CHINA STEEL

2012

OPERATION REPORT

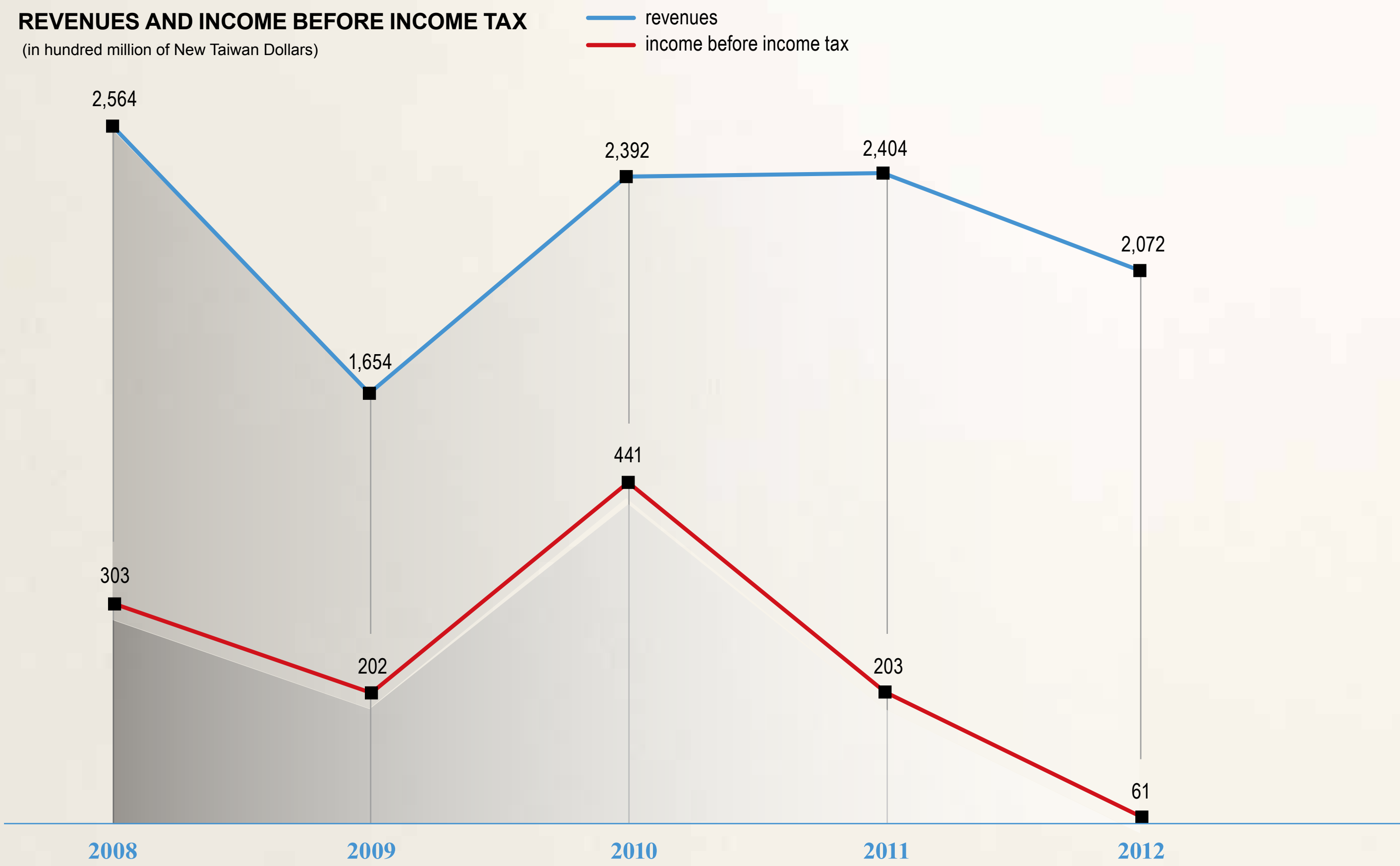
CHINA STEEL

OPERATION REPORT

January 1 through December 31, 2012

* This English version is a translation of the Operation Report 2012 published in Chinese. In case of any discrepancy, the Chinese version shall prevail.

