2011 OPERATION REPORT

CHINASTEEL

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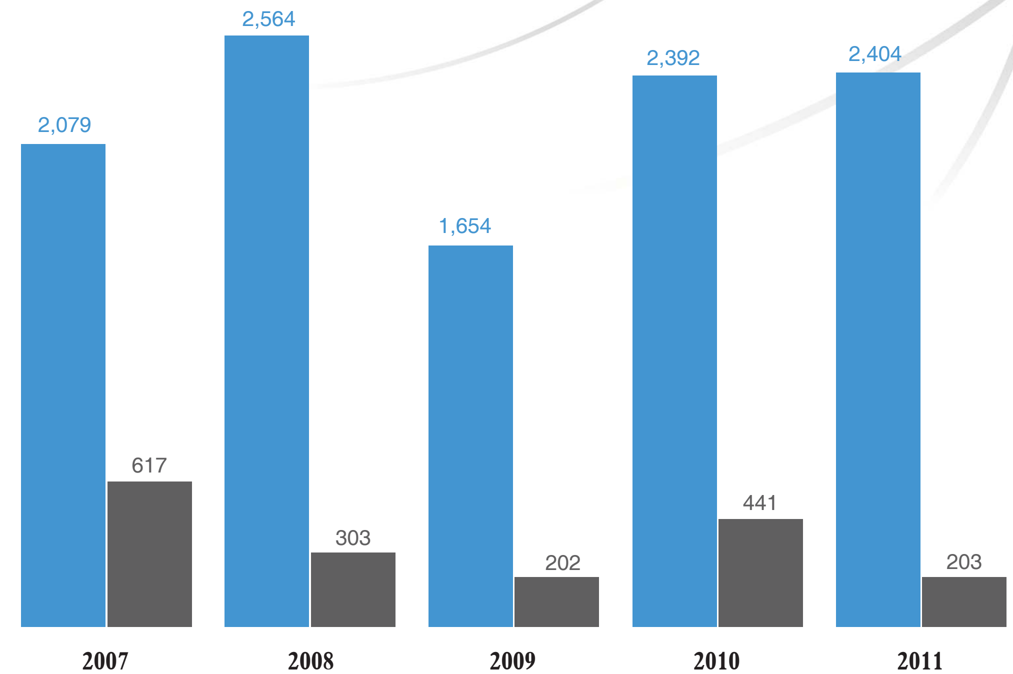
January 1 through December 31, 2011

* This English version is a translation of the Operation Report 2011 published in Chinese. In case of any discrepancy, the Chinese version shall prevail.

Two-Year Highlights of Operating Results

2010		2011
239,187	Revenues (Millions of New Taiwan Dollars)	**240,376**
203,186	Operating costs and expenses	**225,839**
36,049	Income from operations	**14,599**
44,094	Income before income tax	**20,285**
22,128	Employment costs[1]	**18,744**
15,804	Depreciation	**16,065**
568	Interest expenses net[1]	**648**
382,387	Total assets	**421,935**
31,839	Capital expenditures	**14,966**
265,950	Stockholders' equity	**288,587**
9,721	Output of steel products (Thousands of metric tons)	**8,756**
9,905	Sales volume of steel products (Thousands of metric tons)	**9,166**
9,147	Number of employees[2]	**9,478**
18.44	Return on sales (%)	**8.44**
14.75	Return on stockholders' equity[3] (%)	**7.03**

[1] Excluding capital expenditures
[2] As of the end of the calendar year
[3] Based on net income



Revenues and income before income tax

(in hundred million of New Taiwan Dollars)

revenues
income before income tax

2011 Chronology of Major Events

1971 December 3, 1971
China Steel Corporation[4] is officially registered, with head office located in Taipei.

1972 September 16, 1972
Kaohsiung Plant Site Office is established.

1974 September 1, 1974
Phase I construction commences.

1974 December 26, 1974
CSC stock is listed on Taiwan Stock Exchange Corporation.

1975 September 15, 1975
Head office relocates to Kaohsiung. Plant Site Office closes.

1977 July 1, 1977
CSC becomes a state enterprise.

1977 December 16, 1977
Phase I is completed, with capacity[5] of 1.5 million tons[6] per year.

1978 July 1, 1978
Phase II construction commences.

1982 June 30, 1982
Phase II is completed. Capacity[5] reaches 3.25 million tons[6] per year.

1984 July 1, 1984
Phase III construction commences.

1988 April 30, 1988
Phase III is completed. Capacity[5] reaches 5.652 million tons[6] per year.

1993 July 15, 1993
Phase IV construction commences.

1995 April 12, 1995
CSC is privatized.

1997 May 31, 1997
Phase IV is completed. Capacity[5] reaches 8.054 million tons[6] per year.

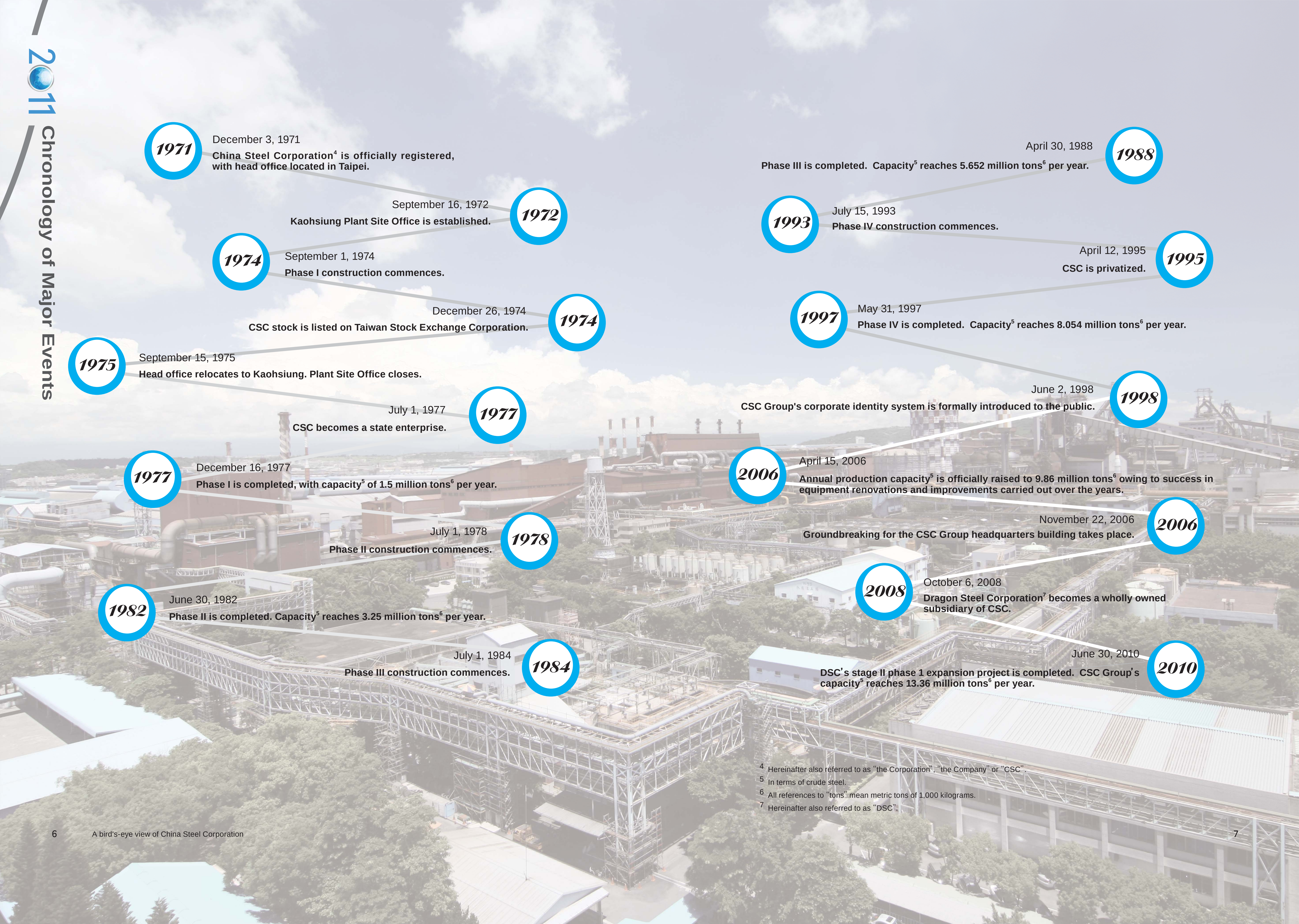
1998 June 2, 1998
CSC Group's corporate identity system is formally introduced to the public.

2006 April 15, 2006
Annual production capacity[5] is officially raised to 9.86 million tons[6] owing to success in equipment renovations and improvements carried out over the years.

2006 November 22, 2006
Groundbreaking for the CSC Group headquarters building takes place.

2008 October 6, 2008
Dragon Steel Corporation[7] becomes a wholly owned subsidiary of CSC.

2010 June 30, 2010
DSC's stage II phase 1 expansion project is completed. CSC Group's capacity[5] reaches 13.36 million tons[6] per year.



4 Hereinafter also referred to as "the Corporation", "the Company" or "CSC".
5 In terms of crude steel.
6 All references to "tons" mean metric tons of 1,000 kilograms.
7 Hereinafter also referred to as "DSC".

A bird's-eye view of China Steel Corporation

The International Monetary Fund (IMF) published on January 24, 2012 the 2011 global economic growth rate to be 3.8%, which was lower than that of 2010 (5.2%). The Directorate General of Budget and Statistics (DGBAS) also published on February 22, 2012 the 2011 economic growth rate in Taiwan to be 4.04%, which was noticeably lower than that of 2010 (10.72%).

In 2011 the international steel industry faced three major unfavorable issues leading to the slowing down of global economic growth and the weakening of steel prices:

(1) the costs of steel production increased because the prices of iron ore, coking coal, and coke remained high;

(2) the oversupply of steel in China created supply pressure in the world steel market, and

(3) the European debt crisis induced the turmoil in the global financial markets and the deflation of the financial expenditures in the Euro Zone nations led to the loss of consumer confidence, unwillingness to invest among enterprises and the gradual declination of steel demand growth.

Therefore, the global steel market, after bouncing from the end of 2010, corrected all the way through the end of 2011 with only a meager increase in demand. In October, 2011, World Steel Association (worldsteel) predicted that global apparent finished steel use would increase by 6.5% compared with that of 2010. In February, 2012, Taiwan Steel & Iron Industries Association published that the apparent finished steel use in Taiwan would increase by 1.7% compared with that of 2010.

The CSC's revenues for 2011 amounted to NT$240.376 billion, which was 0.5% more than that of 2010. The increase was mainly due to the increase of revenues from the sales of by-products, construction, and rendering of technical service, although the sales of steel products decreased because of the recession in the second half of 2011. Operating costs and expenses in 2011 was NT$225.839 billion, which was 11.1% more than those of 2010 owing to the overall impact of the increase of raw material costs in coking coal and iron ore, recognized inventory loss, and loss of purchase commitment for undelivered raw materials. Pre-tax profits amounted to NT$20.285 billion, which was 54.0% less than that of 2010.

The implementation of CSC's 2011 operating directives included the following four key points:

(1) Active development of the sources of upstream raw materials:
The acquisition of 1% of the shares of Nacional Minerios S.A. in Brazil was completed in November, 2011. The investment would help CSC gain a new channel for the source of iron ore, to ensure a steady long-term supply, to strengthen international cooperative partnership for more opportunities in raw materials.

(2) Development of a new dimension for downstream distribution:
CSC would continue to explore new sales channels for both its domestic and overseas


Chairman
Jo-Chi Tsou

President
Chaur-Hwa Ou

sales. Downstream rooting projects would be promoted. Focus would be placed on highly potential emerging markets, such as China, Southeast Asia, India, and so on. CSC would cooperate with the local coil centers as well as distributors in those markets to expand its overseas sales channels. The establishment of production sites by overseas investment and strategic shareholdings would be carried out. For example, a production line for electrical steel coils will be established in India to seize the opportunity of local growth, which would also allow CSC to explore the markets in the Middle East, Europe, and North Africa.

(3) R&D innovation in producing high-valued steel products:
R&D for high grade and strategic steel products would be accelerated. Order volume for high grade steel products were 38% of the total sales volume. The field of special alloy metal would be explored to upgrade the quality and add new values.

(4) Advancement in production by reducing CO_2 emission and waste:
The goal of "Two Lows and One High" — Low carbon, low pollution, and high added value would be pursued for sustainable green growth. All departments at CSC work together in technological advancement, promotion of quality and effectiveness, full utilization of resources, and cost streamlining. In regard to new production lines, the engineering schedule and quality controls of both DSC's stage II phase 2 expansion project and high grade non-grain-oriented (NGO) electrical steel sheets project would be actively monitored.

As to the outlook for 2012, global economic growth forecast by the IMF is 3.3%. Increases of global and Taiwan's apparent finished steel uses predicted by worldsteel are 5.4% and 2% respectively. DGBAS predicts Taiwan's national economic growth to be 3.85%. Although the uncertainty of the debt crisis in the Euro Zone still remains, the European Union, IMF, and European Central Bank have put in concerted efforts to prevent the crisis from spreading and controlled the damage within bearable limits. The economy and employment indices in the USA have improved continuously, and the Congress has passed the bill to prolong the tax reduction measure to stimulate consumption. China has decreased its required deposit reserve ratio again, which makes the supply of capital looser. Based on the aforementioned facts, it is clear that the global economy is currently on a positive track. The international operating environment for steel is improving; the downstream demand for steel will increase gradually. In addition, global steel producers have all curbed their productions, which will improve the supply and demand and benefit the overall operation of the steel industry.

To lay a robust foundation for the long-term competitiveness, CSC has set the operating directives for 2012 as below:

— execution of lean production to reduce inventory
— reducing costs through scientific approaches, energy conservation, and waste reduction
— advancement in R&D and production processes in order to offer high quality products with reasonable prices
— exploration of sales channels to secure clientele and alliance formation.

Targets for 2012 include:

— reduction of costs at least NT$4.2 billion
— orders for high grade products equal to or exceed 4.6 million tons
— no cases of major occupational injuries
— zero disqualification rate of steel products containing hazardous substances
— the intensity of sulfur oxide emission to be below or equal to 1.116 kg/ton of slabs.

CSC embraces integrity to run its businesses and pays attention to its governance. It will also continue to maintain a harmonious relationship with its neighbors, serve the community, and be actively involved in types of public benefit activities to fulfill its corporate social responsibility.

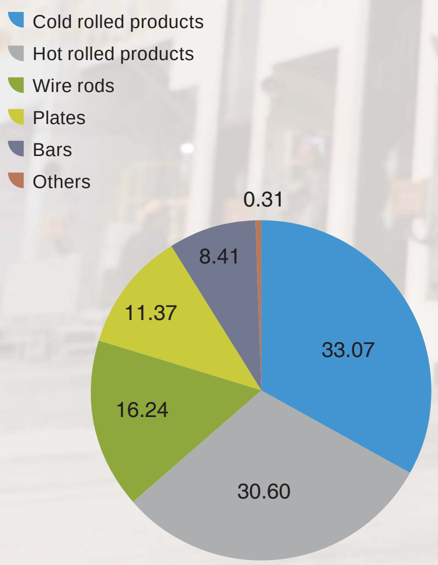
The supply of coal and iron ore tightened in the first half of 2011 because India limited the export of iron ore at the beginning of the year and there were also natural disasters in the mining areas of Australia, which resulted in the spot prices of coal and iron ore to remain high. Global economy weakened because of the outbreak of the debt crisis in the European Union after September, 2011. Therefore, both the demand for steel and the price of steel declined. Steel producers all over the world curbed their productions to cope with the situation; the spot prices of coal and iron ore started to fall owing to the decrease of demand.

Sales volume of CSC's steel products in 2011 fell by 7.46% from the 2010 level to 9.166 million tons, 69.55% of which was domestic sales and 30.45% of which was overseas sales. Production of steel was 8.756 million tons, which was 9.92% less than that of 2010. Production of molten iron (10.151 million tones) and liquid steel (10.610 million tons) were 8.47% and 7.18% more than those of 2010, respectively. The higher percentages were mainly due to the lower production in 2010 with the revamping of No. 1 blast furnace.

CSC generated 56.48% of the electricity it required in 2011; it was 0.48% more than the amount in 2010 owing to the decrease of the contracted price of coal and the increase of self-generated gases from the recovered production of steel. Energy consumption per ton of crude steel (slabs and blooms) was 5,537 million calories, which was 135 million calories less than that in 2010 largely owing to the recovered steel production and better efficiency of energy consumption. In order to upgrade the efficiency of regional energy and resources utilization, CSC continued to promote regional integration of energy and

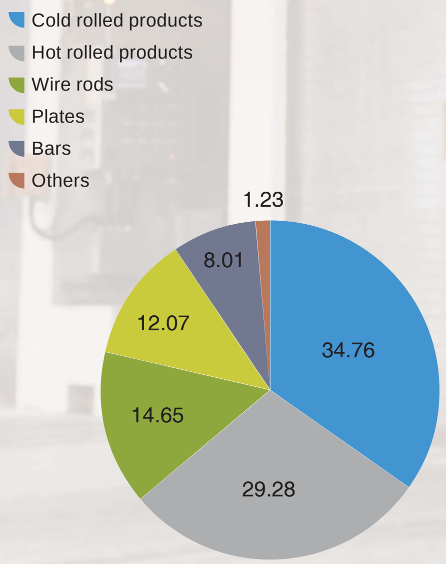
2011
Percentage of steel sales volume by product

Total： 9,166 thousand metric tons



2011
Percentage of steel production volume by product

Total：8,756 thousand metric tons



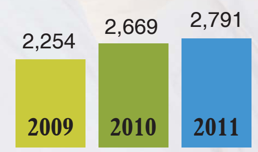
resources within the Lin Hai Industrial Zone by selling excess self-produced gases such as steam, oxygen, nitrogen, and argon, which amounted to NT$3.05 billion, a 7% increase compared with that of 2010. The quantity of sales of steam in 2011 was 2.365 million tons, or 182,000 kiloliters of oil equivalent, which can be amounted to 542,000 tons of CO_2, 1,728 tons of SOx, 1,199 tons of NOx , and 170 tons of suspended solids if converted to benefits in reduction of air pollution and greenhouse gas emission.

CSC has been continuing to execute the 5-year Energy Conservation Project, which aimed at saving 240,000 kiloliters of oil equivalent between 2011 and 2015. The awards granted to CSC in regard to energy conservation and environmental protection in 2011 were (1) Award of Excellence given by Environmental Protection Bureau, Kaohsiung City Government for energy saving achievement assessment, (2) Organization Award for Energy Conservation Outstanding Performance given by Ministry of Economic Affairs (MOEA), and (3) Award of Excellence given by Industrial Development Bureau, MOEA for its participation in the Achievement Assessment of the Voluntary Reduction of Greenhouse Gas. Furthermore, ISO 50001 Energy Management System was also introduced; CSC passed BSI's independent external audit.

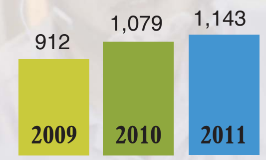
Key tasks and results of quality management in 2011 are listed as follows:

1. New product development

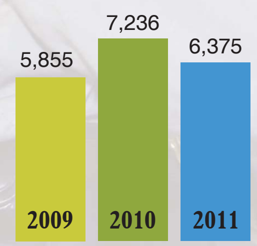
(1) Six new cold-rolled and hot-dip galvanized steel products for car use, which met IF steel's highest strength requirements by European standards, were successfully developed and were certified by Toyota Motor Corporation. In terms of quality,



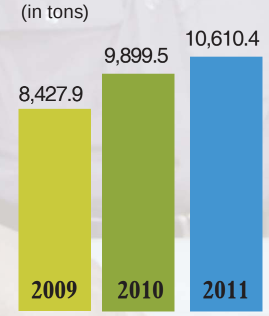
Export sales of steel product
(in thousand metric tons)



Output per employee in terms of crude steel
(in tons)



Domestic sales of steel product
(in thousand metric tons)



Crude steel production
(in thousand metric tons)

the cross process improvement was implemented. The okay yield of steel orders for car panels was noticeably raised from 79% to 88%.

(2) The mass production of the top-notch electrical steel 35CS210 was successfully achieved; it has partially replaced grain-oriented (GO) electrical steel. New economical products, e.g. 50CS470J, have been developed. Competitiveness was enhanced because production costs were drastically reduced by the replacement of grade 35CS250 with 35CS250H, the high magnetic flux electrical steel.

(3) Hot-rolled steel with ultra low temperature toughness and resistance to hydrogen induced cracking for pipe lines has been successfully developed, enabling CSC to supply the higher grade PSL2 series in the market.

(4) EH47, the high strength hull steel plate, has been developed. It can help reduce the weight of ship and increase the ship carrying capacity, which demonstrates CSC's dedication to environmental protection and energy conservation.

(5) For steel bars and wire rods, S2-1M3 (5.5~7mm), steel for pneumatic screwdriver bits, was developed and could assist CSC's downstream customers to shorten their drawing and spheroidizing process.

2. Technological advancement of the steelmaking process

The total content of SPONCH, the impure element in bearings and high strength hull steel plates, was decreased from 103ppm to 96ppm, which effectively promoted the property and life of product. The steelmaking process control of high purity steel, which is used to produce the pin inclusion with special requirements in an automobile air bag, was established to significantly increase the okay yield.

3. Technological advancement of the rolling process

The flatness and cracks of the front and end parts of hot-rolled bands in medium and low specification electrical steels were improved; as a result, the costs of tempering were massively saved because the hot-rolled bands could be fed for cold rolling directly.

4. Cross processing management of steel bars and wire rods

CSC has assisted DSC in improving the quality of its billets and development of new wire-rod products. A wholly integrated quality management mechanism in DSC's electric arc furnace has been established to ensure the quality of the wire-rod products; therefore, the product quality of the CSC Group in the upstream and downstream is in unison due to the synergy of the cross processing management.

5. Production of titanium products and establishment of quality technology

The rolling process and quality of ASTM B265 Gr.2 titanium plates and ASTM B348 Gr.2 titanium coils have been confirmed in order to secure the market share of high-value products besides those of carbon steel products.

6. Acquisition and maintaining of major items of international quality certification from various institutes and national standard agencies

CSC has been granted ISO/TS 16949, QC 080000, FPC, ELV, and certificates from Malaysia, Thailand, Indonesia, and Japan. The certification also covers No.3 cold rolling line as well as the pickling and oiling line of Hung Li Steel. CSC also assists DSC and Chung Hung Steel Corporation (CHSC) to obtain quality certification, which can help promote sales and ensure assessment and monitoring by an objective third party.

President Ma Ying-jeou bestowed the "Outstanding Photonics Product Award" to Chairman Jo-Chi Tsou

Ceremony of marking the cold rolled coils over 50 million tons

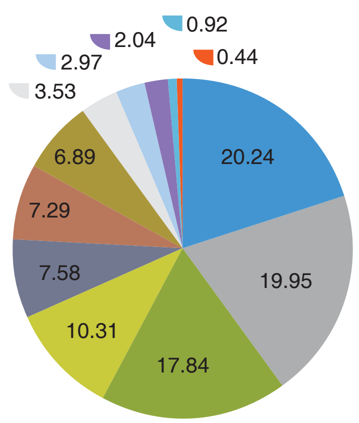
No.3 pickling and cold-rolling mill

Casting

2011 Percentage of domestic sales by industry

Total: 6,375 thousand metric tons

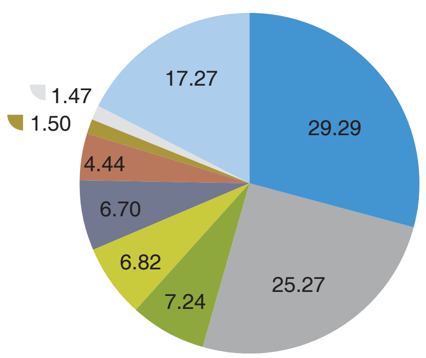
- Steel service centers
- Direct users
- Nuts and bolts
- Rerollers
- Steel structures
- Steel piping
- Vehicles
- Shipbuilding
- Traders
- Hand tools
- Steel wire and cable
- Others



2011 Percentage of export by region

Total: 2,791 thousand metric tons

- Hong Kong (including Mainland China)
- Japan
- Thailand
- Malaysia
- Indonesia
- Vietnam
- Korea
- Singapore
- Others



Titanium coils

Slabs

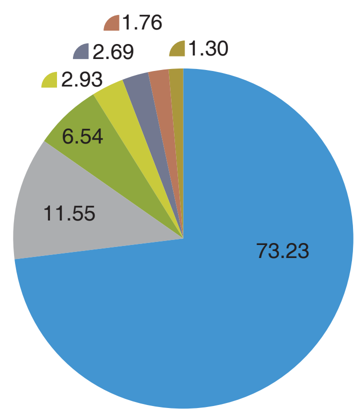
Cold rolled coils

Hot rolled coils

2011 Sources of coking coal (%)

Total: 8,491 thousand metric tons

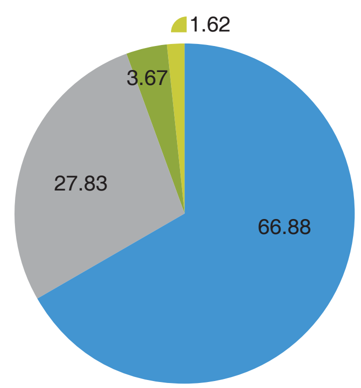
- Australia
- Canada
- Indonesia
- Russia
- Mainland China
- North Korea
- USA



2011 Sources of iron ore (%)

Total: 16,914 thousand metric tons

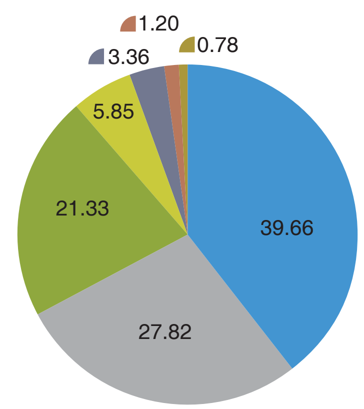
- Australia
- Brazil
- Canada
- Bahrain



2011 Sources of flux materials (%)

Total: 3,568 thousand metric tons

- Domestic
- Japan
- Philippines
- Dubai
- Mainland China
- Vietnam
- Thailand



In 2011, a total of NT$1.438 billion was invested in the R&D of product, production process and equipment technology. The major achievements were:

— development of 35CS300H and 35CS250H high magnetic flux electrical steel

To meet the demand for inverter compressor motors, electrical vehicle motors, and servo motors, CSC has developed 35CS300H and 35CS250H high magnetic flux electrical steel, which possess the same iron loss but higher flux density. According to the results of our research, flux density can be enhanced by optimizing the texture with the most appropriate addition of alloys. After the adjusted addition of the most appropriate alloys, the properties of both products were upgraded, the production costs were reduced, and their competitiveness greatly increased.

