INVESTMENTS				
Financial assets at fair value through profit or loss - noncurrent (Notes 2, 5 and 32)	259	-	23,979	-
Available-for-sale financial assets - noncurrent (Notes 2, 6 and 32)	3,579,165	1	3,369,657	1
Held-to-maturity financial assets - noncurrent (Notes 2, 10 and 32)	185,159	-	109,171	-
Hedging derivative assets - noncurrent (Notes 2, 7 and 32)	6,983	-	124,920	-
Financial assets carried at cost - noncurrent (Notes 2, 11 and 32)	12,449,537	2	10,603,195	2
Bond investments with no active market - noncurrent (Notes 2, 12 and 32)	3,536,086	1	4,050,222	1
Investments accounted for by the equity method (Notes 2 and 13)	2,606,530	-	2,618,993	-
Investments in real estate (Note 2)	381,905	-	381,905	-
Prepaid long-term stock investments	12,942	-	10,000	-
Other financial assets - noncurrent (Notes 2, 14 and 32)	33,943	-	2,119,688	-
Total investments	22,792,509	4	23,411,730	4
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 7, 14, 15 and 34)				
Land	20,136,446	3	19,469,760	3
Land improvements	4,382,861	1	4,385,107	1
Buildings	85,530,928	14	76,278,334	12
Machinery and equipment	460,321,046	74	427,093,330	70
Transportation equipment	21,184,928	3	19,648,382	3
Other equipment	18,248,914	3	17,722,397	3
Spare parts	10,243,979	2	9,516,929	2
Total cost	620,049,102	100	574,114,239	94
Revaluation increment	49,368,751	8	49,437,838	8
Cost and revaluation increment	669,417,853	108	623,552,077	102
Less: Accumulated depreciation	340,666,791	55	317,415,604	52
Accumulated impairment	405,559	-	443,719	-
	328,345,503	53	305,692,754	50
Construction in progress and prepayments for equipment	108,359,520	18	96,851,192	16
Net property, plant and equipment	436,705,023	71	402,543,946	66
INTANGIBLE ASSETS (Notes 2 and 16)	3,303,202	-	2,246,170	-
OTHER ASSETS				
Assets leased to others, net (Notes 2, 17 and 34)	2,920,089	1	3,065,847	1
Idle assets, net (Notes 2, 18 and 34)	2,715,449	-	2,111,960	-
Refundable deposits (Note 32)	431,779	-	428,431	-
Deferred income tax assets - noncurrent (Notes 2 and 29)	3,080,214	1	-	-
Restricted assets - noncurrent (Notes 4 and 34)	324,819	-	335,660	-
Deferred charges and others (Notes 2 and 26)	749,524	-	945,793	-
Total other assets	10,221,874	2	6,887,691	1
TOTAL	$ 617,891,988	100	$ 611,685,615	100

	2012		2011	
LIABILITIES AND STOCKHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Short-term loans and overdraft (Notes 19 and 34)	$ 25,637,077	4	$ 59,918,010	10
Commercial paper payable (Notes 20 and 34)	28,679,430	5	22,357,900	4
Financial liabilities at fair value through profit or loss - current (Notes 2, 5 and 32)	4,362	-	90	-
Hedging derivative liabilities - current (Notes 2, 7 and 32)	240,380	-	53,331	-
Notes payable (Notes 27 and 33)	261,617	-	1,066,418	-
Accounts payable (Notes 27 and 33)	10,332,163	2	10,131,244	2
Income tax payable (Notes 2 and 29)	2,098,608	-	3,376,691	-
Accrued expenses (Notes 21 and 26)	12,477,514	2	13,912,683	2
Other payables (Note 2)	9,175,241	2	8,456,717	1
Bonds payable - current portion (Notes 22 and 32)	11,272,543	2	11,270,086	2
Long-term debt - current portion (Notes 23, 32 and 34)	20,979,088	3	11,715,737	2
Deferred income tax liabilities - current (Notes 2 and 29)	8,941	-	-	-
Others (Notes 2, 9 and 27)	7,018,591	1	6,546,124	1
Total current liabilities	128,185,555	21	148,805,031	24
LONG-TERM LIABILITIES				
Financial liabilities at fair value through profit or loss - noncurrent (Notes 2, 5 and 32)	1,739	-	-	-
Hedging derivative liabilities - noncurrent (Notes 2, 7 and 32)	86,829	-	42,475	-
Bonds payable (Notes 22 and 32)	47,069,227	8	37,944,340	6
Long-term debt (Notes 23, 32 and 34)	92,255,495	15	75,533,461	13
Long-term notes payable (Notes 24 and 32)	31,783,731	5	24,813,719	4
Total long-term liabilities	171,197,021	28	138,333,995	23
RESERVE FOR LAND VALUE INCREMENT TAX (Note 15)	10,240,123	2	10,194,138	2
OTHER LIABILITIES				
Accrued pension cost (Note 26)	722,667	-	754,105	-
Deferred income tax liabilities - noncurrent (Notes 2 and 29)	1,074,759	-	543,499	-
Others	972,505	-	946,910	-
Total other liabilities	2,769,931	-	2,244,514	-
Total liabilities	312,392,630	51	299,577,678	49
STOCKHOLDERS' EQUITY OF PARENT COMPANY (Notes 2, 7, 14, 15, 28 and 34)				
Capital stock - NT$10 par value, authorized 17,000,000 thousand shares				
Common shares - issued 15,272,477 thousand shares and 15,046,209 thousand shares as of December 31, 2012 and 2011, respectively	152,724,765	25	150,462,093	25
Preferred shares - issued 38,268 thousand shares	382,680	-	382,680	-
Total capital stock	153,107,445	25	150,844,773	25
Capital surplus	36,673,528	6	36,247,705	6
Retained earnings	68,356,193	11	80,051,881	13
Other equity				
Unrealized revaluation increment	26,750,124	4	26,757,590	4
Unrealized gain on financial instruments	2,458,247	-	3,020,919	-
Cumulative translation adjustments	(393,229)	-	17,192	-
Net loss not recognized as pension cost	(184,893)	-	(230,590)	-
Treasury stock - 309,816 thousand shares and 295,065 thousand shares as of December 31, 2012 and 2011, respectively	(8,415,348)	(1)	(8,122,461)	(1)
Total other equity	20,214,901	3	21,442,650	3
Total stockholders' equity of parent company	278,352,067	45	288,587,009	47
MINORITY INTEREST	27,147,291	4	23,520,928	4
Total stockholders' equity	305,499,358	49	312,107,937	51
TOTAL	$ 617,891,988	100	$ 611,685,615	100

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

CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2012 AND 2011
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2012		2011	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUES (Notes 2, 5, 13, 33 and 36)	$ 358,536,702	100	$ 401,026,616	100
OPERATING COSTS (Notes 2, 5, 9, 13, 30 and 33)	339,161,858	95	364,429,151	91
GROSS PROFIT	19,374,844	5	36,597,465	9
REALIZED GAIN FROM AFFILIATES	31,236	-	33,390	-
REALIZED GROSS PROFIT	19,406,080	5	36,630,855	9
OPERATING EXPENSES (Note 30)				
Research and development	1,683,491	1	1,746,706	-
Selling	4,585,976	1	4,666,332	1
General and administrative	5,121,636	1	6,026,874	2
Total operating expenses	11,391,103	3	12,439,912	3
OPERATING INCOME	8,014,977	2	24,190,943	6
NONOPERATING INCOME AND GAINS				
Interest income (Note 32)	422,510	-	333,668	-
Dividend income	288,315	-	319,067	-
Gain on sale of investments, net (Note 6)	1,183,827	1	47,415	-
Exchange gain, net	479,626	-	610,982	-
Reversal of impairment loss, net (Notes 2, 11, 17 and 18)	4,932	-	264,656	-
Others (Notes 2, 5, 17 and 33)	1,065,981	-	1,228,717	1
Total nonoperating income and gains	3,445,191	1	2,804,505	1
NONOPERATING EXPENSES AND LOSSES				
Interest expense (Notes 15 and 32)	2,790,260	1	2,059,062	1
Investment loss recognized under equity method, net (Note 13)	230,005	-	434,947	-
Others (Notes 2, 5 and 30)	758,970	-	1,136,456	-
Total nonoperating expenses and losses	3,779,235	1	3,630,465	1
INCOME BEFORE INCOME TAX	7,680,933	2	23,364,983	6
INCOME TAX (Notes 2 and 29)	1,291,426	-	2,534,793	1
NET INCOME	$ 6,389,507	2	$ 20,830,190	5

(Continued)

CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2012 AND 2011
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2012		2011	
	Amount	%	Amount	%
ATTRIBUTABLE TO				
Stockholders of parent company	$ 5,811,490		$ 19,493,679	
Minority interest	578,017		1,336,511	
	$ 6,389,507		$ 20,830,190	

	2012		2011	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 31)				
Basic	$ 0.41	$ 0.38	$ 1.40	$ 1.34
Diluted	$ 0.40	$ 0.38	$ 1.39	$ 1.33

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

CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2012 AND 2011
(In Thousands of New Taiwan Dollars, Except Dividends Per Share)

	Issued			Retained Earnings				Other Equity						
	Common Shares	Preferred Shares	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Total	Unrealized Revaluation Increment	Unrealized Gain on Financial Instruments	Cumulative Translation Adjustments	Net Loss not Recognized as Pension Cost	Treasury Stock	Minority Interest	Total Stockholders' Equity
BALANCE, JANUARY 1, 2011	$ 135,279,009	$ 382,680	$ 20,072,476	$ 49,070,526	$ 7,615,701	$ 37,651,735	$ 94,337,962	$ 21,873,940	$ 2,374,377	$ (101,443)	$ (117,015)	$ (8,151,621)	$ 22,652,167	$ 288,602,532
Appropriation of 2010 earnings (Note 28)														
Legal reserve	-	-	-	3,758,683	-	(3,758,683)	-	-	-	-	-	-	-	-
Cash dividends to preferred stockholders - NT$1.99 per share	-	-	-	-	-	(76,153)	(76,153)	-	-	-	-	-	-	(76,153)
Cash dividends to common stockholders - NT$1.99 per share	-	-	-	-	-	(26,920,523)	(26,920,523)	-	-	-	-	-	-	(26,920,523)
Stock dividends to preferred stockholders - NT$0.5 per share	19,134	-	-	-	-	(19,134)	(19,134)	-	-	-	-	-	-	-
Stock dividends to common stockholders - NT$0.5 per share	6,763,950	-	-	-	-	(6,763,950)	(6,763,950)	-	-	-	-	-	-	-
Issuance of common stock for cash (Note 28)	8,400,000	-	15,338,755	-	-	-	-	-	-	-	-	-	-	23,738,755
Compensation cost of share-based payment	-	-	98,826	-	-	-	-	-	-	-	-	-	-	98,826
Net income in 2011	-	-	-	-	-	19,493,679	19,493,679	-	-	-	-	-	1,336,511	20,830,190
Change in unrealized gain on available-for-sale financial assets	-	-	-	-	-	-	-	-	141,223	-	-	-	-	141,223
Change in unrealized revaluation increment (Note 15)	-	-	-	-	-	-	-	4,739,111	-	-	-	-	-	4,739,111
Adjustment from changes in equity recognized under equity method	-	-	78,147	-	-	-	-	144,539	251,529	-	(113,575)	83	-	360,723
Foreign exchange gain on translation of foreign-currency financial statements	-	-	-	-	-	-	-	-	-	180,788	-	-	-	180,788
Foreign exchange loss on hedge of a net investment in a foreign operation	-	-	-	-	-	-	-	-	-	(62,153)	-	-	-	(62,153)
Change in unrealized gain on financial instruments for cash flow hedging	-	-	-	-	-	-	-	-	253,790	-	-	-	-	253,790
Disposal of the Corporation's shares held by subsidiaries (Note 28)	-	-	106,638	-	-	-	-	-	-	-	-	404,810	404,642	916,090
Cash dividends paid by the Corporation to subsidiaries	-	-	552,863	-	-	-	-	-	-	-	-	-	334,670	887,533
Purchase of the Corporation's shares by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(375,733)	(304,548)	(680,281)
Adjustment of minority interest	-	-	-	-	-	-	-	-	-	-	-	-	(902,514)	(902,514)
BALANCE, DECEMBER 31, 2011	150,462,093	382,680	36,247,705	52,829,209	7,615,701	19,606,971	80,051,881	26,757,590	3,020,919	17,192	(230,590)	(8,122,461)	23,520,928	312,107,937
Appropriation of 2011 earnings (Note 28)														
Legal reserve	-	-	-	1,949,368	-	(1,949,368)	-	-	-	-	-	-	-	-
Cash dividends to preferred stockholders - NT$1.25 per share	-	-	-	-	-	(47,835)	(47,835)	-	-	-	-	-	-	(47,835)
Cash dividends to common stockholders - NT$1.01 per share	-	-	-	-	-	(15,196,671)	(15,196,671)	-	-	-	-	-	-	(15,196,671)
Stock dividends to preferred stockholders - NT$0.15 per share	5,740	-	-	-	-	(5,740)	(5,740)	-	-	-	-	-	-	-
Stock dividends to common stockholders - NT$0.15 per share	2,256,932	-	-	-	-	(2,256,932)	(2,256,932)	-	-	-	-	-	-	-
Net income in 2012	-	-	-	-	-	5,811,490	5,811,490	-	-	-	-	-	578,017	6,389,507
Change in unrealized gain on available-for-sale financial assets	-	-	-	-	-	-	-	-	(292,373)	-	-	-	-	(292,373)
Change in unrealized revaluation increment (Note 15)	-	-	-	-	-	-	-	(3,699)	-	-	-	-	-	(3,699)
Adjustment from changes in equity recognized under equity method	-	-	114,069	-	-	-	-	(3,767)	6,430	-	45,697	(7,462)	-	154,967
Foreign exchange loss on translation of foreign-currency financial statements	-	-	-	-	-	-	-	-	-	(688,584)	-	-	-	(688,584)
Foreign exchange gain on hedge of a net investment in a foreign operation	-	-	-	-	-	-	-	-	-	278,163	-	-	-	278,163
Change in unrealized gain on financial instruments for cash flow hedging	-	-	-	-	-	-	-	-	(276,729)	-	-	-	-	(276,729)
Disposal of the Corporation's shares held by subsidiaries (Note 28)	-	-	3,200	-	-	-	-	-	-	-	-	18,493	26,722	48,415
Cash dividends paid by the Corporation to subsidiaries	-	-	308,554	-	-	-	-	-	-	-	-	-	189,439	497,993
Purchase of the Corporation's shares by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(303,918)	(243,985)	(547,903)
Adjustment of minority interest	-	-	-	-	-	-	-	-	-	-	-	-	3,076,170	3,076,170
BALANCE, DECEMBER 31, 2012	$ 152,724,765	$ 382,680	$ 36,673,528	$ 54,778,577	$ 7,615,701	$ 5,961,915	$ 68,356,193	$ 26,750,124	$ 2,458,247	$ (393,229)	$ (184,893)	$ (8,415,348)	$ 27,147,291	$ 305,499,358

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

CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011
(In Thousands of New Taiwan Dollars)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 6,389,507	$ 20,830,190
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	28,472,930	26,138,374
Amortization	224,527	342,382
Deferred income tax	(831,063)	(884,969)
Realized gain from affiliates	(31,236)	(33,390)
Provision for loss on inventories	2,957,291	5,109,070
Investment loss recognized under equity method, net	229,786	435,181
Cash dividends received from equity method investees	61,357	49,712
Gain on sale of investments	(1,388,735)	(314,108)
Impairment loss on financial assets	70,255	133,459
Impairment loss on non-financial assets	30,028	14,853
Reversal of impairment loss on non-financial assets	(39,773)	(353,305)
Compensation cost of share-based payment	-	101,522
Loss on purchase commitments	1,207,659	642,388
Others	(507,180)	555,381
Net changes in operating assets and liabilities		
Financial instruments held for trading	(102,045)	524,897
Notes receivable	410,618	(5,653)
Accounts receivable	(346,768)	(2,390,864)
Other receivables	782,655	(352,065)
Inventories	29,036,689	(31,410,614)
Other current assets	1,000,947	579,218
Notes payable	(804,801)	590,148
Accounts payable	200,919	2,478
Income tax payable	(1,209,803)	(1,894,141)
Accrued expenses	(1,438,896)	(1,859,921)
Other payables	(1,900,382)	604,801
Other current liabilities	471,166	(632,907)
Net cash provided by operating activities	62,945,652	16,522,117
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets designated as at fair value through profit or loss	(5,459,020)	(15,264,074)
Proceeds from disposal of financial assets designated as at fair value through profit or loss	5,225,317	16,554,121
Acquisition of available-for-sale financial assets	(5,151,785)	(5,759,289)
Proceeds from disposal of available-for-sale financial assets	7,043,002	6,390,619
Acquisition of held-to-maturity financial assets	(81,930)	(8,828)
Proceeds from disposal of held-to-maturity financial assets	59,155	39,351
Acquisition of financial assets carried at cost	(2,632,577)	(4,581,248)
Proceeds from disposal of financial assets carried at cost	514,475	217,707
Proceeds from the capital reduction on financial assets carried at cost	47,448	22,566
Acquisition of bond investments with no active market	(29,211)	(14,221)

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CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011
(In Thousands of New Taiwan Dollars)

	2012	2011
Proceeds from disposal of bond investments with no active market	$ -	$ 1,439
Acquisition of investments accounted for by the equity method	(277,000)	(152,669)
Proceeds from disposal of investments accounted for by the equity method	9,033	13,460
Increase in prepaid long-term stock investments	(13,119)	(10,000)
Net cash outflow for acquisition of subsidiaries	(125,724)	(426,558)
Proceeds from the capital reduction on investments accounted for by the equity method	26,950	-
Decrease (increase) in other financial assets	1,254,318	(915,013)
Acquisition of property, plant and equipment	(62,548,268)	(57,197,713)
Proceeds from disposal of property, plant and equipment	66,578	61,384
Increase in refundable deposits	(3,347)	(208,405)
Increase in restricted assets	(24,797)	(1,049,981)
Increase in intangible assets	(1,201,034)	(80,551)
Decrease in other assets	57,573	106,061
Net cash used in investing activities	(63,243,963)	(62,261,842)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term loans and overdraft	(34,196,112)	12,814,866
Increase in commercial paper payable	6,321,530	5,495,913
Issuance of bonds payable	20,595,100	19,700,000
Repayments of bonds payable	(11,275,000)	(13,700,000)
Proceeds from long-term debt	55,328,586	15,774,514
Repayments of long-term debt and restructured loans payable	(28,258,485)	(9,629,482)
Increase in long-term notes payable	6,970,012	19,417,060
Increase in other liabilities	54,636	75,016
Cash dividends paid by parent company	(14,738,479)	(26,103,400)
Issuance of common stock for cash	-	23,738,755
Purchase of parent company's shares by subsidiaries	(547,903)	(680,281)
Disposal of parent company's shares held by subsidiaries	48,415	916,090
Increase (decrease) in minority interest	3,061,042	(1,437,316)
Net cash provided by financing activities	3,363,342	46,381,735
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,065,031	642,010
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	17,480,092	16,838,082
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 20,545,123	$ 17,480,092
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	$ 3,421,283	$ 2,867,376
Capitalized interest	(718,816)	(786,209)
Interest paid (excluding capitalized interest)	$ 2,702,467	$ 2,081,167
Income tax paid	$ 3,332,292	$ 5,313,903

(Continued)

CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011
(In Thousands of New Taiwan Dollars)

	2012	2011
INVESTING AND FINANCING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS		
Cash paid for acquisition of property, plant and equipment		
Acquisition of property, plant and equipment	$ 63,951,432	$ 53,159,934
Decrease (increase) in payable for equipment purchased	(1,403,164)	4,037,779
	$ 62,548,268	$ 57,197,713
Cash dividends paid to stockholders		
Total cash dividends payable to stockholders	$ 15,244,506	$ 26,996,676
Cash dividends paid by parent company to subsidiaries	(497,993)	(887,533)
Increase in dividends payable	(8,034)	(5,743)
	$ 14,738,479	$ 26,103,400
NON-CASH FINANCING ACTIVITIES		
Current portion of long-term liabilities	$ 32,251,631	$ 22,985,823

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

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. ORGANIZATION AND OPERATIONS

China Steel Corporation (the "Corporation") was incorporated on December 3, 1971. It manufactures and sells steel products and engages in mechanical, communications, and electrical engineering.

The shares of the Corporation and its subsidiaries, including China Steel Structure Co., Ltd., China Steel Chemical Corporation, China Hi-Ment Corporation, China Ecotech Corporation and Chung Hung Steel Corporation Ltd., have been listed on the Taiwan Stock Exchange. The shares of the subsidiary Thintech Materials Technology Co., Ltd. have been traded on the Taiwan GreTai Securities Market since November 20, 2012. The subsidiary Dragon Steel Corporation has issued shares to the public.

As of December 31, 2012 and 2011, the Ministry of Economic Affairs ("MOEA"), Republic of China owned both 20.05% of the Corporation's issued common stock.

As of December 31, 2012 and 2011, the Corporation and its subsidiaries had about 23,000 and 22,200 employees, respectively.