Highlights of Operating Results



		2012	2011
Revenues	(Millions of New Taiwan Dollars)	207,193	240,376
Operating costs and expenses		204,467	225,839
Income from operations		2,690	14,599
Income before income tax		6,131	20,285
Employment costs[1]		15,845	18,744
Depreciation		17,709	16,065
Interest expenses net[1]		1,248	648
Total assets		427,266	421,935
Capital expenditures		22,077	14,966
Stockholders' equity		278,352	288,587
Output of steel products	(Thousands of metric tons)	8,383	8,756
Sales volume of steel products	(Thousands of metric tons)	8,793	9,166
Number of employees[2]		9,814	9,478
Return on sales	(%)	2.96	8.44
Return on stockholders' equity[3]	(%)	2.05	7.03

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

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.

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.

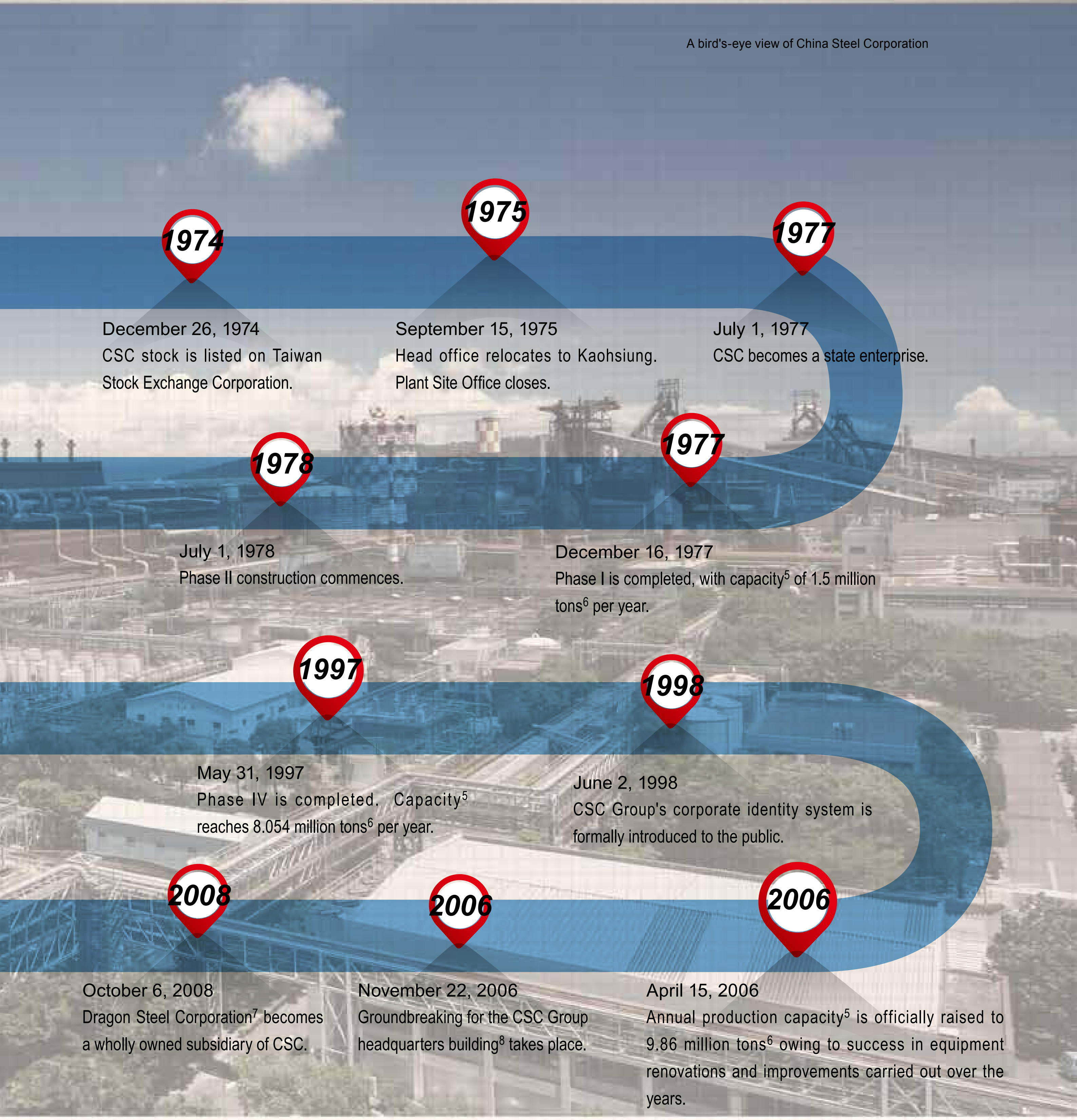
2010

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

2013

March 5, 2013
DSC's stage II phase 2 construction is completed. CSC Group's capacity[5] reaches 15.86 million tons[6] per year.

A bird's-eye view of China Steel Corporation



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.

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[8] takes place.

2008

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

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”.
8 Official name is CSC Steel Building.

An Overview of the Business Situation

The International Monetary Fund (IMF) published on January 24, 2013 the 2012 global economic growth rate to be 3.2%, which was lower than that of 2011 (3.9%). The Directorate General of Budget and Statistics (DGBAS) published on February 22, 2013 the 2012 economic growth rate in Taiwan to be 1.26%, which was noticeably lower than that of 2011 (4.07%).

The four major issues that the international steel industry faced in 2012 were:

(1) Steel prices fluctuated significantly because of the rapid increase in multinational and intercontinental steel trade.

(2) There had been serious overproduction of global steel, which would easily result in plummeting steel prices when there was not enough market confidence.

(3) It had been hard for steel prices to rise and easy to fall when there was fierce competition in the global steel market. In addition, preferential treatment in tariffs due to regional economy and prevalent non-tariff obstacles such as import certification and anti-dumping activities had made it hard to export.