Accepting the Contribution Award of the 2011 National Invention and Creation Award from MOEA

— the establishment of low flow descaling technology in the No. 2 hot strip mill

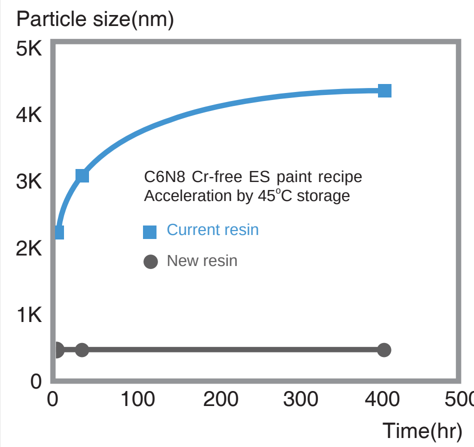
Online descaling systems and the optimal descaling conditions were studied to confirm the feasibility of applying high pressure low flow descaling technology for improving the surface quality of hot-rolled coils, the results of which demonstrated that the amount of descaling water flow as well as the descaling temperature could be decreased by using ultra high pressure systems so that the goal of lowering energy consumption could be reached. The technology has been applied in the No. 2 hot strip mill to effectively improve the rolled-in scale defects, upgrade the quality of hot-rolled coils, and noticeably reduce energy consumption in the furnace.

— development of domestic resin for electrical steel paints

Imported resin, which is one of the main materials in electrical steel paints, is expensive and requires more inventories. To solve this problem, domestic resin has been developed. Its property of painting is similar to that of the imported resin; however, its adhesiveness and anti-corrosiveness are better than those of the imported resin. If the resin is fully manufactured domestically, approximately NT$40 million can be saved per annum, provided that the annual production capacity of electrical steel is 600,000 tons, which consumes 2,400 tons of paints. In terms of cost reduction and increase of competitiveness in electrical steel, the result of domestic manufacturing of resin is quite impressive.

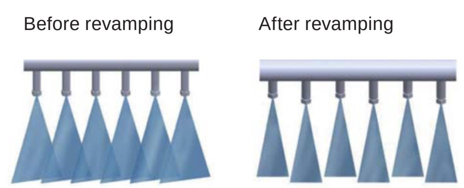
— development of theoretical computing technology for insulation effect diagnosis of holding chamber in the slab storage yard of the Hot Strip Mill

Hot charge is one of the important production processes. If the temperature of hot charge for continuously cast slabs is raised by per 100°C, about 5% to 6% of fuel can be saved in the furnace. Our newly developed computing technology for insulation effect diagnosis of holding chamber in the slab storage yard can raise the hot charge for slabs about 10°C in average, resulting in decreasing 0.5% of the fuel consumed in the

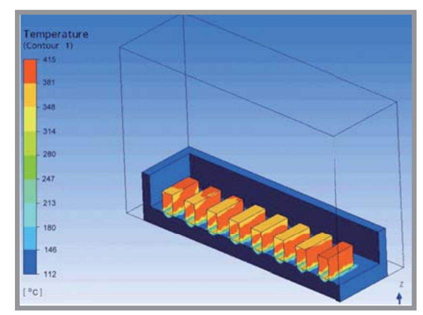


Cr-free ES paint using the new resin has better emulsion stability than that using current resin

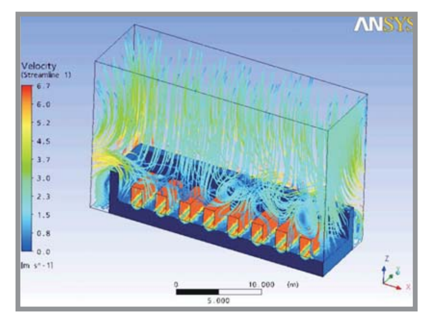
Schematic diagrams of the descaling header before and after revamping.



Development of theoretical computing technology for insulation effect diagnosis of holding chamber in the slab storage yard in hot strip mill



Dynamic simulation for thermal-fluid fields of holding chamber

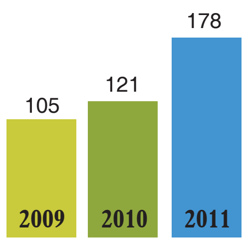


Dynamic simulation for thermal-fluid fields of holding chamber furnace. If an annual production capacity of 7 million tons of hot-rolled coils is estimated, approximately NT$10 million of fuel cost can be saved per annum. It can enhance the effect of energy conservation directly and reduce the emission of CO_2 indirectly. The dual benefits significantly contribute to CSC's earnings and environmental protection.

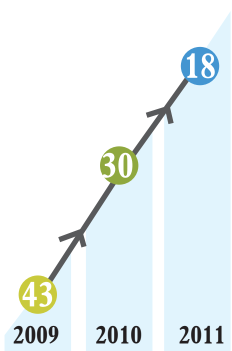
To cope with the drastic changes and challenges of the external environment, the core of new R&D is set to be "integrating all of the perspectives into overall innovation." R&D planning is broadened through the deployment of five dimensions — raw materials, products, production processes, facilities, and downstream steel-using industries. Internally, lead the innovation, reduce cost, and deeply root the basic technologies for future demands. Externally, put the capabilities of industry, academia and research institutions together to develop the technological application for downstream processing and promote the upgrade of steel-using industries, enabling CSC and its downstream industries to continue to make progress and grow.

In recent years, CSC has held the educational trainings related to intellectual properties for fulfilling the patent application, protecting the intellectual properties, proactively establishing a sound patent system, and leading employees to participate. Such trainings have also further extended to the CSC Group. In 2011, CSC filed applications for 178 patent cases and was granted patent certification for 85 cases, which ranked the 18th among the top 100 applicants, and the 27th among the patent recipients in Taiwan. The numbers of both applications and patent certificates have progressed for three consecutive years, which indicates the effects of CSC's promotion and protection of intellectual properties. CSC was honorably granted the Contribution Award of the 2011 National Invention and Creation Awards by MOEA.

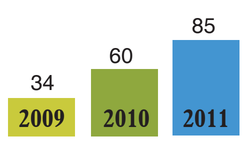
The trends of the patent applications and certification in the past three years



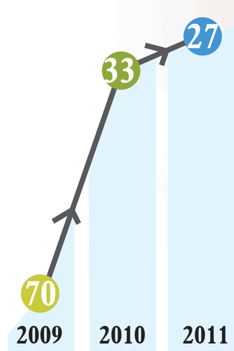
Number of applications



The ranking of the top 100 applicants



Number of certificates



The ranking of the top 100 certificate recipients

Opening ceremony of advanced steel microstructure control engineering research center jointly set up by CSC, National Taiwan University, and Brazil CBMM

As of the end of 2011, there were 9,478 employees at CSC. The average age was 49.24 years. Among the 9,478 employees, 9,381 (98.98%) of the employees were eligible for membership in the CSC Labor Union.

In order to spell out fair and reasonable labor conditions for both the management and labor to observe, CSC has maintained a collective agreement with the Labor Union, and multiple communication channels have been provided. In 2011, the Chairman's Mail Box was established for more and better labor-management communication; a total of 450 employees participated in 45 communication meetings with chairman and president. In addition, a committee for handling sexual harassment was also established to deal with complaints so that an environment free of such annoyances could be provided to CSC employees and job applicants.

The strategy of human resource development in the future will focus on both the cultivation and advancement of the corporate culture and the integration and training of the human resource in the CSC Group so that the competence of its employees is enhanced for the long-lasting development of the CSC Group. CSC has mapped out appropriate employment plans according to its corporate development strategies and investment plans, which is supplemented by the retirement and resignation forecasts as well as the periodic manpower requirement reviews by each departments. Training for the recruits usually takes the form of mentor-apprenticeship in order to pass down key knowledge and skills. Knowledge management will be continuously promoted within the CSC Group. Moreover, to meet the demand for future development in CSC Group, a group-wide knowledge management platform, a human resource information system, and an integrated educational and training system are being planned to strengthen the organizational effectiveness besides the full utilization of the manpower of retirees.

CSC Group wedding ceremony

The key factor which CSC's operational performance has been recognized is its unique and excellent corporate culture which was formed by the pioneers of CSC. Their management styles, values, goals, and concepts have always been admired and followed by all the other CSC employees. Because of the high average age of employees, it is estimated that around 5,800 senior employees will retire within the following 15 years; a large number of new employees will be recruited. A crucial part of the training for these new recruits is the passing down of CSC's corporate culture. As a result, CSC's Corporate Culture Committee was organized in October, 2010 to promulgate the four core values of "teamwork, entrepreneurial approach, down-to-earthness, and pursuit of innovation." Under the committee are three sections, namely, the corporate culture enhancement section, the corporate culture education and promotion section, and the corporate culture advancement section. A guideline of conduct of the core values and case studies of CSC's corporate culture are being compiled to serve as training materials for management team and staff who is stationed overseas to carry on the CSC's heritage.

A "Retiree Service Department" was set up in December, 2010 to serve CSC retirees and to provide opportunities for them to either do volunteering tasks or be engaged in offering their technical expertise. The Retiree Service Department launched its five major services for the retirees and the aged in 2011 as: (1) Integration and establishment of the manpower data system for retirees and seniors; (2) Expansion of the service and concerns for retirees; (3) Planning of social activities for retirees; (4) Planning and implementation of a


Contract signing ceremony for trust fund for retirees' shareholdings


Award for excellent in 2011 steeluniversity virtual steelmaking challenge


CSC Group managers session


Knowledge management forum

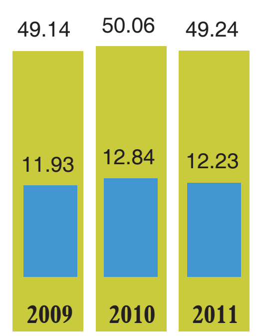

Communication meetings of chairman, president and employees

trust fund for retirees' shareholdings of CSC stock; (5) Promotion of a green lifestyle for retirees.

Regulations for retirement were revised and augmented on December 28, 2011 to govern related issues in a systematic manner. Those who are injured because of occupational accidents or holders of physical and/or mental disability manuals (moderate degrees or above) may apply for early retirement with extra benefits.

Cultivation of specialized and technical capabilities is by means of CSC's education and training development system. Training is carried out in a stepwise manner according to the capabilities required by each of the positions to be filled, with a combination of classroom work, e-learning, and apprenticeship programs. In 2011, each employee averaged 25.5 hours of classroom training and 0.8 hour of e-learning. CSC's program of sending employees overseas to academic institutions and business organizations for studies is aimed at elevating the corporation's capabilities in production, R&D, technology, management, and foreign language proficiency. It also aims at fulfilling the manpower needs for CSC's diversification and globalization. In 2011, 69 employees went to academic institutions and business organizations abroad under this program. In addition, ten selected employees with potential for development also enrolled in universities in Taiwan while eight employees with the similar quality went abroad for further education.

Number of employees
(as of end of year)



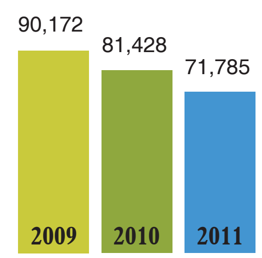
Employees' average age and years of service
(as of end of year)

Average age
Average years of service[8]

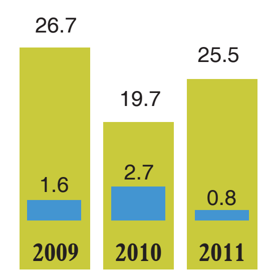
[8] Not counting years of employment prior to the privatization of the Corporation on April 12, 1995.

CSC's Employee Welfare Committee provides a whole range of services related to food, clothing, housing, transportation, education, and entertainment for CSC employees and their family members; it has set up 40 clubs for employees to engage in for physical and mental relaxation so that they can enjoy a more fulfilling life after work. A total of 391 activities/group events with 15,000 participants were sponsored by the clubs in 2011. A series of activities in celebration of CSC's 40th anniversary, including four leisure outings with 13,500 participants at National Pingtung University of Science and Technology, a group wedding ceremony with 237 pairs of newlyweds and a baseball game for public benefit activities with 15,287 participants, the Steel Cup Softball Game with 18 teams from 17 companies, and two massive rallies at Kaohsiung Arena with 21,500 participants, were held.

In 2011, CSC reaped more than NT$76 million in benefits from its Creative Development Activities (CDA) and more than NT$120 million in estimated tangible benefits from its Employee Suggestion System. These time-honored activities aim at encouraging employees to discover problems at their workplaces and to make suggestions and offer solutions created by group endeavors. In 2011, CDA involved 573 "circles" with 5,467 participants (89.5% of the blue-collar personnel of the departments concerned) and 670 topics were completed. As for the Employee Suggestion System, 21,818 suggestions were made, 21,402 (98.1%) of which were adopted.

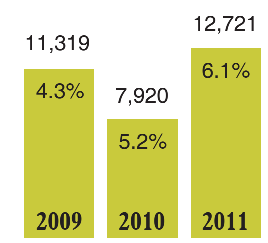


Employee training expense
（in NT$1,000）



Average hours of training per employee

Classroom
e-learning

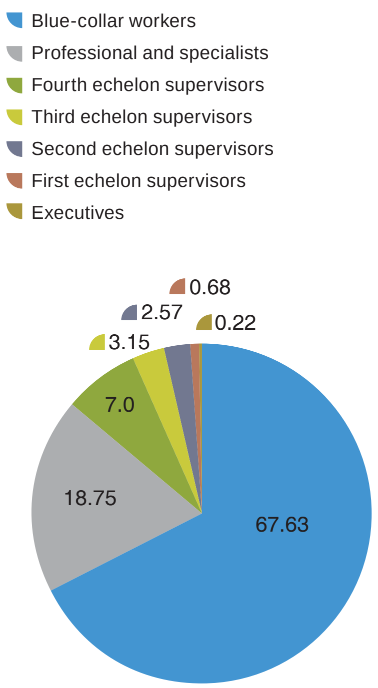


Employee training outside the Corporation
（hours/ratio of outside training to total）

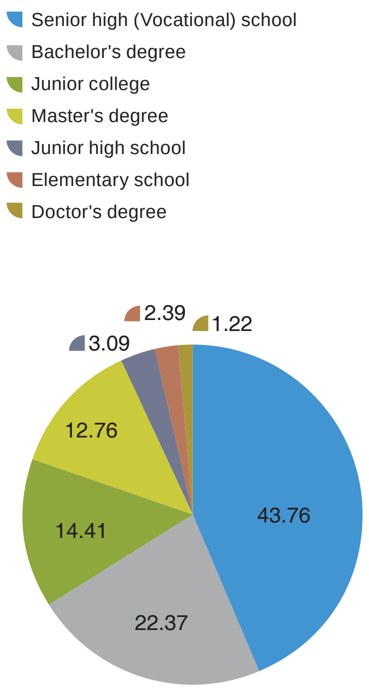

Steel Cup softball game


Club activities

2011
Breakdown by employees' position level (%)
(as of December 31, 2011)

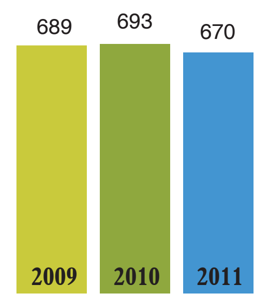


2011
Educational background of employees (%)
(as of December 31, 2011)



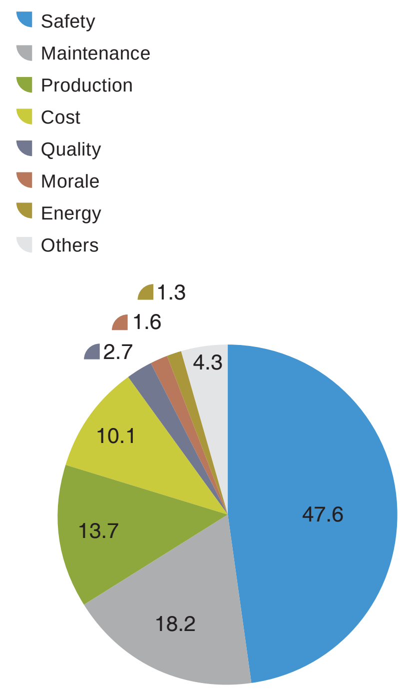

Employees and their family members leisure outing


LOHAS seminars for employees to be retired



Cases completed by Creative Development Activities

2011
Cases completed by Creative Development Activities by subject matter (%)



Energy Saving and Environmental Protection

Environmental protection rules and regulations have become stricter and stricter over the years. Enterprises need to be more active to conserve their energy consumption. In order to reduce the operational risks and to ensure future sustainable development, in March 2011, CSC set up the Office of Energy and Environmental Affairs, which is in charge of planning energy and environmental policies, risk evaluation of related rules and regulations, and the planning and implementation of their coping strategies. Furthermore, CSC's Committee for Energy and Environmental Promotion was organized in April 2011. Under the committee are four subcommittees, namely, the Subcommittee of Green Materials and Low Carbon Energy, Subcommittee of Energy Conservation, Emission Reduction and Risk Management, Subcommittee of Regulatory Issues, and Subcommittee of New Green Businesses. The subcommittees devote themselves to planning, coordinating, promoting, and auditing the related energy and environmental affairs for the CSC Group.

The vision of energy and environment set for CSC is to keep strengthening energy conservation, environmental protection, and value innovation so that CSC can become a trustworthy green steel company. The goal of "two lows and one high — low carbon, low pollution, and high added value" is expected to be reached in 2020 as (1) low carbon — Greenhouse Gas (GHG) intensity to be lower than 1.97 tons of CO_2 equivalent per ton of crude steel; (2) low pollution — maintaining zero solid waste from by-product production processes and minimizing the amount of effluent waste water, (3) high added value — increasing the production value of recycling from by-products, and value from energy integration over NT$5 billion per year.

Major tasks and results of implementing energy conservation and environmental protection projects for 2011 were:

(1) Establishment of CSC's vision and goals for energy and the environment; completion of strategic planning in internal energy conservation and CO_2 reduction, utilization of high quality self-produced fuel, development and application of biomass energy and other types of new energy, and expansion of regional energy integration.

(2) External energy conservation service
CSC offered assistance to Hung Li Steel Corporation and Chih Lien Industrial Co., Ltd. in energy conservation. 39 suggestions had been made; the estimated saving was NT$5.19 million per annum. It was calculated that 5,448 tons of CO_2, 16.2 tons of SO_X, and 16.0 tons of NO_X could be reduced annually.

(3) Energy Conservation Project 2015
CSC aimed at saving 240,000 kiloliters of oil equivalent between 2011 and 2015. In 2011, 147 cases were proposed and 56,234 kiloliters of oil equivalent were saved.

(4) Environmental load analyses of five project-type capital expenditure projects were completed.

(5) The tests and reports for Par, SO_X, NO_X, VOCS, and DXN were completed. The total emission amount matched CSC's promise to the requirements of environmental impact assessment.

(6) Periodic meetings regarding energy conservation and CO_2 reduction, carbon tax, and the response task force to Greenhouse Gas Reduction Act were held to integrate energy conservation and CO_2 reduction plans, carbon credit management and technological R&D.

(7) Implementation of ISO 14001 environmental management system
As of December, 2011, 1,040 items had been listed in the environmental management projects, of which 971 items had been completed and 69 were still being implemented.

(8) Promotion of GHG inventory and internal auditing management
The 2010 GHG emission inventory, internal auditing, and external auditing of GHG inventory were completed in 2011.

(9) Assistance in recycling of by-products from CSC Group's companies
The tar sludge from China Steel Chemical Corporation(CSCC), waste water and oil from China Steel Aluminium Corporation(CSAC), vessel waste oil from China Steel Express Corporation(CSE), and waste acid from China Steel Machinery Corporation, CHSC, and Hung Li Steel Corporation had been recycled and approved by the examination conducted by Industrial Development Bureau, MOEA.

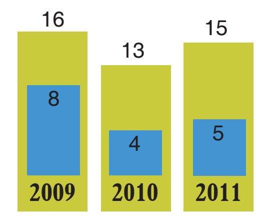

Azaleas in full bloom on Chung Kang Road


CSC Dormitory greening


Malaysian Night Heron appeared on the grass of CSC

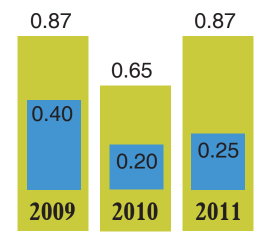
Industrial Safety

Occupational accident record of CSC - past three years



Number of cases with disabling injuries

Outside contractors
CSC



Frequency ratio[9]

Outside contractors
CSC

[9] FR = Number of cases with disabling injuries × 10^6 ÷ Total number of working hours of the entire company

CSC has always placed emphasis on industrial safety with the highest standards and actively implemented various types of tasks and educational training sessions. Major tasks and results of industrial safety for 2011 were:

(1) CSC was granted follow-up verification of OHSAS 18001 by Bureau of Standards, Metrology and Inspection, MOEA, and that of TOSHMS by Council of Labor Affairs. 285 activities of safety and hygiene management programs had been completed.

(2) One contingency drill for multiple disasters (power failure, tsunami, and leakage of hazardous gas) in collaboration with MOEA and five corporate-level contingency drills were held.

(3) The three-year accident reduction program and the labor safety and hygiene management program were promoted; the results of the implementation would be reported to Labor Standards Inspection Office, Labor Affairs Bureau, Kaohsiung City Government.

(4) 28 cases of traffic safety improvement were completed.

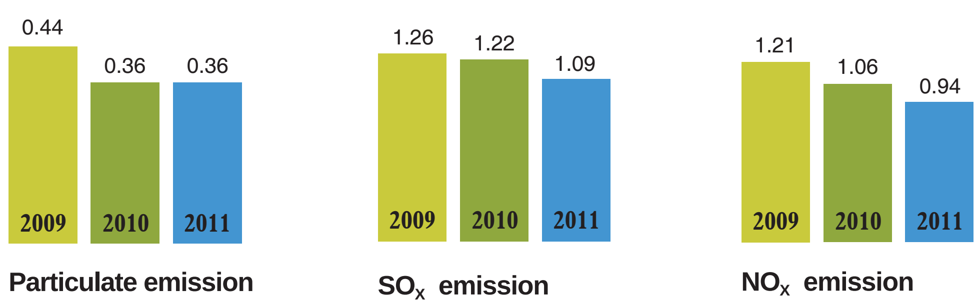
(5) Implementation of the regular inspection of 1,005 sets of hazardous machinery and equipment; 42 sets in regard to completion and modification were inspected.

(6) 880 audits on safety and hygiene within the plants were conducted; all of the discovered violations were corrected and improved.

(7) Various educational training sessions regarding safety and hygiene were conducted, including:
   (a) 59 training sessions regarding safety and hygiene were carried out for 3,562 employees of the contractors.
   (b) 26 on-job-retraining classes of 11 kinds of safety and hygiene regulation licenses were held for 1,127 licensees.
   (c) 3 training classes on OHSAS/ISO 14001 were held for 85 auditors.
   (d) 5 training classes on radiation education were held with 394 participants according to government regulations.
   (e) 2 seminars on the educational training of traffic safety were held with 250 participants.
   (f) 3,077 employees took part in the physical experience safety training classes in a simulated workplace environment.

CSC was granted the Award of Excellence in the campaign of "Occupational Safety and Health Week" held by the Council of Labor Affairs in 2011. Five production plants/departments reached the goal of records without occupational injuries and obtained the awards from the Council of Labor Affairs. In addition, eleven first-echelon units and eighty-five second-echelon units were awarded for their reaching the goal of continuous no disabled injuries set by CSC for encouragement.

Air quality (Kg/mt of crude steel)



Employee Health and Hygiene

Compiled with the laws and regulations, CSC continues to hold physical check-ups for its employees. In 2011, 8,533 employees were examined. The examinations encompassed abdominal ultrasound check-ups, body mass index (BMI), hearing (low, medium, and high frequencies), and chest X-ray. In addition, 1,788 spots in the workplace environment were monitored by law on the noise, aggregative indices of wet bulb temperature, chemical substances, and powder and dust.

To promote health, lower rates of sick leaves, reduction of occupational accidents, higher productivity, and improved quality of the working environment, CSC's Clinic Health Management Center arranged a series of programs, such as weight loss, health columns, employee health campaigns, energetic diet, spiritual re-building, and lectures on health for employees. In particular, employees with high BMI were invited to participate in the "Health 100% — Weight Loss" campaign. 300 employees lost a total of 511.7kg and 681.5cm of their waistlines. CSC was therefore granted the Award of Excellence in Workplace by Bureau of Health Promotion.


Having been awarded by ROC (Taiwan) President Ma Ying-jeou of assisting Japan with humanitarian assistance and disaster relief


A series of activities in celebration of CSC's 40th anniversary-flag presentation ceremony of bike riding around Taiwan for energy saving and CO_2 reduction


Open-house and tours of the steel plant for Siaogang District's elementary school graduates


Holding King of Wisdom Summer Camp for Siaogang District's elementary school students

Social Responsibilities

CSC has continued to take action to contribute to the society, communities and disadvantaged groups from multiple ways like environment protection, community care services and public benefit activities. Its contributions include: (1) sponsoring equipment and facility upgrades and greening of the elementary schools in Siaogang District, (2) establishing scholarships for outstanding students and financial assistance to students from low-income families, (3) sponsoring various social activities for the communities in Siaogang District, (4) establishing funds for social relief of emergencies and offering gifts of money on the occasion of the Chinese New Year, Dragon Boat Festival, and Mid-Autumn Festival to assist the low-income families in Siaogang District, (5) graduating elementary school students in Siaogang District were invited to participate in the plant tours to get a sense of how steel was produced and the measures taken by CSC in energy conservation, reduction of CO_2 emission, and environmental protection, (6) elementary school students in Siaogang District, especially those from disadvantaged families, were invited to participate in the King of Wisdom Summer Camp in which the activities centered on the energy conservation and reduction of CO_2 emission, attuning creative graffiti, games about natural science, physical fitness, and group power, (7) the campaign of "Tree Planting to Show Filial Piety" held for praising model students in Siaogang District to encourage all students to show filial piety for their parents at home and show respect to their teachers at school, and (8) holding the planting-tree activity in Kaohsiung Metropolitan Park for CSC employees and their family members to take actions for slowing down the global warming. In addition, Hsin-Fa Bridge in Liouguei District was destroyed by Typhoon Morakot in August, 2009. CSC donated NT$500 million to rebuild a new one. The construction started in January, 2010 and completed in June, 2011. The new bridge, which was given to the Directorate General of Highways, is safe, robust, and grandeur in shape. The rebuilding of the bridge has not only brought economic prosperity to Liouguei, but also has made it a scenic site.