For the years ended December 31, 2012 and 2011, all the subsidiaries that comprised the consolidated financial statements and their changes are listed as follows:

Name of Investor	Name of Investee	Main Business	Percentage of Ownership (%) December 31 2012	Percentage of Ownership (%) December 31 2011	Additional Descriptions
China Steel Corporation	China Steel Express Corporation (CSE)	Ocean freight forwarding	100	100	
	C. S. Aluminium Corporation (CAC)	Production and sale of aluminum and other non-ferrous metal	100	100	
	Gains Investment Corporation (GIC)	General investment	100	100	
	China Prosperity Development Corporation	Real estate sale, rental and development service	100	100	
	China Steel Asia Pacific Holdings Pte Ltd. (CSAPH)	Investment holding company	100	100	
	China Steel Global Trading Corporation (CSGT)	Steel product agency and trading service	100	100	
	China Steel Machinery Corporation (CSMC)	Manufacture of machinery and equipment	74	74	Direct and indirect ownerships amounted to 100%
	China Steel Security Corporation	Guard security and system security	100	100	
	Info-Champ Systems Corporation (ICSC)	Design and sale of IT hardware and software	100	100	
	CSC Steel Australia Holdings Pty Ltd. (CSCAU)	Investment holding company	100	100	
	Horng Yih Investment Corporation	General investment	100	100	
	Long Yuan Fa Investment Corporation	General investment	100	100	
	Goang Yaw Investment Corporation	General investment	100	100	
	Himag Magnetic Corporation	Manufacture and trading of magnetic powder	50	50	Direct and indirect ownerships amounted to 85%
	Dragon Steel Corporation (DSC)	Manufacture and sale of steel product	100	100	

(Continued)

Name of Investor	Name of Investee	Main Business	Percentage of Ownership (%) December 31 2012	2011	Additional Descriptions
	China Steel Management Consulting Corporation	Business management consultant	100	100	
	China Ecotek Corporation (CEC)	Electrical engineering and co-generation	48	49	Refer to a. below
	China Steel Chemical Corporation (CSCC)	Production and sale of coal chemistry and specialty chemicals	29	29	Refer to a. below
	Chung Hung Steel Corporation Ltd. (CHSC)	Manufacture and sale of steel product	29	29	Direct and indirect ownerships amounted to 41%, and refer to a. below
	China Hi-Ment Corporation (CHC)	Manufacture and sale of slag powder and blast furnace cement, and waste disposal	20	20	Direct and indirect ownerships amounted to 35%, and refer to a. below
	China Steel Structure Co., Ltd. (CSSC)	Design, manufacture and sale of steel structure	33	33	Direct and indirect ownerships amounted to 37%, and refer to a. below
	China Steel Sumikin Vietnam Joint Stock Company (CSVC)	Manufacture of steel product	51	51	
	China Steel Corporation India Pvt. Ltd.	Manufacture and sale of steel product (electromagnetic steel coil)	100	-	Investment in January 2012
	Winning Investment Corporation (WIC)	General investment	-	-	Indirect ownership was 58%
	Eminent Venture Capital Corporation (EVCC)	General investment	-	-	Indirect ownership was 55%
China Steel Express Corporation	CSE Transport Corporation (Panama)	Ocean freight forwarding	100	100	
	CSEI Transport Corporation (Panama)	Ocean freight forwarding	100	100	
	Transyang Shipping Pte Ltd.	Ocean freight forwarding	51	51	
	Transglory Investment Corporation (TIC)	General investment	50	50	Direct and indirect ownerships amounted to 100%
C.S. Aluminium Corporation	ALU Investment Offshore Corporation	Industry investment	100	100	
ALU Investment Offshore Corporation	United Steel International Development Corp.	Industry investment	65	65	Direct and indirect ownerships amounted to 79%
United Steel International Development Corp.	Ningbo Huayang Aluminium-Tech Co., Ltd.	Manufacture and sale of aluminum alloy material	100	100	
Gains Investment Corporation	Eminence Investment Corporation	General investment	100	100	
	Gainsplus Asset Management Inc.	General investment	100	100	
	Mentor Consulting Corporation	General investment consulting service	100	100	
	AmbiCom Technology, Inc.	Wholesale of office machinery and equipment	80	80	
	Betacera Inc. (BETA)	Manufacture, processing and trading of electronic ceramics	48	48	Refer to a. below
	Universal Exchange Inc.	Software programming	64	57	
	Thintech Materials Technology Co., Ltd. (TMTC)	Target material and bimetal material tube sale	33	36	Direct and indirect ownerships amounted to 42% and 46% as of December 31, 2012 and 2011, respectively, and refer to b. below

(Continued)

Name of Investor	Name of Investee	Main Business	Percentage of Ownership (%) December 31 2012	2011	Additional Descriptions
Eminence Investment Corporation	Shin-Mau Investment Corporation	General investment	30	30	Direct and indirect ownerships amounted to 100%
	Gau Ruel Investment Corporation	General investment	25	25	Direct and indirect ownerships amounted to 100%
	Ding Da Investment Corporation	General investment	30	30	Direct and indirect ownerships amounted to 100%
	Chiun Yu Investment Corporation	General investment	25	25	Direct and indirect ownerships amounted to 100%
Shin-Mau Investment Corporation	Horng Chyuan Investment Corporation	General investment	5	5	Direct and indirect ownerships amounted to 100%
	Chi Yih Investment Corporation	General investment	5	5	Direct and indirect ownerships amounted to 100%
Gau Ruel Investment Corporation	Lih Ching Loong Investment Corporation	General investment	5	5	Direct and indirect ownerships amounted to 100%
	Sheng Lih Dar Investment Corporation	General investment	4	4	Direct and indirect ownerships amounted to 100%
Ding Da Investment Corporation	Jiing Cherng Fa Investment Corporation	General investment	4	4	Direct and indirect ownerships amounted to 100%
Betacera Inc.	Lefkara Ltd.	Electronic ceramics trading	100	100	
Lefkara Ltd.	Shang Hai Xike Ceramic Electronic Co., Ltd.	Manufacture and sale of electronic ceramics	100	100	
	Betacera (Su Zhou) Co., Ltd.	Manufacture and sale of electronic ceramics	100	100	
	Suzhou Betacera Technology Co., Ltd.	Manufacture and sale of life-saving equipment for aviation and shipping	100	100	
Thintech Materials Technology Co., Ltd.	Thintech International Limited (TTIL)	International trading and investment service	100	100	
	Thintech Global Limited	International trading and investment service	100	100	
	Thintech United Limited	Investment holding company	100	-	Investment in April 2012
Thintech International Limited	Nantong Zhongxing Materials Technology Co., Ltd. (NZMTCL)	Manufacture, processing and trading of target material	47	47	Refer to a. below
Thintech Global Limited	Taicang Thintech Materials Co., Ltd.	Manufacture, processing and trading of target material	100	100	
Thintech United Limited	Thintech United Metal Resources (Taicang) Co., Ltd.	Refining, purification and sale of metal	65	-	Investment in April 2012
China Prosperity Development Corporation	CK Japan Co., Ltd.	Real estate sale and rental	80	-	Established in January 2012; direct and indirect ownerships amounted to 100%
China Steel Asia Pacific Holdings Pte Ltd.	CSC Steel Holdings Berhad (CSHB)	Investment holding company	46	46	Refer to a. below
	Changzhou China Steel Precision Materials Corporation (CCSPMC)	Manufacture and sale of titanium-nickel alloy and non-ferrous metal	70	70	
	Qingdao China Steel Precision Metals Co., Ltd.	Steel cutting and processing	60	-	Investment in December 2012; direct and indirect ownerships amounted to 70%

(Continued)

Name of Investor	Name of Investee	Main Business	Percentage of Ownership (%) December 31 2012	2011	Additional Descriptions
CSC Steel Holdings Berhad	CSC Steel Sdn. Bhd.	Manufacture and sale of steel product	100	100	
	Group Steel Corp. (M) Sdn. Bhd.	Manufacture and sale of steel product	100	100	
	CSC Bio-Coal Sdn. Bhd. (formerly Ornaconstruction Corp. Sdn. Bhd.)	Manufacture biomass coal	100	100	
CSC Steel Sdn. Bhd.	Constant Mode Sdn. Bhd.	General investment	100	100	
China Steel Global Trading Corporation	Chung Mao Trading (SAMOA) Co., Ltd.	Investment and trading service	100	100	
	CSGT (Singapore) Pte. Ltd.	Steel product agency and trading service	100	100	
	Chung Mao Trading (BVI) Co., Ltd.	Steel product agency and trading service	53	53	
	Wabo Global Trading Corporation	Steel product agency and trading service	44	44	Direct and indirect ownerships amounted to 50%
	CSGT International Corporation (CIC)	Investment and trading service	100	100	
Chung Mao Trading (SAMOA) Co., Ltd.	CSGT (Shanghai) Co., Ltd.	Steel product agency and trading service	100	100	
Chung Mao Trading (BVI) Co., Ltd.	CSGT Hong Kong Limited	Steel product agency and trading service	100	100	
CSGT International Corporation	CSGT Metals Vietnam Joint Stock Company	Steel cutting and processing	45	45	Direct and indirect ownerships amounted to 50%
Wabo Global Trading Corporation	CSGT Japan Co., Ltd.	Steel product agency and trading service	100	100	
China Steel Machinery Corporation	China Steel Machinery Holding Corporation	General investment	100	-	Investment in November 2012
China Steel Security Corporation	Steel Castle Technology Corporation	Firefighting equipment wholesaling	100	100	
	China Steel Management and Maintenance for Building Corporation	Building management	100	-	Investment in January 2012
Info-Champ Systems Corporation	Info-Champ System (B.V.I.)	Information service	100	100	
Info-Champ System (B.V.I.)	Wuham InfoChamp I.T. Co., Ltd.	Software programming	100	100	
CSC Steel Australia Holdings Pty Ltd.	CSC Sonoma Pty Ltd.	General investment	100	100	
Himag Magnetic Corporation	Himag Magnetic (Belize) Corporation	Magnetic powder trading	100	100	
China Ecotek Corporation	CEC International Corp.	General investment	100	100	
	CEC Development Co.	General investment	100	100	
	China Ecotek Construction Corporation	Construction, interior design and decoration, and retail and wholesale of building materials	100	-	Investment in October 2012
CEC International Corp.	China Ecotek India Private Limited	Planning, maintenance and management of eco-construction and eco-equipment	100	-	Investment in November 2012
CEC Development Co.	China Ecotek Vietnam Company Ltd. (CEVC)	Engineering design and construction	100	100	
	Xiamen Ecotek PRC Co., Ltd.	Metal materials agency and trading service	100	100	
China Steel Chemical Corporation	Ever Glory International Co., Ltd. (EGI)	International trading	100	100	
	Ever Wealthy Investment Corporation (EWIC)	General investment	100	100	
Ever Wealthy Investment Corporation	Ever Earning Investment Company	General investment	51	51	Direct and indirect ownerships amounted to 100%

(Continued)

Name of Investor	Name of Investee	Main Business	Percentage of Ownership (%) December 31 2012	2011	Additional Descriptions
Chung Hung Steel Corporation Ltd.	Taiwan Steel Corporation	Manufacture of steel product	100	100	
	Hung Kao Investment Corporation	General investment	100	100	
	Hung Li Steel Corporation Ltd. (HLSC)	Steel product processing	100	100	
China Hi-Ment Corporation	Union Steel Development Corp.	Manufacture and trading of metal powder and ore powder, and gift trading	93	93	
	Pao Good Industrial Co., Ltd.	Slag powder processing and trading	51	51	
	Yu Cheng Lime Corporation (YCC)	Manufacture of other non-metal mineral product	90	-	Investment in March 2012
China Steel Structure Co., Ltd.	United Steel Constructure Corporation	Contract project of civil engineering and construction engineering, and steel structure installation	100	100	
	China Steel Structure Investment Pte Ltd.	General investment	100	100	
United Steel Constructure Corporation	United Steel Investment Holding Co., Ltd.	General investment	100	100	
	United Steel Investment Pte Ltd.	General investment	100	100	
	Lian Chuan Construction Consultation (Shanghai) Co., Ltd.	Engineering technology consulting	100	100	
	United Steel Construction Vietnam Co., Ltd.	Civil engineering construction and other business contract and management	100	100	
	United Steel Development Co., Ltd.	Construction development and rental business	100	100	
United Steel Investment Holding Co., Ltd.	United Steel International Co., Ltd.	General investment	100	100	
United Steel International Co., Ltd.	United Steel Engineering and Construction Co., Ltd.	Civil engineering construction and other business contract and management	100	100	
China Steel Structure Investment Pte Ltd.	China Steel Structure Holding Co., Ltd.	General investment	63	63	Direct and indirect ownerships amounted to 100%
China Steel Structure Holding Co., Ltd.	China Steel Structure Investment Co., Ltd.	General investment	100	100	
China Steel Structure Investment Co., Ltd.	Chung-Kang Steel Structure (Kunshan) Co., Ltd.	Steel structure installation, consulting and steel plate cutting	100	100	

(Concluded)

Explanations for subsidiaries which are less than 50% owned but included in the consolidated entities are as follows:

a. The actual operations of CEC, CSCC, CHSC, CHC, CSSC, BETA and NZMTCL are controlled by the respective board of directors. The Corporation and its subsidiaries jointly had more than half of the seats in the board of directors of CEC, CSCC, CHSC, CHC, CSSC, BETA and NZMTCL. The actual operation of CSHB is also controlled by the board of directors. The Corporation's subsidiaries had control of more than half of the voting rights in the board of directors. Therefore, the Corporation had control-in-substance over the aforementioned entities and included them in the consolidated entities.

b. The chairmen and general managers of TMTC are designated by the Corporation and its subsidiaries in order to control its finance, operation, and human resources. Therefore, the Corporation had control-in-substance over the aforementioned entity and included it in the consolidated entities.

In June 2011, the subsidiaries DSC, CEC and EWIC, etc. further invested NT$228,678 thousand in the subsidiary CSSC, acquiring 8,100 thousand shares, which increased the Corporation's total equity in

CSSC to 37%.

The subsidiary CHC invested NT$128,000 thousand to acquire 108 thousand shares (90% shareholding) of YCC from Chien Tai Cement Co., Ltd. through open competitive bidding on March 28, 2012. The fair value of the assets and liabilities of the investee at the date of investment was as follows:

Current assets	$ 5,459
Property, plant and equipment	189,587
Other assets	433
Current liabilities	(5,078)
Reserve for land value increment tax	(45,985)
Other liabilities	(2,194)
Minority interest	(14,222)
Purchase price	128,000
Less: Cash acquired on the acquisition date	2,276
Net cash outflow for acquisition of YCC	$ 125,724

The acquisition of YCC by CHC was accounted for as a purchase as prescribed by Statement of Financial Accounting Standards (SFAS) No. 25, "Business Combination - Accounting Treatment under Purchase Method." Assuming the shareholding was acquired on January 1, 2011, pro forma consolidated operating result would not have significant impact on the Corporation and its subsidiaries' consolidated statements of income.

The subsidiary CSAPH acquired equity of CCSPMC in January 2011 and the subsidiary TTIL acquired equity of NZMTCL in December 2011. The fair value of the assets and liabilities of the investees at the date of investment was as follows:

Current assets	$ 535,956
Property, plant and equipment	705,463
Intangible assets	128,490
Current liabilities	(5,701)
Minority interest	(409,790)
Purchase price	954,418
Less: Equity acquired in prior years	22,817
Cash acquired on the acquisition date	505,043
Net cash outflow for acquisition of CCSPMC and NZMTCL	$ 426,558

Both the acquisition of CCSPMC by CSAPH and the acquisition of NZMTCL by TTIL were accounted for as a purchase as prescribed by SFAS No. 25, "Business Combination - Accounting Treatment under Purchase Method." Assuming the shareholding was acquired on January 1, 2011, pro forma consolidated operating result would not have significant impact on the Corporation and its subsidiaries' consolidated statements of income.

The Corporation's shares are acquired and held by subsidiaries for investment purpose.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China ("ROC GAAP").

For readers' convenience, the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the ROC. If inconsistencies arise between the English version and the Chinese version or if differences arise in the interpretations between the two versions, the Chinese version of the consolidated financial statements shall prevail. However, the accompanying consolidated financial statements do not include English translation of the additional footnote disclosures that are not required under generally accepted accounting principles but are required by the Securities and Futures Bureau for their oversight purposes.

Significant accounting policies are summarized as follows:

Basis of Consolidation

As stated in Note 1, the Corporation included in the consolidated financial statements all investees in which it has control-in-substance. All significant intercompany transactions (including sidestream transactions) and balances are eliminated upon consolidation.

Foreign-currency Transactions and Translation of Foreign-currency Financial Statements

The Corporation and its subsidiaries use their functional currency as their reporting currency.

Non-derivative foreign-currency transactions are recorded in functional currency at the exchange rates in effect when the transactions occur. Exchange differences arising from settlement of foreign-currency assets and liabilities are recognized in profit or loss.

At the balance sheet date, foreign-currency monetary assets and liabilities are revalued using prevailing exchange rates and the exchange differences are recognized in profit or loss.

At the balance sheet date, foreign-currency nonmonetary assets and liabilities that are measured at fair value are revalued using prevailing exchange rates, with the exchange differences treated as follows:

a. Recognized in stockholders' equity if the changes in fair value are recognized in stockholders' equity;

b. Recognized in profit and loss if the changes in fair value are recognized in profit or loss.

Foreign-currency nonmonetary assets and liabilities that are carried at cost continue to be stated at historical exchange rates at trade dates.

The financial statements of foreign subsidiaries are translated into New Taiwan dollars at the following exchange rates: Assets and liabilities - at exchange rates prevailing on balance sheet date; stockholders' equity - at historical exchange rates; dividends - at the exchange rate prevailing on the dividend declaration date; income and expenses - at average exchange rates for the year. The resulting translation adjustments are recorded as a separate component of stockholders' equity.

If the functional currency of an equity-method investee is a foreign currency, translation adjustments will result from the translation of the investee's financial statements into the reporting currency of the Corporation. Such adjustments are accumulated and reported as a separate component of stockholders' equity.

Accounting Estimates

Under above guidelines and principles, certain estimates and assumptions have been used for the allowance for doubtful accounts, provision for loss on inventories, depreciation, impairment loss on assets, reserve for construction guaranties, loss on commitments, pension, loss on pending litigations, income tax, bonuses to employees and remuneration to directors and supervisors, etc. Actual results may differ from these estimates.

Current and Noncurrent Assets and Liabilities

Current assets include cash and cash equivalents and those assets held primarily for trading purposes or to be realized, sold or consumed within one year from the balance sheet date. All other assets such as property, plant and equipment and intangible assets are classified as noncurrent. Current liabilities are obligations incurred for trading purposes or to be settled within one year from the balance sheet date. All other liabilities are classified as noncurrent.

For the Corporation and its subsidiaries' construction related business, which has an operating cycle of over one year, the length of the operating cycle is the basis for classifying the Corporation and its subsidiaries' construction assets and liabilities as current or noncurrent.

Cash Equivalents

Cash equivalents are highly liquid instruments with maturities of three months or less when acquired and subject to insignificant risk of changes in value resulting from interest rate fluctuations.

Financial Assets and Liabilities at Fair Value Through Profit or Loss

Financial instruments classified as financial assets or financial liabilities at fair value through profit or loss ("FVTPL") include financial assets or financial liabilities held for trading and those designated as at FVTPL on initial recognition. The Corporation and its subsidiaries recognize financial assets or financial liabilities on the balance sheet when the Corporation and its subsidiaries become parties to the contractual provisions of the financial instrument. A financial asset is derecognized when the Corporation and its subsidiaries have lost control of their contractual rights over the financial asset. A financial liability is derecognized when the obligation specified in the relevant contract is discharged, cancelled or expired.

Financial instruments at FVTPL are initially measured at fair value. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss. At each balance sheet date subsequent to initial recognition, financial assets or financial liabilities at FVTPL are remeasured at fair value, with changes in fair value recognized directly in profit or loss in the year in which they arise. Cash dividends received subsequently (including those received in the year of investment) are recognized as income for the year. On derecognition of a financial asset or a financial liability, the difference between its carrying amount and the sum of the consideration received and receivable or consideration paid and payable is recognized in profit or loss. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

A derivative that does not meet the criteria for hedge accounting is classified as a financial asset or a financial liability held for trading. If the fair value of the derivative is positive, the derivative is recognized as a financial asset; otherwise, the derivative is recognized as a financial liability.

Fair values of financial assets and financial liabilities at the balance sheet date are determined as follows: Mutual funds - at net asset values; publicly traded stocks - at closing prices; bonds - at prices quoted by the Taiwan GreTai Securities Market; and financial assets and financial liabilities without quoted prices in an active market and those acquired through private placement and not transferred freely in public market - at values determined using valuation techniques.

Available-for-sale Financial Assets

Available-for-sale financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are remeasured at fair value, with changes in fair value recognized in equity until the financial assets are disposed of, at which time, the cumulative gain or loss previously recognized in equity is included in profit or loss for the year. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

The recognition, derecognition and the fair value bases of available-for-sale financial assets are the same with those of financial instruments at FVTPL.

Cash dividends are recognized as investment income on the ex-dividend date, except for dividends distributed from the pre-acquisition profit, which are treated as a reduction of investment cost. Stock dividends are not recognized as investment income but are recorded as an increase in the number of shares. The total number of shares subsequent to the increase is used for recalculation of cost per share. The difference between the initial cost of a debt instrument and its maturity amount is amortized using the straight - line method, with the amortized interest recognized in profit or loss.

An impairment loss is recognized when there is objective evidence that the financial asset is impaired. Any subsequent decrease in impairment loss for an equity instrument classified as available-for-sale is recognized directly in equity. If the fair value of a debt instrument classified as available-for-sale subsequently increases as a result of an event which occurred after the impairment loss was recognized, the decrease in impairment loss is reversed to profit.

Held-to-maturity Financial Assets

Held-to-maturity financial assets are carried at amortized cost using the effective interest method (Straight-line method can be used if there is no significant difference). Held-to-maturity financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition. Profit or loss is recognized when the financial assets are derecognized, impaired, or amortized. All regular way purchases or sales of financial assets are accounted for using a trade date basis.

An impairment loss is recognized when there is objective evidence that the investment is impaired. The impairment loss is reversed if an increase in the investment's recoverable amount is due to an event which occurred after the impairment loss was recognized; however, the adjusted carrying amount of the investment may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the investment in prior years.

Hedge Accounting

Derivatives and other financial assets that are designated and effective as hedging instruments are measured at fair value, with subsequent changes in fair value recognized either in profit or loss, or in shareholders' equity, depending on the nature of the hedging relationship.

Hedge accounting recognizes the offsetting effects on profit or loss arising from the changes in the fair values of the hedging instrument and the hedged item as follows:

a. Fair value hedge

   The Corporation and its subsidiaries use derivative and non-derivative financial instruments to hedge exchange rate fluctuations of investments. The gain or loss from remeasuring the hedging instrument at fair value and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss.

b. Cash flow hedge

   The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in stockholders' equity. The amount recognized in stockholders' equity is recognized as the original cost of the asset or liability if the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, or recognized in profit or loss if the hedged forecast transaction affects profit or loss. However, if all or a portion of a loss recognized in stockholders' equity is not expected to be recovered in the future period, the amount that is not expected to be recovered is reclassified into current profit or loss.

c. Hedge of a net investment in a foreign operation

   The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in stockholders' equity. The amount recognized in stockholders' equity is recognized in profit or loss upon the disposal of the foreign operation.

The Corporation and its subsidiaries use the hedge activities to control the risks of the exchange rate fluctuations and interest rate fluctuations.

Financial Assets Carried at Cost

Investments in non-publicly traded stocks, stocks traded in the Emerging Stock Market and certificates of entitlement are measured at their original cost. The accounting treatment for dividends on financial assets carried at cost is the same with that for dividends on available-for-sale financial assets. An impairment loss is recognized when there is objective evidence that the asset is impaired. A reversal of this impairment loss is disallowed.

Bond Investments with No Active Market

Bond investments with fixed or determinable payments and with no quoted prices in active market are carried at amortized cost. These financial assets are initially recognized at fair value plus transaction cost that are directly attributable to the acquisition. Profit or loss is recognized when the financial assets are derecognized, impaired or amortized.

An impairment loss is recognized when there is objective evidence that the investment is impaired. The impairment loss is reversed if an increase in the investment's recoverable amount is due to an event which occurred after the impairment loss was recognized; however, the adjusted carrying amount of the investment may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the investment in prior years.

Impairment and Factoring of Accounts Receivable

a. Impairment of Accounts Receivable

   Accounts receivable are assessed for impairment at the end of each reporting period and considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the accounts receivable, the estimated future cash flows of the asset have been affected. Objective evidence of impairment includes:

   1) Significant financial difficulty of the debtor;

   2) Occurrence of overdue accounts receivable;

   3) High probability of bankruptcy or financial re-organization of the debtor.

   Accounts receivable that are assessed as not impaired individually are further assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of accounts receivable could include the Corporation and its subsidiaries' past experience of collecting payments, an increase in the number of delayed payments, as well as observable changes in national or regional economic conditions that correlate with defaults on receivables.

   The amount of impairment loss recognized is the difference between the asset carrying amount and the present value of estimated future cash flows, after taking into account the related collateral or guarantees, discounted at the receivable's original effective interest rate. The carrying amount of accounts receivable is reduced through the use of an allowance account.

b. Factoring of Accounts Receivable

Factoring of accounts receivable would be accounted for as a sale of receivables if the following three conditions are met:

1) The accounts receivable have been isolated from the Corporation and its subsidiaries - put presumptively beyond the control of the Corporation and its subsidiaries.

2) The transferees have obtained the right to pledge or exchange the accounts receivable, and there is no condition which constrains the transferees from taking advantage of its right to pledge or exchange and provides more than a trivial benefit to the Corporation and its subsidiaries.

3) The transferor does not maintain effective control over the transferred assets through either of the following: (i) an agreement that both entitles and obligates the transferor to repurchase or redeem them before their maturity and (ii) the ability to unilaterally cause the holder to return specific assets.

If the three conditions are met, the difference between the proceeds and the carrying value of the accounts receivable is recognized as a loss and recorded as nonoperating expenses and losses.

Impairment of Assets

If the recoverable amount of an asset (mainly property, plant and equipment, intangible assets, other assets and investments accounted for by the equity method) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is charged to earnings unless the asset is carried at a revalued amount, in which case the impairment loss is first treated as a deduction to the unrealized revaluation increment and any remaining loss is charged to earnings.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased accordingly, but the increased carrying amount may not exceed the carrying amount that would have been determined had no impairment loss been recognized on the asset in prior years. A reversal of an impairment loss is recognized in earnings, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is first recognized as gains to the extent that an impairment loss on the same revalued asset was previously charged to earnings. Any excess amount is treated as an increase in the unrealized revaluation increment.

For the purpose of impairment testing, goodwill is allocated to each of the relevant cash-generating units ("CGUs") that are expected to benefit from the synergies of the acquisition. A CGU to which goodwill has been allocated is tested for impairment annually or whenever there is an indication that the CGU may be impaired. If the recoverable amount of the CGU becomes less than its carrying amount, the impairment should first reduce the carrying amount of the goodwill allocated to the CGU and then reduce the other assets of the CGU pro rata on the basis of the carrying amount of each asset in the CGU. A reversal of an impairment loss on goodwill is disallowed.

For equity method investments on which the Corporation and its subsidiaries have significant influence but with no control, the carrying amount (including goodwill) of each investment is compared with its own recoverable amount to determine impairment loss.

Allowance for Sales Discount

An allowance for sales discount is recognized on the basis of management's judgment and relevant factors.

Inventories

Inventories consist of raw materials, supplies, fuel, finished products, work in process, raw materials and supplies in transit, construction in process, etc. Inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made on item by item basis. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and expenses necessary to make the sale. Inventories, except for construction in process recorded in accordance with the accounting for long-term construction contracts, are recorded at moving average cost or weighted-average cost. Unallocated fixed overheads on idle capacity are currently recognized as operating costs when actual production is significantly lower than normal production or the equipment is idle.