(4) Although the costs of iron ore and coking coal had dropped, their prices still remained high. Steel prices fell sharply most of the time but only increased slightly at times. The operating environment of the steel industry deteriorated globally.

In October, 2012, World Steel Association (worldsteel) estimated that global apparent use of finished steel would

Chairman Jo-Chi Tsou

increase by 2.1% compared with that of 2011. World Steel Dynamics (WSD) also published in February, 2013 that global crude steel production for 2012, which was 1,550 million metric tons, increased by 1.6% compared with that of 2011. In February, 2012, Taiwan Steel & Iron Industries Association published that the apparent use of finished steel in Taiwan decreased by 0.9% compared with that of 2011.

CSC's 2012 sales revenue amounted to NT$207,193 million, which was 13.8% less than that of 2011 mainly due to economic recession and lowering of both steel prices and sales volumes. Operating costs and expenses in 2012 were NT$204,467 million, which was 9.5% less than that of 2011 owing to the reduction of cost of goods sold due to the decline of raw material prices and decrease in sales, and the reversal of loss on inventory and purchase commitments for undelivered raw materials. Pre-tax profits amounted to NT$6,131 million, which was 69.8% less than that of 2011.

CSC's 2012 operating directives included four key areas:

(1) Execution of lean production by adjustment of production and sales to reduce inventory:
Facing the recession in the steel industry and reduction of orders, CSC strategically adjusted its operation based on lean production and proactively implemented inventory management. The saved expenses and inventory management costs amounted to NT$40 million.

(2) Decrease of costs by scientific approaches, energy saving, and waste reduction:

President

Jyh-Yuh Sung

CSC continued to reduce its operating costs systematically by using scientific methods, e.g. adjustments of raw material blending ratios, improvement in production processes, development of new technology, quality upgrades, and improvement in management. A total of approximately NT$6,000 million were saved for the whole year.