CSC has sponsored many cultural and art activities in Kaohsiung for a long period of time like the assistance to the Kaohsiung City Symphony Orchestra in giving concerts: "The Series of Concerts for the Bicentennial Anniversary in honor of Franz Liszt," "The Life of Chinese and Taiwanese Opera" and "Cello Square by Tsuyoshi Tsutsumi & Thomas Landschoot," etc. These activities gave Kaohsiung residents chances to enjoy both classical and modern music as well as an impetus to pay more attention to fine arts and culture.

To be involved in social activities in a broader and more diversified manner, CSC established the CSC Group Education Foundation in 2007, aiming at promoting steel-related education and manpower development, ecology conservation, spirit of humanism, and sustainable development. Activities conducted by the CSC Group Education Foundation included (1) "Steel Educational Camps," which included introductory classroom work on steelmaking and visits to upstream and downstream industries, were held for university students in both undergraduate and graduate schools to enable them to witness the progress of Kaohsiung and entice them to select steel-related industries for their future careers, (2) sponsorship of activities to encourage people to use mass transit systems, e.g. taking Kaohsiung Mass Rapid Transit (KMRT), to save energy and reduce CO_2 emission, (3) "Ecological Educational Camps" were held for elementary school students in Kaohsiung to cultivate the roots for ecological protection education, and (4) lectures on humanistic education were held in collaboration with various organizations. For example, CSC worked with United Daily News to give high school students lectures on humanistic education, with Teacher-Chang Foundation to give lectures on spiritual growth, and with KMRT on general lectures for citizens in Kaohsiung.

CSC has taken the top position in the category of metal industry for 17 consecutive years in the survey of the most reputable and admired companies in Taiwan conducted by CommonWealth Magazine. CSC will continue to make efforts to fulfill its social responsibilities more broadly and more deeply in the future.

Organizing CSC Group Committee for Energy and Environment Promotion

42nd APEC Energy Working Group visited CSC

Donation of computers and related network equipment to Wenzao Ursuline College of Languages for hurricane damage reconstruction

Holding "Tree Planting to Show Filial Piety"

The project-type capital expenditures for 2011 amounted to NT$10.619 billion, including the following projects:

I. Related to equipment revamp

1. Revamp of Nos.11, 12 and 13 hot stoves and peripheral equipment at No.1 blast furnace
2. Revamp of No.1 bar mill
3. First campaign revamp of No.4 blast furnace
4. Revamp of coke dry quenching equipment for coke batteries 5 and 6
5. Revamp of Nos.3 and 4 sinter plants and addition of No.7A stacker and reclaimer for raw material storage yard
6. Revamp of electrical equipment for the shearing line of plate mill
7. Revamp of welder for No.2 pickling and cold rolling line of Rolling Mill Department-III

II. Related to production capacity increase or quality upgrade

8. Addition of No.3 cold rolling line
9. Addition of the hot ladle desulfurization equipment for Steelmaking Department
10. Addition of Unit No.10 at oxygen plant
11. Remodeling of No.1 hot strip mill
12. Addition of D4126 overhead charging crane for Steelmaking Department
13. Addition of No.8 vacuum degasser for Steelmaking Department
14. Hydrogen purification project
15. Bar-and-rod tiered warehouse
16. Semi-finished product storage area at Jia-Xing for Rolling Mill Department-II
17. Production line of high grade non-grain-oriented electrical steel sheets
18. Addition of No.3 ladle furnace for steelmaking
19. Addition of B4154 overhead crane and relocation of ladle maintenance area at No.1 basic oxygen furnace and continuous casting plant
20. Improvement of limestone transportation in Hualien

III. Related to resource recycling or environmental protection equipment

21. BOF off-gas boiler system for No.2 basic oxygen furnace and continuous casting plant
22. Addition of waste gas desulfurization system for No.4 sinter plant

IV. Related to building and bridge

23. Office building for CSC Group's headquarters
24. Reconstruction of Hsin-Fa Bridge for donating to the Directorate General of Highways, Ministry of Transportation and Communications.

Completion Ceremony of Hsin-Fa Bridge

Among the aforementioned projects, projects 8, 9, 14, 20, and 24 were completed in 2011; project 10 was terminated after evaluation, and the rest have been carried out on schedule. Individual major projects, which were expected to increase production capacity or benefits, with the investment amount of over NT$3 billion were listed as follows:

First campaign revamp of No.4 blast furnace

Introduction of the technology of new equipment and upgrades of pollution prevention facilities to promote the quality of the environment

Addition of No.3 cold rolling line

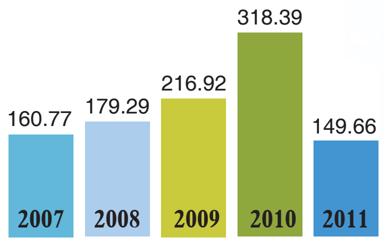
The production of 1.1 million tons of high quality cold-rolled steel products and 0.4 million tons of hot-dip galvanized steel products can be increased per annum

Production line of high grade non-grain-oriented electrical steel sheets

Products with extremely thin specifications (0.15mm) can be manufactured to promote the sales percentage of CSC's high-grade products with high added value

Non-project-type capital expenditures for 2011 amounted to NT$4.347 billion, which focused mainly on equipment replacement, industrial safety and environmental protection, process re-engineering, quality improvement, R&D, energy conservation, automation, computerization, and miscellaneous facilities necessary for operation needs.

CSC's revenues from outside engineering businesses for 2011 amounted to NT$887 million, of which NT$440 million were from the technical service contract with DSC for DSC's stage II phase 2 expansion project. DSC's stage II expansion project was divided into two phases, each of which was aimed at the construction of a blast furnace with the annual 2.5-million-ton production capacity together with the related iron-making, steelmaking, rolling, electrical control, and utility facilities. DSC's phase 1 expansion project was completed in June, 2010; its phase 2 expansion project was commenced in early 2010, and the cumulative progress in construction as of the



Capital expenditures
(in hundred million of New Taiwan Dollars)

Opening ceremony for rail transportation of the Hualien lime stone

Ceremony of the donation of the reconstructed Hsin-Fa Bridge to Directorate General of Highways, MOTC

end of December, 2011 was 72.61%, which was 0.76% ahead of its estimated schedule. CSC has been paying close attention to the implementation of the estimated schedule and plans to blow in the furnace by the end of December, 2012.

Installation of Dragon Steel's No.2 blast furnace.

As of the end of 2011, CSC had invested in holdings of 49 companies. Newly added companies are China Steel Precision Materials Corporation which produces special steel, Formosa Ha Tinh Steel Corporation which is an overseas steel factory in Vietnam, and Nacional Minerios S.A. which is an upstream supplier of iron ore in Brazil. These investments are in accordance with CSC's strategies of the development of high-grade products with high added value, exploration of overseas markets, and control of the sources of raw materials. Because of the debt crisis in the European Union in the second half of 2011, which induced the downturn of the global economy and impacted profitability. As a result, CSC's recognized investment income only reached NT$5.4 billion for 2011.

Because the steel market was quite good in the first half of 2011, DSC, CHSC, and CSC Steel Sdn. Bhd. were able to maintain certain profitability. Nevertheless, the boom of the international steel market reversed in the second half of 2011, which led to the decrease in steel demand. Consequently, their sales volume and prices plunged; moreover, the loss of the prices of inventories had to be recognized. Taken together, their profits in 2011 were less than those in 2010.

Among the CSC-invested logistics and trading businesses, CSE did not reap satisfactory results because the supply of international vessels increased, which led to the reduction in freight, the revenues from chartered carriers decreased because of the earthquake in Japan in March, 2011 and the maintenance fees increased. As a result, CSE's pre-tax profits in 2011 were less than those of 2010, but still gained NT$7.71 of pre-tax earnings per share. China Steel Global Trading Corporation (CSGTC), which is the trading agent for CSC, CHSC, and CSAC, was able to maintain steady growth in 2011 owing to the good profits generated by its overseas strongholds and the success in developing the export markets for CSC's automobile steel products. CSGTC's pre-tax profits in 2011 were NT$586 million, a mild growth compared with those in 2010.

Among the industrial material-related invested companies, CSAC performed quite well in the first half of 2011 owing to the continuous prosperity in 2010. The demand for aluminum products remained high. Although the profits for the fourth quarter dropped slightly, CSAC was able to post NT$1.077 billion of pre-tax profits in 2011. After DSC started production, the supply of coal tar increased for CSCC. Furthermore, the oil prices soared. Both factors contributed to the increase of revenues and profits for CSCC in 2011. Its pre-tax profits in 2011 were NT$2.639 billion; its pre-tax earnings per share was NT$11.47, which is a historic record for CSCC. CHC Resources Corporation posted the pre-tax profits of NT$782 million in 2011, which was 9.74% more than those in 2010, due to the growth of the development of its recycling business and the increase of sales of pulverized blast-furnace slag although its averaged price dropped in 2010. Because the products of HIMAG Magnetic Corporation were quoted in U.S. dollars, the profits were

Celebration ceremony of construction completion of China Steel Precision Materials Company

C.S. Aluminum Corporation phase Ⅱ expansion project ground-breaking ceremony

Operation and development strategies meeting

Keynote speech at operation and development strategies meeting

Australia Sonoma mine investment — coal mining eroded by the depreciation of the U.S. dollars in the first half of 2011, resulting in exchange losses. However, N.T. dollars depreciated in the third quarter and HIMAG Magnetic Corporation obtained the gains on the reversal of uncollectable accounts, it was able to post the pre-tax profits of NT$74.17 million in 2011, which was 10.35% more than those of 2010.

In the engineering business sector, China Steel Machinery Corporation (CSMC) and China Ecotek Corporation (CEC) handed in excellent operational results and actively sought outside businesses to raise their revenues. In 2011, CSMC posted the pre-tax profits of NT$681 million and CEC's were NT$649 million. China Steel Structure Corporation (CSSC) obtained high-margin steel structure projects, its pre-tax profits were NT$655 million in 2011, which was 55.28% more than those of 2010 and a historic record in its operation.

In the finance and service sectors, Gains Investment Corporation disposed the low-cost stocks in the first half of 2011 and gained profits; however, its profitability was affected by the downturn of the stock market in the third quarter and the investment loss had to be recognized. Its pre-tax profits were NT$239 million in 2011, which was less than those of 2010. The number of customers for China Steel Security Corporation's security service systems had exceeded 6,000; therefore, China Steel Security Corporation maintained steady monthly revenues with the current economic scale. Its pre-tax profits were NT$101 million in 2011. Info-Champ Systems Corporation's business was steady in 2011. The operation of its Division of Automatic Control Systems grew steadily owing to the upgrades of technology and experience. Its pre-tax profits were NT$206 million in 2011.

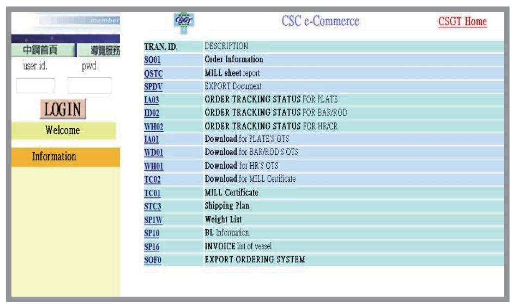
In regard to CSC's overseas operation, the New Asia Projects will be continuously executed. Production lines will be established in Asia's emerging markets. Local sales channels and coil centers will also be established in China, Southeast Asia, and India to raise CSC's market shares in these markets. Moreover, CSC will actively seek investment opportunities to secure the sources of coal, iron ore, ferro-alloys, and scrap to increase the ratio of its self-sufficiency of raw materials. Based on this concept, the Resources Development Department was organized in 2010 to proactively seek for the valuable investments in the sources of raw material. In addition to CSC's Malaysian cold rolling operation and the investment projects to produce cold-rolled and galvanized steel products in Vietnam, an electrical steel production line is also to be set up in India. CSGTC will collaborate with CSC in laying out overseas sales channels; with concerted efforts and multiple deployments, the CSC Group will establish its global marketing network and gradually put more international sales channels into practice.

Customer Services

CSC is a customer-service-oriented corporation which actively accommodates the needs of its downstream customers. It always supplies its customers steel products with good quality and reasonable prices, at the right quantity and at the right time. It also offers services to assist them to solve problems related to the application of steels and processing technologies, and guarantees its products from quality to application.

Sales Services

CSC collects feedback opinions, which serve as references for improvement or development of marketing policies, from its customers by holding quarterly production and sales confabs with trade associations (or professional groups) in the downstream steel industries, and technological seminars. Overall sales supporting services are provided through e-business and supply chain system. CSC's marketing executives and related personnel actively visit its customers and plan the orders according to the production capacity to promote punctual delivery. Moreover, CSC offers and extends even better services to its customers by integrating marketing resources and mutual supports among CSC and its subsidiaries, e.g. DSC and Chung Hung Steel Corporation.



CSC e-Commerce website

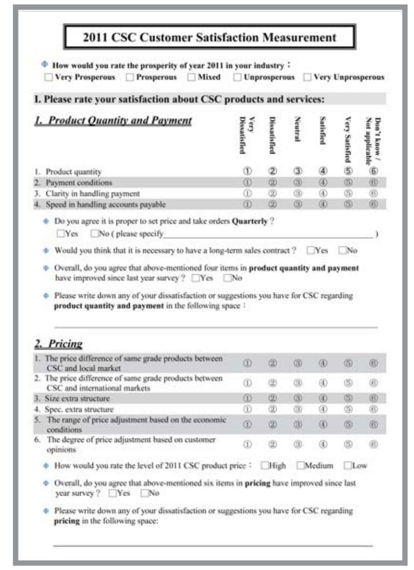
Metallurgical service website

Technical Services

To cope with factors such as the earthquake in Japan and the appreciation of Japanese Yen, which induced steel users to seek second steel supply source and grasp the business potential of customers' demand for high-quality steel, CSC strengthened its technical services by offering instant response to its customers' demand, development and supply of customized specifications, and dispatching maneuverable related human resources to offer technological marketing. Key activities of technical services in 2011 included：(1) 138 cases of assistance to customers in improving their manufacturing processes and solving problems related to application of steels and processing technologies were completed; (2) 11 technical symposia and seminars were held to enhance customers' knowledge of material application. In addition, operational management seminars for executives were also held to promote the capabilities to face with changing market trends of the steel industry in Taiwan; (3) Representatives from CSC paid 100 visits to key customers to conduct technical interaction to thoroughly understand the needs of these customers in order to improve and upgrade CSC's product quality. A total of 114 man-days covered Mexico, India, Germany, Japan, South Korea, Mainland China, and Thailand. The statuses of both the domestic and overseas markets for steel products were better understood in this manner. As a result, CSC was able to upgrade its product quality by interacting with customers, providing technical services, and being fully aware of their needs; (4) CSC extensively collected the information related to the quality needs of the steel market as well as the product information of its competitors. 37 pieces of quality-related information were collected in 2011; (5) 13 surveys of new product demands and quality functions were completed. 37 surveys of material application and quality trends were also completed. 21 steel products used in automobile production were accredited.

Sales Strategies

CSC collects feedbacks mainly by providing sales services as well as technical services, and exchanges market information with both domestic and overseas customers to update and plan its win-win sales strategies mainly including：(1) Pricing: Reasonable prices for steel products were set, and a price reduction retroactive mechanism was maintained to offer special discounted prices to important direct users. For example, long-term contracts were signed with customers in the automobile and home appliance industries; in particular, discounted prices were offered to customers who developed new products in collaboration with CSC; (2) Sales channel：Customers whose development directions were similar to those of CSC's were assisted. For domestic customers who chose to use steel products with high quality and values, customers with



2011 CSC Customer Satisfaction Measurement

- How would you rate the prosperity of year 2011 in your industry：
  ☐ Very Prosperous ☐ Prosperous ☐ Mixed ☐ Unprosperous ☐ Very Unprosperous

I. Please rate your satisfaction about CSC products and services:

1. Product Quantity and Payment	Very Dissatisfied	Dissatisfied	Neutral	Satisfied	Very Satisfied	Don't know / Not applicable
1. Product quantity	①	②	③	④	⑤	⑥
2. Payment conditions	①	②	③	④	⑤	⑥
3. Clarity in handling payment	①	②	③	④	⑤	⑥
4. Speed in handling accounts payable	①	②	③	④	⑤	⑥

- Do you agree it is proper to set price and take orders **Quarterly**？
  ☐Yes ☐No (please specify__________)
- Would you think that it is necessary to have a long-term sales contract？ ☐Yes ☐No
- Overall, do you agree that above-mentioned four items in **product quantity and payment** have improved since last year survey？ ☐Yes ☐No
- Please write down any of your dissatisfaction or suggestions you have for CSC regarding **product quantity and payment** in the following space：

2. Pricing						
1. The price difference of same grade products between CSC and local market	①	②	③	④	⑤	⑥
2. The price difference of same grade products between CSC and international markets	①	②	③	④	⑤	⑥
3. Size extra structure	①	②	③	④	⑤	⑥
4. Spec. extra structure	①	②	③	④	⑤	⑥
5. The range of price adjustment based on the economic conditions	①	②	③	④	⑤	⑥
6. The degree of price adjustment based on customer opinions	①	②	③	④	⑤	⑥

- How would you rate the level of 2011 CSC product price： ☐High ☐Medium ☐Low
- Overall, do you agree that above-mentioned six items in **pricing** have improved since last year survey？ ☐Yes ☐No
- Please write down any of your dissatisfaction or suggestions you have for CSC regarding **pricing** in the following space:

2011 CSC customer satisfaction measurement

Traditional industry value innovation forum-developing the southern Taiwan motor industrial park

Hosting the 2011 steel engineering and technology symposium high international competitiveness and future development potentials, or customers who take part in forming R&D alliances or business cooperation projects, CSC would do its best to assist them in regard to their developments. In addition, investment opportunities in the downstream steel industry would be explored to strengthen partner relationships. (3) Product: The ratio of high-value steel products would be raised by proactively adding new production lines with added values. Development of high quality steel products with market potentials and green steel products would be given production priority. Cooperation with customers to develop customized products would also be promoted; customers who cooperated with CSC in new product development could obtain the exclusive right of ordering the newly developed products within a certain period of time.

The Supply Chain Management System

Operation flexibility and the speed of response to market demands have markedly been increased by the constant optimization and improvement of CSC's supply chain management system. Customers can have instant answers in regard to the delivery dates, quantities, and prices of their orders by linking up with the supply chain management system which keeps track of the planning of sales and production, quotations, order entries and revisions, production plans and schedules, follow-ups of existing orders, storage and transportation, and delivery in a smooth and fast manner.

To maintain the overall operational synergy of the CSC Group and to strengthen its competitive advantages, since 2009, CSC's order acceptance and DSC's have been unified. CSC's integrated information system and DSC's sales and production system have been integrated, and the following items have also been advanced: (1) Integrate CSC's sales-and-production plan and DSC's for unifying their order acceptance. By brokerage, cross processing, and commissioned rolling, the production capabilities and technological expertise of CSC, DSC, CSMC, Chung Hung Steel Corporation, and Hung Li Steel Corporation as well as those of Quintain Steel Co., Ltd., Yieh Hsin Enterprise Co., Ltd., and Tow Fing Industrial Co., Ltd. have been integrated to stabilize production and bring out overall operational results effectively; (2) Immediate ex-factory payments and payment requests are adopted in an electronically paperless manner. Furthermore, a settlement center has been established to write-off the accounts receivable and accounts payable regularly for simplifying tasks and integrating cash flow and scheduling; (3) Establish the integrated platform of CSC Group's marketing information for sharing the information and status of steel market in real time to expedite decision-making and adjustment to changing circumstances; (4) CSC will continue to expand the linkage of its enterprise resource planning (ERP) to those of the customers for providing CSC's real-time production information to customers and enabling customers to conveniently collect and/or receive the ordered products and make arrangements for their own production; (5) Instant access to the information regarding the production, sales, and inventories of all of CSC's products has been completed; (6) Instant automatic release operation of finished products has been made to speed up the information flow and logistics；(7) The precise calculation of the prices is enhanced to ensure the rights of the customers and CSC.

Customer Satisfaction

CSC commissions an academic institution to conduct the customer satisfaction survey every year. In 2011, nine subjects, which included (1) quantities and payments, (2) prices of products, (3) product R&D, (4) quality and complaint management, (5) customer services, (6) communication, (7) delivery schedules, (8) transportation, and (9) service of e-commerce were surveyed. Results of the 2011 survey were satisfaction indices of 72.66 points from domestic customers, an increase of 0.46 point compared with that of 2010; 70.89 points from overseas customers, a decrease of 1.51 points compared with that of 2010. Suggestions made by customers are cordially discussed for improvement at CSC, and the annual results of the survey always serve as key references for future sales strategies planning.

Market Risk Control

To disperse all possible risks in the steel market due to declining economic factors, CSC has managed its risk controls in two aspects: (1) In terms of sales, CSC has adopted the sales channel strategy regarding the domestic market as its principal outlet and supplementing it with exports. The percentages of domestic sales volume and export volume are adjusted according to the changes in the steel market. Concrete measures taken were: fully grasp the dynamics of related industries, expand the range of CSC's supplies, seek investment opportunities in the downstream steel industry or steel-use industries, establish overseas coil centers; (2) In terms of production, on the basis of the estimated orders and the trends of inventories of finished and semi-finished products, sales and production plans are simulated. Concrete measures include raw material scheduling, reduction of production and revamping schedule adjustments of blast furnaces, distribution of the imported quota of slabs among CSC Group's companies, adjustments of the schedules of seasonal/annual maintenance of the production lines, and planning of contract-out rolling.

Risk Control of Raw Material Supply

To avoid the disruptions of the supply of raw materials, due to the weather or the conditions of the mines, railways, and loading ports, CSC has adopted the following countermeasures: (1) The sources and suppliers are cautiously evaluated; (2) Safe inventory levels are properly maintained; (3) The sources of the raw material supply are diversified, and long-term contracts are signed with various suppliers in different countries; (4) Contracts are executed in good faith to keep good relationships with the suppliers in mutual trust and assistance; (5) New sources of the raw material supply are actively developed to intensify competition among suppliers and avoid interruptions; (6) Selections of good investment targets for securing long-term supply of raw materials.

Transportation Risk Control

CSC's ultimate objective in the management of raw material transportation is the uninterrupted supply. Its weekly review of all material inventories serves as the basis for the determination of the optimum shipping plan. The risks of marine transportation are borne and insured by overseas buyers. As for inland transportation, all of the trucking companies have to present both their signed letters of guarantee and bankers' irrevocable letters of guarantee to CSC to ensure that products will be delivered to customers according to schedules and in perfect conditions.

Risk Control of Utilities

The water, electricity, oil, steam, and gas systems are monitored and dispatched by the Utility Dispatching Center (UDC) at CSC. Besides the implementation of economic dispatching to control system safety by UDC, PDAs are also utilized to facilitate the examination of the facilities in periodic patrol checks. Revamp of pipelines and power distribution facilities has been conducted continuously to ensure the safety of all systems. Emergency drills in regard to facility failures are held every year to reduce the risks of energy supply. The measures in risk control of utilities taken by CSC include: (1) Electricity and gas: (a) the power load shedding system was established, and its improvement is taken every year. The generator sets used in co-generation will serve as the backup protection for the main facilities in the plants; (b) replacement of the old equipment used for power generation to promote the reliability of power supply; (c) to cope with the increase of power demand, CSC has launched the 161KV Expansion Project of the Second Power Incoming Feeder; (d) replacement of the old gas pipelines to reduce risks; and (e) contingency drills in response to multiple disasters were held in December, 2011. (2) Water: Administrative Regulations for Emergency Limited Water Usage were established to avoid the damage in the furnaces and coke ovens caused by the tightening of water supply in dry seasons. To reduce the damage in production or facilities caused by the lack of water supply to the minimum, CSC actively takes part in the municipal projects of recycling waste water, which could serve as the second source of water supply to reduce the supply risks.

Risk Control of Information Systems

To avoid adverse effects on CSC's business operation due to system irregularities, it has drawn up standard operating procedures and implemented education and training programs as well as instituted the following control measures: (1) development and maintenance of application systems, (2) mechanisms for data access and retrieval, (3) network firewalls, (4) automatic fire suppressing systems covering the entire computer facilities, (5) uninterrupted power supply systems, and (6) entrance control with closed circuit televisions. In addition, the above-mentioned related drills are held periodically.

Risk Control of Facility Maintenance

(1) Mechanical Equipments

- (a) Maintenance of spares: Proper inventory levels are maintained based on maintenance experience and the amounts of spare use. Large pieces of replaced machinery could serve as reusable machinery after being refurbished and qualified to reduce the procurement of new machinery. Overseas purchases can be reduced by the development of domestically manufactured items, which enhances smooth delivery of machinery.
- (b) Maintaining of manpower and passing down of experience: Technical retiring employees are assigned tasks in advance so that their expertise and

experience can be passed down to others through apprenticeship. Knowledge management is enhanced to keep the integrity of maintenance techniques and experience.

(2) Electrical Control Facilities

(a) To avoid adverse effects on CSC's production due to irregularities of the electrical control systems, CSC has drawn up TS-16949 Standard Operating Procedures for Maintenance, which include maintenance of software and hardware, data retrieval, backup mechanisms, management for spare parts, network protection, uninterrupted power supply systems, entrance control, and response to disasters. All of the measures are strictly monitored, and drills are held periodically.

(b) Standard operating procedures for the development of the ISO-9000 System were established under the concept that safety comes from design. At the onset of the design, maintenance risk was considered, and both the internal and external inspections were implemented periodically to maintain the effectiveness of the system.

(c) In reference to the standards of ISO-17799, Information Safety Management Regulations for Production Division were established. Periodic promotion of the concepts of information safety and inspection in the production departments were implemented to secure information safety.

Risk Control of Construction Management

CSC has established a Capital Expenditure Management Information System and a Contract Management System for all its project-type capital expenditures and for DSC's expansion project to exercise strict control over industrial safety, quality, progress, and budgets. Chinese and English operation manuals were compiled in the Contracting Work System of the Expansion Project of DSC, the content of which includes seven functions: (1) construction applications and basic information management, (2) applications for material procurement and contract management, (3) preparation for tender documentation, (4) contractor (subcontractor) management, (5) operation of contract signing and guarantee, (6) construction estimation, inspection and account settlement, and (7) performance evaluation of contractors and subcontractors. The manuals can serve as references for personnel who will be engaged in domestic and/or overseas expansion projects.


Fire drill

Risk Control of Environmental Protection, Safety, and Hygiene

CSC proactively promotes the culture of industrial safety and conducts identification of hazards and risk assessments on all of its production processes and engineering works. Risks of hazards are classified as low, medium, high and major seriousness. Measures are taken to minimize the chance of occurrence for those in the "high" and "major" categories, and exercises are held for emergency countermeasures to avoid such incidents.