Investments Accounted for by the Equity Method

Investments in which the Corporation and its subsidiaries hold 20 percent or more of the investees' voting rights or exercise significant influence over the investees' operating and financial decisions are accounted for by the equity method.

The cost of an investment shall be analyzed and the cost of investment in excess of the fair value of identifiable net assets acquired, representing goodwill, shall not be amortized. The fair value of the net identifiable assets of the investee in excess of the investment cost is used to reduce the fair value of each of the noncurrent assets of the investee (except for financial assets other than investments accounted for by the equity method, deferred income tax assets, prepaid pension or other postretirement benefit) in proportion to the respective fair values of the noncurrent assets, with any excess recognized as an extraordinary gain.

Profits from downstream and upstream transactions with an equity-method investee are eliminated in proportion to the Corporation's percentage of ownership in the investee.

When the Corporation and its subsidiaries subscribe for its investee's newly issued shares at a percentage different from its current percentage of ownership in the investee, the Corporation and its subsidiaries record the change in its equity in the investee's net assets as an adjustment to investments, with a corresponding amount credited or debited to capital surplus. When the adjustment should be debited to capital surplus, but the capital surplus from long-term investments is insufficient, the shortage is debited to retained earnings.

When the Corporation's share in losses of an investee over which the Corporation has significant influence equals its investment in that investee plus any advances made to the investee, the Corporation discontinues applying the equity method. The Corporation continues to recognize its share in losses of the investee if (a) the Corporation commits to provide further financial support to the investee or (b) the losses of the investee are considered to be temporary and sufficient evidence shows forthcoming return to profitability.

The Corporation's shares held by subsidiaries are recorded as treasury stock. The Corporation's dividends distributed to subsidiaries are debited to investment income and adjusted to capital surplus - treasury stock transaction.

Investments in Real Estate

Investments in real estate are stated at the lower of cost or market value. Cost of investment in real estate includes the purchase price and direct expenses in acquiring the real estate.

Property, Plant and Equipment

Property, plant and equipment, except for land, are stated at cost or cost plus revaluation increment less accumulated depreciation and accumulated impairment. Borrowing costs directly attributable to the acquisition or construction of property, plant and equipment are capitalized as part of the cost of those assets. Major additions, renewals and improvements are capitalized, while costs of maintenance and repairs are expensed currently.

Spare parts are intended for use in the repairs of machinery and equipment. Depreciation of major spare parts is calculated by the straight-line method over the shorter of useful lives of supported equipment or their own useful lives, whereas depreciation of rollers is calculated based on their level of wear.

Depreciation of the machineries in the recycling plant of the subsidiary CHC is calculated by the working-hour method. Others are calculated by the straight-line method over service lives estimated as follows: land improvements, 5 to 40 years; buildings, 2 to 60 years; machinery and equipment, 2 to 25 years; transportation equipment, 2 to 25 years; and other equipment, 2 to 50 years. Depreciation of revalued assets is provided on a straight-line basis over their remaining estimated useful lives determined at the time of revaluation. Property, plant and equipment still in use beyond their original estimated useful lives are further depreciated over their new estimated useful lives.

Upon disposal of property, plant and equipment, the related cost (including revaluation increment), accumulated depreciation and accumulated impairment are derecognized. Any gain or loss on disposal of the asset is included in nonoperating gains or losses in the year of disposal. The related unrealized revaluation increment is transferred to nonoperating income and gains.

Intangible Assets

Identifiable intangible assets (including computer software, carbon dioxide emission permit, nitrogen oxide emission reduction and land use right) acquired are initially recorded at cost and amortized over estimated useful lives ranging from 3 to 99 years.

Assets Leased to Others and Idle Assets

Assets leased to others and idle assets are stated at the lower of cost less accumulated depreciation and accumulated impairment or recoverable value. Depreciation is calculated by the straight-line method over 20 to 60 years.

Deferred Charges

Deferred charges consist of compensation cost of land use, etc. and are amortized over 2 to 44 years.

Loss on Purchase Commitments

The Corporation and its subsidiaries recognize accrued losses on purchase commitments under noncancelable purchasing contracts for raw materials when the unavoidable costs of meeting the obligations under the contracts are in excess of the expected profit from the contracts. The accrued losses on purchase commitments are recorded as other payables. The estimated loss is recognized as operating costs.

Reserve for Construction Guarantee

Reserve for construction guarantee is recognized based on expected maintenance expenditures and warranty expenses occurring during the construction period and the warranty period. Actual maintenance expenditures and warranty expenses are debited to the reserve for construction guarantee and the excess are recognized as expenses when incurred.

Pension Cost

Pension cost under defined benefit plan is determined by actuarial valuations and recorded as expenses.

Contributions made under a defined contribution plan are recognized as pension cost during the year in which employees render services.

Income Tax

The Corporation and its subsidiaries apply the intra-year and inter-year allocation methods to their income tax, whereby (1) a portion of income tax expense is charged or credited directly to shareholders' equity; and (2) deferred income tax assets and liabilities are recognized for the tax effects of temporary differences, unused loss carryforward and unused tax credits. Valuation allowance is provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. A deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred income tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled.

If the Corporation and its subsidiaries can control the timing of the reversal of a temporary difference arising from the difference between the book value and the tax basis of a long-term equity investment in a foreign subsidiary or joint venture and if the temporary difference is not expected to reverse in the foreseeable future and will, in effect, exist indefinitely, then a deferred tax liability or asset is not recognized.

Any tax credit arising from purchases of machinery and equipment and investments in important technology-based enterprises is recognized using the flow-through method.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

Foreign subsidiaries calculate income tax according to the local income tax law.

Share-based Compensation

Employee stock options granted on or after January 1, 2008 are accounted for under SFAS No. 39, "Accounting for Share-based Payment." Under the statement, the value of the stock options granted, which is equal to the best available estimate of the number of stock options expected to vest multiplied by the grant-date fair value, is expensed on a straight-line basis over the vesting year, with a corresponding adjustment to capital surplus - employee stock options. The estimate is revised if subsequent information indicates that the number of stock options expected to vest differs from previous estimates.

Treasury Stock

Reacquired issued shares of the Corporation are recorded as treasury stock at cost and shown as a deduction in stockholders' equity.

The Corporation accounts for its stock held by subsidiaries as treasury stock. The recorded cost of the stock is based on its carrying amount as of January 1, 2002 and reclassified to treasury stock. Shares of the Corporation that were acquired and held by less than 50%-owned subsidiaries of the Corporation after January 1, 2002 are reclassified to treasury stock at the acquisition cost.

Revenue Recognition

Revenues from sales of goods are recognized when the significant risks and rewards of ownership of the goods are transferred to customers as follows: domestic sales - when products are delivered out of the Corporation and its subsidiaries' premises to customers; exports - when products are loaded onto vessels. Freight revenues are recognized according to the proportion of the voyage days used to contracted voyage of each ship. Revenues from steel structure contracts and construction contracts are recognized in accordance with the accounting standards for long-term construction contracts, which provide completed-contract method and percentage-of-completion method. Advance collections based on construction progress are recorded as advance construction receipts. The excess of construction in process over advance construction receipts is recorded as current assets while the excess of advance construction receipts over construction in process is recorded as current liabilities.

Revenues are measured at fair value, which is the discounted present value of the price (net of commercial discounts and quantity discounts) agreed to by the Corporation and its subsidiaries with customers. But if the related receivable is due within one year, the difference between its present value and undiscounted amount is immaterial, and sales transactions are frequent, the fair value of receivables is equivalent to the nominal amount of cash to be received.

Service revenues are recognized according to the contract and the percentage of completion of the service. If a service contract is estimated to bear a loss prior to completion, the Corporation and its subsidiaries recognize the full amount of the loss immediately. However, if the loss is estimated to be smaller in future years, the difference is reversed and recognized as a gain in the year of determination.

3. EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES

Financial Instruments

Starting January 1, 2011, the Corporation and its subsidiaries adopted the newly revised SFAS No. 34, "Financial Instruments: Recognition and Measurement." The main revisions are as follows: (1) impairment of finance lease receivables is now covered by SFAS No. 34; (2) the scope of the applicability of SFAS No. 34 to insurance contracts is amended; (3) loans and receivables originated by the enterprise are now covered by SFAS No. 34; (4) additional guidelines on impairment of financial assets carried at amortized cost when the debtor has financial difficulties and the terms of obligations have been modified; and (5) accounting treatment by a debtor for modifications in the terms of obligations is included. This accounting change did not have a significant impact on the Corporation and its subsidiaries' consolidated financial statements as of and for the year ended December 31, 2011.

Operating Segments

Starting January 1, 2011, the Corporation and its subsidiaries adopted the newly issued SFAS No. 41, "Operating Segments." The requirements of the statement are based on the information about the components of the Corporation and its subsidiaries that management uses to make decisions about operating matters. SFAS No. 41 requires identification of operating segments on the basis of internal reports that are regularly reviewed by the Corporation's chief operating decision maker in order to allocate resources to the segments and assess their performance. This statement supersedes SFAS No. 20, "Segment Reporting" and the Corporation and its subsidiaries conformed to the disclosure requirement and provided the operating segments disclosure in the consolidated financial statements accordingly.

4. CASH AND CASH EQUIVALENTS

	December 31	
	2012	**2011**
Cash on hand	$ 24,001	$ 30,091
Checking accounts and demand deposits	5,645,882	4,102,723
Time deposits	12,653,019	10,576,729
Cash equivalents - commercial paper and bonds	2,222,221	2,770,549

$ 20,545,123	$ 17,480,092

Foreign bank deposits of the Corporation were as follows:

	December 31	
	2012	2011
Japan - IYO Bank and Mega International Commercial Bank (in thousands of JPY)	￥ 2,817	￥ 1,877
Singapore - Daiwa Securities SMBC (in thousands of JPY)	37,218	37,221
	￥ 40,035	￥ 39,098
India - Standard Chartered Bank (in thousands of INR)	Rs 3,392	Rs -
Represented by N.T. dollars (in thousands)	$ 15,265	$ 15,272

As of December 31, 2012 and 2011, time deposits with maturities of over one year were zero and NT$2,900 thousand, respectively.

The Corporation cooperated with the MOEA on "Advanced TE Conversion Materials and Systems used in Waste Heat Recovery of Steel Making Industry" and other projects. Deposits for these projects were NT$45,059 thousand (NT$19,636 thousand recorded as restricted assets - current and NT$25,423 thousand recorded as restricted assets - noncurrent) and NT$53,748 thousand (NT$28,750 thousand recorded as restricted assets - current and NT$24,998 thousand recorded as restricted assets - noncurrent) as of December 31, 2012 and 2011, respectively.

5. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

a. Financial instruments at fair value through profit or loss included:

	December 31	
	2012	2011
Financial assets held for trading		
Mutual funds	$ 963,769	$ 1,091,136
Quoted stocks	744,231	349,448
Structured notes	38,517	60,592
Forward exchange contracts	4,644	28,967
	1,751,161	1,530,143
Financial assets designated as at FVTPL		
Mutual funds	1,740,313	1,309,001
Structured notes	104,871	245,334
Quoted stocks	29,562	54,032
Convertible bonds	10,040	10,105
	1,884,786	1,618,472
	3,635,947	3,148,615
Less: Noncurrent portion	259	23,979
	$ 3,635,688	$ 3,124,636

(Continued)

	December 31	
	2012	2011
Financial liabilities held for trading		
Forward exchange contracts	$ 6,065	$ 90
Options (Note 22)	36	-
	6,101	90
Less: Noncurrent portion	1,739	-
	$ 4,362	$ 90

(Concluded)

b. The purpose of the financial assets designated as at FVTPL is to reduce the accounting inconsistency between investment income and interest expense. Those assets are managed as a group and the performance is evaluated on fair value basis, in accordance with the Corporation and its subsidiaries' documented risk management and investment strategy.

c. The Corporation and its subsidiaries entered into forward exchange contracts to manage exposures due to exchange rate fluctuations. However, the forward exchange contract does not meet the criteria for hedge accounting; thus, it is classified as a financial asset or a financial liability held for trading.

Outstanding forward exchange contracts as of December 31, 2012 and 2011 were as follows:

	Currency	Maturity Date	Contract Amount (In Thousands)
December 31, 2012			
Buy	NTD/USD	January 2013 - April 2014	NTD986,351/USD33,879
Buy	NTD/EUR	November 2013	NTD70,247/EUR1,906
Buy	NTD/JPY	February 2013 - December 2014	NTD33,145/JPY92,540
Sell	USD/NTD	January 2013	USD7,231/NTD211,033
Sell	HKD/NTD	January 2013	HKD17,614/NTD66,318
December 31, 2011			
Buy	NTD/USD	June 2012	NTD30,165/USD1,000
Buy	NTD/JPY	October 2012 - December 2014	NTD296,821/JPY832,860
Sell	USD/NTD	January 2012	USD2,127/NTD64,762
Sell	HKD/NTD	January 2012	HKD19,998/NTD77,897

d. For the year ended December 31, 2011, precious metals futures contracts were entered to manage risks due to price fluctuations on precious metals. There was no outstanding precious metals futures contract as of December 31, 2011. The Corporation and its subsidiaries did not enter into any precious metals futures contract during the year ended December 31, 2012.

e. The valuation gains (losses) on financial instruments at FVTPL for the years ended December 31, 2012 and 2011 were as follows:

	Years Ended December 31	
	2012	2011
Financial assets held for trading	$ 77,975	$ (269,279)
Financial assets designated as at FVTPL	38,251	16,187
Financial liabilities held for trading	(9,005)	(3,784)
	$ 107,221	$ (256,876)

The above valuation gains (losses) on financial instruments were recorded as follows:

	Years Ended December 31	
	2012	2011
Operating revenues	$ 89,338	$ 376
Operating costs	-	(302,474)
Nonoperating income and gains	26,978	49,382
Nonoperating expenses and losses	(9,095)	(4,160)
	$ 107,221	$ (256,876)

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2012	2011
Domestic quoted stocks	$ 4,206,122	$ 4,366,090
Mutual funds	1,956,298	2,350,840
Overseas quoted stocks	1,596,310	1,604,541
Private-placement domestic shares	584,222	377,429
Structured notes	-	46,006
	8,342,952	8,744,906
Less: Current portion	4,763,787	5,375,249
	$ 3,579,165	$ 3,369,657

The Corporation continually sold the shares of Taiwan Semiconductor Manufacturing Company from September 2012 and the gain on sale of the investment was NT$1,091,815 thousand, recorded as nonoperating income and gains.

The Corporation borrowed foreign-currency bank loans to hedge exchange rate fluctuation risks on the overseas quoted stocks in Maruichi Steel Tube Ltd. and Yodogawa Steel Works, Ltd. (Notes 23 and 32). Adjustments for change in valuation arising from exchange difference were recognized in profit or loss.

In May 2011, the subsidiary EVCC invested in Taiwan Liposome Company, Ltd. through its private placement and in September 2010, the Corporation invested in Reichi Precision Co., Ltd. through its private placement. According to the Securities Exchange Act, the securities which the Corporation and its subsidiaries acquired by private placement could be transferred freely in public market only after holding those shares for three years starting from the delivery date.

7. HEDGING DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation and its subsidiaries entered into forward exchange and interest rate swap contracts to manage cash flow exposures arising from exchange rate fluctuations on foreign-currency capital expenditures contracts and sales and purchases contracts as well as from interest rate fluctuations on bank loans.

Outstanding forward exchange contracts as of December 31, 2012 and 2011 were as follows:

	Currency	Period for Generating Cash Flows and Maturity Date	Contract Amount (In Thousands)
December 31, 2012			
Buy	NTD/USD	January 2013 - March 2016	NTD6,887,840/USD235,043
Buy	NTD/EUR	April 2013 - March 2014	NTD357,293/EUR8,974
Buy	NTD/JPY	January 2013 - June 2015	NTD1,450,688/JPY3,809,251
Buy	NTD/GBP	January 2014 - January 2015	NTD212,200/GBP4,557
Sell	JPY/NTD	January 2013	JPY1,000,000/NTD339,200
December 31, 2011			
Buy	NTD/USD	January 2012 - September 2015	NTD7,326,416/USD248,477
Buy	NTD/EUR	March 2012 - December 2013	NTD749,840/EUR17,867
Buy	NTD/JPY	January 2012 - June 2015	NTD2,095,837/JPY5,609,882
Buy	NTD/GBP	January 2012 - January 2015	NTD449,199/GBP9,584
Sell	USD/NTD	January 2012 - April 2012	USD1,171/NTD35,415

Outstanding interest rate swap contracts as of December 31, 2012 were as follows:

Contract Amount (In Thousands)	Maturity Date	Range of Interest Rates Paid	Range of Interest Rates Received
NTD9,277,000	February 2017 - July 2018	0.988% - 1.14%	0.887% - 0.891%

Movements of hedging derivative financial instruments for the years ended December 31, 2012 and 2011 were as follows:

	Years Ended December 31	
	2012	2011
Balance, beginning of year	$ 144,882	$ (572,060)
Unrealized gain (loss) of valuation	(483,128)	125,172
Transferred to profit and loss	(4,593)	(1,041)
Transferred to construction in progress and prepayments for equipment	68,563	592,811
Balance, end of year	$ (274,276)	$ 144,882

As of December 31, 2012 and 2011, the balances of hedging derivative assets (liabilities) were as follows:

	December 31	
	2012	2011
Hedging derivative assets - current	$ 45,950	$ 115,768
Hedging derivative assets - noncurrent	6,983	124,920
Hedging derivative liabilities - current	(240,380)	(53,331)
Hedging derivative liabilities - noncurrent	(86,829)	(42,475)
	$ (274,276)	$ 144,882

The valuation gain (loss) was recognized as unrealized gain on financial instruments in stockholders' equity and minority interest.

8. NOTES AND ACCOUNTS RECEIVABLE, NET

	December 31	
	2012	2011
Notes receivable	$ 1,490,986	$ 1,901,604
Less: Allowance for doubtful accounts	-	-
	$ 1,490,986	$ 1,901,604
Accounts receivable	$ 10,621,016	$ 10,383,382
Less: Allowance for doubtful accounts	57,957	168,880
Allowance for sales discounts	2,312	523
	$ 10,560,747	$ 10,213,979

Movements of the allowance for doubtful accounts were as follows:

	Years Ended December 31		
	2012	2011	
	Accounts Receivable	Notes Receivable	Accounts Receivable
Balance, beginning of year	$ 168,880	$ 1,883	$ 371,113
Deduct: Reversal	110,720	1,883	202,036
Written off	203	-	197
Balance, end of year	$ 57,957	$ -	$ 168,880

The Corporation and the subsidiaries CHSC and CSCC entered into accounts receivable factoring agreements (without recourse) with Mega International Commercial Bank, Bank of Taiwan and Taipei Fubon Bank. Under the agreements, the Corporation and the subsidiaries CHSC and CSCC are empowered to sell accounts receivable to the banks upon the delivery of products to customers and are required to complete related formalities at the next banking day.

The related information for the Corporation, CHSC and CSCC's sale of accounts receivable for the years ended December 31, 2012 and 2011 was as follows:

Transaction Counter-party	Advances Received at Year - Beginning	Receivables Sold	Amounts Collected by Bank	Advances Received at Year-end	Interest Rate on Advances Received (%)	Credit Line (In Billions of NT$)
Year ended December 31, 2012						
Mega International Commercial Bank	$ 4,786,918	$ 12,955,904	$ 13,247,235	$ 4,495,587	1.24-1.52	$12.0
Bank of Taiwan	1,509,756	3,428,554	3,695,356	1,242,954	1.24-1.52	3.0
	$ 6,296,674	$ 16,384,458	$ 16,942,591	$ 5,738,541		

(Continued)

Transaction Counter-party	Advances Received at Year - Beginning	Receivables Sold	Amounts Collected by Bank	Advances Received at Year-end	Interest Rate on Advances Received (%)	Credit Line (In Billions of NT$)
Year ended December 31, 2011						
Mega International Commercial Bank	$ 5,222,519	$ 13,514,755	$ 13,950,356	$ 4,786,918	1.06-1.51	$12.0
Bank of Taiwan	923,545	3,417,866	2,831,655	1,509,756	1.14-1.51	3.0
Taipei Fubon Bank	63,716	-	63,716	-	-	0.4
	$ 6,209,780	$ 16,932,621	$ 16,845,727	$ 6,296,674		

(Concluded)

9. INVENTORIES

	December 31 2012	December 31 2011
Finished products	$ 17,898,814	$ 20,507,155
Work in process	26,371,771	42,420,528
Raw materials	20,047,336	33,003,894
Supplies	8,370,304	7,368,245
Fuel	386,925	429,227
Raw materials and supplies in transit	3,487,346	3,426,273
Construction in progress (net of billing on contracts NT$43,080,132 thousand and NT$35,923,955 thousand as of December 31, 2012 and 2011, respectively)	7,202,264	8,145,013
Others	517,774	661,131
	$ 84,282,534	$ 115,961,466

As of December 31, 2012 and 2011, the allowance for inventory devaluation was NT$4,519,281 thousand and NT$6,433,511 thousand, respectively, and recorded as reduction in inventories. The cost of inventories recognized as operating costs for the years ended December 31, 2012 and 2011 was NT$339,096,416 thousand and NT$364,063,646 thousand, respectively, (the difference between this cost and the operating costs in consolidated statements of income is due to costs not related to inventories, including investment loss recognized under equity method, impairment loss, and valuation loss on financial instruments, which were recognized by investment companies), which included the following items:

	Years Ended December 31 2012	Years Ended December 31 2011
Provision for loss on inventories	$ 2,957,291	$ 5,109,070
Loss on purchase commitments	1,207,659	642,388
Loss on idle capacity	17,383	8,354
Income from scrap sales	(745,037)	(919,847)
Gain on physical inventory	(315,048)	(30,253)
	$ 3,122,248	$ 4,809,712

Significant construction contracts as of December 31, 2012 and 2011 were as follows:

Expected Year to Complete	Construction in Progress	Advance Construction Receipts	Contract Price	Estimated Total Cost	Percentage of Completion (%)	Accumulated Construction Gain (Loss)
December 31, 2012						
Year 2013	$ 9,980,991	$ 9,744,112	$ 17,392,386	$ 17,217,561	0-99	$ 27,088
Year 2014	407,290	616,900	1,269,523	1,263,810	0-36	1,838
Year 2015	364,254	671,454	1,623,450	1,604,428	22	4,258
Year 2020	3,201	-	4,284,935	4,343,971	-	(59,036)
December 31, 2011						
Year 2012	17,986,992	15,861,636	21,805,909	21,548,503	17-99	241,988
Year 2014	1,401,538	67,690,807	237,223,809	236,653,479	0-16	(7)
Year 2015	237,044	569,773	1,540,348	1,522,300	15	2,775

Advance construction receipts (net of construction in progress of NT$23,273,763 thousand and NT$16,476,342 thousand as of December 31, 2012 and 2011, respectively) were NT$3,646,058 thousand and NT$2,283,830 thousand as of December 31, 2012 and 2011, respectively, and included in other current liabilities.

10. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31 2012	December 31 2011
Guarantee debt certificates	$ 174,123	$ 177,341
Structured notes	140,691	122,035
	314,814	299,376
Less: Accumulated impairment	129,655	129,655
	185,159	169,721
Less: Noncurrent portion	185,159	109,171
	$ -	$ 60,550

a. As for the guarantee debt certificates, the maturity dates are from June 2014 to May 2021, interest is charged by the agreed formula, and actual interest rate was both zero as of December 31, 2012 and 2011.

b. As of December 31, 2012 and 2011, the maturity dates of the structured notes are from February 2018 to May 2024 and form April 2012 to February 2018, respectively. Interest is charged by the agreed formula and actual interest rate was 0-7.3% and 0-2.29% as of December 31, 2012 and 2011, respectively.

11. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

	December 31 2012	December 31 2011
Unquoted common stocks		
Nacional Minerios S.A.	$ 3,268,550	$ 3,268,550
KJTC Pty Ltd.	1,400,774	-
Dongbu Metal Co., Ltd.	1,276,092	1,276,092
Industrial Bank of Taiwan	1,000,000	1,000,000

(Continued)

	December 31	
	2012	2011
CDIB & Partners Investment Holding Corporation	$ 553,630	$ 553,630
Brighton-Best International (Taiwan) Inc.	272,563	272,563
Yieh United Steel Corp.	257,600	257,600
Taiwan Rolling Stock Co., Ltd.	202,048	202,048
Qingdao TECO Precision Mechatronics Co., Ltd.	163,170	170,109
Riselink Venture Capital Corp.	124,950	150,000
Aptos Technology Inc.	106,286	76,286
Hanoi Steel Center Co., Ltd.	103,687	108,097
TaiGen Biopharmaceuticals Holdings Limited	94,239	108,549
Adimmune Corporation (AC)	-	265,762
Taiwan High Speed Rail Corporation (THSRC)	-	-
Others	1,668,726	1,673,299
	10,492,315	9,382,585
Unquoted preferred stocks	318,385	393,331
Certificate of entitlement		
Formosa Ha Tinh Steel Corporation	1,628,911	817,353
Shanghai Bao Shan Lian Steel Products Co., Ltd.	9,926	9,926
	1,638,837	827,279
	$ 12,449,537	$ 10,603,195

(Concluded)

The above equity investments, which were unquoted stocks and certificate of entitlement and over which the Corporation and its subsidiaries had no significant influence, were carried at cost.

In November 2011, the Corporation acquired 4,751 thousand common shares (1% shareholding) of Nacional Minerios S.A. by investing NT$3,268,550 thousand (JPY8.5 billion). Nacional Minerios S.A. mainly engages in iron ore mining.

In July 2012, the subsidiary CSCAU invested NT$1,422,376 thousand (AUD45,858 thousand) in KJTC Pty Ltd. and acquired 13% shareholding of common shares. KJTC Pty Ltd. mainly engages in mining investment.

AC's shares held by the Corporation and the subsidiaries CSCC and GIC were listed on the Taiwan Stock Exchange in May 2012; therefore, this investment was reclassified as available-for-sale financial assets - current.

In September 2003, the Corporation acquired 100,000 thousand Preferred B shares (representing 4% of ownership) of THSRC for NT$1,000,000 thousand. Dividend on these shares is at 5%, payable on a nonparticipating and cumulative basis. These shares with six years duration could be extended for 13 months prior to 3 months from the due date. In April 2005 and August 2004, the Corporation acquired additional 505,370 thousand Preferred C shares of THSRC for NT$3,199,944 thousand and NT$1,499,997 thousand, respectively. These shares, representing 19% of ownership, which may be converted to common shares within four years from the acquisition date, have a 9.5% dividend in the first two years and zero percent in the next two years. At the end of four years, if the Corporation does not convert the Preferred C shares into common shares and THSRC cannot redeem the shares, the unredeemed shares would be entitled to receive 4.71% dividend. In the second half of 2008, the Corporation evaluated and recognized an impairment loss of NT$4,738,926 thousand on the investments in preferred shares of THSRC. In order to use tax credits under the Act for Promotion of Private Participation in Infrastructure Projects, the Corporation converted THSRC's preferred shares to 605,370 thousand common shares in August 2009. THSRC mainly builds and operates public transportation systems.

From June 2011, the Corporation continually invested a total of NT$1,628,911 thousand (USD55,000 thousand) in Formosa Ha Tinh Steel Corporation and acquired 5% ownership. The main business of Formosa Ha Tinh Steel Corporation is manufacture and trading of steel products.

Other financial assets carried at cost include Xiamen Chou Yuan Precision Mechatronic Co., Ltd., Twi Pharmaceuticals, Inc., Savior Lifetec Corporation and etc.

12. BOND INVESTMENTS WITH NO ACTIVE MARKET - NONCURRENT

	December 31	
	2012	**2011**
Unquoted preferred stocks - overseas		
East Asia United Steel Corporation (EAUS) - Preferred A	$ 3,364,000	$ 3,906,000
Others	15,594	14,817
Subordinated financial bonds	120,000	120,000
Bonds	36,492	9,405
	$ 3,536,086	$ 4,050,222

In May 2003, the Corporation signed a slab production joint-venture contract with Sumitomo Metal Industries, Ltd. (had changed title to Nippon Steel & Sumitomo Metal Corporation in October 2012) and Sumitomo Corporation. In July 2003, the joint venture company EAUS was established. The Corporation invested in EAUS JPY10 billion (Notes 23 and 32). The Corporation thus has a stable supply of slab from this joint venture. The Corporation also signed a contract with the subsidiary CHSC to transfer the purchasing right of slabs from EAUS, and the Corporation receives royalty on this contract based on the volume purchased by CHSC.

13. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	December 31			
	2012		**2011**	
	Amount	**% of Ownership**	**Amount**	**% of Ownership**
Unquoted companies				
Kaohsiung Arena Development Corporation (KADC)	$ 772,724	29	$ 770,611	29
Kaohsiung Rapid Transit Corporation (KRTC)	484,124	32	845,244	32
Hsin Hsin Cement Enterprise Corp. (HHCEC)	399,878	39	354,798	39
Chateau International Development Co., Ltd. (CIDC)	262,470	20	224,599	23
Eminent II Venture Capital Corporation	247,510	46	-	-
Ascentek Venture Capital Corp.	184,747	39	165,871	39
Others	255,077		257,870	
	$ 2,606,530		$ 2,618,993	

In December 2011, the Corporation invested additional NT$155,919 thousand in HHCEC. Consequently, the Corporation's total equity in HHCEC is 39%, including 31% directly owned and 8% indirectly owned through CHC.

Investment income (loss) under the equity method for the years ended December 31, 2012 and 2011 was as follows:

	Years Ended December 31	
	2012	2011
KRTC	$ (361,120)	$ (482,514)
HHCEC	45,100	(16,637)
KADC	34,738	37,894
CIDC	29,571	32,553
Others	21,925	(6,477)
	$ (229,786)	$ (435,181)

Net investment losses of NT$230,005 thousand and NT$434,947 thousand were recorded as nonoperating expenses and losses, and NT$219 thousand and NT$234 thousand were recorded as operating revenue and operating cost for the years ended December 31, 2012 and 2011, respectively.

14. OTHER FINANCIAL ASSETS

	December 31	
	2012	2011
Hedging foreign-currency deposits	$ 4,257,415	$ 5,829,846
Structured time deposits	13,982	-
	4,271,397	5,829,846
Less: Current portion	4,237,454	3,710,158
	$ 33,943	$ 2,119,688

For the purpose of managing cash flow risk arising from exchange rate fluctuations due to purchasing imported equipment, the Corporation and its subsidiaries purchased foreign-currency deposits and entered into forward exchange contracts (Note 7). As of December 31, 2012 and 2011, the balance of the foreign-currency deposits, which were designated as hedging instruments and were purchased for expired forward exchange contracts, was NT$4,257,415 thousand (JPY2.1 billion, USD110,290 thousand and EUR 9,278 thousand) and NT$5,829,846 thousand (JPY2.3 billion, USD158,963 thousand, EUR 3,147 thousand and GBP18 thousand), respectively.

The unrealized loss of NT$238,962 thousand and unrealized gain of NT$246,242 thousand on the above deposits designated as hedging instruments were recognized as unrealized gain on financial instruments in stockholders' equity and minority interest for the years ended December 31, 2012 and 2011, respectively. The unrealized gain on financial instruments of NT$65,169 thousand and the unrealized loss on financial instruments NT$39,172 thousand in stockholders' equity and minority interest were transferred to construction in progress and prepayments for equipment for the years ended December 31, 2012 and 2011, respectively.

As of December 31, 2012 and 2011, cash outflows would be expected from aforementioned contracts during the periods from 2013 to 2015 and from 2012 to 2015, respectively.

15. PROPERTY, PLANT AND EQUIPMENT

	Cost	Revaluation Increment	Total
December 31, 2012			
Cost and revaluation increment			
Land	$ 20,136,446	$ 39,546,244	$ 59,682,690
Land improvements	4,382,861	492,076	4,874,937
Buildings	85,530,928	2,400,272	87,931,200
Machinery and equipment	460,321,046	6,890,553	467,211,599
Transportation equipment	21,184,928	8,018	21,192,946
Other equipment	18,248,914	31,588	18,280,502
Spare parts	10,243,979	-	10,243,979
	620,049,102	49,368,751	669,417,853
Accumulated depreciation			
Land improvements	3,805,725	474,923	4,280,648
Buildings	28,968,838	1,998,610	30,967,448
Machinery and equipment	273,939,864	6,890,356	280,830,220
Transportation equipment	12,358,345	8,015	12,366,360
Other equipment	8,967,868	31,579	8,999,447
Spare parts	3,222,668	-	3,222,668
	331,263,308	9,403,483	340,666,791
Accumulated impairment			
Land	25,546	-	25,546
Buildings	10,115	-	10,115
Machinery and equipment	128,166	-	128,166
Other equipment	241,732	-	241,732
	405,559	-	405,559
Construction in progress and prepayments for equipment	108,359,520	-	108,359,520
	$ 396,739,755	$ 39,965,268	$ 436,705,023
December 31, 2011			
Cost and revaluation increment			
Land	$ 19,469,760	$ 39,381,304	$ 58,851,064
Land improvements	4,385,107	492,990	4,878,097
Buildings	76,278,334	2,415,863	78,694,197
Machinery and equipment	427,093,330	7,107,072	434,200,402
Transportation equipment	19,648,382	8,991	19,657,373
Other equipment	17,722,397	31,618	17,754,015
Spare parts	9,516,929	-	9,516,929
	574,114,239	49,437,838	623,552,077
Accumulated depreciation			
Land improvements	3,738,790	472,304	4,211,094
Buildings	26,725,930	1,947,219	28,673,149
Machinery and equipment	254,800,001	7,106,796	261,906,797
Transportation equipment	11,834,213	8,987	11,843,200
Other equipment	7,829,587	31,608	7,861,195
Spare parts	2,920,169	-	2,920,169
	307,848,690	9,566,914	317,415,604

(Continued)

	Cost	Revaluation Increment	Total
Accumulated impairment			
Land	$ 11,826	$ -	$ 11,826
Buildings	4,999	-	4,999
Machinery and equipment	127,304	-	127,304
Other equipment	299,590	-	299,590
	443,719	-	443,719
Construction in progress and prepayments for equipment	96,851,192	-	96,851,192
	$ 362,673,022	$ 39,870,924	$ 402,543,946

(Concluded)

Information about capitalized interest on the purchase of property, plant and equipment for the years ended December 31, 2012 and 2011 was disclosed as follows:

	Years Ended December 31	
	2012	2011
Interest expense before capitalization	$ 3,532,413	$ 2,837,096
Less: Capitalized interest - construction in progress and prepayments for equipment	742,153	778,034
Interest expense through income statement	$ 2,790,260	$ 2,059,062
Capitalization annual rates	0.8904%-1.60%	0.88%-1.89%

Information on the Corporation's revaluation of its property, plant and equipment and patents was disclosed as follows:

	Revaluation Increment	Reserve for Land Value Increment Tax	Unrealized Revaluation Increment
In 1981 and 1994, the Corporation revalued its property, plant and equipment and patents	$ 17,662,343	$ 3,370,813	$ 14,291,530
In 2005, the government revised the land value increment tax law to reduce the tax rate	-	(1,196,189)	1,196,189
In 2008, the Corporation revalued its land in accordance with current assessed land value	26,913,284	6,502,342	20,410,942
Capitalization as capital stock	-	-	(13,952,356)
Retirement or sale	(1,143,675)	(3,500)	(37,974)
Tax effect	-	-	(36,576)
Balance, January 1, 2011	43,431,952	8,673,466	21,871,755
In 2011, the Corporation revalued its land in accordance with current assessed land value	6,088,169	1,338,450	4,749,719
Retirement or sale in 2011	(634,263)	-	(10,608)
Balance, December 31, 2011	48,885,858	10,011,916	26,610,866
Retirement or sale in 2012	(221,166)	-	(3,699)
Balance, December 31, 2012	$ 48,664,692	$ 10,011,916	$ 26,607,167

The subsidiary CSSC revalued its buildings with the base date of December 31, 2009. In September 2010, the revaluation increments approved by the tax authorities were NT$12,862 thousand, of which NT$2,020 thousand was credited to equity as unrealized revaluation increment in proportion to the ownership percentage of the Corporation.

Subsidiaries CHSC and HLSC revalued their land in September 2011, increasing the total increment on land revaluation by NT$539,119 thousand. After the deduction of the reserve for land value increment tax of NT$182,222 thousand, the net increment of NT$356,897 thousand was credited to unrealized revaluation increment. The Corporation credited NT$102,643 thousand to equity as unrealized revaluation increment in proportion to the ownership percentage.

16. INTANGIBLE ASSETS

	Identifiable Intangible Assets	Goodwill	Total
Year ended December 31, 2012			
Balance, beginning of year	$ 1,842,655	$ 403,515	$ 2,246,170
Addition	1,267,039	-	1,267,039
Reduction	(207,741)	(2,266)	(210,007)
Balance, end of year	$ 2,901,953	$ 401,249	$ 3,303,202
Year ended December 31, 2011			
Balance, beginning of year	$ 1,705,839	$ 403,274	$ 2,109,113
Addition	211,445	241	211,686
Reduction	(74,629)	-	(74,629)
Balance, end of year	$ 1,842,655	$ 403,515	$ 2,246,170

Identifiable intangible assets included land use right, carbon dioxide emission permit and nitrogen oxide emission reduction, etc. and goodwill was mainly arising from acquisition of DSC by the Corporation in October 2008.

17. ASSETS LEASED TO OTHERS, NET

	December 31	
	2012	2011
Cost		
Land	$ 2,779,755	$ 2,920,878
Buildings	210,572	210,572
	2,990,327	3,131,450
Accumulated depreciation		
Buildings	61,413	56,778
Accumulated impairment		
Land	8,825	8,825
	$ 2,920,089	$ 3,065,847

On June 30, 2010, the subsidiary CHSC signed a land lease contract with a third party on the Kaohsiung Long Dong Section (book value NT$2,640,958 thousand). The lease term provided that the construction period cannot exceed 14 months and the operating period is 20 years (starting date of the operation was August 2011). The rent is calculated monthly in accordance with the contract during the construction period and the operating period. For the years ended December 31, 2012 and 2011, the rental income was NT$71,048 thousand and NT$47,794 thousand, respectively, and recorded as nonoperating income and gains.

In August 2011, considering the changes in economic environment and land repotting, the subsidiary CHSC re-appraised the Kaohsiung Long Dong Section and Taipei office, and reversed NT$182,127 thousand of impairment loss, recorded as nonoperating income and gains.

18. IDLE ASSETS, NET

	December 31	
	2012	2011
Land	$ 3,131,555	$ 3,131,555
Machinery and equipment	1,593,902	753,227
Less: Accumulated depreciation	287,123	77,881
Accumulated impairment	1,722,885	1,694,941
	$ 2,715,449	$ 2,111,960

Idle assets were unused land and equipment.

In August 2011, considering the changes in economic environment and land repotting, the subsidiary CHSC authorized real estate appraisers to re-appraise the Kaohsiung Long Hua Section, Tainan Kuo An Section and Shin Bin Industrial District and reversed NT$164,844 thousand of impairment loss, recorded as nonoperating income and gains. The subsidiary HLSC acquired the collaterals of Jenn An Steel Co., Ltd. Parts of the machinery and equipment in the collaterals were reclassified from property, plant and equipment to idle assets due to their not-in-operation status.

19. SHORT-TERM LOANS AND OVERDRAFT

	December 31	
	2012	2011
Unsecured loans - interest at 0.5425%-7.8% p.a. and 0.78%-4.8% p.a. as of December 31, 2012 and 2011, respectively	$ 21,263,916	$ 50,615,146
Letters of credit - interest at 0.5338%-1.48% p.a. and 0.7357%-1.499% p.a. as of December 31, 2012 and 2011, respectively	3,130,015	6,076,920
Bank overdraft - interest at 0.5%-6.16% p.a. and 0.5%-7.32% p.a. as of December 31, 2012 and 2011, respectively	1,141,481	3,225,944
Secured loans - interest at 5.88%-6.16% p.a.	101,665	-
	$ 25,637,077	$ 59,918,010

The amount of USD131,733 thousand (NT$3,825,526 thousand), which is included in the above unsecured loans as of December 31, 2012, was used to hedge the exchange rate fluctuations on investment in CSVC (Note 32).

20. COMMERCIAL PAPER PAYABLE

	December 31	
	2012	2011
Commercial paper - interest at 0.73%-1.38% p.a. and 0.45%-1.158% p.a. as of December 31, 2012 and 2011, respectively	$ 28,699,900	$ 22,368,800
Less: Unamortized discounts	20,470	10,900
	$ 28,679,430	$ 22,357,900

The above commercial paper was secured by Mega Bills Finance Corporation, China Bills Finance Corporation, International Bills Finance Corporation, Taching Bill Finance Ltd., Grand Bills Finance Corp., Dah Chung Bills Finance Corp., Taiwan Cooperative Bank, Taiwan Cooperative Bills Finance Corporation, Taiwan Finance Corporation, Chinatrust Commercial Bank, Bank of Taiwan, Taipei Fubon Bank, E.Sun Bank, Taishin International Bank, etc.

21. ACCRUED EXPENSES

	December 31	
	2012	2011
Salaries and incentive bonus	$ 5,791,500	$ 6,348,237
Repair and construction	1,099,327	829,554
Bonus to employees, and remuneration to directors and supervisors	782,026	1,918,073
Reserve for construction guarantee	764,562	868,015
Others	4,040,099	3,948,804
	$ 12,477,514	$ 13,912,683

22. BONDS PAYABLE

	December 31	
	2012	2011
5-year unsecured bonds - issued at par by the Corporation in:		
December 2008; repayable in December 2012 and December 2013; interest at 2.08% p.a., payable annually	$ 6,475,000	$ 12,950,000
December 2008; repayable in December 2012 and December 2013; interest at 2.42% p.a., payable annually	4,800,000	9,600,000
October 2011; repayable in October 2015 and October 2016; interest at 1.36% p.a., payable annually	9,300,000	9,300,000
7-year unsecured bonds - issued at par by the Corporation in:		
December 2008; repayable in December 2014 and December 2015; interest at 2.30% p.a., payable annually	7,000,000	7,000,000
October 2011; repayable in October 2017 and October 2018; interest at 1.57% p.a., payable annually	10,400,000	10,400,000
August 2012, repayable in August 2018 and August 2019; interest at 1.37% p.a., payable annually	5,000,000	-
10-year unsecured bonds - issued at par by the Corporation in:		
August 2012, repayable in August 2021 and August 2022; interest at 1.50% p.a., payable annually	15,000,000	-

(Continued)

	December 31	
	2012	2011
Liability component of unsecured domestic convertible bonds - issued by CEC	$ 425,100	$ -
	58,400,100	49,250,000
Add: Accrued interest	916	-
Less: Issuance cost of bonds payable	44,475	35,574
Unamortized discount on bonds payable	14,771	-
Current portion	11,272,543	11,270,086
	$ 47,069,227	$ 37,944,340

(Concluded)

In February 2012, the subsidiary CEC issued NT$600,000 thousand of 3-year unsecured domestic convertible bonds with face value of NT$100 thousand each and zero interest coupon; the bond issuance had been approved by the government. The issuance cost was NT$4,900 thousand and the proceeds were used to increase operating capital and indirectly invest in CEVC. During the period of one month after the issuance date and 10 days before the maturity date, bondholders may request CEC to convert the bonds into its common shares. During the period of one month after the issuance date and 40 days before the maturity date, if the closing price of CEC's shares in the secondary financial market is higher than 130% of the conversion price for 30 consecutive trading days or when the outstanding convertible bonds are less than 10% of initial issued convertible bonds, CEC may redeem by cash the remaining bonds at their face value. On the repurchase date (February 20, 2014), two years after the issuance date, bondholders may request CEC to repurchase the bonds at their face value plus interest (100.501% of face value). As of December 31, 2012, the convertible bonds with NT$174,900 thousand face value have been converted into 3,090 thousand shares of CEC's common stock.

According to SFAS No. 34 and No. 36, the subsidiary CEC has separately accounted for the embedded derivatives and the host contract - bonds payable. The embedded derivatives, including put options and call options, were recognized in financial liabilities at fair value through profit or loss (Note 5) and measured at fair value.

23. LONG-TERM DEBT

	December 31	
	2012	2011
Syndicated bank loans		
Bank of Taiwan and other banks loan to CHSC		
Repayable in 13 equal semiannual installments from March 2013 to March 2019, interest at 1.5856% p.a.	$ 6,980,000	$ -
Repayable in March 2019 with a revolving credit, interest at 1.6047%-1.611% p.a.	4,500,000	-
Mega International Commercial Bank and other banks loan to CHSC		
Repayable in 14 equal semiannual installments from April 2007 to October 2013 and repaid early in March 2012; interest at 1.4535% p.a.	-	1,714,286

(Continued)

	December 31	
	2012	2011
Bank of Taiwan and other banks loan to DSC		
Repayable in 14 equal semiannual installments from January 2012 to July 2018, interest at 1.3173%-1.3589% p.a. and 1.2786%-1.3189% p.a. as of December 31, 2012 and 2011, respectively	$ 44,314,000	$ 51,700,000
Repayable in 10 equal semiannual installments from August 2012 to February 2017, interest at 1.5173%-1.5653% p.a. and 1.4908%-1.5379% p.a. as of December 31, 2012 and 2011, respectively	18,000,000	500,000
Taiwan Cooperative Bank and other banks loan to HLSC		
Repayable in June 2015 with a revolving credit, interest at 1.5381%-1.5782% p.a. and 1.5021%-1.5455% p.a. as of December 31, 2012 and 2011, respectively	2,400,000	2,400,000
Mortgage loans		
Due on various dates through April 2032, interest at 0.5625%-1.8007% p.a. and 0.5625%-1.71% p.a. as of December 31, 2012 and 2011, respectively	16,970,602	17,914,900
Bank loans		
Due on various dates through June 2017, interest at 0.50229%-4.78964% p.a. and 0.535%-5.65328% p.a. as of December 31, 2012 and 2011, respectively	20,240,552	13,144,397
	113,405,154	87,373,583
Less: Syndicated loan fee	170,571	124,385
Current portion	20,979,088	11,715,737
	$ 92,255,495	$ 75,533,461

(Concluded)

a. In December 2011, the subsidiary CHSC entered into a syndicated credit facility agreement with Bank of Taiwan and 11 other banks for a NT$16 billion credit line, which consists of NT$7 billion secured loans with a non-revolving credit line and NT$9 billion unsecured loans with a revolving credit line. Under the agreement, the Corporation and its related parties should collectively hold at least 30% of the CHSC's issued shares and control CHSC's operation. Starting 2012, CHSC should meet some financial ratios and criteria.

   In September 2006, the subsidiary CHSC entered into a syndicated credit facility agreement with Mega International Commercial Bank and 20 other banks for a NT$14 billion credit line, which consists of NT$6 billion secured loans with a non-revolving credit line and NT$8 billion unsecured loans with a revolving credit line. As of December 31, 2012, CHSC has revoked the credit line of NT$8 billion.

   In May 2010, the subsidiary HLSC entered into a syndicated credit facility agreement with Taiwan Cooperative Bank and 13 other banks for a NT$6 billion credit line, which consists of NT$3.5 billion secured loan with a revolving credit line and NT$2.5 billion unsecured loan with a revolving credit line. No unsecured loan was used as of December 31, 2012. Under the agreement, CHSC and its related parties should hold at least 51% of the HLSC's issued shares and have over half of the seats in the board of directors and supervisors. Starting 2010, HLSC should meet some financial ratios and criteria.

   The amounts referring to the above financial ratios and criteria should be based on audited annual financial statements. If CHSC and HLSC breach the agreements, they should take remedial measures within six months from the next day of the financial statements' declaration date;

otherwise, they need to adjust the interest rate and the rate of the guarantee fee in accordance with the agreement. As of December 31, 2012, CHSC and HLSC were in compliance with the syndicated credit facility agreement. As of December 31, 2012, the Corporation held directly and indirectly 41% equity of CHSC and had all of the seats in the board of directors and controlled its operation; CHSC held 100% equity of HLSC and had all of the seats in the board of directors and supervisors.

b. In July 2012, the subsidiary DSC entered into a syndicated credit facility agreement with Bank of Taiwan and 17 other banks for a NT$35 billion credit line, which consists of NT$30 billion secured loan with a non-revolving credit line and NT$5 billion secured commercial paper with a revolving credit line. No secured loan was used as of December 31, 2012. Under the agreement, the Corporation and its related parties should collectively hold at least 80% of DSC's issued shares and have half of the seats or more in the board of directors. Starting 2012, DSC should meet some financial ratios and criteria.