(3) Advancement in R&D and production processes in order to offer high-grade products with reasonable prices:
R&D for high-grade and strategic steel products was accelerated continuously. Orders for 4.48 million tons of high-grade steel products, which were 44.3% of the total sales, were received in 2012 and were 8% more than those of the previous year. Both the production and technology divisions had made every effort to advance in technology and quality. Efficiency had been enhanced; both grades and values of steel products had been promoted with reasonable prices.

(4) Development of new distribution channels to secure customers and deployment of business alliances:
Distribution channels had been continuously enhanced. The linking service of the enterprise resource planning(ERP) information systems between CSC and its customers had been actively promoted. Six new customers' ERP information systems were added in 2012. As of the end of 2012, CSC had already completed the linkage with 26 customers, which effectively strengthened the partnerships and stably established the marketing channels.

As to the outlook for 2013, global economic growth forecast by the IMF is 3.5%. DGBAS predicts the national economic growth to be 3.85%. The European Debt Crisis can be held back, the U.S. can effectively deal with the shrinkage of its domestic fiscal budgets, and Mainland China will take economic measures to stabilize its internal economy, the overall international economic situations will improve. Yet, there are still risks.

A 3.2% increase of global apparent use of finished steel is predicted by worldsteel for 2013. A 2% increase of apparent use of finished steel in Taiwan is also predicted. WSD also predicts the global production of crude steel will increase by 4.1%. Being through the economic downturn in 2012, the international operating environment for the steel industry will gradually improve in 2013. Both the demand and inventory of steel in the downstream industries are increasing. In addition, global steel producers have all curbed their production, which in terms will improve the supply-and-demand relationship and benefit the overall operation of the steel industry. Nevertheless, the prices of iron ore and coking coal still remain high, and the supply of steel, which continues to climb, has surpassed demand in Mainland China, both of which still pose as pressure for the current steel market.

To lay a good foundation for the long-term competitiveness, CSC has set the operating directives year by year based on its 5-year operation and development strategy. The focuses of “the Operation Strategies of the CSC Group in Steel Business between 2013 and 2017” include:

(1) Passing down of the refined corporate culture, promotion of the corporate image, and integration and reinforcement of the education and training of the manpower in the CSC Group.
(2) Development of global distribution channels, consolidation of the domestic leadership position, promotion of elaborative services to customers, and strengthening of strategic partner relationships.
(3) Active planning of the acquisition of upstream raw materials and promotion of self-sufficiency ratios.
(4) Research and development of advanced products by applying new technology and green production processes and promotion of the values of the steel industry chain and energy conservation and environmental protection.
(5) Expansion of product supply, integration of engineering capabilities, increase of the Group's production value, total reduction of costs, and enhancement of industrial safety.

Based on the 5-year operation and development strategy, directives for 2013 include:

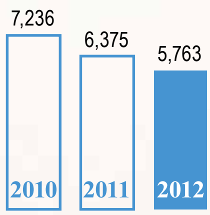
(1) Planning of advanced production processes and expansion of differentiation with added values.
(2) Continuous reduction of costs and promotion of efficiency by lean production.
(3) Expansion of distribution channels to boost market share.
(4) Determined implementation of energy conservation, environmental protection, and waste reduction and reutilization.

Targets for 2013 include:

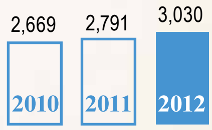
(1) Reduction of costs equals to or more than NT$4,000 million.
(2) Delivery of steel products equals to or exceeds 9.1 million tons.
(3) Orders for high-grade products equal to or exceed 5.25 million tons.
(4) No cases of major occupational injuries.
(5) The intensity of sulfur oxide emission equals to or is below 1.08 kg/ton of slabs.