To cope with the trends of energy conservation and CO_2 reduction, CSC has paid close attention to the levies of environment tax and energy tax to help the establishment of a tax system which is fair, reasonable, and just.

Moreover, CSC has devoted to the reduction of air pollutant emission and waste water effluent, and reinforced water conservation and recycling of waste water.

Financial Risk Control

CSC keeps close watch on the daily balance of NT$/foreign currency transactions. In accordance with its demand on foreign exchange funds, it adjusts its holdings of strong and weak foreign currencies flexibly to ensure the effectiveness of foreign currency manipulation. For short-term foreign exchange funds, hedge is applied in principle. If there is a demand (mainly in US dollars) in a new foreign investment project or a long-term capital expenditure, CSC will hedge against exchange rate risks with forward foreign exchange or take an equivalent long-term loan in foreign currencies.

Clear interest rate risk tolerances are set to control floating interest rate debts. When interest rates in the financial markets turn around, CSC will apply early repayments or interest rate swaps (IRS) to convert the interest rates to fixed rates.

CSC assists its customers to increase their credit lines in banks and to utilize the operation of accounts receivable (AR) factoring. By means of e-commerce and digital signature security systems, CSC simplifies the payment procedures for its customers to ensure a smooth flow of delivery. In addition, CSC keeps close watch to ensure the faultless operation of its electronic business and security mechanisms; it raises the degree of customer satisfaction by offering services through the e-commerce financial operation.


Safety training-simulating the hoist of safety belts

Annual Shareholders' Meeting

The regular annual shareholders' meeting in June, 2010 elected eleven members of the 14th Board of Directors, including three independent directors, and three corporate supervisors for a tenure of three years. At that meeting, foreign shareholders proposed that every motion should be discussed and voted individually to fulfill the spirit of corporate governance. In the regular annual shareholders' meeting in June, 2011, the above proposal was carried out and the results were openly announced at meeting venue and posted on the Market Observation Post System and CSC Website afterwards so that investors from the global could obtain the real-time information. Domestic and overseas shareholders highly recognized with what CSC had done to respect their interests.

The Board of Directors

Under the Board of Directors are two functional committees, the Corporate Governance Committee and the Remuneration Committee. The Corporate Governance Committee consists of three directors; one of them is an independent director who serves as the convener and chairman to preside over the meeting. Two meetings were held in 2011, and the minutes of the resolutions were presented to the Board of Directors. The Regulations for the new Remuneration Committee were promulgated in August, 2011 according to related laws. The one promulgated in June, 2007 was, therefore, abolished. The Remuneration Committee consists of three independent directors. The first meeting of the Remuneration Committee was convened on October 31, 2011, and the proposals drawn from the resolutions of the meeting were presented to the Board of Directors.

Accepting the award of "CommonWealth Magazine 2011 Most Admired Company in Taiwan"

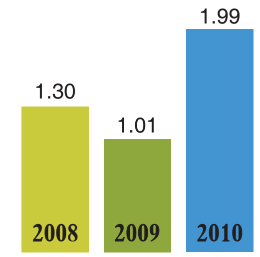
Supervisors

In the Board are three supervisors who sit at board meetings. The supervisors, chief internal auditor, and certified public accountants (CPAs) meet every six months to discuss and exchange their views on matters related to CSC's financial statements. After the end of every fiscal year, the certified financial statements, proposals of earning appropriation, and the business reports audited by CPAs are reviewed by the supervisors.

Continuing Education for Directors and Supervisors

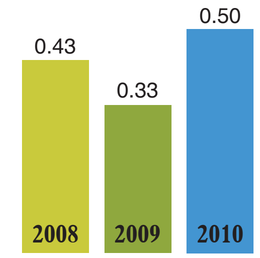
According to the Guidelines for Promotion of Advanced Studies by Directors and Supervisors of TWSE/GTSM Listed Companies, newly elected board directors and supervisors should receive 12-hour training, and the re-elected ones should receive 3-hour advanced training. Based on the guidelines, CSC sends related information to the directors and supervisors who can then decide which seminar to participate in according to their individual needs. Furthermore, CSC also holds its own 3-hour advanced studies for the directors and supervisors. The participants are CSC Group companies' directors and supervisors whom are dispatched by CSC. In July, 2011, the seminar on "Corporate Governance and

Common stock dividend payout



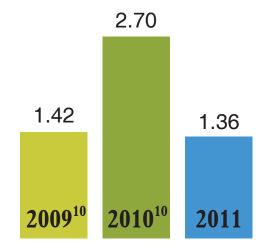
Cash dividend

NT$/share



Stock dividend

NT$/share



Earnings per share

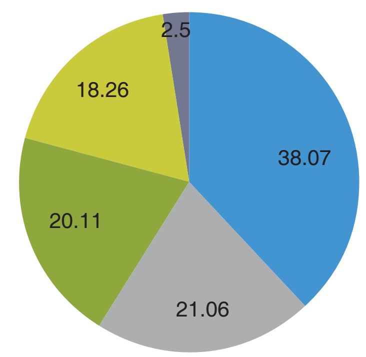
NT$/share

10 After making retroactive adjustments to take into account stock dividends.

Shareholders' structure[11]

- Domestic natural person and other juristic person
- Overseas foreign investment of juristic person, nature person and trust fund (GDR included)
- Government (official) institution
- Domestic securities investment trust fund
- Domestic financial institution

11 As of July 20,2011, the record date for ex-right/dividend.



the Remuneration Committee" was held to enable the aforementioned participants to further understand the rationale behind the establishment of the Remuneration Committee.

Internal Auditing

To forestall irregularities and strengthen the effectiveness of corporate administration, key activities of the internal auditor for 2011 were to test and assess whether the procedures in the 8 operational cycles, which included business of: (1) procurement and payments, (2) sales and receivables, (3) investments, (4) finance, (5) production, (6) fixed assets, (7) labor and wages, and (8) R&D, were adequately comprehensive and precise. Moreover, issues such as whether there were risks involved and whether the systems were designed with a cross-checking function were also assessed.

The internal auditor conducted the audits required by Article 8 of the Regulations Governing Establishment of Internal Control Systems by Public Corporations promulgated by the Financial Supervisory Commission, Executive Yuan, on a number of controls, which included the following: (1) asset management, (2) management of the use of seals, (3) management of the receipt and use of negotiable instruments, (4) budget management, (5) management of financial derivatives, (6) management of endorsements and loans to others, (7) management of liabilities, commitments, and contingencies, (8) authorization and deputy systems, (9) compilation of financial statements, (10) transactions of related parties, (11) supervision and management of subsidiaries, (12) operation of board meetings, (13) information safety checks, and (14) prevention of insider trading. Furthermore, the internal auditor also assessed the internal control systems and due diligence of CSC's 18 subsidiaries.

In 2011, 50 audit reports were presented by the Internal Auditor. The audited departments and subsidiaries were notified in regard to the items for improvement and the progress of improvement was followed up. Each audit, when completed, is sent to the supervisors and independent directors for examination and perusal according to regulations.

Monthly management meeting

Every motion was discussed and voted individually at the first time in 2011 CSC shareholders' meeting

Disclosures of Information

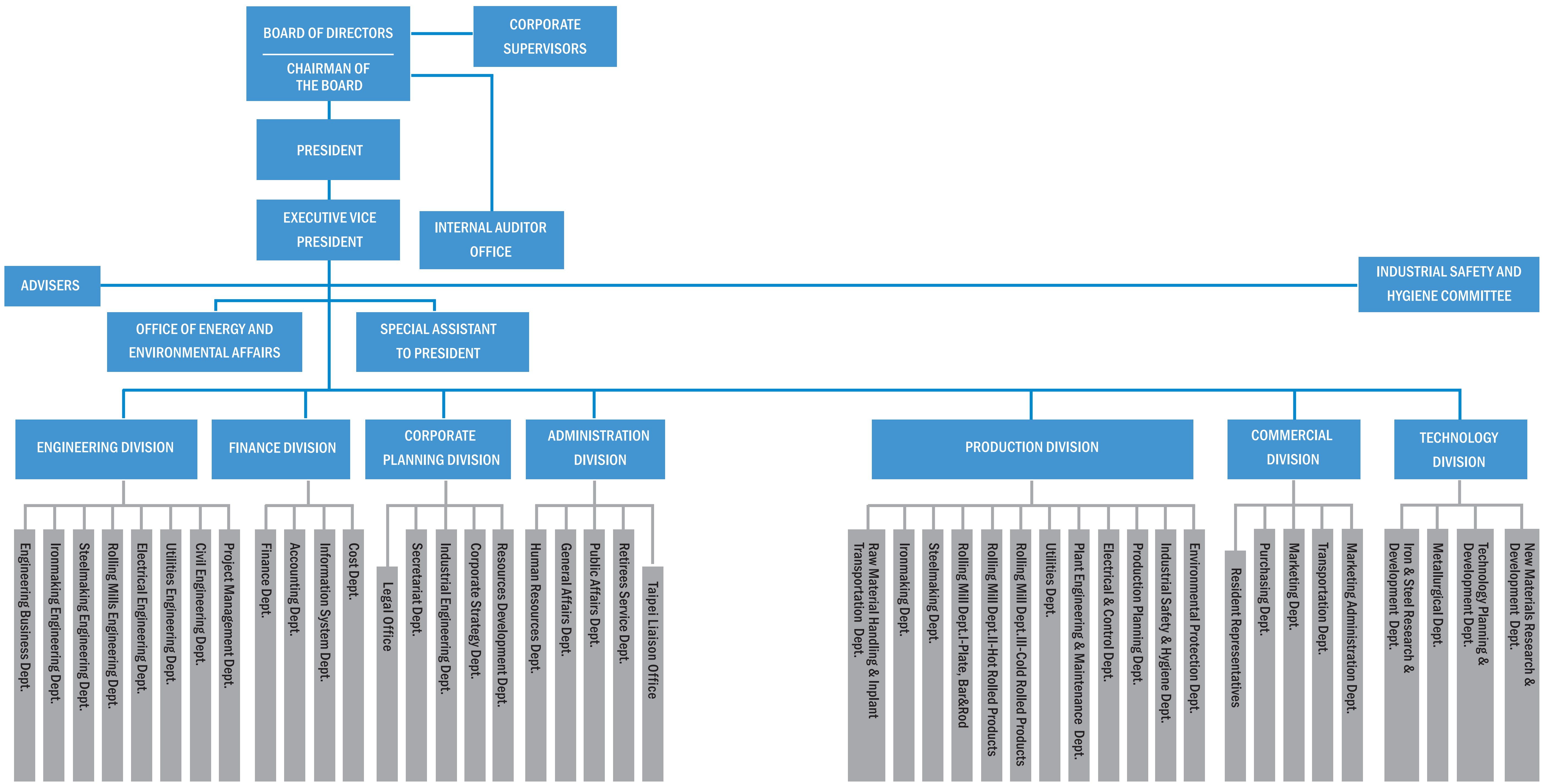
CSC regards the full disclosures of information as an important aspect of corporate governance. To provide fully transparent information, CSC posts the following information on its website : (1)Shareholder Service Section: Stock information, financial information, information for shareholders' meetings, and Q&A for shareholders. (2)Corporate Governance Section: Information regarding CSC's general provisions, financial regulations, rules of board meetings, codes of ethics, members of directors and supervisors, major resolutions of board meetings, the organization and operation of the Internal Auditor, and the elections of independent directors.

Over the years, the Company has achieved top performance in Taiwan Securities and Futures Information Center's "Information Disclosure and Transparency Ranking" and received "A+ ranking for corporate information disclosure and transparency" for four consecutive years from 2007 to 2011 and has been listed in "the more transparent companies of voluntary disclosure."

IFRS

CSC belongs to the Phase I companies in the promotion framework of the Financial Supervisory Commission to adopt International Financial Reporting Standards (IFRS). The mandatory adoption of IFRS in preparing CSC's financial statements will begin in 2013.

CSC established its cross-division task force to promote the operation of IFRS in November, 2009 and submitted the response plans to the Board of Directors. The response plans were divided into three phases, namely, planning and diagnosis (Phase I), response strategies (Phase II), and implementation and reviews (Phase III). CSC is currently at the later stage of Phase II and the middle stage of Phase III. The impacts of the identifications of variations are being discussed among related departments; the response strategies to cope with the impact in business, accounting, existing systems, control systems, and regulation systems are being implemented. The implementation and follow-ups have been listed and tracked in the progress schedule of the IFRS cross-division taskforce. Cross-division meetings are held every three months and the progress of the implementation of IFRS is reported to the Board of Directors. As of the end of 2011, nine meetings had been held.


BOARD OF DIRECTORS
CHAIRMAN OF THE BOARD
CORPORATE SUPERVISORS
PRESIDENT
EXECUTIVE VICE PRESIDENT
INTERNAL AUDITOR OFFICE
ADVISERS
INDUSTRIAL SAFETY AND HYGIENE COMMITTEE
OFFICE OF ENERGY AND ENVIRONMENTAL AFFAIRS
SPECIAL ASSISTANT TO PRESIDENT
ENGINEERING DIVISION
Engineering Business Dept.
Ironmaking Engineering Dept.
Steelmaking Engineering Dept.
Rolling Mills Engineering Dept.
Electrical Engineering Dept.
Utilities Engineering Dept.
Civil Engineering Dept.
Project Management Dept.
FINANCE DIVISION
Finance Dept.
Accounting Dept.
Information System Dept.
Cost Dept.
CORPORATE PLANNING DIVISION
Legal Office
Secretariat Dept.
Industrial Engineering Dept.
Corporate Strategy Dept.
Resources Development Dept.
ADMINISTRATION DIVISION
Human Resources Dept.
General Affairs Dept.
Public Affairs Dept.
Retirees Service Dept.
Taipei Liaison Office
PRODUCTION DIVISION
Raw Material Handling & Inplant Transportation Dept.
Ironmaking Dept.
Steelmaking Dept.
Rolling Mill Dept.I-Plate, Bar&Rod
Rolling Mill Dept.II-Hot Rolled Products
Rolling Mill Dept.III-Cold Rolled Products
Utilities Dept.
Plant Engineering & Maintenance Dept.
Electrical & Control Dept.
Production Planning Dept.
Industrial Safety & Hygiene Dept.
Environmental Protection Dept.
COMMERCIAL DIVISION
Resident Representatives
Purchasing Dept.
Marketing Dept.
Transportation Dept.
Marketing Administration Dept.
TECHNOLOGY DIVISION
Iron & Steel Research & Development Dept.
Metallurgical Dept.
Technology Planning & Development Dept.
New Materials Research & Development Dept.

2011

Directors and Supervisors

(as of December 31, 2011)

Chairman of the Board

Jo-Chi Tsou

Representing Ministry of Economic Affairs, R.O.C.

Director

Jung-Chiou Hwang

Representing Ministry of Economic Affairs, R.O.C.

Director

Liang-Tung Fan

Representing Ministry of Economic Affairs, R.O.C.

Director

Chaur-Hwa Ou

Representing Gau Ruei Investment Corporation

Director

King-Ling Du

Representing Chiun Yu Investment Corporation

Director

Jyh-Yuh Sung

Representing Ever Wealthy International Corporation

Director

Cheng-I Weng

Representing Hung Kao Investment Corporation

Director

Chao-Chin Wei

Representing China Steel Labor Union

Independent Director

Shen-Yi Lee

Independent Director

Juu-En Chang

Independent Director

Ting-Peng Liang

Supervisor

Ju-Hsuan Wang

Representing Bureau of Labor Insurance

Supervisor

I-Lin Cheng

Supervisor

Andrew Deng

2011

Senior Management

(as of December 31, 2011)

President

Chaur-Hwa Ou

Executive Vice President

King-Ling Du

(Concurrently Spokesman for the Corporation)

Vice President - Administration

Hsiung Lee

Vice President - Commercial

Jih-Gang Liu

Vice President - Finance

Chung-Yi Lin

Vice President - Corporate Planning

Kin-Tsau Lee

Vice President - Technology

Yu-Soong Chen

Vice President - Engineering

Tsung-Ren Jeng

Vice President - Production

Jyh-Yuh Sung

Five-Year Summary of Selected Financial Data and Operating Results

(in thousands of New Taiwan Dollars unless otherwise noted)

	2011	2010	2009	2008	2007
Revenue	240,376,019	239,186,921	165,408,888	256,358,008	207,918,952
Operating costs	218,781,975	196,235,742	150,698,842	216,798,889	152,705,397
Gross profit	21,594,044	42,951,179	14,710,046	39,559,119	55,213,555
Realized (Unrealized) gain from affiliates	61,894	47,610	(179,854)	(437,457)	(160,520)
Operating expenses	7,056,957	6,950,161	6,252,488	6,382,822	6,336,721
Operating income	14,598,981	36,048,628	8,277,704	32,738,840	48,716,314
Net non-operating income	5,685,712	8,045,643	11,882,135	(2,483,509)	12,935,360
Income before income tax	20,284,693	44,094,271	20,159,839	30,255,331	61,651,674
Net income	19,493,679	37,586,826	19,602,517	24,030,406	51,263,874
Current assets	87,239,677	63,884,532	65,535,584	88,476,752	79,510,065
Long-term investments	144,049,544	133,951,112	111,427,187	112,559,205	81,456,214
Net properties	187,141,146	180,960,303	160,540,199	149,098,005	115,656,487
Other assets	3,504,473	3,591,475	4,804,234	5,486,365	5,317,857
Total assets	421,934,840	382,387,422	342,307,204	355,620,327	281,940,623
Current liabilities	49,454,425	47,970,103	38,165,930	57,613,259	35,124,032
Long-term liabilities	71,243,534	57,261,621	49,417,166	47,701,353	18,145,654
Reserve for land value increment tax	10,011,916	8,673,466	8,673,466	8,673,466	2,171,124
Other liabilities	2,637,956	2,531,867	2,691,479	2,891,780	3,844,523
Total liabilities	133,347,831	116,437,057	98,948,041	116,879,858	59,285,333
Capital stock	150,844,773	135,661,689	131,327,869	125,958,111	115,352,910
Capital surplus	36,247,705	20,072,476	19,598,511	18,410,920	1,878,630
Retained earnings	80,051,881	94,337,962	74,351,367	76,427,107	98,612,729
Unrealized gain (loss) on financial instruments	26,757,590	21,873,940	21,913,148	21,915,248	1,509,155
Investees' unrecognized net loss on pension cost	3,020,919	2,374,377	4,216,431	6,508,005	6,473,326
Cumulative translation adjustments	17,192	(101,443)	183,001	358,976	283,018
Unrealized loss on investees' long-term investments	(230,590)	(117,015)	(42,133)	(32,385)	(38,083)
Treasury stock[12]	(8,122,461)	(8,151,621)	(8,189,031)	(10,805,513)	(1,416,395)
Total stockholders' equity	288,587,009	265,950,365	243,359,163	238,740,469	222,655,290
Total liabilities and stockholders' equity	421,934,840	382,387,422	342,307,204	355,620,327	281,940,623
Stockholders' equity per common share (NT$)	19.51	20.02	18.53	19.55	19.44
Earnings per common share (NT$)	1.36	2.83	1.54	2.03	4.49
Earnings per common share (NT$)[13]	-	2.70	1.42	1.79	3.81

12 Effective 2002, the Corporation's shares acquired and held by subsidiaries are accounted for as treasury stocks.

13 After making retroactive adjustments to take into account stock dividends.

Five-Year Summary of Selected Financial Ratios and Percentages

	2011	2010	2009	2008	2007
Current ratio (%)	176.40	133.17	171.71	153.57	226.37
Ratio of fixed assets to long-term liabilities and stockholders' equity (%)	52.01	55.99	54.83	52.05	48.03
Total liabilities to stockholders' equity	0.46	0.43	0.41	0.49	0.27
Net income rate (%)	8.31	16.02	12.12	9.64	25.26
Profitability in terms of total assets (%)	5.00	10.52	5.79	7.65	18.88
Profitability in terms of stockholders' equity (%)	7.03	14.75	8.13	10.42	24.06
Revenue growth rate, year to year (%)	0.50	44.60	(35.48)	23.30	17.03
Stockholders' equity growth rate, year to year (%)	8.51	9.28	1.93	7.22	9.40

Analysis of Financial Status and Operating Results

1. Two-year analysis of flow ratios

	December 31, 2011	December 31, 2010	Increase (Decrease)
Cash flow ratio (%)	21	103	(80)
Appropriate cash flow ratio (%)[14]	60	76	(21)
Cash reinvestment ratio (%)	-2.66	6.19	(143)

14 Based on data over the past five years.

Analysis of increases or decreases in the above ratios

(1) The 80% decrease in the cash flow ratio over the previous year was mainly attributable to the decrease in the net cash flow from the operation activities in 2011.

(2) The 21% decrease in the appropriate cash flow ratio over the previous year was mainly attributable to the decrease in the net cash flow from the operation activities in the past five years.

(3) The 143% decrease in the cash reinvestment ratio over the previous year was mainly attributable to the decrease in the net cash flow from the operation activities and the increase in cash dividends.

2. Analysis of operating results

(1) The NT$1,189,098 thousand increase in the operating revenues was mainly attributable to the increase of sales of by-products, construction revenues, and revenues from offering technical services, although there was a decrease in the sales revenues from steel products due to the decreased demand in the market.

(2) The NT$22,546,233 thousand increase in the operating costs was mainly attributable to the increase of the costs of the raw materials (coal and iron ore) and recognized inventory loss, and loss of purchase commitment for undelivered raw materials.

(3) The NT$21,357,135 thousand decrease in gross profits was mainly attributable to the causes in (2).

(4) The NT$14,284 thousand increase in the realized gains from CSC's affiliates was mainly attributable to the increase in the realized gains from the downstream sales to investee companies.

(5) The NT$21,449,647 thousand decrease in the operating income was mainly attributable to the causes from (1) to (4).

(6) The NT$2,359,931 thousand decrease in the non-operating income was the combined results of (a) the decrease of the investment income recognized under the equity method, (b) the decrease of preferential retirement pensions, and (c) the increase of interest expenses.

(7) The NT$23,809,578 thousand decrease in the pre-tax income was mainly attributable to the causes from (1) to (6).

(8) The NT$18,093,147 thousand decrease in the net income was mainly attributable to the decrease of the pre-tax income and the NT$5,716,431 thousand decrease in income tax expenses.

Issue	1st Unsecured Corporate Bonds Issue in 2008	2nd Unsecured Corporate Bonds-A Issue in 2008	2nd Unsecured Corporate Bonds-B Issue in 2008	1st Unsecured Corporate Bonds-A Issue in 2011	1st Unsecured Corporate Bonds-B Issue in 2011
Issue Date	From December 4, 2008 to December 4, 2013	From December 29, 2008 to December 29, 2013	From December 29, 2008 to December 29, 2015	From October 19, 2011 to October 19, 2016	From October 19, 2011 to October 19, 2018
Face Amount	NT$1 million	NT$1 million	NT$1 million	NT$1 million	NT$1 million
Issue Price	At par value	At par value	At par value	At par value	At par value
Amount	NT$9,600 million	NT$13,000 million	NT$7,000 million	NT$9,300 million	NT$10,400 million
Coupon	2.42%	2.08%	2.30%	1.36%	1.57%
Maturity	Five years	Five years	Seven years	Five years	Seven years
Trustee	Taipei Fubon Bank, Trust Department	Mega International Commercial Bank, Head Office -Trust Department	Mega International Commercial Bank, Head Office -Trust Department	Taipei Fubon Bank, Trust Department	Taipei Fubon Bank, Trust Department
Lead Manager	–	–	–	–	–
Legal Advisor to the Issuer	Chien Yeh Law Offices	Chien Yeh Law Offices	Chien Yeh Law Offices	Chien Yeh Law Offices	Chien Yeh Law Offices
Auditor of the Issuer	Deloitte & Touche	Deloitte & Touche	Deloitte & Touche	Deloitte & Touche	Deloitte & Touche
Repayment	Repay 50% of the principal at the end of the 4th and 5th year; interest shall be paid annually against interest coupon commencing from the issue date.	Repay 50% of the principal at the end of the 4th and 5th year; interest shall be paid annually against interest coupon commencing from the issue date.	Repay 50% of the principal at the end of the 6th and 7th year; interest shall be paid annually against interest coupon commencing from the issue date.	Repay 50% of the principal at the end of the 4th and 5th year; interest shall be paid annually against interest coupon commencing from the issue date.	Repay 50% of the principal at the end of the 6th and 7th year; interest shall be paid annually against interest coupon commencing from the issue date.