   In February 2008, the subsidiary DSC entered into a syndicated credit facility agreement with Bank of Taiwan and 13 other banks for a NT$51.7 billion credit line. Under the agreement, the Corporation should hold at least 40% of DSC's issued shares and have half of the seats or more in the board of directors. In December 2009, DSC entered into another syndicated credit facility agreement with Bank of Taiwan and 12 other banks for a NT$20 billion credit line. Under the agreement, the Corporation should hold at least 80% of DSC's issued shares and have half of the seats or more in the board of directors. Starting from the year that the plant, equipment and related facilities of the investment project for hot rolled plant of the phase II integrated steel mill are completed and can be used for mass production, but not later than 2012, DSC should meet some financial ratios and criteria.

   The amounts referring to the above financial ratios and criteria should be based on audited annual financial statements. If DSC breaches the financial ratios or the agreements, the management bank can, based on the decision by majority of banks, immediately terminate the credit line, declare DSC's outstanding principal and interest to maturity as due, and request DSC to immediately settle. As of December 31, 2012, DSC was in compliance with the syndicated credit facility agreement. As of December 31, 2012, the Corporation held 100% equity of DSC and had all of the seats in the board of directors.

c. The above bank loans include those obtained by the Corporation in Japanese yen, Australian dollar and U.S. dollars to hedge the exchange rate fluctuations on investments in EAUS, CSCAU and CSVC (Note 32) and on the available-for-sale financial assets in Maruichi Steel Tube Ltd. and Yodogawa Steel Works, Ltd. (Notes 6 and 32).

24. LONG-TERM NOTES PAYABLE

	December 31	
	2012	2011
Long-term notes - interest at 0.79%-1.238% p.a. and 0.77%-1.212% p.a. as of December 31, 2012 and 2011, respectively	$ 26,800,000	$ 24,830,000
Secured commercial paper in syndicated bank loans - interest at 1.205% p.a.	5,000,000	-
Less: Unamortized discounts	16,269	16,281
	$ 31,783,731	$ 24,813,719

The Corporation and its subsidiaries entered into fixed rate commercial paper contracts with bills finance corporations and banks. The duration of the contracts is three to five years and the cycle of issuance is fifteen to sixty days, during which the Corporation and its subsidiaries only have to pay service fees and interests. Therefore, the Corporation and its subsidiaries recorded those commercial papers issued as long-term notes payable.

The subsidiary DSC issued secured commercial paper in syndicated bank loans with the duration of seven years (Note 23).

The above long-term notes were secured by Bank of Kaohsiung, Australia and New Zealand Bank, Mega International Commercial Bank and etc.

25. RESTRUCTURED LOANS PAYABLE (ONLY AS OF DECEMBER 31, 2011)

The subsidiary DSC has confirmed its repayment plan according to its reorganization plan. Restructured loans payable are classified by payment scheme and by loan term, recorded as current liabilities or long-term liabilities.

Restructured loans payable for the year ended December 31, 2011 was as follows:

	Secured Loans	Unsecured Loans	DSC Recorded as Restructured Loans Payable	Adjustments on Allocation of Acquisition Cost for DSC	Total Restructured Loans Payable After Allocation of Acquisition Cost
Year ended December 31, 2011					
Balance, beginning of year	$ 3,349,544	$ 1,232,989	$ 4,582,533	$ (13,135)	$ 4,569,398
Repayment during the year	(3,349,544)	(1,232,989)	(4,582,533)	-	(4,582,533)
Adjustments on allocation of acquisition cost for DSC	-	-	-	13,135	13,135
Balance, end of year	$ -	$ -	$ -	$ -	$ -

According to the reorganization plan, interest rates of the secured loans and the unsecured loans were 2.15% and 2% respectively.

The repayment scheme for the above restructured loans payable is to pay NT$200 million for loan principals on June 30 and December 30 each until 2014. DSC should pay creditors of secured loans and unsecured loans proportionally. Interests are calculated monthly and paid quarterly. According to the reorganization plan, DSC can pay off the loans payable in advance. Thus, DSC has paid off all restructured loans by the end of March 2011.

26. PENSION PLANS

The pension plan under the Labor Pension Act (the "LPA") is a defined contribution plan. Based on the LPA, the Corporation and its domestic subsidiaries make monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages. The pension plan under local regulations for foreign subsidiaries is also a defined contribution plan. Such pension costs of the Corporation and its domestic subsidiaries were NT$378,216 thousand and NT$359,459 thousand for the years ended December 31, 2012 and 2011, respectively.

The Corporation and its domestic subsidiaries have retirement plan in accordance with the Labor Standards Law of the ROC. Retirement benefits are based on employee's length of service and his/her average salaries and wages of the last six months before retirement. The Corporation and its domestic subsidiaries make contributions, equal to a certain percentage of salaries, to a pension fund, which are deposited in the Bank of Taiwan in the name of, and administered by the employees' pension supervisory fund committee. The Corporation and the subsidiaries, such as CSGT, ICSC, CHC and etc., also made contributions, equal to a certain percentage of salaries of management personnel, to another pension fund, which are deposited and administered by the officers' pension fund management committee. Such pension costs of the Corporation and its domestic subsidiaries for the years ended December 31, 2012 and 2011 were NT$1,011,668 thousand and NT$1,298,431 thousand, respectively.

Under SFAS No. 18, pension information of the Corporation and its domestic subsidiaries based on actuarial calculation was as follows:

a. Components of net pension cost

	Years Ended December 31	
	2012	2011
Service cost	$ 798,140	$ 868,231
Interest cost	528,264	608,418
Projected return on plan assets	(450,993)	(451,523)
Amortization	118,435	221,814
Settlement loss	17,822	51,491
Net pension cost	$ 1,011,668	$ 1,298,431

b. Reconciliation of the funded status of the plan and accrued pension cost

	December 31	
	2012	2011
Benefit obligation		
Vested benefit obligation	$ 20,554,740	$ 19,516,929
Non-vested benefit obligation	3,074,198	3,281,618
Accumulated benefit obligation	23,628,938	22,798,547
Additional benefits based on future salaries	4,081,998	4,115,786
Projected benefit obligation	27,710,936	26,914,333
Fair value of plan assets	(23,048,237)	(22,563,466)
Funded status	4,662,699	4,350,867
Unamortized prior service cost	(94,190)	(83,920)
Unrecognized net asset at transition	28,132	35,125
Unrecognized net transition obligation	(14,371)	(18,369)
Unamortized net loss	(4,203,481)	(3,875,613)
Additional pension liability	427,381	436,013
Accrued pension cost (included in accrued expenses or prepaid pension cost)	(83,503)	(89,998)
Accrued pension cost	$ 722,667	$ 754,105
Vested benefits	$ 22,505,656	$ 22,351,277

c. Actuarial assumptions

	December 31	
	2012	2011
Discount rate used in determining present values	1.50%-2.25%	2.00%-2.75%
Future salary increase rate	1.00%-3.00%	1.00%-3.00%
Expected rate of return on plan assets	1.75%-2.25%	2.00%-2.75%

27. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The subsidiaries CSMC, CEC, CSSC and their subsidiaries classified their assets and liabilities of the construction operations as well as machinery and equipment of the manufacturing operations as current and noncurrent according to the length of the operating cycle. Maturity analysis of the related assets and liabilities was as follows:

	Due Within One Year	Due After One Year	Total
December 31, 2012			
Assets			
Notes and accounts receivable, net	$ 11,993,672	$ 58,061	$ 12,051,733
Inventories	83,138,318	1,144,216	84,282,534
	$ 95,131,990	$ 1,202,277	$ 96,334,267
Liabilities			
Notes and accounts payable	$ 10,566,215	$ 27,565	$ 10,593,780
Advance construction receipts in excess of construction in progress (included in other current liabilities)	1,737,014	1,909,044	3,646,058
	$ 12,303,229	$ 1,936,609	$ 14,239,838
December 31, 2011			
Assets			
Notes and accounts receivable, net	$ 12,102,876	$ 12,707	$ 12,115,583
Inventories	114,469,512	1,491,954	115,961,466
	$ 126,572,388	$ 1,504,661	$ 128,077,049
Liabilities			
Notes and accounts payable	$ 11,160,370	$ 37,292	$ 11,197,662
Advance construction receipts in excess of construction in progress (included in other current liabilities)	1,107,454	1,176,376	2,283,830
	$ 12,267,824	$ 1,213,668	$ 13,481,492

28. STOCKHOLDERS' EQUITY OF PARENT COMPANY

a. Capital stock

In August 2012 and July 2011, the Corporation issued 226,268 thousand and 678,308 thousand common shares through capitalization of retained earnings of NT$2,262,672 thousand and NT$6,783,084 thousand, respectively; the capital increases have been registered with the government.

The Corporation's board of directors approved an issuance of 840,000 thousand new shares with NT$10 par value at issuance price of NT$28.3248 per share, and the record date of capital increase was on August 1, 2011. The capital increase has been registered with the government. Total proceeds, net of issuance cost, exceeded par value by NT$15,338,755 thousand, recorded as additional paid-in capital under capital surplus. The 763,668 thousand shares of the new shares were through issuance of 38,183,400 units of global depository receipts (GDR). Each unit represents 20 shares of the Corporation's common stock. The remaining 76,332 thousand shares were allocated for employees; for employees of the Corporation, 74,305 thousand shares, and for employees of the subsidiaries, 2,027 thousand shares. These options were vested immediately. In August 2011, all the above options were exercised.

In August 2011, options granted to employees were priced by the Black-Scholes model, and the inputs to the model were as follows:

Grant-date share price (NT$)	29.65
Transferred price (NT$)	28.3248
Expected volatility	7.19%
Expected duration life (day)	2
Risk-free interest rate	0.67%

In August 2011, the Corporation recognized compensation expense of NT$98,826 thousand and recognized a capital surplus of NT$2,437 thousand from granting stock option to employees of subsidiaries.

b. Treasury stock

	Thousand Shares			December 31	
Purpose of Treasury Stock	**Beginning of Year**	**Addition**	**Reduction**	**Thousand Shares**	**Book Value**
Year ended December 31, 2012					
Shares acquired and held by subsidiaries	295,065	15,552	801	309,816	$ 8,415,348
Year ended December 31, 2011					
Shares acquired and held by subsidiaries	284,762	26,679	16,376	295,065	$ 8,122,461

The Corporation's shares acquired and held by subsidiaries are accounted for as treasury stock (subsidiaries recorded those shares as available-for-sale financial assets - current and available-for-sale financial assets - noncurrent). The Corporation's shares held by more than 50%-owned subsidiaries are not allowed to participate in the Corporation's capital increase in cash and have no voting rights; other rights are the same as other common stockholders. The increase of treasury stock was due to acquisition of the Corporation's shares by subsidiaries in which the Corporation has less than 50% shareholding and the Corporation's capital increase from retained earnings. The decrease of treasury stock was mainly due to subsidiaries' sale of the Corporation's shares and change in percentage of ownership.

For the years ended December 31, 2012 and 2011, the subsidiaries sold 1,769 thousand shares and 29,274 thousand shares of the Corporation for proceeds of NT$48,415 thousand and NT$916,090 thousand, respectively. For the years ended December 31, 2012 and 2011, the proceeds of treasury stock sold, calculated by shareholding percentage, amounted to NT$21,693 thousand and NT$511,448 thousand, and after deducting book values, resulted in the amounts of NT$3,200 thousand and NT$106,638 thousand, recorded as capital surplus, respectively. As of December 31, 2012 and 2011, the market values of the treasury shares calculated by combined holding percentage were NT$8,473,457 thousand and NT$8,497,875 thousand, respectively.

c. Overseas depositary receipts

In May 1992, February 1997, October 2003 and August 2011, for the purpose of working capital expansion and in accordance with the instruction of the ROC's MOEA, the largest shareholder of the Corporation, the Corporation issued 126,512,550 units of GDR. The depositary receipts then increased by 6,844,969 units resulting from the capital increase out of retained earnings. Each unit represents 20 shares of the Corporation's common stock and the issued GDRs account for the Corporation's common shares totaling 2,667,150,644 shares (including 264 fractional shares). Under relevant regulations, the GDR holders may also request the conversion to the shares represented by the GDR. The foreign investors may also request the reissuance of such depositary receipts within the originally approved units. As of December 31, 2012 and 2011, the outstanding depositary receipts were 2,930,471 units and 3,396,550 units, equivalent to 58,609,704 common shares (including 284 fractional shares) and 67,931,271 common shares (including 271 fractional shares), which represented 0.38% and 0.45% of the outstanding common shares, respectively.

d. Preferred stock

Preferred stockholders have the following entitlements and obligation:

1) 14% annual dividends, with dividend payments ahead of those to common stockholders;

2) Preference over common stock in future payment of dividends in arrears;

3) The sequence and percentage of appropriation of residual property are the same with common stocks.

4) The same rights as common stockholders, except the right to vote for directors and supervisors; and

5) Redeemable by the Corporation and convertible to common stock by preferred stockholders with the ratio of 1:1.

e. Capital surplus

Capital surplus comprised the following:

	December 31	
	2012	2011
Additional paid-in capital	$ 31,154,766	$ 31,154,766
Treasury stock transactions	4,947,307	4,635,553
Long-term stock investments	563,356	449,287
Others	8,099	8,099
	$ 36,673,528	$ 36,247,705

The capital surplus from shares issued in excess of par and treasury stock transactions may be used to offset a deficit; in addition, when the Corporation has no deficit, such capital surplus may be distributed as cash dividends or transferred to capital (limited to a certain percentage of the Corporation paid-in capital and once a year). The capital surplus for long-term stock investments accounted for under the equity method may not be used for any purpose.

f. Appropriation of retained earnings and dividend policy

The Corporation's Articles of Incorporation provides that the annual net income, less any deficit, should be appropriated in the following order:

1) 10% as legal reserve;

2) Preferred stock dividends at 14% of par value;

3) Of the remainder, 0.15% as remuneration to directors and supervisors and 8% as bonus to employees.

4) Common stock dividends at 14% of par value; and

5) The remainder, if any, as additional dividends divided equally between the holders of preferred and common stocks.

The board of directors should propose the appropriation of earnings. If necessary, it may, after appropriating for preferred stock dividends, propose to appropriate a special reserve or to retain certain earnings. These proposals should be submitted to the stockholders' meeting for approval.

The Corporation is required to appropriate a special reserve from annual earnings for any net debit balance resulting from adjustments to parts of the stockholders' equity (including unrealized revaluation increment, unrealized gain (loss) on financial instruments, unrecognized net loss on pension cost and cumulative translation adjustments, excluding treasury stock held by the Corporation). Besides, if the market price of the Corporation's common shares held by subsidiaries is lower than the carrying value of the Corporation's shares held by subsidiaries, the Corporation should appropriate a special reserve equal to the difference between market price and carrying value multiplied by the percentage of ownership. The Corporation may release a portion of this special reserve when such debit balances are partially or fully reversed. As of December 31, 2012, the Corporation had fully reversed the special reserve for net debit balance for the adjustments to stockholders' equity, and the remaining unreversed special reserve was held for the capital demand of certain expansion projects.

The Corporation's steel business is in a phase of stable growth; thus, 75% or more of the appropriation for dividends should be in cash and 25% or less in stock.

Estimated bonus to employees and remuneration to directors and supervisors were as follows:

	Years Ended December 31	
	2012	**2011**
Bonus to employees	$ 414,141	$ 1,399,259
Remuneration to directors and supervisors	7,765	26,236
	$ 421,906	$ 1,425,495

The bonus to employees and remuneration to directors and supervisors were calculated based on the percentages provided by the Corporation's Articles of Incorporation and accrued based on past experiences. If the actual amounts subsequently resolved by the stockholders differ from the proposed amounts, the differences are recorded in the year of stockholders' resolution as a change in accounting estimate.

If bonus shares are resolved to be distributed to employees, the number of shares is determined by dividing the amount of bonus by the closing price (after considering the effect of cash and stock dividends) of the shares at the date preceding the stockholders' meeting.

Legal reserve shall be appropriated until it has reached the Corporation's paid-in capital. This reserve may be used to offset a deficit. When the Corporation incurs no loss and the legal reserve has exceeded 25% of the Corporation's paid-in capital, the excess may be transferred to capital or distributed in cash.

The Corporation's stockholders in their June 2012 and 2011 meetings approved the following appropriations of the 2011 and 2010 earnings, respectively.

	Appropriation of Earnings		Dividends Per Share (NT dollars)	
	2011	2010	2011	2010
Legal reserve	$ 1,949,368	$ 3,758,683		
Preferred stocks				
Cash dividends	47,835	76,153	$ 1.25	$ 1.99
Stock dividends	5,740	19,134	0.15	0.50
			$ 1.40	$ 2.49
Common stocks				
Cash dividends	15,196,671	26,920,523	$ 1.01	$ 1.99
Stock dividends	2,256,932	6,763,950	0.15	0.50
	$ 19,456,546	$ 37,538,443	$ 1.16	$ 2.49

The bonus to employees and the remuneration to directors and supervisors for 2011 and 2010 approved in the aforementioned stockholders' meetings were as follows (settled by cash):

	Years Ended December 31			
	2011		2010	
	Bonus to Employees	Remuneration to Directors and Supervisors	Bonus to Employees	Remuneration to Directors and Supervisors
Amounts approved in stockholders' meetings	$ 1,399,259	$ 26,236	$ 2,701,965	$ 50,662
Amounts recognized in respective financial statements	1,399,259	26,236	2,701,965	50,662
Difference	$ -	$ -	$ -	$ -

The appropriations of earnings for 2012 had been proposed in the board of directors' meeting on March 22, 2013. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT Dollars)
Legal reserve	$ 581,149	
Preferred stocks		
Cash dividends	49,748	$ 1.3
Stock dividends	3,827	0.1
		$ 1.4
Common stocks		
Cash dividends	6,108,990	$ 0.4
Stock dividends	1,527,248	0.1

$ 8,270,962	$ 0.5

On March 22, 2013, the board of directors proposed the bonus to employees of NT$414,141 thousand and the remuneration to directors and supervisors of NT$7,765 thousand for 2012. The amounts proposed were the same as the amounts recognized in the financial statements for the year ended December 31, 2012.

The 2012 appropriations of earnings, bonus to employees and remuneration to directors and supervisors will be resolved by the stockholders in their meeting scheduled for June 19, 2013.

Information about the appropriations of earnings, bonus to employees and remuneration to directors and supervisors is available on the Market Observation Post System website of the Taiwan Stock Exchange.

g. Unrealized revaluation increment

Unrealized revaluation increment comprised the following:

	December 31	
	2012	2011
Revaluation increment of property, plant and equipment (Note 15)	$ 26,607,167	$ 26,610,866
Recognized in proportion to the ownership percentage in long-term stock investments	142,957	146,724
	$ 26,750,124	$ 26,757,590

h. Unrealized gain on financial instruments

For the years ended December 31, 2012 and 2011, movements of unrealized gain on financial instruments were as follows:

	Available-for-sale Financial Assets	Equity-method Investments	Unrealized Gain or Loss on Cash Flow Hedging	Total
Year ended December 31, 2012				
Balance, beginning of year	$ 3,079,773	$ (341,916)	$ 283,062	$ 3,020,919
Recognized in stockholders' equity	799,442	6,430	(217,380)	588,492
Transferred to profit or loss	(1,091,815)	-	-	(1,091,815)
Transferred to construction in progress and prepayments for equipment	-	-	(59,349)	(59,349)
Balance, end of year	$ 2,787,400	$ (335,486)	$ 6,333	$ 2,458,247
Year ended December 31, 2011				
Balance, beginning of year	$ 2,938,550	$ (593,445)	$ 29,272	$ 2,374,377
Recognized in stockholders' equity	141,223	251,529	235,618	628,370
Transferred to construction in progress and prepayments for equipment	-	-	18,172	18,172

Balance, end of year	$ 3,079,773	$ (341,916)	$ 283,062	$ 3,020,919

For the years ended December 31, 2012 and 2011, unrealized gain (loss) on financial instruments in cash flow hedge was as follows:

	Years Ended December 31	
	2012	2011
Unrealized gain (loss) on cash flow hedging	$ (261,904)	$ 283,877
Tax effect	44,524	(48,259)
Net (recognized in stockholders' equity)	$ (217,380)	$ 235,618
Unrealized loss (gain) on cash flow hedging instruments transferred to construction in progress and prepayments for equipment	$ (71,505)	$ 21,894
Tax effect	12,156	(3,722)
Net (transferred out of stockholders' equity)	$ (59,349)	$ 18,172

i. Cumulative translation adjustments

Changes in composition of cumulative translation adjustments for the years ended December 31, 2012 and 2011 were as follows:

	Years Ended December 31	
	2012	2011
Balance, beginning of year	$ 17,192	$ (101,443)
Recognized in stockholders' equity	(410,421)	118,635
Balance, end of year	$ (393,229)	$ 17,192

29. INCOME TAX

a. A reconciliation of income tax based on consolidated income before income tax and income tax for the years ended December 31, 2012 and 2011, respectively, was as follows:

	Years Ended December 31	
	2012	2011
Income tax at the statutory rate	$ 1,403,918	$ 4,137,580
Tax effect of adjusting items		
Permanent differences		
Loss (gain) on valuation of financial instruments and on disposal of investments, net	(235,354)	4,800
Dividend income allotted by domestic investees	(142,885)	(217,622)
Tax-exempt income	(58,152)	(68,034)
Reversal of impairment loss on assets	(9,828)	(60,055)
Others	(113,819)	127,080
Temporary differences		
Difference between tax reporting and financial reporting - revenue	124,478	1,261

(Continued)

	Years Ended December 31	
	2012	2011
Difference between tax reporting and financial reporting - depreciation methods	$ 100,945	$ 116,864
Unrealized (realized) provision for loss on inventories	(316,675)	712,531
Realized loss on construction and service commitments	(67,488)	(137,631)
Unrealized (realized) loss on purchase commitments	(47,515)	66,838
Others	(233,226)	(203,111)
Investment tax credits used	(14,082)	(1,657,127)
Loss carryforwards used	(1,935)	(38,964)
Tax benefit from loss carryforwards	1,331,085	449,288
Additional income tax under the Alternative Minimum Tax Act	4,830	8,173
Additional 10% income tax on unappropriated earnings	34,794	51,685
Income tax currently payable	1,759,091	3,293,556
Tax separately levied on interest from short-term bills	-	2
Adjustments for prior years' tax	363,398	126,204
Current income tax expense	2,122,489	3,419,762
Deferred tax - temporary differences, investment tax credits, and loss carryforwards included	(831,063)	(884,969)
	$ 1,291,426	$ 2,534,793

(Concluded)

b. Changes in income tax payable

	Years Ended December 31	
	2012	2011
Balance, beginning of year	$ 3,376,691	$ 6,272,105
Current income tax expense	2,122,489	3,419,762
Payment in the current year	(3,332,292)	(5,313,903)
Deferred income tax assets used for linked tax filing	-	(1,165,973)
Transferred to other receivables	(68,280)	164,700
Balance, end of year	$ 2,098,608	$ 3,376,691

The Corporation adopted the linked tax system for tax filing with subsidiary - DSC since 2009. Deferred income tax assets used for linked tax filing is that the investment tax credits and loss carryforwards of DSC were used by the Corporation when the linked tax was filed.