Production and Sales

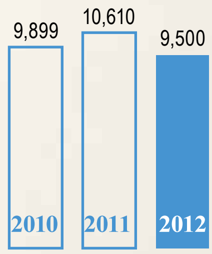
DOMESTIC SALES OF STEEL PRODUCT
(in thousand metric tons)



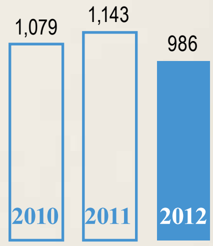
EXPORT SALES OF STEEL PRODUCT
(in thousand metric tons)



CRUDE STEEL PRODUCTION
(in thousand metric tons)

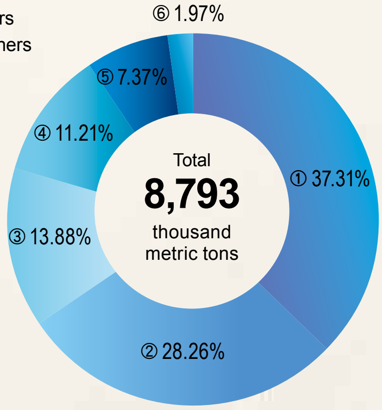


OUTPUT PER EMPLOYEE IN TERMS OF CRUDE STEEL
(in metric tons)



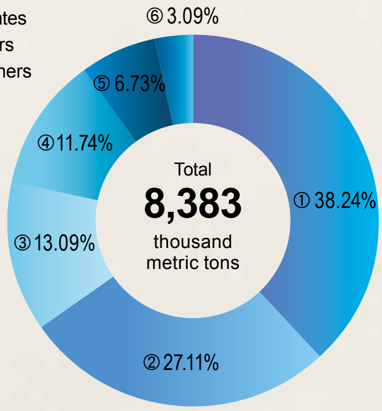
PERCENTAGE OF STEEL SALES VOLUME BY PRODUCT

① Cold rolled products
② Hot rolled products
③ Wire rods
④ Plates
⑤ Bars
⑥ Others



PERCENTAGE OF STEEL PRODUCTION VOLUME BY PRODUCT

① Cold rolled products
② Hot rolled products
③ Wire rods
④ Plates
⑤ Bars
⑥ Others



The prices of coal and iron ore remained stable in the first half of 2012; however, they dropped owing to the impact of the European Debt Crisis, slowing down of the economy in Mainland China and decrease in steel prices. Nevertheless, starting from October the spot prices of coal and iron ore bounced back because their outputs were influenced by the severe wintery weather in China, Australia and Brazil. The major coal producers in the Southern Hemisphere also suffered from cyclones and floods causing their shrink of supply. The increase of the prices of iron ore was more noticeable. They went up 63% from the lowest in early September to the end of December. The increase of the prices of coal was gentler. They went up 14% from the lowest in late September to the end of December.

Sales volume of CSC's steel products in 2012 fell by 4.07% from the 2011 level to 8.793 million tons, 65.54% of which was domestic sales and 34.46% overseas sales. Production of steel was 8.383 million tons, which was 4.26% less than that of 2011. Production of molten iron (9.216 million tons) and liquid steel (9.5 million tons) were 9.21% and 10.46% less than those of 2011, respectively. The reduction of steel production was mainly because of the recession in economy and the adjustment of production of the blast furnaces in the first quarter and the fourth quarter.

CSC generated 52.11% of the electricity it required in 2012. It was 4.37% less than the amount in 2011 mainly caused by the adjustment in production according to the conditions of the market, which resulted in the decrease of the quantities of self-produced gases for power generation, and shut-down of waste heat recovery for power generation at the No. 3