Items / Issuance date		Nov 18, 1974	Jan 31, 1980	Nov 30, 1980	Dec 31, 1981
Face value (NT$)		10	10	10	10
Issuing price (NT$)		10	10	10	10
Number of shares		50,000,000	21,887,000	797,000	4,006,000
Total amount (NT$)		500,000,000	218,870,000	7,970,000	40,060,000
Rights and liabilities	Dividend policy	After all the accounts are settled, taxes paid, deficits offset, and the legal reserve appropriated, the remaining earnings will be distributed as follows: (1) Preferred stock dividends at 14% of the par value. (2) Remunerations to directors and supervisors of the board at 0.15% of the distributable earnings, 8% as bonuses to CSC employees. (3) Common stock dividends at 14% of the par value. (4) The rest of the remaining earnings will be appropriated proportionally to the preferred stockholders and common stockholders as bonuses.			
	Appropriation of residual property	Same as those of common shareholders.			
	Voting rights	No right to vote in the elections of board directors or supervisors.			
	Others	Other rights and obligations are the same as those of the common shareholders.			
Preferred stock in circulation	Retrieved / converted shares	0 shares (as of March 31, 2012)			
	Unretrieved / unconverted shares	38,268,000 shares (as of March 31, 2012)			
	Retrieving or converting clause	The Corporation may retrieve the preferred stock using earnings or the proceeds from share issuance. Preferred shareholders have the right to convert preferred shares into common shares.			
Market price (NT$ / share)	2008	High	53.80		
		Low	26.70		
		Average(closing)	41.16		
	2009	High	38.70		
		Low	29.50		
		Average(closing)	34.35		
	2010	High	41.40		
		Low	37.20		
		Average(closing)	38.71		
	2011	High	42.00		
		Low	38.00		
		Average(closing)	39.70		

Item / Issuing date		May 28,1992	Feb 10,1997	Oct 22, 2003	Aug 1, 2011
Issuance and Listing		Asia ,Europe, America	Asia ,Europe, America	Asia ,Europe, America	Asia ,Europe, America
Total Amount		US$327,600,000	US$186,607,572.50	US$936,086,488	US$751,067,478
Offering Price Per GDS		US$18.2 / 1 unit	US$18.35 / 1 unit	US$15.56 / 1 unit	US$19.67 / 1 unit
Units Issued		18,000,000 units	10,169,350 units	60,159,800 units	38,183,400 units
Underlying Securities		CSC Common Shares	CSC Common Shares	CSC Common Shares	CSC Common Shares
Common Shares Represented		360,000,000	203,387,000	1,203,196,000	763,668,000
Rights and Obligations of GDS Holders		Dividend appropriation is the same as CSC common shares, other rights and obligation is regulated in Depositary Agreement.			
Trustee		Not Applicable	Not Applicable	Not Applicable	Not Applicable
Depositary Bank		Citibank, N.A.-New York	Citibank, N.A.-New York	Citibank, N.A.-New York	Citibank, N.A.-New York
Custodian Bank		Citibank, N.A-Taipei	Citibank, N.A-Taipei	Citibank, N.A-Taipei	Citibank, N.A-Taipei
GDS Outstanding		67,931,271 shares（as of December 31, 2011）			
Apportionment of Expenses for Issuance and Maintenance		Issuance-related expenses were borne by Ministry of Economic Affairs.	Issuance-related expenses were borne by Ministry of Economic Affairs.	Issuance-related expenses were borne by Ministry of Economic Affairs.	Issuance-related expenses were borne by the Company, CSC.
Terms and Conditions in the Depositary Agreement & Custody Agreement		Skipped	Skipped	Skipped	Skipped
Closing price Per GDS	2011	High	US$ 23.66		
		Low	US$ 17.85		
		Average	US$ 21.22		

Market Price of Stock over Past Three Years

(NT$/share)

Stock	Price	2011	2010	2009
Common	Highest	35.80	35.80	33.00
	Lowest	26.85	29.25	21.00
	Average(closing)	31.98	31.90	27.67
Preferred	Highest	42.00	41.40	38.70
	Lowest	38.00	37.20	29.50
	Average(closing)	39.70	38.71	34.35

Source of Information: Taiwan Stock Exchange Corporation

Principal Products and Uses

Product	Major uses
Plates	Ships, bridges, steel structures, oil country tubular goods (OCTGs), storage tanks, boilers, pressure vessels, die, truck chassis and general construction
Bars	Nuts and bolts, hand tools, loudspeaker parts, automobile and motorcycle parts, suspension spring, and machinery parts
Wire rods	Nuts and bolts, steel wire and rope, welding electrodes, hand tools, tire cord and bead, bearing, umbrella parts, free cutting rod, and chains
Hot rolled coils and sheets	Steel pipes and tubes, vehicle parts, containers, pressure vessels, hydraulic jacks, cold rolled and galvanized products, hand tool, light shapes, and formed parts in general
Cold rolled coils	Steel pipes and tubes, steel furniture, kitchen ware, home appliances, oil barrels, automobile bodies, hardwares, and raw material for galvanized and coated steel sheets
Electro-galvanized coils	Computer cases, home appliance outer shells, parts and accessories, LCD TV parts, building materials and components, and hardwares
Hot-dip galvanized coils	Automobile panels and parts, home appliance and outer panels, computer cases, color coated sheets, and building materials and components
Electrical steel coils	Motors, transformers, stabilizers, and wind generators

Three-Year Summary of Production and Sales Volumes

(in tons)

Product	Volume	2011	2010	2009
Steel plates	Production	**1,057,104**	1,063,352	864,704
	Sales	**1,042,447**	1,067,567	832,400
Steel bars	Production	**701,333**	575,439	390,965
	Sales	**770,931**	618,680	427,151
Wire rods	Production	**1,282,870**	1,265,198	935,743
	Sales	**1,488,618**	1,362,596	943,963
Hot rolled steel products	Production	**2,564,088**	3,894,081	3,436,902
	Sales	**2,804,636**	3,913,248	3,511,537
Cold rolled steel products[15]	Production	**3,043,479**	2,823,770	2,127,438
	Sales	**3,031,657**	2,904,360	2,301,627
Commercial slabs, blooms and billets	Production	**100,968**	92,581	45,200
	Sales	**22,707**	36,442	72,037
Pig iron	Production	**6,203**	6,265	21,079
	Sales	**5,116**	2,538	19,890
Total	Production	**8,756,045**	9,720,686	7,822,031
	Sales	**9,166,112**	9,905,431	8,108,605

15 Includes electrogalvanized, hot-dip galvanized products and electrical steel coils

2011 OPERATION REPORT

FINANCIAL STATEMENTS

For The Years Ended December 31, 2011 and 2010 and Independent Auditors' Report

CHINA STEEL CORPORATION

Deloitte.
勤業眾信

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
China Steel Corporation

We have audited the accompanying balance sheets of China Steel Corporation (the "Corporation") as of December 31, 2011 and 2010, and the related statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these 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 financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Corporation as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

We have also audited the consolidated financial statements of the Corporation and its subsidiaries as of and for the years ended December 31, 2011 and 2010 on which we expressed an unqualified opinion.

Deloitte & Touche

March 21, 2012

<u>*Notice to Readers*</u>

The accompanying 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 financial statements are those generally accepted and applied in the Republic of China.

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

BALANCE SHEETS

CHINA STEEL CORPORATION

DECEMBER 31, 2011 AND 2010
(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2011 Amount	%	2010 Amount	%
CURRENT ASSETS				
Cash (Note 4)	$ 683,607	-	$ 2,170,616	1
Available-for-sale financial assets - current (Notes 2, 6 and 28)	2,207,870	1	2,068,057	1
Hedging derivative assets - current (Notes 2, 7 and 28)	22,630	-	-	-
Notes receivable	866,772	-	706,075	-
Notes receivable - related parties (Note 29)	468,399	-	537,208	-
Accounts receivable (Notes 2, 3 and 8)	2,764,299	1	1,897,408	1
Accounts receivable - related parties (Notes 2, 3 and 29)	553,216	-	589,531	-
Other receivables (Notes 11 and 25)	1,162,430	-	1,122,103	-
Other financial assets - current (Notes 2, 13 and 28)	2,399,287	1	1,093,993	-
Inventories (Notes 2 and 9)	67,340,540	16	46,957,509	12
Deferred income tax assets - current (Notes 2 and 25)	1,379,334	-	593,502	-
Restricted assets - current (Notes 4 and 30)	5,678,750	1	4,651,000	1
Others	1,712,543	1	1,497,530	1
Total current assets	87,239,677	21	63,884,532	17
INVESTMENTS				
Available-for-sale financial assets - noncurrent (Notes 2, 6 and 28)	3,260,406	1	3,135,657	1
Hedging derivative assets - noncurrent (Notes 2, 7 and 28)	89,387	-	-	-
Financial assets carried at cost - noncurrent (Notes 2,10, 28 and 29)	7,421,220	2	3,247,228	1
Bond investments with no active market - noncurrent (Notes 2, 11 and 28)	3,906,000	1	3,685,500	1
Investments accounted for by the equity method (Notes 2, 12 and 28)	127,252,843	30	123,129,399	32
Other financial assets - noncurrent (Notes 2, 13 and 28)	2,119,688	-	753,328	-
Total investments	144,049,544	34	133,951,112	35
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 7, 13, 14, 29 and 30)				
Land	11,024,276	2	10,877,244	3
Land improvements	4,223,646	1	4,223,646	1
Buildings	44,939,092	11	44,640,508	12
Machinery and equipment	278,296,503	66	278,377,356	73
Transportation equipment	1,804,682	-	1,773,975	-
Other equipment	5,118,133	1	5,011,842	1
Spare parts	6,918,272	2	6,780,271	2
Total cost	352,324,604	83	351,684,842	92
Revaluation increment	48,885,858	12	43,431,952	11
Cost and revaluation increment	401,210,462	95	395,116,794	103
Less: Accumulated depreciation	260,114,511	62	250,045,464	65
	141,095,951	33	145,071,330	38
Construction in progress and prepayments for equipment	46,045,195	11	35,888,973	9
Net property, plant and equipment	187,141,146	44	180,960,303	47
INTANGIBLE ASSETS (Note 2)	184,081	-	226,445	-
OTHER ASSETS				
Assets leased to others, net (Notes 2 and 15)	3,063,360	1	3,218,045	1
Refundable deposits (Note 28)	223,215	-	116,518	-
Restricted assets - noncurrent (Notes 4 and 30)	33,817	-	30,467	-
Total other assets	3,320,392	1	3,365,030	1
TOTAL	$ 421,934,840	100	$ 382,387,422	100

LIABILITIES AND STOCKHOLDERS' EQUITY	2011 Amount	%	2010 Amount	%
CURRENT LIABILITIES				
Short-term loans and overdraft (Notes 16 and 30)	$ 6,467,626	1	$ 1,341,764	-
Commercial paper payable (Note 17)	3,595,877	1	3,699,639	1
Hedging derivative liabilities - current (Notes 2, 7 and 28)	7,620	-	3,537	-
Notes payable - related parties (Note 29)	-	-	23,163	-
Accounts payable	4,665,602	1	4,630,800	1
Accounts payable - related parties (Note 29)	851,314	-	1,309,664	-
Income tax payable (Notes 2 and 25)	2,520,677	1	4,834,790	1
Accrued expenses (Notes 18 and 22)	8,306,109	2	10,732,630	3
Other payables (Note 2)	4,976,046	1	3,839,231	1
Bonds payable - current portion (Notes 19 and 28)	11,295,086	3	13,697,919	4
Long-term debt - current portion (Notes 20, 28 and 30)	3,682,227	1	-	-
Others	3,086,241	1	3,856,966	1
Total current liabilities	49,454,425	12	47,970,103	12
LONG-TERM LIABILITIES				
Hedging derivative liabilities - noncurrent (Notes 2, 7 and 28)	421	-	2,877	-
Bonds payable (Notes 19 and 28)	37,969,340	9	29,580,147	8
Long-term debt (Notes 20, 28 and 30)	21,284,765	5	23,181,624	6
Long-term notes payable (Notes 21 and 28)	11,989,008	3	4,496,973	1
Total long-term liabilities	71,243,534	17	57,261,621	15
RESERVE FOR LAND VALUE INCREMENT TAX (Note 14)	10,011,916	2	8,673,466	2
OTHER LIABILITIES				
Accrued pension cost (Note 22)	51,491	-	-	-
Deferred income tax liabilities - noncurrent (Notes 2 and 25)	446,254	-	524,317	-
Deferred credits - gain from affiliates (Notes 10 and 23)	2,140,211	1	2,007,550	1
Total other liabilities	2,637,956	1	2,531,867	1
Total liabilities	133,347,831	32	116,437,057	30
CAPITAL STOCK - NT$10 par value, authorized 17,000,000 thousand shares (Note 24)				
Common shares - issued 15,046,209 thousand shares and 13,527,901 thousand shares as of December 31, 2011 and 2010, respectively	150,462,093	36	135,279,009	36
Preferred shares - issued 38,268 thousand shares	382,680	-	382,680	-
Total capital stock	150,844,773	36	135,661,689	36
CAPITAL SURPLUS (Notes 2 and 24)	36,247,705	8	20,072,476	5
RETAINED EARNINGS (Notes 2 and 24)	80,051,881	19	94,337,962	25
OTHER EQUITY				
Unrealized revaluation increment (Note 24)	26,757,590	6	21,873,940	6
Unrealized gain on financial instruments (Notes 7, 13 and 24)	3,020,919	1	2,374,377	-
Cumulative translation adjustments (Notes 2 and 24)	17,192	-	(101,443)	-
Net loss not recognized as pension cost	(230,590)	-	(117,015)	-
Treasury stock - 295,065 thousand shares and 284,762 thousand shares as of December 31, 2011 and 2010, respectively (Notes 2 and 24)	(8,122,461)	(2)	(8,151,621)	(2)
Total other equity	21,442,650	5	15,878,238	4
Total stockholders' equity	288,587,009	68	265,950,365	70
TOTAL	$ 421,934,840	100	$ 382,387,422	100

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

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

	2011		2010	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 2 and 29)	$ 240,376,019	100	$ 239,186,921	100
OPERATING COSTS (Notes 2, 9, 26 and 29)	218,781,975	91	196,235,742	82
GROSS PROFIT	21,594,044	9	42,951,179	18
REALIZED GAIN FROM AFFILIATES, NET	61,894	-	47,610	-
REALIZED GROSS PROFIT	21,655,938	9	42,998,789	18
OPERATING EXPENSES (Notes 26 and 29)				
Research and development	1,437,899	1	1,380,490	1
Selling	2,414,478	1	2,615,206	1
General and administrative	3,204,580	1	2,954,465	1
Total operating expenses	7,056,957	3	6,950,161	3
OPERATING INCOME	14,598,981	6	36,048,628	15
NONOPERATING INCOME AND GAINS				
Interest income (Note 28)	121,480	-	91,999	-
Valuation gain on financial assets (Notes 2 and 5)	2,828	-	12,571	-
Investment income recognized under equity method, net (Notes 2 and 12)	5,151,451	2	8,247,775	4
Gain on sale of investments (Note 2)	1,101	-	8,892	-
Exchange gain (Note 2)	403,480	-	273,127	-
Others (Notes 2, 11, 14 and 29)	1,194,643	1	892,324	-
Total nonoperating income and gains	6,874,983	3	9,526,688	4
NONOPERATING EXPENSES AND LOSSES				
Interest expense (Notes 14 and 28)	769,406	1	659,814	-
Others (Notes 2, 26 and 29)	419,865	-	821,231	-
Total nonoperating expenses and losses	1,189,271	1	1,481,045	-
INCOME BEFORE INCOME TAX	20,284,693	8	44,094,271	19
INCOME TAX (Notes 2 and 25)	791,014	-	6,507,445	3
NET INCOME	$ 19,493,679	8	$ 37,586,826	16

(Continued)

	2011		2010	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 27)				
Basic	$ 1.42	$ 1.36	$ 3.17	$ 2.70
Diluted	$ 1.41	$ 1.35	$ 3.14	$ 2.67

Pro forma information (after income tax) assuming the Corporation's shares held by its subsidiaries were accounted for as investments instead of treasury stock is as follows:

	2011	2010
Net income	$ 20,153,180	$ 37,977,668
Basic earnings per share based on weighted-average number of outstanding common shares aggregating 14,556,209 thousand shares and 14,206,209 thousand shares for the years ended December 31, 2011 and 2010, respectively	$ 1.38	$ 2.67
Diluted earnings per share based on weighted-average number of outstanding common shares aggregating 14,686,578 thousand shares and 14,359,712 thousand shares for the years ended December 31, 2011 and 2010, respectively	$ 1.37	$ 2.64

(Concluded)

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

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2011 AND 2010
(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	Total Stockholders' Equity
BALANCE, JANUARY 1, 2010	$ 130,945,189	$ 382,680	$ 19,598,511	$ 47,117,709	$ 7,615,701	$ 19,617,957	$ 74,351,367	$ 21,913,148	$ 4,216,431	$ 183,001	$ (42,133)	$ (8,189,031)	$ 243,359,163
Appropriation of 2009 earnings (Note 24)													
Legal reserve	-	-	-	1,952,817	-	(1,952,817)	-	-	-	-	-	-	-
Cash dividends to preferred stockholders - NT$1.07 per share	-	-	-	-	-	(40,947)	(40,947)	-	-	-	-	-	(40,947)
Cash dividends to common stockholders - NT$1.01 per share	-	-	-	-	-	(13,225,464)	(13,225,464)	-	-	-	-	-	(13,225,464)
Stock dividends to preferred stockholders - NT$0.33 per share	12,628	-	-	-	-	(12,628)	(12,628)	-	-	-	-	-	-
Stock dividends to common stockholders - NT$0.33 per share	4,321,192	-	-	-	-	(4,321,192)	(4,321,192)	-	-	-	-	-	-
Net income in 2010	-	-	-	-	-	37,586,826	37,586,826	-	-	-	-	-	37,586,826
Change in unrealized gain on available-for-sale financial assets	-	-	-	-	-	-	-	-	(185,756)	-	-	-	(185,756)
Change in unrealized revaluation increment (Note 14)	-	-	-	-	-	-	-	(41,393)	-	-	-	-	(41,393)
Adjustment from changes in equity recognized under equity method	-	-	83,123	-	-	-	-	2,185	(1,055,295)	-	(74,882)	(46,313)	(1,091,182)
Foreign exchange loss on translation of foreign-currency financial statements	-	-	-	-	-	-	-	-	-	(364,769)	-	-	(364,769)
Foreign exchange gain on hedge of a net investment in a foreign operation	-	-	-	-	-	-	-	-	-	80,325	-	-	80,325
Change in unrealized gain on financial instruments for cash flow hedging	-	-	-	-	-	-	-	-	(601,003)	-	-	-	(601,003)
Disposal of the Corporation's shares held by subsidiaries (Note 24)	-	-	102,280	-	-	-	-	-	-	-	-	298,725	401,005
Cash dividends paid by the Corporation to its subsidiaries	-	-	288,562	-	-	-	-	-	-	-	-	-	288,562
Purchase of the Corporation's shares by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(215,002)	(215,002)
BALANCE, DECEMBER 31, 2010	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)	265,950,365
Appropriation of 2010 earnings (Note 24)													
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 24)	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	-	-	-	-	-	19,493,679
Change in unrealized gain on available-for-sale financial assets	-	-	-	-	-	-	-	-	141,223	-	-	-	141,223
Change in unrealized revaluation increment (Note 14)	-	-	-	-	-	-	-	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 24)	-	-	106,638	-	-	-	-	-	-	-	-	404,810	511,448
Cash dividends paid by the Corporation to its subsidiaries	-	-	552,863	-	-	-	-	-	-	-	-	-	552,863
Purchase of the Corporation's shares by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(375,733)	(375,733)
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)	$ 288,587,009

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

(In Thousands of New Taiwan Dollars)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 19,493,679	$ 37,586,826
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	16,064,667	15,804,272
Amortization	42,364	75,010
Pension cost	51,491	-
Deferred income tax	(913,703)	1,640,135
Provision for loss on inventories	3,060,921	149,012
Gain on sale of investments	(1,101)	(8,892)
Investment income under equity method, net	(5,151,451)	(8,247,775)
Realized gain from affiliates, net	(61,894)	(47,610)
Cash dividends received from equity method investees	5,582,492	6,842,767
Valuation gain on financial assets	(2,828)	(12,571)
Compensation cost of share-based payment	98,826	-
Others	(104,227)	(190,447)
Net changes in operating assets and liabilities		
Notes receivable	(160,697)	(278,006)
Notes receivable - related parties	68,809	(314,777)
Accounts receivable	(866,891)	4,790
Accounts receivable - related parties	36,315	340,371
Other receivables	124,373	(306,253)
Inventories	(23,289,268)	(12,220,801)
Other current assets	(215,013)	(587,140)
Notes payable - related parties	(23,163)	23,163
Accounts payable	34,802	2,626,633
Accounts payable - related parties	(458,350)	(1,798,298)
Income tax payable	(2,478,813)	4,834,790
Accrued expenses	(2,426,521)	2,238,492
Other payables	2,223,410	(164,523)
Other current liabilities	(576,170)	1,485,125
Net cash provided by operating activities	10,152,059	49,474,293
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets designated as at fair value through profit or loss	(8,000,000)	(12,240,059)
Proceeds from disposal of financial assets designated as at fair value through profit or loss	8,002,828	16,315,474
Acquisition of available-for-sale financial assets	-	(251,988)
Acquisition of financial assets carried at cost	(4,085,903)	(1,283,289)
Proceeds from disposal of financial assets carried at cost	1,101	159,724
Proceeds from the capital reduction on financial assets carried at cost	14,911	25,721
Acquisition of investments accounted for by equity method	(3,324,396)	(20,713,569)
Acquisition of property, plant and equipment	(17,189,295)	(31,281,536)
Proceeds from disposal of property, plant and equipment	1,267	404
Proceeds from disposal of assets leased to others	5,000	-
Decrease (increase) in other financial assets	(2,476,273)	2,604,292

(Continued)

	2011	2010
Decrease (increase) in refundable deposits	$ (106,697)	$ 21,806
Increase in restricted assets	(1,031,100)	(517,164)
Increase in intangible assets	-	(90)
Net cash used in investing activities	(28,188,557)	(47,160,274)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term loans and overdraft	5,125,862	(4,915,999)
Decrease in commercial paper payable	(103,762)	(4,300,138)
Issuance of bonds payable	19,700,000	-
Repayments of bonds payable	(13,700,000)	-
Proceeds from long-term debt	1,279,567	20,945,295
Repayments of long-term debt	-	(3,025,330)
Increase (decrease) in long-term notes payable	7,500,000	(750,000)
Cash dividends	(26,990,933)	(13,285,712)
Issuance of common stock for cash	23,738,755	-
Net cash provided by (used in) financing activities	16,549,489	(5,331,884)
NET DECREASE IN CASH	(1,487,009)	(3,017,865)
CASH, BEGININING OF YEAR	2,170,616	5,188,481
CASH, END OF YEAR	$ 683,607	$ 2,170,616
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	$ 1,439,066	$ 1,254,676
Capitalized interest	(644,909)	(610,630)
Interest paid (excluding capitalized interest)	$ 794,157	$ 644,046
Income tax paid	$ 4,183,530	$ 32,520
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	$ 16,081,479	$ 31,765,694
Decrease (increase) in payable for equipment purchased	1,107,816	(484,158)
	$ 17,189,295	$ 31,281,536
Cash dividends paid to stockholders		
Total cash dividends payable to stockholders	$ 26,996,676	$ 13,266,411
Decrease (increase) in dividends payable	(5,743)	19,301
	$ 26,990,933	$ 13,285,712
NON-CASH FINANCING ACTIVITIES		
Current portion of long-term liabilities	$ 14,977,313	$ 13,697,919

(Concluded)

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

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 Corporation's shares have been listed on the Taiwan Stock Exchange since December 1974. As of December 31, 2011 and 2010, the Ministry of Economic Affairs, Republic of China owned 20.05% and 21.24% of the Corporation's issued common stock, respectively.

As of December 31, 2011 and 2010, the Corporation had about 9,500 and 9,200 employees, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

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

For readers' convenience, the accompanying 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 financial statements shall prevail. However, the accompanying 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 ("SFB") for their oversight purposes.

Significant accounting policies are summarized as follows:

Foreign-currency Transactions

Non-derivative foreign-currency transactions are recorded in functional currency at the rates of exchange 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.

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, law 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, loss on commitments, pension, 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 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.

Financial Assets at Fair Value Through Profit or Loss

Financial instruments classified as financial assets at fair value through profit or loss ("FVTPL") include financial assets held for trading and those designated as at FVTPL on initial recognition. The Corporation recognizes financial assets on its balance sheet when the Corporation becomes a party to the contractual provisions of the financial instrument. A financial asset is derecognized when the Corporation has lost control of its contractual rights over the financial asset.

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 value of open-end funds is based on net asset value on balance sheet date.

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. Fair value is based on the closing price on balance sheet date for listed stocks. For stocks acquired by private subscription and not transferred freely in public market, the fair value is determined using valuation techniques.

The recognition and derecognition bases of available-for-sale financial assets are the same with those of financial assets 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.

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.

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 uses 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 while executing the firm commitment. However, if all or a portion of a loss recognized in stockholders' equity is not expected to be recovered in the future, 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 uses the hedge activities to control the risk of the exchange 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

The Corporation does not provide allowance for doubtful accounts on receivables from sales covered by bank acceptances in transit under letters of credit. Prior to January 1, 2011, the Corporation provides 100% allowance for doubtful accounts on accounts receivable from sales on credit and services that are overdue and assessed as not collectible.

As discussed in Note 3 to the financial statements, on January 1, 2011, the Corporation adopted the third-time revised Statement of Financial Accounting Standards (SFAS) No. 34, "Financial Instruments: Recognition and Measurement." One of the main revisions is that impairment of receivables originated by the Corporation should be covered by SFAS No. 34. 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) Accounts receivable becoming overdue;
3) It becomes probable that the debtor will enter bankruptcy or financial re-organization.

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's 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 the accounts receivable is reduced through the use of an allowance account. When accounts receivable are considered uncollectible, they are written off against the allowance account. Recoveries of amounts previously written off are credited to the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

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 - put presumptively beyond the control of the Corporation.

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.

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.

Impairment of Assets

If the recoverable amount of an asset (mainly property, plant and equipment, intangible 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 for 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 equity method investments on which the Corporation has 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, recorded as other payables, 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 and 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 are recorded at moving 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 holds 20 percent or more of the investees' voting rights or exercises significant influence over the investees' operating and financial decisions are accounted for by the equity method.

The cost of investment is allocated to the assets and liabilities of the investee on the basis of their fair values at the date of investment, and the investment cost in excess of the fair value of the net identifiable assets of the investee is recognized as goodwill. Goodwill is not 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 transactions with an equity-method investee are eliminated in proportion to the Corporation's percentage of ownership in the investee; however, if the Corporation has control over the investee, all the profits are eliminated. Profits from upstream transactions with an equity-method investee are eliminated in proportion to the Corporation's percentage of ownership in the investee.

When the Corporation subscribes for its investee's newly issued shares at a percentage different from its current percentage of ownership in the investee, the Corporation records 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.

When the Corporation and its investee have mutual equity holdings, the investment income or loss is accounted for by the treasury stock method.

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.

Property, Plant and Equipment

Property, plant and equipment, except for land, are stated at cost or cost plus revaluation increment less accumulated depreciation. 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 is calculated by the straight-line method over service lives estimated as follows: land improvements, 15 to 40 years; buildings, 5 to 60 years; machinery and equipment, 3 to 25 years; transportation equipment, 3 to 20 years; and other equipment, 3 to 10 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 loss 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 (mainly computer software, leasehold, patents and trademarks) acquired are initially recorded at cost. Amortization is calculated by the straight-line method over estimated useful lives ranging from 5 to 20 years.

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

Assets Leased to Others

Assets leased to others are stated at the lower of carrying value or recoverable value. Depreciation is calculated by the working-hours method or the straight-line method over sixty years.

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 applies the intra-year and inter-year allocation methods to 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 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 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, equipment and technology, and expenditures of research and development and employee training 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.

Stock-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's premises to customers; exports - when products are loaded onto vessels.

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 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 recognizes 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.

Reclassifications

Certain accounts in the financial statements as of and for the year ended December 31, 2010 have been reclassified to conform to the presentation of the financial statements as of and for the year ended December 31, 2011 and are listed as follows:

	Before Reclassification	After Reclassification
Balance sheets		
Financial assets carried at cost - noncurrent	$ 3,582,500	$ -
Bond investments with no active market - noncurrent	-	3,582,500
Spare parts - current	7,262,805	-
Spare parts - noncurrent	1,197,500	-
Inventories - supplies	-	3,696,998
Cost of property, plant and equipment - spare parts	-	6,780,271
Accumulated depreciation of property, plant and equipment - spare parts	-	2,016,964

3. EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES

Financial Instruments

Starting January 1, 2011, the Corporation adopted the newly revised Statement of Financial Accounting Standards (SFAS) No. 34, "Financial Instruments: Recognition and Measurement." The main revisions include: (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. This accounting change did not have a significant impact on the Corporation's financial statements as of and for the year ended December 31, 2011.