Under Article 10 of the Statute for Industrial Innovation (SII) passed by the Legislative Yuan in April 2010, a profit-seeking enterprise may deduct up to 15% of its research and development expenditures from its income tax payable for the fiscal year in which these expenditures are incurred, but this deduction should not exceed 30% of the income tax payable for that fiscal year. This incentive took effect from January 1, 2010 and is effective till December 31, 2019, and the investment tax credits under earlier regulations can be used in the current and next four years. The investment tax credits used every year shall not exceed 50% of the total tax payable, but the full remaining creditable amount can be used at the expiration year.

c. Deferred income tax assets and liabilities were as follows:

	December 31 2012	December 31 2011
Current		
Deferred income tax assets		
Unrealized provision for loss on inventories	$ 736,922	$ 1,050,482
Investment tax credits	432,129	1,928,171
Unrealized loss on construction and service commitments	270,239	329,627
Unrealized reserve for construction guarantee	129,976	147,563
Difference between tax reporting and financial reporting - revenue recognition	117,651	2,088
Unrealized sales allowance	70,642	65,068
Unrealized loss on purchase commitments	61,691	106,310
Estimated preferential severance pay	57,156	84,905
Loss carryforwards	2,554	42,867
Others	312,721	223,909
	2,191,681	3,980,990
Less: Valuation allowance	109,338	330,304
	2,082,343	3,650,686
Deferred income tax liabilities		
Difference between tax reporting and financial reporting - inventory	(17,065)	(21,236)
Others	(15,288)	(6,083)
	(32,353)	(27,319)
Total deferred income tax assets - current, net	2,049,990	3,623,367
Noncurrent		
Deferred income tax assets		
Investment tax credits	3,654,668	1,606,179
Loss carryforwards	2,052,654	733,091
Impairment loss on financial assets	958,242	958,292
Unrealized gain from affiliates	155,486	164,690
Others	797,648	695,978
	7,618,698	4,158,230
Less: Valuation allowance	2,954,984	2,035,131
	4,663,714	2,123,099
Deferred income tax liabilities		
Difference between tax reporting and financial reporting - depreciation methods	(1,398,371)	(1,501,472)
Foreign investment income	(1,169,795)	(1,087,162)
Others	(90,093)	(77,964)
	(2,658,259)	(2,666,598)
Total deferred income tax assets (liabilities) - noncurrent, net	2,005,455	(543,499)
Total deferred income tax assets	$ 4,055,445	$ 3,079,868

The above deferred income tax assets (liabilities) were recorded as follows:

	December 31 2012	December 31 2011
Deferred income tax assets - current	$ 2,058,931	$ 3,623,367
Deferred income tax assets - noncurrent	3,080,214	-

(Continued)

	December 31	
	2012	2011
Deferred income tax liabilities - current	$ (8,941)	$ -
Deferred income tax liabilities - noncurrent	(1,074,759)	(543,499)
	$ 4,055,445	$ 3,079,868

(Concluded)

Under the Statute for Upgrading Industries, the Corporation and its subsidiaries recognized investment tax credits from purchases of machinery and equipment and investments in important technology-based enterprises. As of December 31, 2012, investment tax credits comprised:

Tax Credit Source	Total Creditable and Remaining Creditable Amount	Expiry Year
Purchase of machinery and equipment	$ 4,086,797	2016

As of December 31, 2012, the subsidiaries had unused loss carryforwards of NT$12,084,648 thousand (tax amounted to NT$2,055,208 thousand), with expiry years from 2013 to 2022.

The Corporation's income tax returns through 2008 and the subsidiaries' income tax returns through 2008 to 2011 have been examined by the tax authorities.

d. Information about integrated income tax was as follows:

	December 31	
	2012	2011
Imputation credit account (ICA)	$ 24,717	$ 211,179
Unappropriated earnings generated before January 1, 1998	15,440	15,440

The creditable ratio for distribution of 2012 and 2011 earnings was 7.05% (estimated) and 17.84%, respectively.

For distribution of earnings generated after January 1, 1998, the ratio for the imputation credits allocated to domestic shareholders of the Corporation is based on the balance of the ICA as of the date of dividend distribution. Nonresident stockholders, including holders of overseas depository receipts, are allowed only a tax credit from the 10% income tax on unappropriated earnings, which can be used to offset withholding income tax on dividends paid. The expected creditable ratio for the 2012 earnings may be adjusted, depending on the ICA balance on the date of dividend distribution.

30. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	Years Ended December 31							
	2012				2011			
	Operating Cost	Operating Expense	Others	Total	Operating Cost	Operating Expense	Others	Total
Personnel								
Salary	$ 18,574,472	$ 4,291,486	$ 785,743	$ 23,651,701	$ 21,004,770	$ 4,693,623	$ 735,475	$ 26,433,868
Labor and health insurance	1,194,463	228,382	57,446	1,480,291	1,110,721	204,337	44,826	1,359,884
Pension and consolation costs	1,141,661	339,969	57,071	1,538,701	1,337,840	372,550	33,078	1,743,468
Others	1,123,981	443,033	53,752	1,620,766	1,251,807	405,557	63,453	1,720,817
	$ 22,034,577	$ 5,302,870	$ 954,012	$ 28,291,459	$ 24,705,138	$ 5,676,067	$ 876,832	$ 31,258,037
Depreciation	$ 27,743,059	$ 630,961	$ 98,910	$ 28,472,930	$ 25,497,430	$ 593,422	$ 47,522	$ 26,138,374

Amortization	170,680	49,438	4,409	224,527	293,511	45,004	3,867	342,382

31. EARNINGS PER SHARE

	Amount (Numerator) Before Tax	Amount (Numerator) After Tax	Shares (Denominator) (Thousand)	Earnings Per Share (Dollars) Before Tax	Earnings Per Share (Dollars) After Tax
Year ended December 31, 2012					
Consolidated net income attributable to the Corporation's stockholders	$ 6,130,571	$ 5,811,490			
Less: Dividends on preferred shares	(56,517)	(53,575)			
Basic EPS					
Consolidated net income attributable to the Corporation's common stockholders	6,074,054	5,757,915	14,962,661	$ 0.41	$ 0.38
Effect of dilutive potential common stock					
Add: Bonus to employees	-	-	38,979		
Diluted EPS					
Consolidated net income attributable to the Corporation's common stockholders plus effect of potential dilutive common stock	$ 6,074,054	$ 5,757,915	15,001,640	0.40	0.38
Year ended December 31, 2011					
Consolidated net income attributable to the Corporation's stockholders	$ 20,284,693	$ 19,493,679			
Less: Dividends on preferred shares	(55,749)	(53,575)			
Basic EPS					
Consolidated net income attributable to the Corporation's common stockholders	20,228,944	19,440,104	14,482,986	1.40	1.34
Effect of dilutive potential common stock					
Add: Dividends on preferred shares	55,749	53,575	38,268		
Bonus to employees	-	-	92,101		
Diluted EPS					
Consolidated net income attributable to the Corporation's common stockholders plus effect of potential dilutive common stock	$ 20,284,693	$ 19,493,679	14,613,355	1.39	1.33

Preferred shares were not included in the calculation of diluted EPS for the year ended December 31, 2012 because of their anti-dilutive effect.

The Accounting Research Development Foundation (ARDF) issued Interpretation 2007-052 that requires corporations to recognize bonuses paid to employees, directors and supervisors as compensation expenses beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings. If the Corporation may settle the bonus to employees by cash or shares, the Corporation should presume that the entire amount of the bonus will be settled in shares and the resulting potential shares should be included in the weighted average number of shares outstanding used in the calculation of diluted EPS, if the shares have a dilutive effect. The number of shares is estimated by dividing the amount of bonus by the closing price of the shares at the balance sheet date. The dilutive effect of the shares should be considered until the stockholders resolve the number of shares to be distributed to employees in their meeting in the following year.

The weighted average number of shares outstanding for EPS calculation has been retroactively adjusted for the issuance of stock dividends distributed out of earnings for the year ended December 31, 2012. The adjustment caused the basic and diluted after income tax EPS for the year ended December 31, 2011 to decrease from NT$1.36 to NT$1.34 and from NT$1.35 to NT$1.33, respectively.

32. FINANCIAL INSTRUMENTS

a. As of December 31, 2012 and 2011, the information of fair values was as follows:

	December 31			
	2012		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Non-derivative financial instruments</u>				
Consolidated assets				
Financial assets at fair value through profit or loss (including noncurrent)	$ 3,631,303	$ 3,631,303	$ 3,119,648	$ 3,119,648
Available-for-sale financial assets (including noncurrent)	8,342,952	8,342,952	8,744,906	8,744,906
Held-to-maturity financial assets (including noncurrent)	185,159	185,159	169,721	169,721
Financial assets carried at cost	12,449,537		10,603,195	
Bond investments with no active market	3,536,086	3,536,086	4,050,222	4,050,222
Other financial assets (including noncurrent)	4,271,397	4,271,397	5,829,846	5,829,846
Refundable deposits	431,779	431,779	428,431	428,431
Consolidated liabilities				
Bonds payable (including current portion)	58,341,770	58,680,301	49,214,426	49,927,381
Long-term debt (including current portion)	113,234,583	113,234,583	87,249,198	87,249,198
Long-term notes payable	31,783,731	31,783,731	24,813,719	24,813,719
<u>Derivative financial instruments</u>				
Consolidated assets				
Financial assets at fair value through profit or loss (including noncurrent)	4,644	4,644	28,967	28,967
Hedging derivative assets (including noncurrent)	52,933	52,933	240,688	240,688
Consolidated liabilities				
Financial liabilities at fair value through profit or loss (including noncurrent)	6,101	6,101	90	90
Hedging derivative liabilities (including noncurrent)	327,209	327,209	95,806	95,806

b. Methods and assumptions used to estimate the fair values of financial instruments were as follows:

1) The carrying values of cash and cash equivalents, notes and accounts receivable, other receivables (excluding tax refund receivable), restricted assets, short-term loans and overdraft, commercial paper payable, notes and accounts payable, accrued expenses and other payables, approximate fair value because of the short maturities of these instruments.

2) The fair values of financial instruments at fair value through profit or loss, available-for-sale financial assets and hedging derivative financial instruments are determined at their market value. If there is no market value available for reference, the fair values are determined through valuation techniques. For stocks acquired through private placement and not transferred freely in public market, fair values are determined by using valuation techniques adopted by the Corporation based on information from the Market Observation Post System, the Taiwan Stock Exchange, etc. and calculated by using the Black-Scholes Model. For hedging derivative instruments, the information used by the Corporation and its subsidiaries

for determining assumptions applied in valuation is consistent with that used by market participants and is obtained from financial institutions. For fair values of financial instruments denominated in foreign currencies and foreign exchange contracts, the translations to New Taiwan dollars use exchange rates based on the buying rates quoted by the Central Bank and on the rates quoted by Reuters.

3) Financial assets carried at cost issued by non-public corporations have no active market price and their verifiable fair value cannot be determined at a reasonable cost. Therefore, no fair value is presented.

4) The fair values of held-to-maturity financial assets and bond investments with no active market are determined at their carrying values.

5) The fair values of refundable deposits are determined at their carrying values.

6) The fair values of foreign currency deposits, included in other financial assets, and long-term liabilities are determined by the present values of future cash flows. If there is market price available for reference, the fair values are determined based on the market price. If there is no market price available for reference, the values are discounted at the interest rates of similar long-term debt and the floating-rate of foreign currency deposits available to the Corporation and its subsidiaries. Discount rates as of December 31, 2012 and 2011 were 0.2%-4.78964 % and 0.35%-5.65328%, respectively.

c. Fair values of the financial assets and financial liabilities based on quoted market prices or using valuation technique were as follows:

	Amount Determined by Quoted Market Price		**Amount Determined by Using Valuation Technique**	
	December 31		**December 31**	
	2012	**2011**	**2012**	**2011**
Consolidated assets				
Financial assets at fair value through profit or loss (including noncurrent)	$ 3,487,915	$ 2,813,722	$ 148,032	$ 334,893
Available-for-sale financial assets (including noncurrent)	7,758,730	8,321,471	584,222	423,435
Held-to-maturity financial assets (including noncurrent)	-	-	185,159	169,721
Bond investments with no active market	-	-	3,536,086	4,050,222
Other financial assets (including noncurrent)	-	-	4,271,397	5,829,846
Hedging derivative assets (including noncurrent)	-	-	52,933	240,688
Refundable deposits	-	-	431,779	428,431
Consolidated liabilities				
Financial liabilities at fair value through profit or loss (including noncurrent)	-	-	6,101	90
Hedging derivative liabilities (including noncurrent)	-	-	327,209	95,806
Bonds payables (including current portion)	58,680,301	49,927,381	-	-
Long-term debt (including current portion)	-	-	113,234,583	87,249,198
Long-term notes payable	-	-	31,783,731	24,813,719

d. Valuation gains and losses arising from changes in fair value of financial instruments determined using valuation techniques were valuation loss NT$7,200 thousand and valuation gain NT$25,778 thousand for the years ended December 31, 2012 and 2011, respectively.

e. As of December 31, 2012 and 2011, financial liabilities exposed to cash flow interest rate risk amounted to NT$170,655,391 thousand and NT$171,980,927 thousand, respectively, and financial liabilities exposed to fair value interest rate risk amounted to NT$87,021,200 thousand and NT$71,572,326 thousand, respectively.

f. The Corporation and its subsidiaries' total interest income and expenses (inclusive of capitalized interest) which were incurred from other than financial assets and liabilities at fair value through profit or loss were NT$413,999 thousand and NT$3,532,413 thousand, respectively, for the year ended December 31, 2012 and NT$333,668 thousand and NT$2,837,096 thousand, respectively, for the year ended December 31, 2011.

g. Financial risks

1) Market risk

Market risk includes exchange rate risk, fair value risk of interest rate change, and market price risk. The Corporation had loans in foreign currencies to hedge the exchange rate fluctuations on its long term investment in foreign currencies, thus, the exchange rate risk can be hedged naturally. The Corporation issued bonds with fixed interest rate, but the fair value of the bonds payable may be influenced by market interest rate change. If market interest rate increases or decreases by 1%, the fair value of bonds payable will decrease or increase by about NT$2,701,541 thousand.

The Corporation and its subsidiaries hold mutual funds and publicly traded stocks which are subject to market price risk. The market price risk of mutual funds is considered insignificant because the fair value of mutual funds has little fluctuation. If the share price of publicly traded stocks increases or decreases by 1%, the fair value will increase or decrease by about NT$71,604 thousand.

2) Credit risk

Credit risk represents the potential loss that would be incurred by the Corporation and its subsidiaries if the counter-parties breach contracts. Financial instruments with positive fair values at the balance sheet date are evaluated for credit risk. The counter-parties to the foregoing financial instruments are reputable financial institutions and business organizations. Management does not expect the Corporation and its subsidiaries' exposure to default by those parties to be material.

Endorsements/guarantees provided to the consolidated entities as of December 31, 2012 were as follows:

Endorsement/Guarantee Provider	**Counter-party**	**Ending Balance**	
China Steel Corporation	Dragon Steel Corporation	USD	399,565 thousand
	CSC Steel Australia Holding Pty Ltd.	AUD	359,314 thousand
China Steel Structure Co., Ltd.	United Steel Constructure Corporation	NTD	1,105,000 thousand
	Chung-Kang Steel Structure (Kunshan) Co., Ltd.	NTD	319,440 thousand
	United Steel Construction Vietnam Co., Ltd.	NTD	319,440 thousand
United Steel Constructure Corporation	China Steel Structure Co., Ltd.	NTD	5,795,827 thousand
China Steel Global Trading Corporation	Chung Mao Trading (SAMOA) Co.	USD	3,000 thousand
	CSGT International Corporation	USD	3,200 thousand
China Steel Express Corporation	CSE Transport Corporation (Panama)	USD	111,000 thousand
	CSEI Transport Panama Corp.	USD	49,976 thousand

	(Panama)	
China Prosperity Development Corporation	CK Japan Co., Ltd.	JPY 1,750,000 thousand

3) Liquidity risk

The Corporation and its subsidiaries have sufficient operating capital to meet future cash needs. Therefore, the cash flow risk is low.

Financial assets at fair value through profit or loss and available-for-sale financial assets could be sold readily in the active market or secondary financial market at prices approximating fair value. There are liquidity risks for the stocks acquired through private placement and not transferred freely in public market, financial assets carried at cost, bond investments with no active market and held-to-maturity financial assets because no quoted active market prices are available.

4) Cash flow interest rate risk

Market interest rate change will influence the effective interest rate of the financial instruments which have cash flow risk of the interest rate change, and make future cash flow fluctuate. If the market interest rate increases by 1%, cash outflow of the Corporation and subsidiaries will increase by about NT$1,706,554 thousand.

h. Fair value, net investment in foreign operation and cash flow hedge

The Corporation and its subsidiaries including CSMC, DSC, CSGT, CAC and CEC have debts denominated in foreign currencies, bank deposits - foreign-currency and forward contracts to effectively hedge the exchange rate fluctuations on the investments in EAUS, Maruichi Steel Tube Ltd., Yodogawa Steel Works Ltd., CSCAU, CSVC, capital expenditures and sales and purchases contracts. The subsidiary DSC purchased interest rate swap contracts to effectively hedge the interest rate fluctuations on bank loans.

		Designated Hedging Instrument		
			Changes in Fair Value	
			Years Ended December 31	
Hedge Type	**Hedged Item**	**Financial Instrument**	**2012**	**2011**
Fair value hedge	Investments in EAUS (recorded as bond investments with no active market - noncurrent)	Debt in JPY	$ 536,580	$ (320,265)
Fair value hedge	Investments in Maruichi Steel Tube Ltd. (recorded as available-for-sale financial assets - noncurrent)	Debt in JPY	140,920	(84,110)
Fair value hedge	Investments in Yodogawa Steel Works, Ltd. (recorded as available-for-sale financial assets - noncurrent)	Debt in JPY	65,798	(39,273)
Hedge of a net investment in a foreign operation	Investment in CSCAU (one of consolidated entities and the amount was eliminated)	Debt in AUD	9,428	(17,466)
Hedge of a net investment in a foreign operation	Investment in CSVC (one of consolidated entities and the amount was eliminated)	Debt in USD	268,735	(44,687)
Cash flow hedge	Contracts for purchasing machinery and equipment	Bank deposit - foreign-currency	(238,962)	246,242
Cash flow hedge	Contracts for purchasing machinery and equipment, contracts for selling and purchasing goods and bank loans	Forward exchange and interest rate swap contracts	(483,128)	125,172

The fair values of the above hedging instruments would approximate their carrying values. The exchange rate fluctuations of the above fair value hedged items and financial instruments were recorded as gain or loss in the current period. The exchange rate fluctuations of hedged items and financial instruments on hedge of a net investment in a foreign operation and cash flow were recorded as adjustments to stockholders' equity.

As of December 31, 2012 and 2011, the fair values of the above foreign currency deposits on cash flow hedge were NT$4,257,415 thousand and NT$5,829,846 thousand, respectively, recorded as other financial assets (including noncurrent) (Note 14).

33. RELATED PARTY TRANSACTIONS

a. Related parties

Related Parties	Relationship with the Corporation
Kaohsiung Rapid Transit Corporation	Equity method investee
Kaohsiung Arena Development Corp.	Equity method investee
TaiAn Technologies Corporation	Equity method investee
Hsin Hsin Cement Enterprise Co. (HHCEC)	Equity method investee
Kaohsiung Port Cargo Handling Services Corp.	Equity investee of the Corporation's subsidiary
China Synthetic Rubber Corporation (CSRC)	Director of the Corporation's subsidiary
Taiwan Cement Corp. (TCC)	Director of the Corporation's subsidiary
Asia Cement Corp.	Director of the Corporation's subsidiary
Universal Cement Corp.	Director of the Corporation's subsidiary
Southeast Cement Co., Ltd.	Director of the Corporation's subsidiary
RSEA Engineering Corp.	Director of the Corporation's subsidiary, dismissed in June 2011
Great Grandeul Steel Co., Ltd.	Director of the Corporation's subsidiary
Dai-Ichi High Frequency Co., Ltd.	Director of the Corporation's subsidiary
Hua Eng Wire & Cable Co., Ltd.	Director of the Corporation's subsidiary
CTCI Corporation	Supervisor of the Corporation's subsidiary
Chun Yu Corporation	Supervisor of the Corporation's subsidiary
Chia Hsin Cement Corporation	Supervisor of the Corporation's subsidiary
Berlin Co., Ltd. (BC)	Supervisor of the Corporation's subsidiary, elected in June 2011
CSBC Corporation Taiwan (CSBC)	The Corporation is its director
Tang Eng Iron Works Co., Ltd. (TEI)	The Corporation is its director
Adimmune Corp.	The Corporation is its supervisor
International Carbide Technology Co., Ltd.	The Corporation's subsidiary is its director
Shanghai Summit Metal Products Co., Ltd.	The Corporation's subsidiary is its director
Pacific Harbour Stevedoring Corp.	The Corporation's subsidiary is its director and supervisor
CSC Educational Foundation	Foundation established mainly from the Corporation's donation
Others	Substantial control and significant influence over investees, but no material transaction

b. Significant related-party transactions were as follows:

Sales

Sales to related parties (including CSBC, CSRC, etc.) were NT$7,017,537 thousand (2% of operating revenues) and NT$8,093,549 thousand (2% of operating revenues), respectively, for the years ended December 31, 2012 and 2011.

Purchases

Purchases from related parties (including HHCEC, TCC, etc.) were NT$563,400 thousand and NT$1,531,918 thousand, respectively, for the years ended December 31, 2012 and 2011.

Sales to and purchases from related parties were made under normal terms applied to similar transactions in the market.

Other revenues

Other revenues that pertained to professional services, construction and other services to related parties (including TEI and etc.) were NT$756,471 thousand and NT$786,626 thousand, respectively, for the years ended December 31, 2012 and 2011. These were recorded in operating revenues and nonoperating income and gains.

Balances at year-end

1) Notes and accounts receivable

Notes and accounts receivable from related parties were NT$1,124,843 thousand (9% of account balance, including CSBC, TCC, etc.) and NT$854,577 thousand (7% of account balance, including CSBC, TCC, etc.), respectively, as of December 31, 2012 and 2011.

2) Notes and accounts payable

Notes and accounts payable to related parties were NT$232,475 thousand (2% of account balance, including BC, HHCEC, etc.) and NT$226,769 thousand (2% of account balance, including BC, HHCEC, etc.), respectively, as of December 31, 2012 and 2011.

c. Compensation of directors, supervisors and management personnel

	Years Ended December 31	
	2012	**2011**
Salaries	$ 257,092	$ 280,977
Incentives	104,327	119,921
Bonus	36,129	56,275
Others	3,646	4,312
	$ 401,194	$ 461,485

34. MORTGAGED OR PLEDGED ASSETS

As of December 31, 2012 and 2011, the Corporation and its subsidiaries' assets mortgaged or pledged as collateral for long-term bank loans, short-term bank loans and overdraft, performance guarantees, bankers' acceptance bills, etc. were as follows (listed according to their carrying amounts):

	December 31	
	2012	**2011**
Net property, plant and equipment	$ 158,415,486	$ 132,608,027
Restricted assets - demand and time deposits	7,221,840	7,188,354
Stocks (Note)	5,959,565	6,672,960
Idle assets, net	749,922	823,086
Assets leased to others, net	135,068	162,881
	$ 172,481,881	$ 147,455,308

Note: Stocks of the Corporation were pledged by the subsidiaries WIC and TIC and were recorded as treasury stock in the consolidated financial statements.

35. SIGNIFICANT COMMITMENTS AND CONTINGENCIES AS OF DECEMBER 31, 2012

In addition to those disclosed in Note 23, significant commitments and contingencies of the Corporation and its subsidiaries as of December 31, 2012 were as follows:

a. The Corporation and its subsidiaries provide letters of credits of NT$3.7 billion guaranteed by financial institutions for several construction and lease contracts, and guarantee notes of NT$74.2 billion to banks and owners for loans, purchase agreements and warranty.

b. Unused letters of credit to import materials and machinery amounted to NT$16.9 billion.

c. Property purchase and construction contracts of NT$36.5 billion were signed but not yet recorded.

d. Construction contracts of NT$36.4 billion were not yet completed.

e. The Corporation and its subsidiaries entered into raw material purchase contracts with suppliers in Australia, Brazil, Canada, United States, Bahrain, Japan and domestic companies with contract terms of 1 to 10 years. Contracted annual purchases of 9,730,000 metric tons of coal, 20,530,000 metric tons of iron ore, and 2,750,000 metric tons of limestone are at prices negotiable with the counter parties. Purchase commitments as of December 31, 2012 were USD12.6 billion (including 13,000,000 metric tons of coal, 84,130,000 metric tons of iron ore, and 760,000 metric tons of limestone).

f. Endorsements/guarantees provided to the consolidated entities as of December 31, 2012 were as follows:

Endorsement/Guarantee Provider	Counter-Party	Ending Balance
China Steel Corporation	Dragon Steel Corporation	USD 399,565 thousand
	CSC Steel Australia Holding Pty Ltd.	AUD 359,314 thousand
China Steel Structure Co., Ltd.	United Steel Constructure Corporation	NTD 1,105,000 thousand
	Chung-Kang Steel Structure (Kunshan) Co., Ltd.	NTD 319,440 thousand
	United Steel Construction Vietnam Co., Ltd.	NTD 319,440 thousand
United Steel Constructure Corporation	China Steel Structure Co., Ltd.	NTD 5,795,827 thousand
China Steel Global Trading Corporation	Chung Mao Trading (SAMOA) Co.	USD 3,000 thousand
	CSGT International Corporation	USD 3,200 thousand
China Steel Express Corporation	CSE Transport Corporation (Panama)	USD 111,000 thousand
	CSEI Transport Panama Corp. (Panama)	USD 49,976 thousand
China Prosperity Development Corporation	CK Japan Co., Ltd.	JPY 1,750,000 thousand

36. OPERATING SEGMENT INFORMATION

Starting from January 1, 2011, the Corporation and its subsidiaries adopted the newly issued SFAS No. 41, "Operating Segments." According to the internal reports that are regularly reviewed by the Corporation's chief operating decision maker in order to allocate resources to the segments and assess their performance, the reportable segments are identified as follows:

a. China Steel Corporation (CSC) - manufactures and sells steel products and engages in mechanical, communications and electrical engineering.

b. Dragon Steel Corporation (DSC) - processes, manufactures and sells H-beam, billet, slab and coil.

c. Chung Hung Steel Corporation Ltd. (CHSC) - processes, manufactures and sells coil, pipe, tube and other steel products.

d. China Steel Chemical Corporation (CSCC) - produces, processes and sells coal tar distillation products, light oil products and coke products, and also engages in the commerce of related upstream and downstream merchandise.

e. China Steel Express Corporation (CSE) - ships bulk merchandise, such as iron ore and coal.