The packing line at the pickling and oiling line


CSC successfully developed Ti-alloy plates

coke dry quenching (CDQ) system for remodeling. Energy consumption per ton of crude steel (slabs and blooms) was 5,719 million calories, which was 182 million calories more than that in 2011 largely owing to the aforementioned factors, which increased the unit energy consumption of crude steel and achieved lower energy efficiency rates than those of 2011. In order to upgrade the efficiency of regional resource utilization, CSC continued to promote regional integration of energy resources within the Kaohsiung Linhai Industrial Park by selling excess quantities of self-produced gases such as steam, oxygen, nitrogen, and argon, which amounted to NT$3,470 million, a 13.77% increase compared with those of 2011, which was due to the increase of steam prices led by the increase of fuel prices calculated according to the related formula. The quantity of sales of steam in 2012 was 2.505 million tons, which was 193,000 kiloliters of oil equivalents and equal to the reduction of 574,000 tons of CO_2, 1,831 tons of SOx, 1,270 tons of NOx , and 181 tons of particulate if converted to benefits in reduction of air pollution and greenhouse gas emission annually.

Key tasks and results of quality management in 2012 were:

1. New Product Development

High-spec electrical steel and steel for car use were actively developed. R&D alliances and the Early Vendor Involvement (EVI) campaign were promoted. More customized products were produced by adopting the strategy of developing products and taking orders simultaneously to greatly shorten the period from R&D to mass production and sales.

(1) Hot rolled products: The complex type steel for oil well tubing, API 5CT K55, was successfully developed. Its strength was increased from the level of 50 kgf/mm^2 to that of 65 kgf/mm^2. CSC could provide a complete series, including API 5CT J55, J55U, and K55, to its domestic customers in the pipeline industry to face severe competition.

(2) Bars and wire rods: Wind turbine bolts, BC4149, were successfully developed. Their hardenability could assist CSC's customers to develop proper heat treatment processes to upgrade the mechanical properties of their products and improve the issue of quenched cracks to meet the demand for large bolts used in M48-56 wind turbines.

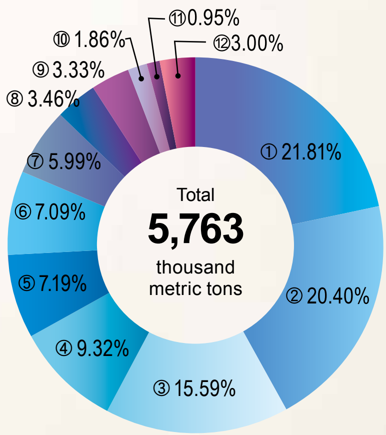
(3) Steel for automobile manufacturing: Steel plates (SAE J2340 340X) for bumpers, high yield ratio type high strength GA steel (JAC590R) for automobiles, super deep drawing quality GI steel (EN DX57D) for automobiles, etc. were developed. Among them, orders could be accepted for SAE J2340 340X with the thickness of up to 2.5mm; EN DX57D is the highest grade steel for the demanding formability in EN specifications. In addition, CSC had been granted certification in eight types of steel for automobile manufacturing.

(4) Customized electrical steel: The successful development of 50MN350, 35MH550R, 65DU600, etc., through total solution, satisfied the demand of CSC's customers and expanded the market for CSC's electrical steel.

(5) Successful development of special alloys: Pure titanium plates, hot rolled and cold rolled coils, bars, and rods, Gr. 5 Ti-alloy plates, bars, and rods, Fe-Ni based Alloy

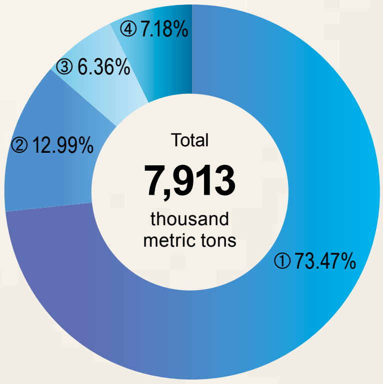
PERCENTAGE OF DOMESTIC SALES BY INDUSTRY

① Direct users
② Steel service centers
③ Nuts and bolts
④ Rerollers
⑤ Steel structures
⑥ Steel piping
⑦ Vehicles
⑧ Traders
⑨ Shipbuilding
⑩ Hand tools
⑪ Steel wire and cable
⑫ Others