Operating Segments

Starting January 1, 2011, the Corporation 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." The information for the year ended December 31, 2010 has been recast to reflect the new segment reporting requirement.

4. CASH

	December 31	
	2011	2010
Cash on hand	$ 15,459	$ 19,544
Checking accounts and demand deposits	568,148	1,051,072
Time deposits	100,000	1,100,000
	$ 683,607	$ 2,170,616

Foreign bank deposits of the Corporation were as follows:

	December 31	
	2011	2010
Japan - IYO Bank and Mega International Commercial Bank (in thousands)	¥ 1,877	¥ 8,828
Singapore - Daiwa Securities SMBC (in thousands)	37,221	27,927
Total (in thousands)	¥ 39,098	¥ 36,755
Represented by NT dollars (in thousands)	$ 15,272	$ 13,169

The Corporation cooperated with the Ministry of Economic Affairs on "Development of Amorphous Ribbon Manufacturing Technology" and other projects. Deposits for these projects were NT$53,748 thousand (NT$28,750 thousand recorded as restricted assets - current and NT$24,998 thousand recorded as restricted assets - noncurrent) and NT$23,192 thousand (NT$1,000 thousand recorded as restricted assets - current and NT$22,192 thousand recorded as restricted assets - noncurrent), as of December 31, 2011 and 2010, respectively.

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS - CURRENT

The financial assets designated as at FVTPL represent open-end bond funds. The purpose of classifying open-end bond funds to this account 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's documented risk management or investment strategy. Net gains on financial assets designated as at FVTPL for the years ended December 31, 2011 and 2010 were NT$2,828 thousand and NT$12,571 thousand, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31			
	2011		2010	
	Current	Noncurrent	Current	Noncurrent
Quoted stocks				
Taiwan Semiconductor Manufacturing Company (TSMC)	$ 2,207,870	$ -	$ 2,068,057	$ -
Maruichi Steel Tube Ltd.	-	1,341,320	-	1,235,963
Tang Eng Iron Works Corporation (TEI)	-	865,960	-	871,932
CSBC Corporation Taiwan (CSBC)	-	414,776	-	491,653
Yodogawa Steel Works, Ltd.	-	260,921	-	270,837
Private-placement shares				
Rechi Precision Co., Ltd. (RPC)	-	377,429	-	265,272
	$ 2,207,870	$ 3,260,406	$ 2,068,057	$ 3,135,657

In September 2010, the Corporation invested NT$251,988 thousand to acquire 5% shareholding of RPC through its private subscription. RPC mainly manufactures compressors. Under the Securities Exchange Act, the securities which the Corporation acquired by private subscription could be transferred freely in public market only after holding those shares for three years starting from the delivery date.

The Corporation borrowed foreign-currency bank loans to hedge exchange rate fluctuation risks on the investments in Maruichi Steel Tube Ltd. and Yodogawa Steel Works, Ltd. (Notes 20 and 28). Adjustments for change in valuation arising from exchange difference were recognized as profit or loss.

7. HEDGING DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation entered into forward exchange contracts to manage cash flow exposures arising from exchange rate fluctuations on foreign-currency capital expenditure contracts.

Outstanding forward exchange contracts as of December 31, 2011 and 2010 were as follows:

	Currency	Period for Generating Cash Flows and Maturity Date	Contract Amount (In Thousands)
December 31, 2011			
Buy	NTD/USD	January 2012 - September 2015	NTD2,421,149/USD84,579
	NTD/EUR	March 2012 - October 2013	NTD133,699/EUR3,216
December 31, 2010			
Buy	NTD/EUR	March 2011 - March 2012	NTD82,353/EUR1,891

Movements of hedging derivative financial instruments for the years ended December 31, 2011 and 2010 were as follows:

	Years Ended December 31	
	2011	2010
Balance, beginning of year	$ (6,414)	$ 61,976
Valuation gain (loss)	110,481	(76,627)
Transferred to construction in progress and prepayments for equipment	(91)	8,237
Balance, end of year	$ 103,976	$ (6,414)

As of December 31, 2011 and 2010, the balances of hedging derivative financial instruments were as follows:

	December 31 2011	December 31 2010
Hedging derivative assets - current	$ 22,630	$ -
Hedging derivative assets - noncurrent	89,387	-
Hedging derivative liabilities - current	(7,620)	(3,537)
Hedging derivative liabilities - noncurrent	(421)	(2,877)
	$ 103,976	$ (6,414)

The valuation gain or loss was recognized as unrealized gain on financial instruments in stockholders' equity.

8. ACCOUNTS RECEIVABLE

The Corporation 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 is empowered to sell accounts receivable to the banks upon the delivery of products to customers and is required to complete related formalities at the next banking day.

The related information for the Corporation's sale of accounts receivable for the years ended December 31, 2011 and 2010 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 NTD)
Year ended December 31, 2011						
Mega International Commercial Bank	$ 4,300,199	$ 10,256,117	$ 10,990,814	$ 3,565,502	1.06-1.51	$ 9.0
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
	$ 5,287,460	$ 13,673,983	$ 13,886,185	$ 5,075,258		
Year ended December 31, 2010						
Mega International Commercial Bank	$ 2,723,672	$ 9,834,614	$ 8,258,087	$ 4,300,199	0.90-1.26	9.0
Bank of Taiwan	484,607	1,883,711	1,444,773	923,545	0.90-1.20	3.0
Taipei Fubon Bank	124,901	434,667	495,852	63,716	1.15-1.20	0.4
	$ 3,333,180	$ 12,152,992	$ 10,198,712	$ 5,287,460		

9. INVENTORIES

	December 31 2011	December 31 2010
Finished products	$ 11,556,342	$ 10,362,226
Work in process	29,285,142	16,168,678
Raw materials	18,617,096	13,247,396
Supplies	4,510,559	4,869,894
Raw materials and supplies in transit	2,479,581	1,987,831
Fuel	285,713	249,225
Others	606,107	72,259
	$ 67,340,540	$ 46,957,509

As of December 31, 2011 and 2010, the allowance for inventory devaluation was NT$4,034,124 thousand and NT$1,003,671 thousand, respectively, and recorded as reduction in inventories. The cost of inventories recognized as operating costs for the years ended December 31, 2011 and 2010 was NT$218,781,975 thousand and NT$196,235,742 thousand, respectively, which included the items as follows:

	Years Ended December 31 2011	Years Ended December 31 2010
Provision for loss on inventories	$ 3,060,921	$ 149,012
Loss on purchase commitments	15,478	-
Gain on physical inventory	(154,684)	(208,180)
Income from scrap sales	(226,561)	(213,673)
	$ 2,695,154	$(272,841)

10. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

	December 31 2011	December 31 2010
Unquoted common stocks		
Nacional Minerios S.A.	$ 3,268,550	$ -
Dongbu Metal Co., Ltd.	1,276,092	1,276,092
Industrial Bank of Taiwan	1,000,000	1,000,000
CDIB & Partners Investment Holding Corporation	500,000	500,000
Taiwan Rolling Stock Co., Ltd.	202,048	202,048
Adimmune Corporation (AC)	135,897	135,897
TaiGen Biopharmaceuticals Holdings Limited (Note 11)	103,000	-
CDIB BioScience Ventures I, Inc.	50,880	65,791
Overseas Investment & Development Corporation	50,000	50,000
Mega I Venture Capital Co., Ltd.	17,400	17,400
Taiwan High Speed Rail Corporation (THSRC)	-	-
Certificate of entitlement		
Formosa Ha Tinh Steel Corporation	817,353	-
	$ 7,421,220	$ 3,247,228

The above equity investments, which have no quoted prices in active market and of which verifiable fair value cannot be determined at a reasonable cost, are carried at cost.

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In November 2011, the Corporation acquired 4,751 thousand 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 December 2010, the Corporation acquired 1,500 thousand common shares (5% shareholding) of Dongbu Metal Co., Ltd. by investing NT$1,276,092 thousand (USD41,867 thousand). Dongbu Metal Co., Ltd. mainly manufactures and sells ferromanganese and ferro silico-manganese.

The Corporation increased its investment in AC by NT$7,197 thousand representing 300 thousand common shares in June 2010. In September 2010, the Corporation sold 5,000 thousand shares to the subsidiary, Gains Investment Corporation (GIC), for proceeds of NT$138,683 thousand, and recognized unrealized gain on sale of investment of NT$35,733 thousand, recorded as deferred credits - gain from affiliates (Notes 23 and 29).

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 will 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.

In June and December 2011, the Corporation invested NT$817,353 thousand (USD27,720 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.

11. BOND INVESTMENTS WITH NO ACTIVE MARKET - NONCURRENT

	December 31	
	2011	2010
Unquoted preferred stocks - overseas		
East Asia United Steel Corporation (EAUS) - Preferred A	$ 3,906,000	$ 3,582,500
TaiGen Biopharmaceuticals Holdings Limited (TGB) - Preferred B	-	103,000
	$ 3,906,000	$ 3,685,500

In May 2003, the Corporation signed a slab production joint-venture contract with Sumitomo Metal Industries, Ltd. and Sumitomo Corporation. In July 2003, the joint venture company of EAUS was established. The Corporation invested in EAUS JPY10 billion (Notes 20 and 28). The Corporation thus has a stable supply of slab from this joint venture. The Corporation also signed a contract with its affiliate, Chung Hung Steel Corporation (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. The amounts of royalty income for the years ended December 31, 2011 and 2010 were NT$324,593 thousand and NT$282,757 thousand, respectively (recorded as nonoperating income and gains). As of December 31, 2011 and 2010, the royalty receivable was NT$85,692 thousand and NT$66,956 thousand, respectively (recorded as other receivables).

The Corporation acquired 20,000 thousand Preferred B shares of TGB for NT$300,000 thousand. TGB mainly researches and develops drugs. The Corporation transferred its preferred shares to 28,800 thousand common shares in June 2011. Therefore, the aforementioned investment was reclassified from bond investments with no active market - noncurrent to financial assets carried at cost - noncurrent (Note 10). The Corporation evaluated the investment in TGB and recognized an impairment loss of NT$197,000 thousand.

12. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	December 31			
	2011		2010	
	Amount	% of Ownership	Amount	% of Ownership
Quoted companies				
Chung Hung Steel Corporation (CHSC)	$ 3,509,256	29	$ 4,346,793	29
China Steel Chemical Corporation (CSCC)	1,863,351	29	1,695,663	29
China Steel Structure Corporation (CSSC)	1,463,032	33	1,375,228	33
China Ecotek Corporation (CEC)	854,575	49	814,165	49
China Hi-ment Corporation (CHC)	713,721	20	703,316	20
	8,403,935		8,935,165	
Less: Shares held by subsidiaries accounted for as treasury stock	1,589,487		1,591,484	
	6,814,448		7,343,681	
Unquoted companies				
Dragon Steel Corporation (DSC)	80,358,899	100	78,841,711	100
China Steel Express Corporation (CSE)	10,332,777	100	10,373,819	100
C. S. Aluminum Corporation (CAC)	8,654,634	100	7,781,100	100
Gains Investment Corporation (GIC)	6,019,844	100	6,424,002	100
China Prosperity Development Corporation (CPDC)	4,894,483	100	4,890,207	100
China Steel Asia Pacific Holdings Pte Ltd. (CSAPH)	4,411,728	100	3,726,212	100
China Steel Sumikin Vietnam Joint Stock Company (CSVC)	3,054,014	51	1,764,253	51
China Steel Global Trading Corporation (CSGT)	2,664,337	100	1,612,465	100
China Steel Machinery Corporation (CSMC)	1,334,974	74	1,170,591	74
Kaohsiung Rapid Transit Corporation (KRTC)	814,035	31	1,278,733	31
CSC Steel Australia Holdings Pty Ltd.(CSCAU)	708,535	100	681,362	100
Info-Champ Systems Corporation (ICSC)	703,152	100	648,498	100
Horng Yih Investment Corporation (HYI)	571,364	100	671,159	100
Long Yuan Fa Investment Corporation (LYFI)	565,559	100	671,274	100
Goang Yaw Investment Corporation (GYI)	558,685	100	653,941	100
Kaohsiung Arena Development Corporation (KADC)	478,310	18	472,790	18
China Steel Security Corporation (CSS)	392,109	100	374,807	100
Hsin Hsin Cement Enterprise Corp. (HHCEC)	298,414	31	159,593	18
Hi-mag Magnetic Corporation (HMC)	121,222	50	114,570	50
China Steel Management Consulting Corporation (CSMCC)	25,850	100	26,918	100
TaiAn Technologies Corporation (TTC)	8,444	17	7,850	17
	126,971,369		122,345,855	
Less: Shares held by subsidiaries accounted for as treasury stock	6,532,974		6,560,137	
	120,438,395		115,785,718	
	$ 127,252,843		$ 123,129,399	

The Corporation's total equity in CHSC is 41%, including 29% directly owned and 12% indirectly owned through LYFI, HYI and GYI. The Corporation's total equity in CSSC is 37%, including 33% directly owned and 4% indirectly owned through Ever Wealthy Investment Corporation, CEC and DSC. The Corporation's total equity in KADC is 29%, including 18% directly owned and 11% indirectly owned through United Steel Engineering and Construction Corporation and CPDC. In December 2011, the Corporation increased its investment in HHCEC by NT$155,919 thousand. Consequently, the Corporation's total equity in HHCEC is 39%, including 31% directly owned and 8% indirectly owned through CHC. The Corporation's total equity in TTC is 22%, including 17% directly owned and 5%

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indirectly owned through CSCC.

In April 2010, the Corporation invested additional NT$20,000,000 thousand in DSC through its private subscription, with the ownership percentage unchanged. In August 2010, the Corporation invested additional NT$713,569 thousand in CSSC through its private subscription and raised its direct ownership to 33%. Under the Securities Exchange Act, the securities which the Corporation acquired by private subscription could be transferred freely in public market only after holding for three years, starting from the delivery date.

In January 2011, in order to invest in Changzhou China Steel Precision Materials Corporation (originally Changzhou Xinzhong Precision Alloy Forging Products Co. Ltd., changed on March 1, 2011), the Corporation invested additional USD30,520 thousand (NT$888,941 thousand) in CSAPH without changing the percentage of ownership.

In April 2011, the Corporation invested additional USD43,911 thousand (NT$1,279,566 thousand) in CSVC without changing the percentage of ownership.

In November 2011, the Corporation invested additional NT$999,970 thousand in CSGT without changing the percentage of ownership.

The market values of listed equity-method investments as of December 31, 2011 and 2010 were as follows:

	December 31	
	2011	2010
CSCC	$ 7,944,920	$ 8,254,462
CHSC	3,632,943	6,768,102
CEC	2,969,072	2,786,275
CHC	1,765,464	1,595,191
CSSC	1,603,644	1,464,770
	$ 17,916,043	$ 20,868,800

The market values of the above listed stocks are calculated at their closing price on balance sheet date, except for stocks acquired by private subscription and not transferred freely in public market that are stated at market values determined by using valuation techniques.

Investment income (loss) under the equity method for the years ended December 31, 2011 and 2010 was as follows:

	Years Ended December 31	
	2011	2010
CSE	$ 2,447,058	$ 2,975,156
DSC	947,442	1,280,374
CAC	863,846	911,840
CSCC	640,095	552,523
CSGT	498,217	498,772
CSMC	352,019	283,112
CEC	227,791	194,131
CSSC	176,706	133,451
ICSC	167,304	136,175
CPDC	139,564	117,238
CHC	128,039	113,619
CSS	89,717	80,283

(Continued)

	Years Ended December 31	
	2011	2010
CSAPH	$ 18,431	$ 303,068
GIC	15,127	398,767
CSCAU	2,892	111,982
CHSC	(783,194)	371,145
KRTC	(464,698)	(416,372)
LYFI	(110,381)	57,451
HYI	(109,624)	54,413
GYI	(106,942)	53,098
Others	12,042	37,549
	$ 5,151,451	$ 8,247,775

(Concluded)

The Corporation has prepared consolidated financial statements including all majority-owned and controlled-in-substance subsidiaries in accordance with the related accounting standards.

The Corporation's Board of Directors approved plans for additional investments in DSC, CSVC and other companies. The related subscription schedule depends on the investees' capital increase requirements. As of December 31, 2011, the Corporation's unexecuted investments in these investees aggregated NT$28,529,175 thousand.

The Corporation adopted the purchase method to account for the acquisition of DSC equity. The difference between the investment cost and the Corporation's share in the investee's net assets represents depreciable assets and goodwill. In 2009, the Corporation's total equity in HHCEC was 26% and the fair value of identifiable net assets exceeded the investment cost; the excess had been deducted to reduce the carrying amounts of non-current assets in proportion to their fair values.

Movements of the difference between the cost of investment and the Corporation's share in investees' net assets allocated to depreciable assets and goodwill were as follows:

	Depreciable Assets	Non-depreciable Assets	Goodwill
Year ended December 31, 2011			
Balance, beginning of year	$ 917,351	$ (1,924)	$ 401,018
Amortization	(84,382)	-	-
Balance, end of year	$ 832,969	$ (1,924)	$ 401,018
Year ended December 31, 2010			
Balance, beginning of year	$ 993,548	$ (1,924)	$ 401,018
Amortization	(76,197)	-	-
Balance, end of year	$ 917,351	$ (1,924)	$ 401,018

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The depreciable assets comprised of property, plant and equipment, franchise from Carbon credit and NO_x credit, developed technology, customer relationship, etc. Non-depreciable assets comprised of land and investments accounted for by the equity method.

13. OTHER FINANCIAL ASSETS

	December 31	
	2011	2010
Foreign-currency time deposits	$ 4,297,684	$ 938,619
Foreign-currency demand deposits	221,291	908,702
	4,518,975	1,847,321
Less: Current portion	2,399,287	1,093,993
	$ 2,119,688	$ 753,328

For the purpose of constructing the third cold-rolled plant, the Corporation signed contracts to purchase imported equipment in total of JPY16.15 billion. For the purposes of managing cash flow exposures arising from exchange rate fluctuations, the Corporation purchased deposits of JPY16 billion (NT$4,878,900 thousand) in January 2008. As of December 31, 2011 and 2010, the balance of the JPY deposits designated as hedging instrument was NT$626,226 thousand (JPY1.6 billion) and NT$656,933 thousand (JPY1.8 billion), respectively.

For the purpose of purchasing imported equipment as well as managing cash flows risk arising from exchange rate fluctuations, the Corporation successively purchased deposits of USD122,874 thousand (NT$3,604,899 thousand). As of December 31, 2011 and 2010, the balance of the U.S. dollar deposits designated as hedging instruments was NT$3,168,070 thousand (USD104,643 thousand) and NT$550,026 thousand (USD18,115 thousand), respectively.

For the purpose of managing cash flow exposures on foreign-currency capital expenditure contracts, the Corporation entered into forward exchange contracts (Note 7). As of December 31, 2011 and 2010, the balance of foreign-currency deposits purchased for expired forward exchange contract was NT$724,679 thousand (USD21,298 thousand and EUR2,039 thousand) and NT$640,362 thousand (USD18,972 thousand and EUR1,653 thousand), respectively.

The unrealized gains of NT$173,396 thousand and NT$23,519 thousand arising from the above deposits designated as hedging instruments were recognized as unrealized gain on financial instruments in stockholders' equity for the years ended December 31, 2011 and 2010, respectively. The unrealized loss on financial instruments of NT$21,985 thousand and the unrealized gain on financial instruments of NT$550,136 thousand in stockholders' equity were transferred to construction in progress and prepayments for equipment for the years ended December 31, 2011 and 2010, respectively.

As of December 31, 2011 and 2010, cash outflows would be expected from aforementioned contracts during the periods from 2012 to 2015 and from 2011 to 2013, respectively.

14. PROPERTY, PLANT AND EQUIPMENT

Year ended December 31, 2011	Land	Land Improvements	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Spare Parts	Construction in Progress and Prepayments for Equipment	Total
Cost									
Balance, beginning of year	$ 10,877,244	$ 4,223,646	$ 44,640,508	$278,377,356	$ 1,773,975	$ 5,011,842	$ 6,780,271	$ 35,888,973	$387,573,815
Addition	-	-	351,596	3,943,791	89,496	282,648	1,257,726	10,156,222	16,081,479
Reclassification	147,032	-	-	232,196	-	-	(232,196)	-	147,032
Disposals	-	-	(53,012)	(4,256,840)	(58,789)	(176,357)	(887,529)	-	(5,432,527)
Balance, end of year	11,024,276	4,223,646	44,939,092	278,296,503	1,804,682	5,118,133	6,918,272	46,045,195	398,369,799
Revaluation increment									
Balance, beginning of year	32,754,016	492,990	2,405,255	7,729,939	18,108	31,644	-	-	43,431,952
Addition	6,088,169	-	-	-	-	-	-	-	6,088,169
Disposals	-	-	(2,254)	(622,866)	(9,117)	(26)	-	-	(634,263)
Balance, end of year	38,842,185	492,990	2,403,001	7,107,073	8,991	31,618	-	-	48,885,858
Accumulated depreciation									
Balance, beginning of year	-	4,082,253	22,892,140	215,996,833	1,344,836	3,712,438	2,016,964	-	250,045,464
Depreciation expense	-	69,171	1,349,347	12,930,190	90,994	463,263	1,159,049	-	16,062,014
Disposals	-	-	(23,418)	(4,843,299)	(67,787)	(170,934)	(887,529)	-	(5,992,967)
Balance, end of year	-	4,151,424	24,218,069	224,083,724	1,368,043	4,004,767	2,288,484	-	260,114,511
Net book value, end of year	$ 49,866,461	$ 565,212	$ 23,124,024	$ 61,319,852	$ 445,630	$ 1,144,984	$ 4,629,788	$ 46,045,195	$187,141,146
Year ended December 31, 2010									
Cost									
Balance, beginning of year	$ 10,692,043	$ 4,223,646	$ 42,280,414	$259,574,860	$ 1,751,261	$ 4,700,032	$ 6,597,295	$ 28,878,043	$358,697,594
Addition	185,201	-	2,367,240	20,286,511	39,707	431,522	1,444,583	7,010,930	31,765,694
Disposals	-	-	(7,146)	(1,484,015)	(16,993)	(119,712)	(1,261,607)	-	(2,889,473)
Balance, end of year	10,877,244	4,223,646	44,640,508	278,377,356	1,773,975	5,011,842	6,780,271	35,888,973	387,573,815
Revaluation increment									
Balance, beginning of year	32,754,016	492,990	2,405,551	7,968,650	18,108	31,671	-	-	43,670,986
Disposals	-	-	(296)	(238,711)	-	(27)	-	-	(239,034)
Balance, end of year	32,754,016	492,990	2,405,255	7,729,939	18,108	31,644	-	-	43,431,952
Accumulated depreciation									
Balance, beginning of year	-	4,003,372	21,544,619	205,084,014	1,261,670	3,337,411	2,127,274	-	237,358,360
Depreciation expense	-	78,881	1,350,723	12,631,180	100,051	489,488	1,151,297	-	15,801,620
Disposals	-	-	(3,202)	(1,718,361)	(16,885)	(114,461)	(1,261,607)	-	(3,114,516)
Balance, end of year	-	4,082,253	22,892,140	215,996,833	1,344,836	3,712,438	2,016,964	-	250,045,464
Net book value, end of year	$ 43,631,260	$ 634,383	$ 24,153,623	$ 70,110,462	$ 447,247	$ 1,331,048	$ 4,763,307	$ 35,888,973	$180,960,303

Information about capitalized interest on the purchase of property, plant and equipment for the years ended December 31, 2011 and 2010 was disclosed as follows:

	Years Ended December 31	
	2011	2010
Interest expense before capitalization	$ 1,394,216	$ 1,285,593
Less: Capitalized interest - construction in progress and prepayments for equipment	624,810	625,779
Interest expense through income statement	$ 769,406	$ 659,814
Capitalization annual rates	1.36%-1.89%	1.83%-2.15%

In 1981 and 1994, the Corporation revalued its property, plant and equipment and patents in accordance with government regulations, resulting in increment of NT$17,662,343 thousand. After the deduction of the reserve for land value increment tax of NT$3,370,813 thousand, a net increment of NT$14,291,530 thousand was credited to unrealized revaluation increment. Unrealized revaluation increment of NT$13,952,356 thousand had been capitalized as capital stock, reducing its balance to NT$339,174 thousand. In January 2005, the government revised the land value increment tax law to reduce the tax rate. Thus, the reserve for land value increment tax decreased and the unrealized revaluation increment increased each by NT$1,196,189 thousand. Accordingly, the balance of unrealized revaluation increment increased to NT$1,535,363 thousand. In February 2005, the Corporation disposed part of its land, which resulted in a decrease of NT$3,500 thousand in reserve for land value increment tax. In 2011 and 2008, the Corporation revalued its land in accordance with the current assessed land value. Therefore, the total increments on land revaluation were NT$6,088,169 thousand and NT$26,913,284 thousand, after the deduction of the reserve for land value increment tax of NT$1,338,450 thousand and NT$6,502,342 thousand, and net increments of NT$4,749,719 thousand and NT$20,410,942 thousand were credited to unrealized revaluation increment in 2011 and 2008, respectively. For the years ended December 31, 2011 and 2010, upon retirement or sale of revalued properties, the unrealized revaluation increment decreased by NT$12,781 thousand and NT$4,817 thousand, respectively, and recorded as nonoperating income and gains. As of December 31, 2011 and 2010, the balance of reserve for land value increment tax was NT$10,011,916 thousand and NT$8,673,466 thousand, and the balance of the unrealized revaluation increment was NT$26,610,866 thousand and NT$21,871,755 thousand, respectively.

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

15. ASSETS LEASED TO OTHERS, NET

	December 31	
	2011	2010
Cost		
Land	$ 2,932,945	$ 3,079,977
Machinery and equipment	-	2,000,000
Buildings	161,816	161,816
	3,094,761	5,241,793
Accumulated depreciation		
Machinery and equipment	-	1,401,000
Buildings	31,401	28,748
	31,404	1,429,748
Accumulated impairment		
Machinery and equipment	-	594,000
Net book value, end of year	$ 3,063,360	$ 3,218,045

Some of the Corporation's land, machinery and equipment and buildings are leased to its subsidiaries (Note 29). The depreciation expense remained NT$2,653 thousand for the years ended December 31, 2011 and 2010.

In March 2011, the Corporation sold the above mentioned machinery and equipment to its subsidiary CAC for proceeds of NT$5,000 thousand, with no significant gain or loss.