1) Information about revenues, results from continuing operations, assets, liabilities and other information of the Corporation and its subsidiaries was as follows:

	CSC	DSC	CHSC	CSCC	CSE	Other Segments	Adjustment and Elimination	Consolidated
Year ended December 31, 2012								
Revenues from other than consolidated entities	$ 191,151,906	$ 47,820,050	$ 38,992,927	$ 7,742,201	$ 691,043	$ 72,138,575	$ -	$ 358,536,702
Revenues among consolidated entities	16,041,199	16,234,464	3,165,554	514,343	4,025,803	54,114,146	(94,095,509)	-
Total revenues	$ 207,193,105	$ 64,054,514	$ 42,158,481	$ 8,256,544	$ 4,716,846	$ 126,252,721	$ (94,095,509)	$ 358,536,702
Operating profit (loss)	$ 2,689,574	$ (1,955,714)	$ (3,386,886)	$ 2,080,064	$ 1,314,159	$ 10,270,794	$ (2,997,014)	$ 8,014,977
Interest income	109,872	12,007	1,383	18,825	9,868	272,506	(1,951)	422,510
Investment income recognized under equity method, net	2,353,103	8,269	-	135,780	1,957,782	1,764,285	(6,219,219)	-
Nonoperating income and gains	2,811,303	56,493	310,850	62,670	16,388	7,356,847	(7,591,870)	3,022,681
Interest expense	(1,358,092)	(890,101)	(252,754)	(2,034)	(6,381)	(282,848)	1,950	(2,790,260)
Investment loss recognized under equity method, net	-	-	(100,262)	-	-	(37,257)	(92,486)	(230,005)
Nonoperating expenses and losses	(475,189)	(47,862)	(45,602)	(7,442)	(323)	713,937	(896,489)	(758,970)
Income before income tax	6,130,571	(2,816,908)	(3,473,271)	2,287,863	3,291,493	20,058,264	(17,797,079)	7,680,933
Income tax	319,081	(513,492)	(60)	314,245	112,234	1,006,801	52,617	1,291,426
Net income	$ 5,811,490	$ (2,303,416)	$ (3,473,211)	$ 1,973,618	$ 3,179,259	$ 19,051,463	$ (17,849,696)	$ 6,389,507
Identifiable assets	$ 278,295,362	$ 199,211,928	$ 28,865,010	$ 4,915,920	$ 6,278,262	$ 125,295,185	$ (27,576,209)	$ 615,285,458
Investments accounted for by the equity method	148,970,411	95,925	4,996,845	2,364,946	6,250,901	34,639,999	(194,712,497)	2,606,530
Total assets	$ 427,265,773	$ 199,307,853	$ 33,861,855	$ 7,280,866	$ 12,529,163	$ 159,935,184	$ (222,288,706)	$ 617,891,988
Total liabilities	$ 148,913,706	$ 106,630,091	$ 24,959,058	$ 903,699	$ 1,659,272	$ 41,488,718	$ (12,161,914)	$ 312,392,630
Depreciation	$ 17,708,945	$ 5,934,292	$ 1,604,659	$ 221,352	$ 396,826	$ 2,679,976	$ (73,120)	$ 28,472,930
Amortization	$ 42,193	$ 43,902	$ -	$ -	$ 48	$ 60,537	$ 77,847	$ 224,527
Addition to property, plant and equipment	$ 21,866,042	$ 20,981,984	$ 1,490,644	$ 171,358	$ 2,743,072	$ 16,698,332	$ -	$ 63,951,432
Year ended December 31, 2011								
Revenues from other than consolidated entities	$ 225,001,120	$ 51,316,615	$ 41,425,412	$ 8,164,806	$ 692,438	$ 74,426,225	$ -	$ 401,026,616
Revenues among consolidated entities	15,374,899	22,535,788	4,209,317	750,310	3,233,910	55,435,697	(101,539,921)	-
Total revenues	$ 240,376,019	$ 73,852,403	$ 45,634,729	$ 8,915,116	$ 3,926,348	$ 129,861,922	$ (101,539,921)	$ 401,026,616
Operating profit (loss)	$ 14,598,981	$ 2,037,487	$ (3,226,512)	$ 2,377,837	$ 1,235,876	$ 7,891,556	$ (724,282)	$ 24,190,943
Interest income	121,480	16,529	1,377	17,313	17,979	162,700	(3,710)	333,668
Investment income recognized under equity method, net	5,151,451	3,437	121,907	152,988	1,974,421	2,133,424	(9,537,628)	-
Nonoperating income and gains	1,602,052	62,777	831,094	107,890	29,337	10,774,290	(10,936,603)	2,470,837
Interest expense	(769,406)	(898,614)	(158,381)	(2,622)	-	(220,614)	(9,425)	(2,059,062)
Investment loss recognized under equity method, net	-	-	-	-	-	(45,504)	(389,443)	(434,947)
Nonoperating expenses and losses	(419,865)	(46,570)	(9,171)	(13,658)	-	534,768	(1,181,960)	(1,136,456)
Income before income tax	20,284,693	1,175,046	(2,439,686)	2,639,748	3,257,613	21,230,620	(22,783,051)	23,364,983
Income tax	791,014	95,735	8,230	392,953	364,024	964,464	(81,627)	2,534,793
Net income	$ 19,493,679	$ 1,079,311	$ (2,447,916)	$ 2,246,795	$ 2,893,589	$ 20,266,156	$ (22,701,424)	$ 20,830,190
Identifiable assets	$ 294,681,997	$ 192,892,905	$ 31,042,649	$ 5,098,208	$ 5,280,086	$ 109,935,985	$ (29,865,208)	$ 609,066,622
Investments accounted for by the equity method	127,252,843	95,540	5,209,889	2,262,614	6,213,215	32,261,696	(170,676,804)	2,618,993
Total assets	$ 421,934,840	$ 192,988,445	$ 36,252,538	$ 7,360,822	$ 11,493,301	$ 142,197,681	$ (200,542,012)	$ 611,685,615
Total liabilities	$ 133,347,831	$ 113,847,209	$ 23,725,435	$ 1,110,590	$ 890,879	$ 41,035,610	$ (14,379,876)	$ 299,577,678
Depreciation	$ 16,064,667	$ 5,654,841	$ 1,559,053	$ 183,403	$ 255,518	$ 2,502,562	$ (81,670)	$ 26,138,374

Amortization	$ 42,364	$ 76,551	$ 7,030	$ -	$ 48	$ 141,062	$ 75,327	$ 342,382
Addition to property, plant and equipment	$ 16,081,479	$ 30,263,957	$ 1,489,887	$ 557,686	$ 54,505	$ 4,712,420	$ -	$ 53,159,934

2) Revenues from major products and services of the Corporation and its subsidiaries were as follows:

	Years Ended December 31	
	2012	2011
Steel products	$ 294,957,019	$ 336,623,057
Non-ferrous materials	36,246,281	39,611,488
Construction revenues	16,746,039	15,022,644
Freight and service revenues	5,976,407	5,753,360
Others	4,610,956	4,016,067
	$ 358,536,702	$ 401,026,616

3) Geographical information

The Corporation and its subsidiaries operate in four principal geographical areas - Taiwan, Malaysia, China and Vietnam. The Corporation and its subsidiaries' revenues from continuing operations from external customers and information about its non-current assets by geographical location were detailed below.

	Revenues from External Customers		Non-current Assets	
	Years Ended December 31		December 31	
	2012	2011	2012	2011
Taiwan	$ 337,363,846	$ 378,530,306	$ 420,560,422	$ 395,525,153
Malaysia	10,365,341	11,155,876	2,577,604	2,585,382
China	5,117,446	5,521,987	4,424,461	3,903,538
Vietnam	1,166,151	1,326,678	13,207,110	3,392,052
Others	4,523,918	4,491,769	6,338,850	6,250,458
	$ 358,536,702	$ 401,026,616	$ 447,108,447	$ 411,656,583

Non-current assets excluded those classified as financial instruments, deferred tax assets and post-employment benefit assets.

4) Information about major customers

No revenue from any individual customer exceeds 10% of the Corporation and its subsidiaries' total revenues for the years ended December 31, 2012 and 2011.

37. EXCHANGE RATE INFORMATION OF FOREIGN-CURRENCY FINANCIAL ASSETS AND LIABILITIES

The significant foreign-currency financial assets and liabilities were as follows:

	December 31					
	2012			2011		
	Foreign Currencies (Thousands)	Exchange Rate	New Taiwan Dollars (Thousands)	Foreign Currencies (Thousands)	Exchange Rate	New Taiwan Dollars (Thousands)
Monetary financial assets						
USD	$ 553,749	29.04	$ 16,080,877	$ 425,901	30.275	$ 12,894,138
JPY	12,888,040	0.3364	4,335,537	13,419,592	0.3906	5,241,692
MYR	346,287	9.101	3,151,557	323,285	9.148	2,957,413
CNY	511,159	4.66	2,382,001	562,518	4.807	2,704,024
INR	1,936,265	0.5298	1,025,833	-	-	-

(Continued)

	December 31					
	2012			2011		
	Foreign Currencies (Thousands)	Exchange Rate	New Taiwan Dollars (Thousands)	Foreign Currencies (Thousands)	Exchange Rate	New Taiwan Dollars (Thousands)
Non-monetary financial assets						
JPY	$ 4,550,000	0.3364	$ 1,530,620	$ 4,102,120	0.3906	$ 1,602,288
AUD	46,437	30.165	1,400,774	-	-	-
Monetary financial liabilities						
USD	611,782	29.04	17,766,147	442,663	30.275	13,401,608
JPY	15,647,422	0.3364	5,263,793	14,041,070	0.3906	5,484,442
CNY	722,058	4.66	3,364,791	799,027	4.807	3,840,924

(Concluded)

Derivative Financial Instruments

	Currency	Contract Exchange Rate	Contract Amount (In Thousands)
December 31, 2012			
Forward exchange contracts - buy	NTD/USD	27.208-30.874	NTD7,874,191/USD268,922
Forward exchange contracts - buy	NTD/EUR	36.852-45.462	NTD427,540/EUR10,880
Forward exchange contracts - buy	NTD/JPY	0.306779-0.3913	NTD1,483,833/JPY3,901,791
Forward exchange contracts - buy	NTD/GBP	45.7-46.68	NTD212,200/GBP4,557
Forward exchange contracts - sell	USD/NTD	29.046-29.25	USD7,231/NTD211,033
Forward exchange contracts - sell	JPY/NTD	0.3385-0.3401	JPY1,000,000/NTD339,200
Forward exchange contracts - sell	HKD/NTD	3.755-3.774	HKD17,614/NTD66,318
December 31, 2011			
Forward exchange contracts - buy	NTD/USD	27.208-31.57	NTD7,356,581/USD249,477
Forward exchange contracts - buy	NTD/EUR	39.3-46.432	NTD749,840/EUR17,867
Forward exchange contracts - buy	NTD/JPY	0.3415-0.3913	NTD2,392,658/JPY6,442,742
Forward exchange contracts - buy	NTD/GBP	45.7-47.36	NTD449,199/GBP9,584
Forward exchange contracts - sell	USD/NTD	29.334-30.45	USD3,298/NTD100,177
Forward exchange contracts - sell	HKD/NTD	3.889-3.92	HKD19,998/NTD77,897

38. PRE-DISCLOSURE FOR ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

According to the Rule No. 0990004943 issued by the Financial Supervisory Commission (FSC) on February 2, 2010, the Corporation and its subsidiaries' pre-disclosure information on the adoption of International Financial Reporting Standards (IFRSs) was as follows:

a. On May 14, 2009, the FSC announced the "Framework for Adoption of International Financial Reporting Standards by Companies in the ROC." In this framework, starting 2013, companies with shares listed on the Taiwan Stock Exchange Corp., Taiwan GreTai Securities Market or Emerging Stock Market should prepare their consolidated financial statements in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, International Financial Reporting Standards, International Accounting Standards, Interpretations, and related guidance issued by the FSC. To comply with this framework, the Corporation has set up a project team and made a plan to adopt IFRSs. Leading the implementation of this plan is Vice President of the Finance Division. The main contents of the plan, anticipated schedule and status of execution as of December 31, 2012 were as follows:

Contents of Plan	Responsible Department	Status of Execution
1) Planning and identification stage (2009.04.01-2010.12.31)		
• Establish the IFRSs task force	Accounting department	Finished
• Set up a work plan for IFRSs adoption	Accounting department	Finished
• Complete the identification of GAAP differences	Accounting department	Finished
• Complete the identification of consolidated entities under IFRSs	Accounting department	Finished
2) Evaluation and determination stage (2010.01.01-2011.12.31)		
• Complete the impact evaluation of optional exemptions in IFRS1"First-time Adoption of International Financial Reporting Standards"	Accounting department	Finished
• Complete the impact evaluation of the IT systems	IT department	Finished (unaudited)
• Determine IFRSs accounting policies	Accounting department	Finished
• Determine the selection of optional exemptions in IFRS1 "First-time Adoption of International Financial Reporting Standards"	Accounting department	Finished
3) Implementation and review stage (2011.01.01-2013.12.31)		
• Complete the impact evaluation of the modification to the relevant internal controls	Internal audit office	In progress (unaudited)
• Complete the preparation of opening date financial position under IFRSs	Accounting department	Finished
• Prepare comparative financial information under IFRSs for 2012	Accounting department	In progress
• Complete the modification of the relevant internal controls (including financial reporting process and related IT systems)	Internal audit office, Accounting department and IT department	In progress (unaudited)

b. As of December 31, 2012, the material differences between the existing accounting policies and the accounting policies to be adopted under IFRSs and their effects were as follows:

1) Reconciliation of consolidated balance sheets as of January 1, 2012: Table 1.

2) Reconciliation of consolidated balance sheets as of December 31, 2012: Table 2.

3) Reconciliation of consolidated statements of income for the year ended December 31, 2012: Table 3.

4) Appropriation for special reserve at the date of transition to IFRSs

In accordance with Order No. 1010012865 issued by the FSC on April 6, 2012, at the first-time adoption of IFRSs, an entity shall appropriate to special reserve the amount of increase in retained earnings that resulted from unrealized revaluation increment and cumulative translation differences (gain) because of the entity's use of exemptions under IFRS 1. However, if the amount of the increase in retained earnings that resulted from all IFRSs adjustments is smaller than the amount of unrealized revaluation increment and cumulative translation differences (gain) reclassified to retained earnings, only the amount of the increase in retained earnings that resulted from all IFRSs adjustments will be appropriated to special reserve. The special reserve will be reversed in proportion to the usage, disposal or reclassification of the related assets.

As of January 1, 2012, the Corporation and its subsidiaries reclassified unrealized revaluation increment of NT$26,757,590 thousand and cumulative translation differences of NT$17,192 thousand to retained earnings. However, the increase in retained earnings from all IFRSs adjustments was smaller than the amounts of unrealized revaluation increment and cumulative translation differences; therefore, the Corporation and its subsidiaries appropriated NT$21,636,278 thousand, the increase in retained earnings from all IFRSs adjustments at the first-time adoption of IFRSs, to special reserve. For the year ended December 31, 2012, the Corporation and its subsidiaries reversed NT$2,988 thousand of special reserve in proportion to the usage, disposal or reclassification of the related assets.

5) Exemptions from IFRS 1

IFRS 1, "First-time Adoption of International Financial Reporting Standards," establishes the procedures for first consolidated financial statements prepared in accordance with IFRSs. According to IFRS 1, the Corporation and its subsidiaries are required to determine the accounting policies under IFRSs and retrospectively apply those accounting policies in their opening consolidated balance sheets at the date of transition to IFRSs (January 1, 2012), except for optional exemptions to such retrospective application provided under IFRS 1. The main optional exemptions the Corporation and its subsidiaries adopted are summarized as follows:

a) Business combinations

The Corporation and its subsidiaries elected not to apply IFRS 3, "Business Combination," retrospectively to business combinations that occurred before the date of transition to IFRSs. Therefore, the carrying amounts of goodwill, assets, liabilities and minority interest generated from past business combinations in the opening consolidated balance sheets remain the same as their carrying amounts under ROC GAAP as of December 31, 2011.

The above exemption also applies to past acquisitions of investments in associates.

b) Share-based payment

The Corporation and its subsidiaries elected the exemption from applying IFRS 2, "Share-based Payment," retrospectively for the shared-based payment transactions granted and vested before the date of transition to IFRSs.

c) Deemed cost

The Corporation and its subsidiaries elected to use ROC GAAP revaluations of the designated property, plant and equipment and investment property at the date of transition to IFRSs as deemed cost at the date of revaluation.

d) Employee benefits

The Corporation and its subsidiaries elected to recognize all cumulative actuarial gains and losses relating to employee benefits in retained earnings at the date of transition to IFRSs.

e) Cumulative translation differences

The Corporation and its subsidiaries elected to deem the cumulative translation differences on all foreign operations as zero and recognized the amount in retained earnings at the date of transition to IFRSs.

f) Designation of previously recognized financial assets and liabilities

The Corporation and its subsidiaries elected to designate previously recognized financial assets carried at cost as financial assets at fair value through profit or loss and available-for-sale financial assets at the date of transition to IFRSs.

The effects arising from the above exemptions are stated in 6) Notes to the significant reconciliation items of transition to IFRSs.

6) Notes to the significant reconciliation items of transition to IFRSs:

The material differences between the existing accounting policies and the accounting policies to be adopted under IFRSs were as follows:

<u>Presentation difference</u>

A Time deposits with deposit terms of over three months

Under ROC GAAP, time deposits that can be withdrawn at any moment without detriment to the principal are classified as cash.

Under IFRSs, cash equivalents are defined as investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Therefore, only short-term investments, such as those with maturity of three months or less from the date of acquisition, normally qualify for classification as cash equivalents. Under IFRSs, time deposits with deposit terms of over three months are reclassified as other financial assets.

As of December 31, 2012 and January 1, 2012, the amounts reclassified from cash to other financial assets were NT$2,444,389 thousand and NT$5,348,764 thousand, respectively.

B Deferred income tax assets/liabilities

Under ROC GAAP, valuation allowance is provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. Under IFRSs, deferred income tax assets are only recognized to the extent that it is probable that there will be sufficient taxable profits, and valuation allowance account is not used.

In addition, under ROC GAAP, deferred tax assets or liabilities are classified as current or noncurrent in accordance with the classification of their related assets or liabilities. However, if deferred income tax assets or liabilities do not relate to assets or liabilities in the financial statements, they are classified as either current or noncurrent based on the expected length of time before they are realized or settled. Under IFRSs, deferred tax assets or liabilities are classified as noncurrent assets or liabilities.

As of December 31, 2012 and January 1, 2012, the amounts reclassified from current deferred income tax assets to noncurrent assets were NT$2,058,931 thousand and NT$3,623,367 thousand, respectively; the amounts reclassified from current deferred income tax liabilities to noncurrent liabilities were NT$8,941 thousand and zero, respectively.

C Classification of property, plant and equipment, assets leased to others and idle assets

Under ROC GAAP, assets leased to others are classified under property, plant and equipment or other assets, and idle assets are classified under other assets. Under IFRSs, the aforementioned items are classified as investment property or property, plant and equipment according to their nature.

As of December 31, 2012 and January 1, 2012, the amounts reclassified from assets leased to others under property, plant and equipment to investment property were NT$3,945,199 thousand and NT$3,827,965 thousand, respectively; the amounts reclassified from assets leased to others under other assets to property, plant and equipment were zero and NT$27,533 thousand, respectively; the amounts reclassified from assets leased to others under other assets to investment property were NT$2,920,089 thousand and NT$3,038,314 thousand, respectively; the amounts reclassified from idle assets under other assets to property, plant and equipment were NT$1,273,506 thousand and NT$670,017 thousand, respectively; the amounts reclassified from idle assets under other assets to investment property were both NT$1,441,943 thousand.

D Unrealized revaluation increment/reserve for land value increment tax

Under current Guidelines Governing the Preparation of Financial Reports by Securities Issuers, reserve for land value increment tax recognized due to revaluation on land is classified as long-term liabilities.

Under IFRSs, ROC GAAP revaluations are selected as deemed cost for the designated land at the date of transition to IFRSs; thus, the related reserve for land value increment tax should be reclassified to deferred income tax liabilities - land value increment tax.

As of January 1, 2012, the Corporation and its subsidiaries adjusted unrealized revaluation increment to retained earnings under the requirement of IFRS 1. The amount adjusted from unrealized revaluation increment to retained earnings was NT$26,757,590 thousand. As of December 31, 2012 and January 1, 2012, the amounts reclassified from reserve for land value increment tax to deferred income tax liabilities - land value increment tax were NT$10,240,123 thousand and NT$10,194,138 thousand, respectively.

<u>Recognition and measurement difference</u>

(a) Financial assets carried at cost

Under current Guidelines Governing the Preparation of Financial Reports by Securities Issuers, shares that are not listed on the Taiwan Stock Exchange Corporation or Taiwan GreTai Securities Market and of which the holder has no significant influence over the investee should be classified as financial assets carried at cost.

Under IFRSs, financial assets should be classified as financial assets at fair value through profit or loss and measured at fair value if they meet the definition of held for trading. Equity instruments that are designated as available-for-sale financial assets or are not designated as at FVTPL should be classified as available-for-sale financial assets and measured at fair value.

As of December 31, 2012 and January 1, 2012, the amounts reclassified from financial assets carried at cost to financial assets at fair value through profit or loss and available-for-sale financial assets were NT$12,449,537 thousand and NT$10,603,195 thousand, respectively; financial assets at fair value through profit or loss were adjusted for an increase of NT$304,655 thousand and NT$315,040 thousand, respectively; available-for-sale financial assets were adjusted for an increase of NT$14,606,157 thousand and NT$12,974,988 thousand, respectively; unrealized gain on available-for-sale financial assets was adjusted for an increase of NT$2,416,134 thousand and NT$2,685,896 thousand, respectively.

(b) Defined benefit pension plans

Under ROC GAAP, actuarial gains and losses should be accounted for under the corridor approach which resulted in the deferral of gains and losses. When using the corridor approach, actuarial gains and losses should be amortized in profit or loss over the average remaining service period of those employees who are still in service and expected to receive pension benefits. Under IFRSs, the Corporation and its subsidiaries should carry out actuarial valuation on defined benefit plans in accordance with IAS No. 19, "Employee Benefits," and will recognize actuarial gains and losses immediately in full in the period in which they occur, as other comprehensive income. The actuarial gains and losses recognized in other comprehensive income are recognized immediately in retained earnings in the statement of changes in equity. The subsequent reclassification to profit or loss is not permitted.

Under ROC GAAP, there is no requirement for other long-term employee benefits (other than pensions). Under IFRSs, actuarial gains and losses should all be recognized immediately in profit or loss.

Under ROC GAAP, unrecognized net transition obligation, resulting from first-time adoption of SFAS No. 18, "Accounting for Pensions," should be amortized in pension cost by the straight-line method over the average remaining service period of those employees who are still in service and expected to receive pension benefits. Due to no transition application under IAS No. 19, "Employee Benefits," unrecognized net transition obligation and related amounts should be all recognized in retained earnings at the date of transition to IFRSs.

Under ROC GAAP, minimum pension liability is the minimum amount of pension liability that is required to be recognized on the balance sheets. If the accrued pension liability recorded on the books is less than the minimum amount, the difference shall be recognized. Under IFRSs, there is no requirement for minimum pension liability.