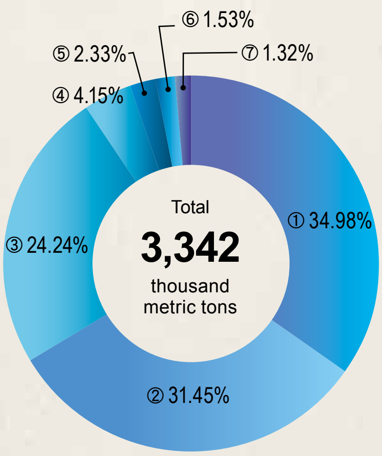
SOURCES OF COKING COAL

① Australia
② Canada
③ Indonesia
④ Others



SOURCES OF FLUX MATERIALS

① Domestic
② Japan
③ Philippines
④ Mainland China
⑤ Dubai
⑥ Vietnam
⑦ Thailand



800H, and H13 hot working tool/mold steel were successfully developed to assist downstream customers to access high quality materials with price advantages.

2. Advancement of Process Technology

(1) Steelmaking: Pre-conditioning and refining, which were helpful in producing steel with ultra-low sulfur and ultra-low carbon grades, were enhanced. In regard to the requirement of low phosphorous, flux cored wire with [P]<80ppm could be stably produced in a process without de-phosphorous pre-treatment.

(2) Hot rolling: The occurrence of edge cracks in producing high-spec electrical steel was significantly improved by enhancing slab caster management and decreasing the heating temperature of slabs. Moreover, increasing the hot charging rates and temperatures in producing medium- and low-spec electrical steel helped to reduce costs significantly.

(3) Cold rolling: The development of processes for omitting the final annealing in combination with reduced cold roll reduction for medium and high carbon cold rolled products, cold rolled products with the tolerance of 1/4 thickness, and thin medium high carbon steel without pre-annealing treatment were developed, which upgraded the quality and reduced the production costs.

(4) Bars and wire rods: Continuous casting was advanced; the quality of blooms and billets was improved. The establishment of the bloom scarfing dynamic adjustment system decreased the scarfing rate from 21.34% to 6.77%, which significantly reduced the production costs while maintaining the quality level.

3. Certification of Management Systems

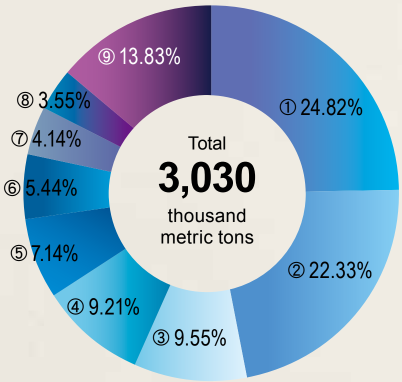
The re-assessment of ISO/TS 16949 and QC 080000 for steel products had been completed, and CSC was granted the certificates to ensure the effective operation of the management systems. CSC had also passed the certification of TISI from Thailand, SNI from Indonesia, FPC from Singapore, and BIS from India for steel products, which resulted in the elimination of trade barriers and upgrade of its competitiveness in export.

CSC was granted the "Excellence in Industrial-Academic Cooperation Award in 2012" by Chinese Institute of Engineers.

CSC was granted the Premier Award for International Trade in 2012 by MOEA.