16. SHORT-TERM LOANS AND OVERDRAFT

	December 31	
	2011	2010
Credit loans - interest at 0.93%-0.95% p.a.	$ 3,700,000	$ -
Letters of credit - due within 180 days; interest at 0.7357%-1.4157% p.a. and 0.5513%-1.41% p.a. as of December 31, 2011 and 2010, respectively	2,630	147,655
Bank overdraft - interest at 0.5%-0.6607% p.a. and 0.26%-1.195% p.a. as of December 31, 2011 and 2010, respectively	2,764,996	1,194,109
	$ 6,467,626	$ 1,341,764

17. COMMERCIAL PAPER PAYABLE

	December 31	
	2011	2010
Commercial paper - interest at 0.45%-0.89% p.a. and 0.467%-0.547% p.a. as of December 31, 2011 and 2010, respectively	$ 3,600,000	$ 3,700,000
Less: Unamortized discounts	4,123	361
	$ 3,595,877	$ 3,699,639

18. ACCRUED EXPENSES

	December 31	
	2011	2010
Accrued salaries and incentive bonus	$ 3,683,711	$ 5,107,932
Bonus to employees, and remuneration to directors and supervisors	1,425,875	2,751,874
Repair and construction	1,019,581	664,244
Severance pay	499,632	707,145
Others	1,677,310	1,501,435
	$ 8,306,109	$ 10,732,630

19. BONDS PAYABLE

	December 31	
	2011	2010
5-year unsecured bonds - issued at par in:		
June 2006; repaid in June 2011; 2.32% interest p.a.	$ -	$ 8,100,000
November 2006; repaid in November 2011; 2.07% interest p.a.	-	5,600,000
December 2008; repayable in December 2012 and December 2013; 2.08% interest p.a., payable annually	13,000,000	13,000,000
December 2008; repayable in December 2012 and December 2013; 2.42% interest p.a., payable annually	9,600,000	9,600,000
October 2011; repayable in October 2015 and October 2016; 1.36% interest p.a., payable annually	9,300,000	-
7-year unsecured bonds - issued at par in:		
December 2008; repayable in December 2014 and December 2015; 2.30% interest p.a., payable annually	7,000,000	7,000,000
October 2011; repayable in October 2017 and October 2018; 1.57% interest p.a., payable annually	10,400,000	-
	49,300,000	43,300,000
Less: Issuance cost of bonds payable	35,574	21,934
Current portion	11,295,086	13,697,919
	$ 37,969,340	$ 29,580,147

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

20. LONG-TERM DEBT

	December 31	
	2011	2010
Mortgage loans		
Repayable in 6 semiannual installments from July 2012 (NT$16 billion); interest at 1.42706% p.a. and 1.20% p.a. as of December 31, 2011 and 2010, respectively	$ 16,000,000	$ 16,000,000
Credit loans		
Repayable in July 2015 (JPY4.95 billion); interest at 0.55133% p.a. and 0.65936% p.a. as of December 31, 2011 and 2010, respectively	1,933,470	1,773,338
Repayable in July 2015 (JPY4.95 billion); interest at 0.57036% p.a. and 0.67838% p.a. as of December 31, 2011 and 2010, respectively	1,933,470	1,773,337
Repayable in February 2013 (USD 58,548 thousand); interest at 0.67712% - 0.71941% p.a. and 0.88616% - 0.92844% p.a. as of December 31, 2011 and 2010, respectively	1,772,541	1,777,693
Repayable in April 2014 (USD43,911 thousand); interest at 0.89641% p.a.	1,329,406	-
Repayable in December 2012 (JPY2.6 billion); interest at 0.56571% p.a. and 0.67375% p.a. as of December 31, 2011 and 2010, respectively	1,015,560	931,450
Repayable in July 2013 (AUD 16,540 thousand); interest at 5.65328% p.a. and 5.68895% p.a. as of December 31, 2011 and 2010, respectively	508,357	490,891
Repayable in November 2013 (JPY1.214 billion); interest at 0.535% p.a. and 0.59625% p.a. as of December 31, 2011 and 2010, respectively	474,188	434,915
	24,966,992	23,181,624
Less: Current portion	3,682,227	-
	$ 21,284,765	$ 23,181,624

The Corporation obtained long-term bank loans in Japanese yen, Australian dollar and U.S. dollar to hedge the exchange rate fluctuations on investments in EAUS, CSCAU and CSVC (Note 28) and on the available-for-sale financial assets in Maruichi Steel Tube Ltd. and Yodogawa Steel Works, Ltd. (Notes 6 and 28). The NT dollar loan was made to meet fund requirements.

21. LONG-TERM NOTES PAYABLE

	December 31	
	2011	2010
Long-term notes - interest at 0.902%-1.123% p.a. and 0.630%-0.885% p.a. as of December 31, 2011 and 2010, respectively	$ 12,000,000	$ 4,500,000
Less: Unamortized discounts	10,992	3,027
	$ 11,989,008	$ 4,496,973

The Corporation entered into commercial paper contracts with International Bills Finance Corporation, Mega Bills Finance Corporation, China Bills Finance Corporation, Grand Bills Finance Corp. and Taiwan Cooperative Bills Finance Corporation in September 2011 and April 2009. The duration of the contracts is four years and five years and the cycle of issuance is thirty to sixty days, during which the Corporation only has to pay service fees and interests. Therefore, the Corporation recorded those commercial papers issued as long-term notes payable.

22. RETIREMENT BENEFIT PLAN

The pension plan under the Labor Pension Act (the "LPA") is a defined contribution plan. Based on the LPA, the Corporation makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages. Such pension costs were NT$106,862 thousand and NT$72,231 thousand for the years ended December 31, 2011 and 2010, respectively.

The Corporation has a retirement plan in accordance with the Labor Standards Law. 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 makes contributions, equal to a certain percentage of salaries, to a pension fund, which is deposited in the Bank of Taiwan in the name of, and administered by the employees' pension fund administration committee. According to above regulation, pension cost for the years ended December 31, 2011 and 2010 was NT$1,058,256 thousand and NT$761,279 thousand, respectively.

Since August 1999, the Corporation also makes contributions, equal to a certain percentage of salaries of management personnel (vice presidents and above), to another pension fund, which is deposited in The Mega International Commercial Bank in the name of, and administered by the officers' pension fund management committee. Pension cost for the years ended December 31, 2011 and 2010 was NT$6,196 thousand and NT$5,129 thousand, respectively.

In order to encourage employees to retire and transfer to affiliates, the Corporation recognized preferential severance pay in accordance with the related preferential severance measures of NT$427,702 thousand for the year ended December 31, 2010.

Under SFAS No. 18, pension information based on actuarial calculation was as follows:

a. Components of net pension cost

	Years Ended December 31	
	2011	2010
Service cost	$ 718,114	$ 704,700
Interest cost	505,981	431,050
Projected return on plan assets	(375,862)	(359,806)
Amortization	164,728	(9,536)
Settlement loss	51,491	-
Net pension cost	$ 1,064,452	$ 766,408

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

	December 31	
	2011	2010
Benefit obligation		
Vested benefit obligation	$ 16,979,251	$ 15,537,647
Non-vested benefit obligation	1,880,807	2,363,885
Accumulated benefit obligation	18,860,058	17,901,532

(Continued)

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

	December 31 2011	December 31 2010
Additional benefits based on future salaries	$ 3,132,653	$ 5,018,959
Projected benefit obligation	21,992,711	22,920,491
Fair value of plan assets	(19,094,675)	(18,885,539)
Funded status	2,898,036	4,034,952
Unrecognized net asset at transition	23,432	33,375
Unamortized net loss	(2,742,137)	(4,034,690)
Accrued pension cost	179,331	33,637
Recorded as accrued expense	127,840	33,637
Recorded as accrued pension cost	$ 51,491	$ -
Vested benefits	$ 19,463,815	$ 18,262,754

(Concluded)

c. Actuarial assumptions

	December 31 2011	December 31 2010
Discount rate used in determining present values	2.00%	2.25%
Future salary increase rate	2.00%	3.00%
Expected rate of return on plan assets	2.00%	2.00%

	Years Ended December 31 2011	Years Ended December 31 2010
d. Contributions to the fund	$ 923,269	$ 863,497
e. Payments from the fund	$ 940,318	$ 110,017

23. DEFERRED CREDITS - GAIN FROM AFFILIATES

	December 31 2011	December 31 2010
Gain on disposal of land	$ 1,136,164	$ 1,136,164
Gain on contracted projects	968,765	836,104
Gain on disposal of stocks	35,282	35,282
	$ 2,140,211	$ 2,007,550

A deferred income of NT$1,405,040 thousand was recorded for the unrealized gain from the sale of land to CPDC in February 1999. The Corporation repurchased some of the land in January 2005 for construction of its office building and thus the deferred credits decreased by NT$268,876 thousand. The remaining deferred credits will be recognized as income when CPDC sells the rest of the land to third parties.

The Corporation contracted engineering projects with KRTC and DSC, resulting in deferred gain. Such deferred credits from the projects with KRTC and DSC are recognized as income over 8 to 30 years after completion of the constructions.

In September 2010, the Corporation sold its shares in AC, financial assets carried at cost, to GIC, and recognized unrealized gain on disposal of investments of NT$35,733 thousand (Notes 10 and 29), which will be realized when GIC disposes of the stock.

24. STOCKHOLDERS' EQUITY

a. Capital stock

In July 2011 and August 2010, the Corporation issued 678,308 thousand and 433,382 thousand common shares through capital increase out of retained earnings of NT$6,783,084 thousand and NT$4,333,820 thousand, respectively, and 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 increase in paid-in capital 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 employee stock option; for employees of the Corporation, 74,305 thousand shares, and for employees of the subsidiaries, 2,027 thousand shares. These options were vested immediately. For the year ended December 31, 2011, all the above options were exercised.

For the year ended December 31, 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%

For the year ended December 31, 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

Purpose of Treasury Stock	Thousand Shares: Beginning of Year	Thousand Shares: Addition	Thousand Shares: Reduction	December 31: Thousand Shares	December 31: Book Value
Year ended December 31, 2011					
Shares acquired and held by subsidiaries	284,762	26,679	16,376	295,065	$ 8,122,461
Year ended December 31, 2010					
Shares acquired and held by subsidiaries	279,375	15,938	10,551	284,762	$ 8,151,621

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

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. 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, 2011 and 2010, the subsidiaries sold 29,274 thousand shares and 24,950 thousand shares of the Corporation for proceeds of NT$916,090 thousand and NT$804,181 thousand, respectively.

For the years ended December 31, 2011 and 2010, the proceeds of treasury stock sold, calculated by shareholding percentage, amounted to NT$511,448 thousand and NT$401,005 thousand, and after deducting book values, resulted in the amounts of NT$106,638 thousand and NT$102,280 thousand (recorded as capital surplus), respectively. As of December 31, 2011 and 2010, the market values of the treasury shares calculated by combined holding percentage were NT$8,497,875 thousand and NT$9,539,536 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 Ministry of Economic Affairs ("MOEA"), the largest shareholder of the Corporation, MOEA, sold its holding shares in the Corporation through issuance of 126,512,550 units of GDR while the Corporation issued new shares. The depositary receipts then increased by 6,802,951 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 2,666,310,271 shares (including 251 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, 2011 and 2010, the outstanding depositary receipts were 3,396,550 units and 4,648,214 units, equivalent to 67,931,271 common shares (including 271 fractional shares) and 92,964,521 common shares (including 241 fractional shares), which represented 0.45% and 0.69% of the outstanding common shares, respectively.

d. Preferred stock

Preferred stockholders have the following entitlements or rights:

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) Redemption of stock is through its retained earnings or the proceeds from issuance of new shares; conversion of shares into common stock at the ratio of 1:1.

e. Capital surplus

Capital surplus comprised of the following:

	December 31	
	2011	2010
Additional paid-in capital	$ 31,154,766	$ 15,717,185
Treasury stock transactions	4,635,553	3,976,052
Long-term stock investments	449,287	371,140
Others	8,099	8,099
	$ 36,247,705	$ 20,072,476

Under relevant regulations, capital surplus from issuance of shares and treasury stock transaction may be used to offset a deficit or capitalized, which however is limited to a certain percentage of the Corporation's paid-in capital and once a year. Under the revised Company Law promulgated on January 4, 2012, the aforementioned capital surplus may also be distributed in cash when the Corporation incurs no loss. The capital surplus from 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 share is lower than the carrying value of the Corporation's shares held by subsidiaries, the Corporation should appropriate a special reserve in proportion to the percentage of ownership in the equity equal to the difference between market price and carrying value. The Corporation may release a portion of this special reserve when such debit balances are partially or fully reversed. As of December 31, 2011, the Corporation had fully reversed the special reserve for net debit balance of certain items in 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, more than 75% of the appropriation for dividends and bonus should be in cash and less than 25% in stock.

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

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

	Years Ended December 31	
	2011	2010
Bonus to employees	$ 1,399,259	$ 2,701,965
Remuneration to directors and supervisors	26,236	50,662
	$ 1,425,495	$ 2,752,627

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. Under the revised Company Law issued on January 4, 2012, 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 2011 and 2010 meetings approved the following appropriations of the 2010 and 2009 earnings, respectively.

	Appropriation of Earnings		Dividends Per Share (NT dollars)	
	2010	2009	2010	2009
Legal reserve	$ 3,758,683	$ 1,952,817		
Preferred stocks				
Cash dividends	76,153	40,947	$ 1.99	$ 1.07
Stock dividends	19,134	12,628	0.50	0.33
			$ 2.49	$ 1.40
Common stocks				
Cash dividends	26,920,523	13,225,464	$ 1.99	$ 1.01
Stock dividends	6,763,950	4,321,192	0.50	0.33
	$ 37,538,443	$ 19,553,048	$ 2.49	$ 1.34

The bonus to employees and the remuneration to directors and supervisors for 2010 and 2009 approved in the aforementioned stockholders' meetings were as follows (settled by cash):

	Years Ended December 31			
	2010		2009	
	Bonus to Employees	Remuneration to Directors and Supervisors	Bonus to Employees	Remuneration to Directors and Supervisors
Amounts approved in stockholders' meetings	$ 2,701,965	$ 50,662	$ 1,528,288	$ 28,655
Amounts recognized in respective financial statements	2,701,965	50,662	1,528,288	28,655
Difference	$ -	$ -	$ -	$ -

The appropriations of earnings for 2011 had been proposed in the board of directors' meeting on March 21, 2012. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT dollars)
Legal reserve	$ 1,949,368	
Preferred stocks		
Cash dividends	47,835	$ 1.25
Stock dividends	5,740	0.15
		$ 1.40
Common stocks		
Cash dividends	15,196,671	$ 1.01
Stock dividends	2,256,932	0.15
	$ 19,456,546	$ 1.16

On March 21, 2012, the board of directors proposed the bonus to employees of NT$1,399,259 thousand and the remuneration to directors and supervisors of NT$26,236 thousand for 2011. The amounts proposed were the same as the amounts recognized in the financial statements for the year ended December 31, 2011.

The 2011 appropriations of earnings, bonus to employees and remuneration to directors and supervisors will be resolved by the stockholders in their meeting scheduled for June 15, 2012.

Information about the 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 of the following:

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

	December 31	
	2011	2010
Revaluation increment of property, plant and equipment (Note 14)	$ 26,610,866	$ 21,871,755
Recognized in proportion to the ownership percentage in long-term stock investments	146,724	2,185
	$ 26,757,590	$ 21,873,940

h. Unrealized gain on financial instruments

For the years ended December 31, 2011 and 2010, 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, 2011				
Balance, beginning of year	$ 2,938,550	$ (593,445)	$ 29,272	$ 2,374,377
Recognized in stockholders' equity	141,223	251,529	231,896	624,648
Transferred to construction in progress and prepayments for equipment	-	-	21,894	21,894
Balance, end of year	$ 3,079,773	$ (341,916)	$ 283,062	$ 3,020,919
Year ended December 31, 2010				
Balance, beginning of year	$ 3,124,306	$ 461,850	$ 630,275	$ 4,216,431
Recognized in stockholders' equity	(185,756)	(1,055,295)	(59,104)	(1,300,155)
Transferred to construction in progress and prepayments for equipment	-	-	(541,899)	(541,899)
Balance, end of year	$ 2,938,550	$ (593,445)	$ 29,272	$ 2,374,377

i. Cumulative translation adjustments

Changes in composition of cumulative translation adjustments for the years ended December 31, 2011 and 2010 were as follows:

	Years Ended December 31	
	2011	2010
Balance, beginning of year	$ (101,443)	$ 183,001
Recognized in stockholders' equity	118,635	(284,444)
Balance, end of year	$ 17,192	$ (101,443)

25. INCOME TAX

a. A reconciliation of income tax based on income before income tax at the statutory rate of 17% and income tax was as follows:

	Years Ended December 31	
	2011	2010
Income tax at the statutory rate	$ 3,448,398	$ 7,496,026
Tax effect of adjusting items		
Permanent differences		
Investment income recognized under equity method - domestic investees	(877,828)	(1,332,999)
Dividends	(29,987)	(25,488)
Unrealized gain on valuation of financial assets and on disposal of investments	(511)	(2,228)
Others	21,395	17,947
Temporary differences		
Unrealized provision for loss on inventories	515,177	15,399
Difference between tax reporting and financial reporting - depreciation methods	112,983	123,228
Cash dividends - foreign investees	36,869	60,320
Investment loss (income) recognized under equity method - foreign investees	2,081	(69,123)
Realized impairment loss of investees	(41,356)	(36,623)
Unrealized (realized) preferential severance pay	(35,277)	47,358
Unrealized (realized) loss on service commitments	(35,011)	114,281
Realized gain from affiliates	(10,522)	(8,094)
Realized gain (loss) on hedging of forward exchange	(3,722)	92,123
Others	(35,758)	(21,220)
Investment tax credits used	(1,533,465)	(1,629,595)
Additional 10% income tax on unappropriated earnings	4,838	4,945
Income tax currently payable	1,538,304	4,846,257
Adjustments for prior years' tax	166,413	21,053
Current income tax expense	1,704,717	4,867,310
Deferred tax		
Temporary differences	(543,311)	(309,880)
Investment tax credits	(370,392)	806,532
Loss carryforwards	-	1,004,197
Effect of tax law changes on deferred assets	-	139,286
	$ 791,014	$ 6,507,445

b. Changes in income tax payable

	Years Ended December 31	
	2011	2010
Balance, beginning of year	$ 4,834,790	$ -
Current income tax expense	1,704,717	4,867,310
Payment in the current year	(4,183,530)	(32,520)
Transferred to other receivables	164,700	-
Balance, end of year	$ 2,520,677	$ 4,834,790

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

The Corporation adopted the linked tax system for tax filing with subsidiary - DSC since 2009. Payment in the current year of NT$4,183,530 thousand included payment of NT$1,165,973 thousand to DSC because 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.

In May 2010, the Legislative Yuan passed an amendment of Article 5 of the Income Tax Law, which reduces a profit-seeking enterprise's income tax rate from 20% to 17%, effective January 1, 2010.

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

	December 31	
	2011	2010
Current		
Deferred income tax assets		
Unrealized provision for loss on inventories	$ 684,180	$ 169,003
Investment tax credits	370,392	-
Unrealized loss on service commitments	221,163	256,174
Estimated preferential severance pay	84,905	120,182
Unrealized gain from affiliates	9,686	42,760
Others	30,244	23,034
	1,400,570	611,153
Deferred income tax liabilities		
Difference between tax reporting and financial reporting - inventory	(21,236)	(17,651)
Total deferred income tax assets - current, net	1,379,334	593,502
Noncurrent		
Deferred income tax assets		
Impairment loss	944,472	985,984
Unrealized gain from affiliates	164,690	142,138
Unrealized settlement gain on hedging of forward exchange	91,220	94,942
Others	46,364	56,026
	1,246,746	1,279,090
Deferred income tax liabilities		
Difference between tax reporting and financial reporting - depreciation methods	(1,206,068)	(1,319,741)
Foreign investment income	(347,743)	(386,693)
Unrealized gain on cash flow hedge	(57,977)	(5,996)
Unrealized exchange gains, net	(46,808)	(54,400)
Unrealized gain on revaluation increment	(34,404)	(36,577)
	(1,693,000)	(1,803,407)
Total deferred income tax liabilities - noncurrent, net	(446,254)	(524,317)
Total deferred income tax assets	$ 933,080	$ 69,185

Under the Statute for Upgrading Industries, the Corporation recognized investment tax credits from purchases of machinery and equipment. The expiry year of the tax credits is 2015.

Temporary difference for depreciation between tax reporting and financial reporting mainly resulted from the adoption of accelerated depreciation method in the filing of income tax returns.

The Corporation's income tax returns through 2007 have been examined by the tax authorities.

d. Information about integrated income tax was as follows:

	December 31	
	2011	2010
Imputation credit account (ICA)	$ 211,179	$ 678,175
Unappropriated earnings generated before January 1, 1998	15,440	15,440

The creditable ratio for distribution of 2011 and 2010 earnings was 14.01% (estimated) and 11.52%, 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 2011 earnings may be adjusted, depending on the ICA balance on the date of dividend distribution.

26. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	Years Ended December 31							
	2011				2010			
	Operating Cost	Operating Expense	Others	Total	Operating Cost	Operating Expense	Others	Total
Personnel								
Salary	$ 13,651,003	$ 2,448,189	$ 249,154	$ 16,348,346	$ 16,483,895	$ 2,993,411	$ 546,006	$ 20,023,312
Labor and health insurance	630,039	104,047	6,087	740,173	580,499	102,885	15,071	698,455
Pension and consolation costs	931,492	269,025	10,953	1,211,470	692,213	179,442	444,793	1,316,448
Others	405,329	164,097	14,795	584,221	394,677	154,090	18,290	567,057
	$ 15,617,863	$ 2,985,358	$ 280,989	$ 18,884,210	$ 18,151,284	$ 3,429,828	$ 1,024,160	$ 22,605,272
Depreciation	$ 15,694,226	$ 367,788	$ 2,653	$ 16,064,667	$ 15,430,467	$ 371,152	$ 2,653	$ 15,804,272
Amortization	42,007	357	-	42,364	52,913	22,097	-	75,010

27. EARNINGS PER SHARE

	Amount (Numerator)		Shares (Denominator)	Earnings Per Share (NT dollars)	
	Before Tax	After Tax	(Thousand)	Before Tax	After Tax
Year ended December 31, 2011					
Net income	$ 20,284,693	$ 19,493,679			
Less: Dividends on preferred shares	(55,749)	(53,575)			
Basic EPS					
Net income attributable to common stockholders	20,228,944	19,440,104	14,261,144	$ 1.42	$ 1.36

(Continued)

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

	Amount (Numerator) Before Tax	Amount (Numerator) After Tax	Shares (Denominator) (Thousand)	Earnings Per Share (NT dollars) Before Tax	Earnings Per Share (NT dollars) After Tax
Effect of dilutive potential common stock					
Add: Dividends on preferred shares	$ 55,749	$ 53,575	38,268		
Bonus to employees	-	-	92,101		
Diluted EPS					
Net income attributable to common stockholders plus effect of potential dilutive common stock	$ 20,284,693	$ 19,493,679	14,391,513	$ 1.41	$ 1.35
Year ended December 31, 2010					
Net income	$ 44,094,271	$ 37,586,826			
Less: Dividends on preferred shares	(62,850)	(53,575)			
Basic EPS					
Net income attributable to common stockholders	44,031,421	37,533,251	13,907,209	3.17	2.70
Effect of dilutive potential common stock					
Add: Dividends on preferred shares	62,850	53,575	38,268		
Bonus to employees	-	-	115,235		
Diluted EPS					
Net income attributable to common stockholders plus effect of potential dilutive common stock	$ 44,094,271	$ 37,586,826	14,060,712	3.14	2.67

(Concluded)

The 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 bonus distributed out of earnings for the year ended December 31, 2010. The adjustment caused the basic and diluted after income tax EPS for the year ended December 31, 2010 to decrease from NT$2.83 to NT$2.70 and from NT$2.81 to NT$2.67, respectively.

28. FINANCIAL INSTRUMENTS

a. As of December 31, 2011 and 2010, the information of fair values was as follows:

	December 31 2011 Carrying Amount	2011 Fair Value	2010 Carrying Amount	2010 Fair Value
Non-derivative financial instruments				
Assets				
Available-for-sale financial assets (including noncurrent)	$ 5,468,276	$ 5,468,276	$ 5,203,714	$ 5,203,714
Financial assets carried at cost	7,421,220		3,247,228	
Bond investments with no active market	3,906,000	3,906,000	3,685,500	3,685,500
Other financial assets (including noncurrent)	4,518,975	4,518,975	1,847,321	1,847,321
Refundable deposits	223,215	223,215	116,518	116,518
Liabilities				
Bonds payable (including current portion)	49,264,426	49,978,155	43,278,066	44,230,408
Long-term debt (including current portion)	24,966,992	24,966,992	23,181,624	23,181,624
Long-term notes payable	11,989,008	11,989,008	4,496,973	4,496,973
Derivative financial instrument				
Hedging derivative assets (including noncurrent)	112,017	112,017	-	-
Hedging derivative liabilities (including noncurrent)	8,041	8,041	6,414	6,414

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

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

2) The fair values of available-for-sale financial assets and 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 subscription 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 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 contracts, the translation to New Taiwan dollars used exchange rates that are based on the buying rates quoted by the Central Bank and on the rates quoted by Reuters.

3) The fair values of long-term liabilities and other financial assets 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. Discount rates as of December 31, 2011 and 2010 were from 0.35% to 5.65328% and from 0.6% to 5.68895%, respectively.

4) 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.

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

5) The fair value of bond investments with no active market is determined at their carrying values.

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

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	
	2011	2010	2011	2010
Assets				
Available-for-sale financial assets (including noncurrent)	$ 5,090,847	$ 4,938,442	$ 377,429	$ 265,272
Bond investments with no active market	-	-	3,906,000	3,685,500
Other financial assets (including noncurrent)	-	-	4,518,975	1,847,321
Hedging derivative assets (including noncurrent)	-	-	112,017	-
Refundable deposits	-	-	223,215	116,518
Liabilities				
Hedging derivative liabilities (including noncurrent)	-	-	8,041	6,414
Bonds payables (including current portion)	49,978,155	44,230,408	-	-
Long-term debt (including current portion)	-	-	24,966,992	23,181,624
Long-term notes payable	-	-	11,989,008	4,496,973

d. There was no gain or loss from changes in fair value by using valuation technique for the years ended December 31, 2011 and 2010.

e. As of December 31, 2011 and 2010, financial liabilities exposed to cash flow interest rate risk amounted to NT$43,423,626 thousand and NT$29,020,361 thousand, respectively, and financial liabilities exposed to fair value interest rate risk amounted to NT$52,860,303 thousand and NT$46,977,705 thousand, respectively.

f. The Corporation's 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$121,480 thousand and NT$1,394,216 thousand, respectively, for the year ended December 31, 2011 and NT$91,999 thousand and NT$1,285,593 thousand, respectively, for the year ended December 31, 2010.

g. Financial risks

1) Market risk

Market risk includes fair value risk of interest rate change, exchange rate risk, 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 issues bonds payable 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$1,601,421 thousand.