At the date of transition to IFRSs, the Corporation and its subsidiaries performed the actuarial valuation on defined benefit plans under IAS No. 19, "Employee Benefits," and recognized the valuation difference under the requirement of IFRS 1. As of December 31, 2012 and January 1, 2012, accrued pension cost was adjusted for an increase of NT$6,716,615 thousand and NT$6,916,895 thousand, respectively; net loss not recognized as pension cost was adjusted for a decrease of NT$184,893 thousand and NT$230,590 thousand, respectively; deferred income tax assets were adjusted for an increase of NT$1,205,875 thousand and NT$1,219,725 thousand, respectively; retained earnings were adjusted for a decrease of NT$5,576,947 thousand and NT$5,662,987 thousand, respectively. Pension cost for the year ended December 31, 2012 was also adjusted for a decrease of NT$104,295 thousand (decrease of operating costs NT$19,177 thousand, research and development expenses NT$42 thousand, selling expenses NT$1,328 thousand, general and administrative expenses NT$78,953 thousand and nonoperating expenses and losses NT$4,795 thousand).

(c) Treasury stock

Under ROC GAAP, stocks of the parent company held by its subsidiaries are accounted for as its own treasury stock. The Corporation first adopted ROC SFAS No. 30, "Accounting for Treasury Stock," which required that the recorded cost of the stock should be based on its carrying amount as of January 1, 2002 and reclassified to treasury stock. The carrying amount of the stock may not be the same as its original acquisition cost.

Under IFRSs, treasury stock should be recorded initially at acquisition cost and shown as a deduction in stockholders' equity. There is no transition application; thus, the treasury stock and related accounts in the statement of changes in equity should be retrospective.

As of January 1, 2012, the Corporation adjusted the treasury stock retrospectively, and the major effects were as follow: Capital surplus was increased by NT$385,962 thousand, retained earnings were decreased by NT$141,373 thousand, unrealized gain on available-for-sale financial assets was increased by NT$112,926 thousand and treasury stock was increased by NT$167,784 thousand.

(d) Offset of deferred income tax

Under ROC GAAP, the current deferred income tax liabilities and assets of the same taxable entity should be offset against each other and presented as a net amount; the same for the noncurrent deferred income tax liabilities and assets.

Under IFRSs, an entity should offset deferred income tax assets and deferred income tax liabilities only if:

i. The entity has a legally enforceable right to set off current tax assets against current tax liabilities; and,

ii. The deferred income tax assets and the deferred income tax liabilities related to income taxes levied by the same taxation authority on either:

i) The same taxable entity; or

ii) Different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred income tax liabilities or assets are expected to be settled or recovered.

c. The Corporation and its subsidiaries have made the above assessments in accordance with (a) the 2010 version of the IFRSs translated by the ARDF and issued by the FSC and (b) the Guidelines Governing the Preparation of Financial Reports by Securities Issuers amended and issued by the FSC on December 22, 2011. These assessments may be changed as the FSC may issue new rules governing the adoption of IFRSs, and as other laws and regulations may be amended to comply with the adoption of IFRSs. Therefore, actual results may differ from these assessments.

CHINA STEEL CORPORATION AND SUBSIDIARIES

RECONCILIATION OF CONSOLIDATED BALANCE SHEETS
AS OF JANUARY 1, 2012
(In Thousands of New Taiwan Dollars)

Assets

ROC GAAP Item	ROC GAAP Amount	Effects of Transition to IFRSs: Presentation Difference	Effects of Transition to IFRSs: Recognition and Measurement Difference	IFRSs Amount	IFRSs Item	Note
CURRENT ASSETS					CURRENT ASSETS	
Cash and cash equivalents	$ 17,480,092	$ (5,348,764)	$ -	$ 12,131,328	Cash and cash equivalents	A
Financial assets at fair value through profit or loss - current	3,124,636	-	315,040	3,439,676	Financial assets at fair value through profit or loss - current	(a)
Available-for-sale financial assets - current	5,375,249	-	14,462	5,389,711	Available-for-sale financial assets - current	(a)
Held-to-maturity financial assets - current	60,550	-	-	60,550	Held-to-maturity financial assets - current	
Hedging derivative assets - current	115,768	-	-	115,768	Hedging derivative assets - current	
Notes receivable, net	1,901,604	-	-	1,901,604	Notes receivable, net	
Accounts receivable, net	10,213,979	-	-	10,213,979	Accounts receivable, net	
-	-	8,716,229	-	8,716,229	Construction contracts receivable	
Other receivables	2,346,521	(452,975)	-	1,893,546	Other receivables	
-	-	453,304	-	453,304	Current tax assets	
Other financial assets - current	3,710,158	12,192,130	-	15,902,288	Other financial assets - current	A
Inventories	115,961,466	(8,716,229)	32,272	107,277,509	Inventories	
Deferred income tax assets - current	3,623,367	(3,623,367)	-	-	-	B
Restricted assets - current	6,906,442	(6,906,442)	-	-	-	
Others	5,776,246	(329)	1,232	5,777,149	Others	
Total current assets	176,596,078	(3,686,443)	363,006	173,272,641	Total current assets	
INVESTMENTS					INVESTMENTS	
Financial assets at fair value through profit or loss - noncurrent	23,979	-	-	23,979	Financial assets at fair value through profit or loss - noncurrent	
Available-for-sale financial assets - noncurrent	3,369,657	-	12,960,526	16,330,183	Available-for-sale financial assets - noncurrent	(a)
Held-to-maturity financial assets - noncurrent	109,171	-	-	109,171	Held-to-maturity financial assets - noncurrent	
Hedging derivative assets - noncurrent	124,920	-	-	124,920	Hedging derivative assets - noncurrent	
Financial assets carried at cost - noncurrent	10,603,195	-	(10,603,195)	-	-	(a)
Bond investments with no active market - noncurrent	4,050,222	-	-	4,050,222	Bond investments with no active market - noncurrent	
Investments accounted for by the equity method	2,618,993	-	(10,479)	2,608,514	Investments accounted for by the equity method	
Investments in real estate	381,905	(381,905)	-	-	-	
Prepaid long-term stock investments	10,000	(10,000)	-	-	-	
Other financial assets - noncurrent	2,119,688	398,736	-	2,518,424	Other financial assets - noncurrent	A
Total investments	23,411,730	6,831	2,346,852	25,765,413	Total investments	
PROPERTY, PLANT AND EQUIPMENT					PROPERTY, PLANT AND EQUIPMENT	
Cost and revaluation increment	623,552,077	(3,554,278)	181,113	620,178,912	Cost	
Less: Accumulated depreciation	317,415,604	(276,865)	11,330	317,150,069	Less: Accumulated depreciation	
Accumulated impairment	443,719	(274,540)	-	169,179	Accumulated impairment	
	305,692,754	(3,002,873)	169,783	302,859,664		C
Construction in progress and prepayments for equipment	96,851,192	(721,960)	212,309	96,341,541	Construction in progress and equipment to be inspected	
Net property, plant and equipment	402,543,946	(3,724,833)	382,092	399,201,205	Net property, plant and equipment	
INTANGIBLE ASSETS	2,246,170	(598,605)	(21,224)	1,626,341	INTANGIBLE ASSETS	
-	-	8,690,127	-	8,690,127	INVESTMENT PROPERTY	C
OTHER ASSETS					OTHER ASSETS	
Assets leased to others, net	3,065,847	(3,065,847)	-	-	-	C
Idle assets, net	2,111,960	(2,111,960)	-	-	-	C
Refundable deposits	428,431	-	-	428,431	Refundable deposits	
Deferred income tax assets - noncurrent	-	3,623,367	3,483,564	7,106,931	Deferred income tax assets	B, (b), (d)
Restricted assets - noncurrent	335,660	(335,660)	-	-	-	
Deferred charge and others	945,793	1,203,023	(18,744)	2,130,072	Others	
Total other assets	6,887,691	(687,077)	3,464,820	9,665,434	Total other assets	
TOTAL	$ 611,685,615	$ -	$ 6,535,546	$ 618,221,161	TOTAL	

Liabilities And Stockholders' Equity

ROC GAAP Item	ROC GAAP Amount	Effects of Transition to IFRSs: Presentation Difference	Effects of Transition to IFRSs: Recognition and Measurement Difference	IFRSs Amount	IFRSs Item	Note
CURRENT LIABILITIES					CURRENT LIABILITIES	
Short-term loans and overdraft	$ 59,918,010	$ -	$ -	$ 59,918,010	Short-term loans and overdraft	
Commercial paper payable	22,357,900	-	-	22,357,900	Commercial paper payable	
Financial liabilities at fair value through profit or loss - current	90	-	-	90	Financial liabilities at fair value through profit or loss - current	
Hedging derivative liabilities - current	53,331	-	-	53,331	Hedging derivative liabilities - current	
Notes payable	1,066,418	-	-	1,066,418	Notes payable	
Accounts payable	10,131,244	-	-	10,131,244	Accounts payable	
Income tax payable	3,376,691	-	-	3,376,691	Current tax liabilities	
Accrued expenses	13,912,683	(13,912,683)	-	-	-	
Other payables	8,456,717	12,403,015	-	20,859,732	Other payables	
-	-	2,810,630	-	2,810,630	Provisions	
Bonds payable - current portion	11,270,086	-	-	11,270,086	Bonds payable - current portion	
Long-term debt - current portion	11,715,737	-	-	11,715,737	Long-term debt - current portion	
Others	6,546,124	(1,300,962)	(80,349)	5,164,813	Others	
Total current liabilities	148,805,031	-	(80,349)	148,724,682	Total current liabilities	
LONG-TERM LIABILITIES					LONG-TERM LIABILITIES	
Hedging derivative liabilities - noncurrent	42,475	-	-	42,475	Hedging derivative liabilities - noncurrent	
Bonds payable	37,944,340	-	-	37,944,340	Bonds payable	
Long-term debt	75,533,461	-	-	75,533,461	Long-term debt	
Long-term notes payable	24,813,719	-	-	24,813,719	Long-term notes payable	
Total long-term liabilities	138,333,995	-	-	138,333,995	Total long-term liabilities	
RESERVE FOR LAND VALUE INCREMENT TAX	10,194,138	(10,194,138)	-	-	-	D
OTHER LIABILITIES					OTHER LIABILITIES	
Accrued pension cost	754,105	-	6,916,895	7,671,000	Accrued pension cost	(b)
Deferred income tax liabilities - noncurrent	543,499	10,194,138	2,342,512	13,080,149	Deferred income tax liabilities	B, D, (d)
Others	946,910	-	-	946,910	Others	
Total other liabilities	2,244,514	10,194,138	9,259,407	21,698,059	Total other liabilities	
Total liabilities	299,577,678	-	9,179,058	308,756,736	Total liabilities	
STOCKHOLDERS' EQUITY OF PARENT COMPANY					EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT	
Capital stock	150,844,773	-	-	150,844,773	Capital stock	
Capital surplus	36,247,705	-	(63,109)	36,184,596	Capital surplus	(c)
Retained earnings					Retained earnings	
Legal reserve	52,829,209	-	-	52,829,209	Legal reserve	
Special reserve	7,615,701	-	21,636,278	29,251,979	Special reserve	4)
Unappropriated earnings	19,606,971	-	-	19,606,971	Unappropriated earnings	D, (b),(c), 4)
Total retained earnings	80,051,881	-	21,636,278	101,688,159	Total retained earnings	
Other equity					Other equity	
Unrealized revaluation increment	26,757,590	-	(26,757,590)	-	-	D
Unrealized gain on financial instruments	3,020,919	(317,084)	2,803,837	5,507,672	Unrealized gain from available-for-sales financial assets	(a), (c)
-	-	317,084	-	317,084	Cash flow hedging reserve	
Cumulative translation adjustments	17,192	-	(17,192)	-	Foreign currency translation reserve	
Net loss not recognized as pension cost	(230,590)	-	230,590	-	-	(b)
Treasury stock	(8,122,461)	-	(167,784)	(8,290,245)	Treasury stock	(c)
Total other equity	21,442,650	-	(23,908,139)	(2,465,489)	Total other equity	
Total stockholders' equity of parent company	288,587,009	-	(2,334,970)	286,252,039	Total equity attributable to shareholders of the parent	
MINORITY INTEREST	23,520,928	-	(308,542)	23,212,386	NONCONTROLLING INTERESTS	
Total stockholders' equity	312,107,937	-	(2,643,512)	309,464,425	Total shareholders' equity	
TOTAL	$ 611,685,615	$ -	$ 6,535,546	$ 618,221,161	TOTAL	

CHINA STEEL CORPORATION AND SUBSIDIARIES

RECONCILIATION OF CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2012
(In Thousands of New Taiwan Dollars)

Assets

ROC GAAP Item	ROC GAAP Amount	Effects of Transition to IFRSs: Presentation Difference	Effects of Transition to IFRSs: Recognition and Measurement Difference	IFRSs Amount	IFRSs Item	Note
CURRENT ASSETS					CURRENT ASSETS	
Cash and cash equivalents	$ 20,545,123	$ (2,444,389)	$ 3	$ 18,100,737	Cash and cash equivalents	A
Financial assets at fair value through profit or loss - current	3,635,688	-	304,655	3,940,343	Financial assets at fair value through profit or loss - current	(a)
Available-for-sale financial assets - current	4,763,787	-	21,228	4,785,015	Available-for-sale financial assets - current	(a)
Hedging derivative assets - current	45,950	-	-	45,950	Hedging derivative assets - current	
Notes receivable, net	1,490,986	-	-	1,490,986	Notes receivable, net	
Accounts receivable, net	10,560,747	-	-	10,560,747	Accounts receivable, net	
-	-	7,432,666	-	7,432,666	Construction contracts receivable	
Other receivables	1,530,801	(56,646)	-	1,474,155	Other receivables	
-	-	58,085	-	58,085	Current tax assets	
Other financial assets - current	4,237,454	9,286,260	-	13,523,714	Other financial assets - current	A
Inventories	84,282,534	(7,432,666)	17,150	76,867,018	Inventories	
Deferred income tax assets - current	2,058,931	(2,058,931)	-	-	-	B
Restricted assets - current	6,942,080	(6,942,080)	-	-	-	
Others	4,775,299	(1,439)	1,862	4,775,722	Others	
Total current assets	144,869,380	(2,159,140)	344,898	143,055,138	Total current assets	
INVESTMENTS					INVESTMENTS	
Financial assets at fair value through profit or loss - noncurrent	259	-	-	259	Financial assets at fair value through profit or loss - noncurrent	
Available-for-sale financial assets - noncurrent	3,579,165	-	14,584,929	18,164,094	Available-for-sale financial assets - noncurrent	(a)
Held-to-maturity financial assets - noncurrent	185,159	-	-	185,159	Held-to-maturity financial assets - noncurrent	
Hedging derivative assets - noncurrent	6,983	-	-	6,983	Hedging derivative assets - noncurrent	
Financial assets carried at cost - noncurrent	12,449,537	-	(12,449,537)	-	-	(a)
Bond investments with no active market - noncurrent	3,536,086	-	-	3,536,086	Bond investments with no active market - noncurrent	
Investments accounted for by the equity method	2,606,530	-	10,303	2,616,833	Investments accounted for by the equity method	
Investments in real estate	381,905	(381,905)	-	-	-	
Prepaid long-term stock investments	12,942	(12,942)	-	-	-	
Other financial assets - noncurrent	33,943	425,028	-	458,971	Other financial assets - noncurrent	A
Total investments	22,792,509	30,181	2,145,695	24,968,385	Total investments	
PROPERTY, PLANT AND EQUIPMENT					PROPERTY, PLANT AND EQUIPMENT	
Cost and revaluation increment	669,417,853	(2,978,870)	181,113	666,620,096	Cost	
Less: Accumulated depreciation	340,666,791	(186,819)	18,090	340,498,062	Less: Accumulated depreciation	
Accumulated impairment	405,559	(188,784)	-	216,775	Accumulated impairment	
	328,345,503	(2,603,267)	163,023	325,905,259		C
Construction in progress and prepayments for equipment	108,359,520	(2,215,076)	283,336	106,427,780	Construction in progress and equipment to be inspected	
Net property, plant and equipment	436,705,023	(4,818,343)	446,359	432,333,039	Net property, plant and equipment	
INTANGIBLE ASSETS	3,303,202	(1,725,856)	(41,439)	1,535,907	INTANGIBLE ASSETS	
-	-	8,689,136	-	8,689,136	INVESTMENT PROPERTY	C
OTHER ASSETS					OTHER ASSETS	
Assets leased to others, net	2,920,089	(2,920,089)	-	-	-	C
Idle assets, net	2,715,449	(2,715,449)	-	-	-	C
Refundable deposits	431,779	-	-	431,779	Refundable deposits	
Deferred income tax assets - noncurrent	3,080,214	2,058,931	2,690,659	7,829,804	Deferred income tax assets	B, (b), (d)
Restricted assets - noncurrent	324,819	(324,819)	-	-	-	
Deferred charge and others	749,524	3,885,448	(28,195)	4,606,777	Others	
Total other assets	10,221,874	(15,978)	2,662,464	12,868,360	Total other assets	
TOTAL	$ 617,891,988	$ -	$ 5,557,977	$ 623,449,965	TOTAL	

Liabilities And Stockholders' Equity

ROC GAAP Item	ROC GAAP Amount	Effects of Transition to IFRSs: Presentation Difference	Effects of Transition to IFRSs: Recognition and Measurement Difference	IFRSs Amount	IFRSs Item	Note
CURRENT LIABILITIES					CURRENT LIABILITIES	
Short-term loans and overdraft	$ 25,637,077	$ -	$ -	$ 25,637,077	Short-term loans and overdraft	
Commercial paper payable	28,679,430	-	-	28,679,430	Commercial paper payable	
Financial liabilities at fair value through profit or loss - current	4,362	-	-	4,362	Financial liabilities at fair value through profit or loss - current	
Hedging derivative liabilities - current	240,380	-	-	240,380	Hedging derivative liabilities - current	
Notes payable	261,617	-	-	261,617	Notes payable	
Accounts payable	10,332,163	-	-	10,332,163	Accounts payable	
Income tax payable	2,098,608	-	209	2,098,817	Current tax liabilities	
Accrued expenses	12,477,514	(12,477,514)	-	-	-	
Other payables	9,175,241	11,316,624	-	20,491,865	Other payables	
-	-	2,176,179	-	2,176,179	Provisions	
Bonds payable - current portion	11,272,543	-	-	11,272,543	Bonds payable - current portion	
Long-term debt - current portion	20,979,088	-	-	20,979,088	Long-term debt - current portion	
Deferred income tax liabilities - current	8,941	(8,941)	-	-	-	B
Others	7,018,591	(1,015,289)	1,414	6,004,716	Others	
Total current liabilities	128,185,555	(8,941)	1,623	128,178,237	Total current liabilities	
LONG-TERM LIABILITIES					LONG-TERM LIABILITIES	
Financial liabilities at fair value through profit or loss - noncurrent	1,739	-	-	1,739	Financial liabilities at fair value through profit or loss - noncurrent	
Hedging derivative liabilities - noncurrent	86,829	-	-	86,829	Hedging derivative liabilities - noncurrent	
Bonds payable	47,069,227	-	-	47,069,227	Bonds payable	
Long-term debt	92,255,495	-	-	92,255,495	Long-term debt	
Long-term notes payable	31,783,731	-	-	31,783,731	Long-term notes payable	
Total long-term liabilities	171,197,021	-	-	171,197,021	Total long-term liabilities	
RESERVE FOR LAND VALUE INCREMENT TAX	10,240,123	(10,240,123)	-	-	-	D
OTHER LIABILITIES					OTHER LIABILITIES	
Accrued pension cost	722,667	-	6,716,615	7,439,282	Accrued pension cost	(b)
Deferred income tax liabilities - noncurrent	1,074,759	10,249,064	1,598,297	12,922,120	Deferred income tax liabilities	B, D, (d)
Others	972,505	-	-	972,505	Others	
Total other liabilities	2,769,931	10,249,064	8,314,912	21,333,907	Total other liabilities	
Total liabilities	312,392,630	-	8,316,535	320,709,165	Total liabilities	
STOCKHOLDERS' EQUITY OF PARENT COMPANY					EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT	
Capital stock	153,107,445	-	-	153,107,445	Capital stock	
Capital surplus	36,673,528	-	(97,531)	36,575,997	Capital surplus	(c)
Retained earnings					Retained earnings	
Legal reserve	54,778,577	-	-	54,778,577	Legal reserve	
Special reserve	7,615,701	-	21,633,290	29,248,991	Special reserve	4)
Unappropriated earnings	5,961,915	-	194,806	6,156,721	Unappropriated earnings	D, (b), (c), 4)
Total retained earnings	68,356,193	-	21,828,096	90,184,289	Total retained earnings	
Other equity					Other equity	
Unrealized revaluation increment	26,750,124	-	(26,750,124)	-	-	D
Unrealized gain on financial instruments	2,458,247	280,266	2,545,290	5,283,803	Unrealized gain from available-for-sales financial assets	(a), (c)
-	-	(280,266)	-	(280,266)	Cash flow hedging reserve	
Cumulative translation adjustments	(393,229)	-	(24,591)	(417,820)	Foreign currency translation reserve	
Net loss not recognized as pension cost	(184,893)	-	184,893	-	-	(b)
Treasury stock	(8,415,348)	-	(166,949)	(8,582,297)	Treasury stock	(c)
Total other equity	20,214,901	-	(24,211,481)	(3,996,580)	Total other equity	
Total stockholders' equity of parent company	278,352,067	-	(2,480,916)	275,871,151	Total equity attributable to shareholders of the parent	
MINORITY INTEREST	27,147,291	-	(277,642)	26,869,649	NONCONTROLLING INTERESTS	
Total stockholders' equity	305,499,358	-	(2,758,558)	302,740,800	Total shareholders' equity	
TOTAL	$ 617,891,988	$ -	$ 5,557,977	$ 623,449,965	TOTAL	

CHINA STEEL CORPORATION AND SUBSIDIARIES

RECONCILIATION OF CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2012
(In Thousands of New Taiwan Dollars)

ROC GAAP		Effects of Transition to IFRSs		IFRSs		
Item	Amount	Presentation Difference	Recognition and Measurement Difference	Amount	Item	NOTE
OPERATING REVENUES	$ 358,536,702	$ -	$ (200,202)	$ 358,336,500	OPERATING REVENUES	
OPERATING COSTS	339,161,858	-	(171,284)	338,990,574	OPERATING COSTS	(b)
GROSS PROFIT	19,374,844	-	(28,918)	19,345,926	GROSS PROFIT	
REALIZED GAIN FROM AFFILIATES	31,236	-	-	31,236	REALIZED GAIN FROM AFFILIATES	
REALIZED GROSS PROFIT	19,406,080	-	(28,918)	19,377,162	REALIZED GROSS PROFIT	
OPERATING EXPENSES					OPERATING EXPENSES	
Research and development	1,683,491	-	(42)	1,683,449	Research and development	(b)
Selling	4,585,976	-	(3,331)	4,582,645	Selling	(b)
General and administrative	5,121,636	86,009	(90,222)	5,117,423	General and administrative	(b)
Total operating expenses	11,391,103	86,009	(93,595)	11,383,517	Total operating expenses	
OPERATING INCOME	8,014,977	(86,009)	64,677	7,993,645	OPERATING INCOME	
NONOPERATING INCOME AND GAINS					NONOPERATING INCOME AND GAINS	
Interest income	422,510	-	-	422,510	Interest income	
Dividend income	288,315	-	(16)	288,299	Dividend income	
Gain on sale of investments, net	1,183,827	-	15,402	1,199,229	Gain on sale of investments, net	
Exchange gain, net	479,626	-	(282)	479,344	Exchange gain, net	
Reversal of impairment loss, net	4,932	(4,932)	-	-	Reversal of impairment loss, net	
Others	1,065,981	(19,480)	7,861	1,054,362	Others	
Total nonoperating income and gains	3,445,191	(24,412)	22,965	3,443,744	Total nonoperating income and gains	
NONOPERATING EXPENSES AND LOSSES					NONOPERATING EXPENSES AND LOSSES	
Interest expense	2,790,260	-	-	2,790,260	Interest expense	
Investment loss recognized under equity method, net	230,005	-	(1,922)	228,083	Equity in losses of equity method investees, net	
Others	758,970	(110,421)	31,557	680,106	Others	(b)
Total nonoperating expenses and losses	3,779,235	(110,421)	29,635	3,698,449	Total nonoperating expenses and losses	
INCOME BEFORE INCOME TAX	7,680,933	-	58,007	7,738,940	INCOME BEFORE INCOME TAX	
INCOME TAX	1,291,426	-	13,956	1,305,382	INCOME TAX	
NET INCOME	$ 6,389,507	$ -	$ 44,051	$ 6,433,558	NET INCOME	
ATTRIBUTABLE TO					ATTRIBUTABLE TO	
Stockholders of parent company	$ 5,811,490			$ 5,894,806	Stockholders of the parent	
Minority interest	578,017			538,752	Noncontrolling interest	
	$ 6,389,507			$ 6,433,558		