The Corporation's investments in stocks of TSMC, Maruichi Steel Tube Ltd., Yodogawa Steel Works, Ltd., TEWC, CSBC and RPC involve market risk. If the share price increases or decreases by 1%, the fair value will increase or decrease by about NT$54,683 thousand.

2) Credit risk

Credit risk represents the potential loss that would be incurred by the Corporation if the counter-parties breached 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's exposure to default by those parties to be material.

As of December 31, 2011, the maximum credit risk of off-balance-sheet guarantees provided to DSC was NT$13,803,860 thousand (USD455,197 thousand).

3) Liquidity risk

The Corporation has sufficient operating capital to meet future cash needs. Therefore, the cash flow risk is low.

Available-for-sale financial assets could be sold readily in the active market at prices approximating fair value. There are liquidity risks for stocks acquired through private placement and not transferred freely in the public market, financial assets carried at cost and bond investments with no active market 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%, the Corporation's cash outflow will increase by about NT$434,236 thousand.

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

The Corporation has debt denominated in foreign currencies to effectively hedge the exchange rate fluctuations on the investments in EAUS, Maruichi Steel Tube Ltd., Yodogawa Steel Works Ltd., CSCAU and CSVC; the Corporation purchased time deposit - foreign currency and forward contracts to effectively hedge the exchange rate fluctuations on contracts for purchasing machinery and equipment.

		Designated Hedging Instrument		
			Changes in Fair Value	
			Years Ended December 31	
Hedge Type	Hedged Item	Financial Instrument	2011	2010
Fair value hedge	Stock investments in EAUS Corporation (recorded as bond investments with no active market - noncurrent)	Debt in JPY	$ (320,265)	$ (111,375)
Fair value hedge	Stock investments in Maruichi Steel Tube Ltd. (recorded as available-for-sale financial assets - noncurrent)	Debt in JPY	(84,110)	(29,250)
Fair value hedge	Stock investments in Yodogawa Steel Works, Ltd. (recorded as available-for-sale financial assets - noncurrent)	Debt in JPY	(39,273)	(13,658)
Hedge of a net investment in a foreign operation	Stock investment in CSCAU (recorded as investments accounted for by the equity method)	Debt in AUD	(17,466)	(14,932)
Hedge of a net investment in a foreign operation	Stock investment in CSVC (recorded as investments accounted for by the equity method)	Debt in USD	(44,687)	95,257
Cash flow hedge	Contracts for purchasing machinery and equipment	Bank deposit-foreign currency	173,396	23,519
Cash flow hedge	Contracts for purchasing machinery and equipment	Forward contracts	110,481	(76,627)

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

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

As of December 31, 2011 and 2010, the fair values of the above foreign currency deposits on cash flow hedge were NT$4,518,975 thousand and NT$1,847,321 thousand, respectively, recorded as other financial assets (including noncurrent) (Note 13).

29. RELATED PARTY TRANSACTIONS

a. Related parties

Related Parties	Relationship with the Corporation
C. S. Aluminum Corporation (CAC)	Affiliate
China Steel Express Corporation (CSE)	Affiliate
China Steel Chemical Corporation (CSCC)	Affiliate
China Steel Global Trading Corporation	Affiliate
China Hi-ment Corporation (CHC)	Affiliate
China Ecotek Corporation (CEC)	Affiliate
China Steel Structure Corporation (CSSC)	Affiliate
Chung Hung Steel Corporation (CHSC)	Affiliate
China Steel Machinery Corporation (CSMC)	Affiliate
Gains Investment Corporation (GIC)	Affiliate
China Steel Security Corporation	Affiliate
China Prosperity Development Corporation	Affiliate
Info-Champ Systems Corporation	Affiliate
China Steel Management Consulting Corporation	Affiliate
Hi-mag Magnetic Corporation	Affiliate
Long Yuan Fa Investment Corporation	Affiliate
Horng Yih Investment Corporation	Affiliate
Goang Yaw Investment Corporation	Affiliate
Dragon Steel Corporation (DSC)	Affiliate
China Steel Sumikin Vietnam Joint Stock Company (CSVC)	Affiliate
Chung Mao Trading (BVI) Corp.	Affiliate
Chung Mao Trading (SAMOA) Co.	Affiliate
CSGT (Singapore) Pte. Ltd.	Affiliate
CSE Transport Corp. (Panama) (CSEP)	Affiliate
Mentor Consulting Corporation	Affiliate
Steel Castle Technology Corp.	Affiliate
Union Steel Development Corp.	Affiliate
Betacera Inc.	Affiliate
Wabo Globe Trading Corporation	Affiliate
Universal Exchange Inc.	Affiliate
United Steel Engineering and Construction Corporation	Affiliate
Thintech Materials Technology Co., Ltd.	Affiliate
Pao Good Industrial Co., Ltd.	Affiliate
CSGT International Corp.	Affiliate
CSGT Metals Vietnam Joint Stock Company	Affiliate
CSC Steel Sdn. Bhd. (CSSB)	Affiliate
Group Steel Corp. (M) Sdn. Bhd.	Affiliate
CSGT (JAPAN) Co., Ltd.	Affiliate
CSGT Hong Kong Limited	Affiliate
CSGT (SHANGHAI) Co., Ltd.	Affiliate
Ever Glory International Co., Ltd.	Affiliate

(Continued)

Related Parties	Relationship with the Corporation
CSC Sonoma Pty Ltd.	Affiliate
China Steel Precision Materials Corporation	Affiliate
Kaohsiung Rapid Transit Corporation	Equity method investee
TaiAn Technologies Corporation	Equity method investee
Hsin Hsin Cement Enterprise Co.	Equity method investee
Kaohsiung Port Cargo Handling Services Corp.	Equity investee of the Corporation's affiliate
CSBC Corporation Taiwan (CSBC)	CSBC's director
Tang Eng Iron Works Co., Ltd. (TEI)	TEI's director
Rechi Precision Co., Ltd.	RPC's director, elected in June 2011
CSC Educational Foundation	Foundation established mainly from the Corporation's donation
Others	Substantial control and significant influence over investees, but no material transactions

(Concluded)

b. Significant related-party transactions were as follows:

Sales

The sales transactions with related parties were NT$18,597,483 thousand (8%, including CSBC, CSSC and CSCC, etc.) and NT$24,124,098 thousand (10%, including CSSB, CSSC and CSCC, etc.), respectively, for the years ended December 31, 2011 and 2010.

Purchase

The purchases transactions with related parties were NT$25,327,323 thousand (14%, including DSC, CSEP and CAC, etc.) and NT$28,920,926 thousand (19%, including CSEP, DSC and CAC, etc.), respectively, for the years ended December 31, 2011 and 2010.

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

Sale of financial assets carried at cost (only for the year ended December 31, 2010)

In September and December, 2010, the Corporation sold the stock of AC and Mega I Venture Capital Co., Ltd. to GIC for proceeds of NT$138,683 thousand and NT$12,688 thousand, respectively. (Notes 10 and 23)

Assets lease

The Corporation leases its land and machinery equipment to CAC, CSMC, CSCC, CSSC and CHC, etc. Rentals were calculated at 3% p.a. of current assessed land value, 4% to 10% p.a. of land assessed value as published by the government or under normal terms. Rentals were collected semiannually, except for rental from CAC on land and machinery and from CSCC on the storage tank and pipelines, which are collected monthly. Lease information was as follows:

2011 NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2011 AND 2010 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

	Expiry of Contracts	Rental Income for the Years Ended December 31 2011 Amount	%	2010 Amount	%
CAC	February 2016	$ 39,142	26	$ 57,010	35
CSMC	November 2016	30,155	20	28,765	18
CSCC	December 2015	23,078	15	20,084	12
Others	May 2018	28,919	18	31,053	19
		$ 121,294	79	$ 136,912	84

Other revenues

Other revenues pertained to professional services, processing of products, utilities, construction, royalties and other services to related parties. These were recorded in other operating revenues and nonoperating income and gains as follows:

	Other Operating Revenue	%	Nonoperating Income and Gains	%	Total
Year ended December 31, 2011					
DSC	$ 1,748,612	29	$ 10,483	1	$ 1,759,095
TEI	707,547	12	125	-	707,672
CHSC (Note 11)	60,766	1	321,659	31	382,425
Others	609,629	10	98,016	9	707,645
	$ 3,126,554	52	$ 430,283	41	$ 3,556,837
Year ended December 31, 2010					
TEI	$ 796,267	17	$ 125	-	$ 796,392
DSC	666,641	15	4,841	-	671,482
CHSC (Note 11)	70,981	2	294,022	30	365,003
Others	470,880	10	124,446	13	595,326
	$ 2,004,769	44	$ 423,434	43	$ 2,428,203

The Corporation provided technical service to DSC and CSVC and recognized a loss on commitments of NT$56,326 thousand and NT$1,618,612 thousand, respectively, for the years ended December 31, 2011 and 2010.

Other expenditures

Other expenditures paid to related parties for the years ended December 31, 2011 and 2010 (including CEC, CHC and CSMC, etc.) were NT$4,983,283 thousand and NT$3,800,483 thousand, respectively. Other expenditures that pertained to commissions for processing services, export shipping charges, maintenance and repairs, commissions for export and import services, etc., were recorded in other operating costs, manufacturing expenses, operating expenses and nonoperating expenses and losses.

Other expenditures paid to related parties were made under normal terms applied to similar transactions in the market.

Capital expenditures

	Years Ended December 31 2011 Amount	%	2010 Amount	%
CSMC	$ 1,928,664	13	$ 1,664,035	5
CEC	1,029,230	7	2,816,365	9
Others	1,189,566	7	2,195,676	8
	$ 4,147,460	27	$ 6,676,076	22

Guarantees

As of December 31, 2011 and 2010, guarantees provided to DSC for procurement compliance were NT$13,803,860 thousand (USD455,197 thousand), and NT$15,323,971 thousand (USD503,664 thousand), respectively.

Balances at year-end

	December 31 2011 Amount	%	2010 Amount	%
Notes receivable - related parties				
CSBC	$ 468,369	35	$ 537,208	43
Others	30	-	-	-
	$ 468,399	35	$ 537,208	43
Accounts receivable - related parties				
CSCC	$ 278,479	9	$ 250,312	10
Others	274,737	8	339,219	14
	$ 553,216	17	$ 589,531	24
Notes payable - related parties				
CHSC	$ -	-	$ 23,163	100
Accounts payable – related parties				
CSEP	$ 378,810	7	$ 862,534	14
Others	472,504	8	447,130	8
	$ 851,314	15	$ 1,309,664	22

c. Compensation of directors, supervisors and management personnel

	Years Ended December 31 2011	2010
Salaries	$ 78,527	$ 101,611
Incentives	21,307	30,149
Bonus	21,534	41,167
	$ 121,368	$ 172,927

30. PLEDGED ASSETS

Time deposits of NT$5,658,819 thousand and NT$4,658,275 thousand (recorded as restricted assets - current and noncurrent) as of December 31, 2011 and 2010, respectively, have been pledged mainly as collaterals for bank overdraft, etc. As of December 31, 2011 and 2010, land with book value (including revaluation increment) of NT$18,875,450 thousand and NT$17,058,175 thousand, respectively, had been pledged as collateral for a long-term debt.

31. SIGNIFICANT COMMITMENTS AND CONTINGENCIES AS OF DECEMBER 31, 2011

a. The Corporation is guaranteed for NT$425,128 thousand by Mega International Commercial Bank, Shanghai Commercial and Savings Bank and the Land Bank of Taiwan for several construction, warranty, lease and payment contracts.

b. Unused letters of credit to import materials and machinery amounted to NT$6.3 billion.

c. Property purchase and construction contracts of NT$9.1 billion were signed but not yet recorded.

d. The Corporation entered into raw material purchase contracts with suppliers in Australia, Brazil, Canada, Japan and domestic companies with contract terms of 1 to 10 years. Contracted current year purchases of 7,630,000 metric tons of coal, 17,470,000 metric tons of iron ore, and 2,510,000 metric tons of limestone are at prices negotiable by the parties. Purchase commitments as of December 31, 2011 were USD15.3 billion (including 13,120,000 metric tons of coal; 86,840,000 metric tons of iron ore; and 930,000 metric tons of limestone).

e. In December 2011, CHSC entered into a syndicated credit facility agreement with Bank of Taiwan and 11 other banks. Under the agreement, the Corporation and its related parties should collectively hold at least 30% of CHSC's outstanding shares and control of its operations. In September 2006, CHSC entered into a syndicated credit facility agreement with Mega International Commercial Bank and 20 other banks. Under the agreement, the Corporation and its related parties should collectively hold at least 30% of CHSC's outstanding shares and should hold no less than half of CHSC's board seats as well as control of its operations. As of December 31, 2011, the Corporation directly and indirectly had total shareholdings in CHSC of 41% and held all seats in the Board of Directors and control on its operations with subsidiaries.

f. DSC entered into two syndicated credit facility agreements for NT$20 billion and NT$51.7 billion, with the Bank of Taiwan and other banks in December 2009 and February 2008, respectively. Under the agreements, the Corporation and its related parties should collectively hold at least 80% and 40%, respectively, of DSC's outstanding shares and should hold no less than half of DSC's board seats. As of December 31, 2011, the Corporation's equity in DSC aggregated 100% and held all board seats.

g. Guarantees provided to related parties for procurement compliance were NT$13,803,860 thousand (USD455,197 thousand) (Note 29).

32. SUBSEQUENT EVENTS

On December 28, 2011, the Corporation's board of directors approved investing NT$16,000,000 thousand in DSC through its private subscription. The investment was executed on January 4, 2012.

33. OPERATING SEGMENT INFORMATION

The Corporation disclosed its operating segment information in the consolidated financial statements; thus, disclosure in these financial statements is waived.

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

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

	December 31					
	2011			2010		
	Foreign Currencies (Thousands)	Exchange Rate	New Taiwan Dollars (Thousands)	Foreign Currencies (Thousands)	Exchange Rate	New Taiwan Dollars (Thousands)
Monetary Financial Assets						
USD	$ 177,733	30.275	$ 5,380,863	$ 81,493	30.363	$ 2,472,888
JPY	12,508,348	0.3906	4,885,761	12,854,121	0.3583	4,604,941
EUR	2,059	39.18	80,658	1,661	38.92	64,659
Non-Monetary Financial Assets						
JPY	4,102,000	0.3906	1,602,241	4,206,000	0.3583	1,506,800
Investments Accounted for by the Equity Method						
USD	246,598	30.275	7,465,742	180,827	30.363	5,490,465
AUD	23,053	30.735	708,535	22,958	29.6791	681,362
Monetary Financial Liabilities						
USD	258,417	30.275	7,823,574	197,660	30.363	6,004,760
JPY	13,899,203	0.3906	5,429,029	14,043,545	0.3583	5,031,101
AUD	16,540	30.735	508,357	16,540	29.6791	490,891
EUR	142	39.18	5,554	608	38.92	23,645

Derivative Financial Instruments

	Currency	Contract Exchange Rate	Contract Amount (In Thousands)
December 31, 2011			
Buy	NTD/USD	27.208-30.238	NTD2,421,149/USD84,579
	NTD/EUR	40.58-42.915	NTD133,699/EUR3,216
December 31, 2010			
Buy	NTD/EUR	42.915-44.165	NTD82,353/EUR1,891

Companies	Amount (NT$1,000)	Ownership (%)
Investments Accounted for by the Equity Method		
Stocks listed on the Taiwan Stock Exchange		
Chung Hung Steel Corporation[16]	3,509,256	29
China Steel Chemical Corporation	1,863,351	29
China Steel Structure Corporation[17]	1,463,032	33
China Ecotek Corporation	854,575	49
China Hi-ment Corporation	713,721	20
Less：Shares held by subsidiaries accounted for as treasury stock	1,589,487	
Subtotal	6,814,448	
Stock without quoted market prices		
Dragon Steel Corporation	80,358,899	100
China Steel Express Corporation	10,332,777	100
C. S. Aluminum Corporation	8,654,634	100
Gains Investment Corporation	6,019,844	100
China Prosperity Development Corporation	4,894,483	100
China Steel Asia Pacific Holdings Pte Ltd.	4,411,728	100
China Steel Sumikin Vietnam Joint Stock Company	3,054,014	51
China Steel Global Trading Corporation	2,664,337	100
China Steel Machinery Corporation	1,334,974	74
Kaohsiung Rapid Transit Corporation	814,035	31
CSC Steel Australia Holdings Pty Ltd.	708,535	100
Info-Champ System Corporation	703,152	100
Horng Yih Investment Corporation	571,364	100
Long Yuan Fa Investment Corporation	565,559	100
Goang Yaw Investment Corporation	558,685	100
Kaohsiung Arena Development Corporation[18]	478,310	18
China Steel Security Corporation	392,109	100
Hsin Hsin Cement Enterprise Corp.[19]	298,414	31
Hi-mag Magnetic Corporation	121,222	50
China Steel Management Consulting Corporation	25,850	100
TaiAn Technologies Corporation [20]	8,444	17
Baolai Greeting Development Co., Ltd	0	45
Less：Shares held by subsidiaries accounted for as treasury stock	6,532,974	
Subtotal	120,438,395	
Total	127,252,843	

16 The Corporation's total equity in Chung Hung Steel Corporation is 41%, including 29% directly owned and 12% indirectly owned through Goang Yaw Investment Corporation, Horng Yih Investment Corporation, and Long Yuan Fa Investment Corporation.

17 The Corporation's total equity in China Steel Structure Corporation is 37%, including 33% directly owned and 4% indirectly owned through Ever Wealthy Investment Corporation, China Ecotek Corporation, and Dragon Steel Corporation.

18 The Corporation's total equity in Kaohsiung Arena Development Corporation is 29%, including 18% directly owned and 11% indirectly owned through United Steel Engineering and Construction Corporation and China Prosperity Development Corporation.

19 The Corporation's total equity in Hsin Hsin Cement Enterprise Corp is 39%, including 31% directly owned and 8% indirectly owned through China Hi-ment Corporation.

Companies	Amount (NT$1,000)	Ownership (%)
Financial Assets Carried at Cost－Noncurrent		
Unquoted common stocks		
Nacional Minerios S.A.	3,268,550	1
Dongbu Metal Co., Ltd.	1,276,092	5
Industrial Bank of Taiwan	1,000,000	4
CDIB Partners Investment Holding Corporation	500,000	5
Taiwan Rolling Stock Co., Ltd.	202,048	19
Adimmune Corporation	135,897	4
TaiGen Biopharmaceuticals Holdings Limited	103,000	5
CDIB BioScience Ventures I, Inc	50,880	5
Overseas Investment & Development Corporation	50,000	6
Mega I Venture Capital Co., Ltd	17,400	3
Taiwan High Speed Rail Corporation	0	9
Phalanx Biotech Group	0	7
Asia Pacific Telecom Co., Ltd	0	2
Allied Material Technology Corporation	0	0
Subtotal	6,603,867	
Certificate of entitlement		
Formosa Ha Tinh Steel Corporation	817,353	5
Total	7,421,220	
Bond Investments with no Active Market		
Unquoted preferred stocks		
East Asia United Steel Corp.- Preferred A	3,906,000	29
Total	3,906,000	
Available-For-Sale Financial Assets-Noncurrent		
Quoted stocks		
Maruichi Steel Tube Ltd.	1,341,320	2
Tang Eng Iron Works Corporation	865,960	9
CSBC Corporation Taiwan	414,776	2
Yodogawa Steel Works, Ltd	260,921	1
Subtotal	2,882,977	
Private-placement shares		
Reichi Precision Co., Ltd	377,429	5
Total	3,260,406	
TOTAL	141,840,469	

20 The Corporation's total equity in TaiAn Technologies Corporation is 22%, including 17% directly owned and 5% indirectly owned through China Steel Chemical Corporation.

SUBSIDIARIES

C. S. Aluminium Corporation
Chairman: W. J. Su
President: L. I. Wei
Main business: aluminum products
Address: 17 Tong Lin Road, Siaogang District, Kaohsiung 81260, Taiwan, R.O.C.
Tel: 886-7-871-8666
Fax: 886-7-872-1852

China Steel Express Corporation
Chairman: Donald K. L. Chao
President: C. T. Lu
Main businesses: marine cargo transportation; chartering of vessels; and shipping agency
Address: 32F, 8 Ming Chuan 2nd Road, Chien Chen District, Kaohsiung 80658, Taiwan, R.O.C.
Tel: 886-7-337-8888
Fax: 886-7-338-1310

China Steel Chemical Corporation
Chairman: L. M. Chung
President: M. J. Wang
Main business: coal tar chemicals
Address: 5F-1, 47 Chunghua 4th Road, Ling Ya District, Kaohsiung 80245, Taiwan, R.O.C.
Tel: 886-7-338-3515
Fax: 886-7-338-3516

China Steel Global Trading Corporation
Chairman: T. Y. Huang
President: L. Y. Nee
Main businesses: import / export
Address: 31F, 8 Ming Chuan 2nd Road, Chien Chen District, Kaohsiung 80658, Taiwan, R.O.C.
Tel: 886-7-332-2168
Fax: 886-7-335-6411~2

CHC Resources Corporation
Chairman: T. R. Jeng
President: Donny, S. W. Kuan
Main businesses: pulverized blast furnace slag and slag cement
Address: 10F, 243 Yi-Hsin 1st Road, Chien Chen District, Kaohsiung 80652, Taiwan, R.O.C.
Tel: 886-7-336-8377
Fax: 886-7-336-8433

China Ecotek Corporation
Chairman: K. T. Lee
President: T. Y. Ho
Main businesses: engineering, design and construction of environmental protection installations
Address: 8F, 8 Ming Chuan 2nd Road, Chien Chen District, Kaohsiung 80658, Taiwan, R.O.C.
Tel: 886-7-330-6138
Fax: 886-7-339-4016

China Steel Structure Co., Ltd.
Chairman: Tzer-Haw Chen
President: W. T. Chen
Main businesses: steel structures, construction
Address: 1 Chung Kang Road, Siaogang District, Kaohsiung 81233, Taiwan, R.O.C.
Tel: 886-7-802-3433
Fax: 886-7-801-9150

Chung Hung Steel Corporation
Chairman: Y. S. Chen
President: Terry J. C. King
Main business: hot rolled steel products
Address: 317 Yu-Liao Road, Chiao Tou District, Kaohsiung 82544, Taiwan, R.O.C.
Tel: 886-7-611-7171
Fax: 886-7-611-0594

China Steel Machinery Corporation
Chairman: T. S. Kao
President: Q. Z. Cheng
Main businesses: machinery manufacturing
Address: 3 Taichi Road, Siaogang District, Kaohsiung 81246, Taiwan, R.O.C.
Tel: 886-7-802-0111
Fax: 886-7-806-3833

Gains Investment Corporation
Chairman: L. R. Hu
President: H. S. Kao
Main business: hi-tech investments
Address: 30F, 6 Ming Chuan 2nd Road, Chien Chen District, Kaohsiung 80658, Taiwan, R.O.C.
Tel: 886-7-338-2288
Fax: 886-7-338-7110

China Steel Security Corporation
Chairman: Y. C. Guu
President: J. S. Yeh
Main businesses: security services and systems
Address: 17F, 247 Ming Sheng 1st Road, Hsin Hsing District, Kaohsiung 80046, Taiwan, R.O.C.
Tel: 886-7-229-9678
Fax: 886-7-226-4078

China Prosperity Development Corporation
Chairman: J. C. Tsou
President: C. S. Guo
Main businesses: real estate development and investment
Address: Room 6, 24F, 31 Hai Bien Road, Ling Ya District, Kaohsiung 80248, Taiwan, R.O.C.
Tel: 886-7-536-2500
Fax: 886-7-536-2413

InfoChamp Systems Corporation
Chairman: G. H. Cheng
President: C. R. Chen
Main business: information system planning (ERP) and automatic control systems
Address: 11F, 6 Ming Chuan 2nd Road, Chien Chen District, Kaohsiung 80658, Taiwan, R.O.C.
Tel: 886-7-535-0101
Fax: 886-7-535-0110

China Steel Management Consulting Corporation
Chairman: C. Lee
President: S. A. Chang
Main business: management consulting
Address: 1 Chung Kang Road, Siaogang District, Kaohsiung 81233, Taiwan, R.O.C.
Tel: 886-7-801-0723
Fax: 886-7-803-3568

HIMAG Magnetic Corporation
Chairman: S. J. Tsai
President: T. C. Lin
Main business: magnetic materials and specific chemical
Address: 24-1 Chien Kuo Road, Nei Pu Industrial Park, Ping Tung Hsien 91252, Taiwan, R.O.C.
Tel: 886-8-778-0222
Fax: 886-8-778-0227

Dragon Steel Corporation
Chairman: Q. G. Shyng
President: J. C. Yeh
Main business: hot-rolled steel products
Address: No.100, Lung Chang Road, Li Shui Village, Lung Ching District, Taichung 43401, Taiwan, R.O.C.
Tel: 886-4-2630-6088
Fax: 886-4-2630-6066

CSC Steel Sdn. Bhd.[21]
Managing Director: S. C. Liang
Main business: cold rolled steel products
Address: 180, Kawasan Industri Ayer Keroh, 75450 Melaka, Malaysia
Tel: 60-6-231-0169
Fax: 60-6-231-5698

China Steel Sumikin Vietnam Joint Stock Co.
Chairman& President : C. T. Wong
Main business: cold rolled steel products (under construction)
Address: My Xuan A2 Industrial Zone, My Xuan Commune, Tan Thanh District, Ba Ria-Vung Tau Province, Vietnam
Tel: 84-64-3931168
Fax: 84-64-3932188

China Steel Precision Materials Corporation[21]
Chairman: S. C. Wang
President: J. L. Lee
Main business: pure titanium, titanium alloy, nickel alloy, mold steel
Address: No.18, Changyang Road, Wujin Economic Development Zone, Changzhou, Jiangsu Province, China
Tel: 86-519-89610128
Fax: 86-519-89610120

China Steel Corporation India Pte Ltd.
Chairman: J. D. Lin
President: J. Y. Chang
Main business: electrical steel coils (under construction)
Address: 211, Samaan-II, Opp. Reliance Petrol Pump, 100 Feet Road, Anand Nagar, Satellite, Ahmedadad – 380015, Gujarat, India

21 China Steel Corporation's investment is through China Steel Asia Pacific Holdings Pte. Ltd.

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