PERCENTAGE OF EXPORT BY REGION

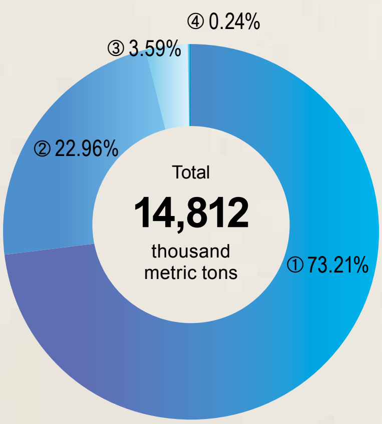
① Mainland China (including Hong Kong)
② Japan
③ Thailand
④ Indonesia
⑤ Mexico
⑥ Malaysia
⑦ Vietnam
⑧ Brazil
⑨ Others



Cold rolled coils

SOURCES OF IRON ORE

① Australia
② Brazil
③ Canada
④ Ukraine



The pickling process at the pickling and oiling line

Research and Development (R&D)

R&D Strategies

CSC is facing the challenges of coping with the rising raw material prices and the demand for environmental protection and reduction of carbon emission. CSC will adopt integrated R&D strategies with depth and breadth in order to sustain continuous growth, expand the Group's scope of operation, and assist the upgrade of the downstream industries. Such strategies are interdisciplinary and cross-organizational so that the effects of extensive planning, deep rooting, great goals, and enormous influence can be achieved when integrated R&D is applied in product metallurgy, production processes, and integration of manufacturing facilities, which in terms will create the competitive advantage of differentiation to lead CSC's continuous progress and growth.

Creative R&D

Creative R&D encompasses two major domains: namely, product development and improvement of production processes. Twenty-six new products were developed in 2012. Sales of high-grade steel products and their competitiveness were both raised. With regard to improvement of production processes, there were also fruitful R&D results. In particular, 61 improvement projects had been completed in collaboration with CSC's strategy to reduce costs. A total of NT$1,070 million were saved.

DEVELOPMENT OF EH47 HIGH-STRENGTH HULL STRUCTURAL STEEL PLATES

EH47 65mm

EH47	YS MPa	TS MPa	EL%	CVN -40°C
1/4T	479	619	26.9	326
1/2T	460	609	20.9	267

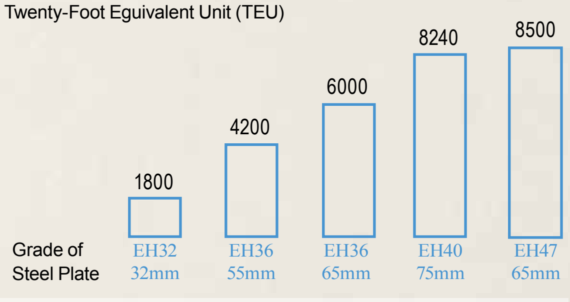
An Example of Product Development: EH47 High-strength Hull Structural Steel Plates

To meet the steel demand for extra large container vessels, CSC developed a new generation of EH47 high-strength hull structural steel plates. With the application of appropriate composition control together with proper rolling and cooling technologies, EH47 met all of the specifications and requirements of high-strength steel plates for hull building. CSC smoothly produced EH47 steel plates with the thickness of 65mm for building gigantic container vessels, which increased CSC's revenues.

An Example of Production Process Development: Increased Lump Ore Rates in Nos. 3 and 4 Blast Furnaces

The percentages of iron content in the lump ore from Nos. 3 and 4 blast furnaces in 2011 were 16.8% and 18.6%, respectively; those of the pellets were 9.9% and 8.3%, respectively. Because the price of lump ore is lower than that of pellets; the production costs of molten iron can be reduced by using more lump ore instead of pellets. According to research, when small pieces of coke are mixed in lump ore, the softening and melting properties of lump ore can be effectively improved, and the resistance of gas permeability in a blast furnace can be greatly reduced,

EVOLUTION OF DOMESTIC CONTAINER VESSEL BUILDING AND STEEL PLATES FOR HULL BUILDING



CSC established the Engineering Research & Development Center for Value Heightening of the Metal Industry jointly with the Metal Industries R&D Center.

which is the key technology to raise the percentage of lump ore. The average percentages of iron content in the lump ore from Nos. 3 and 4 blast furnaces in 2012 were increased to 19.5% and 20.4%, respectively. The accumulated reduction in costs amounted to NT$150 million.

The Upgrade of Industries

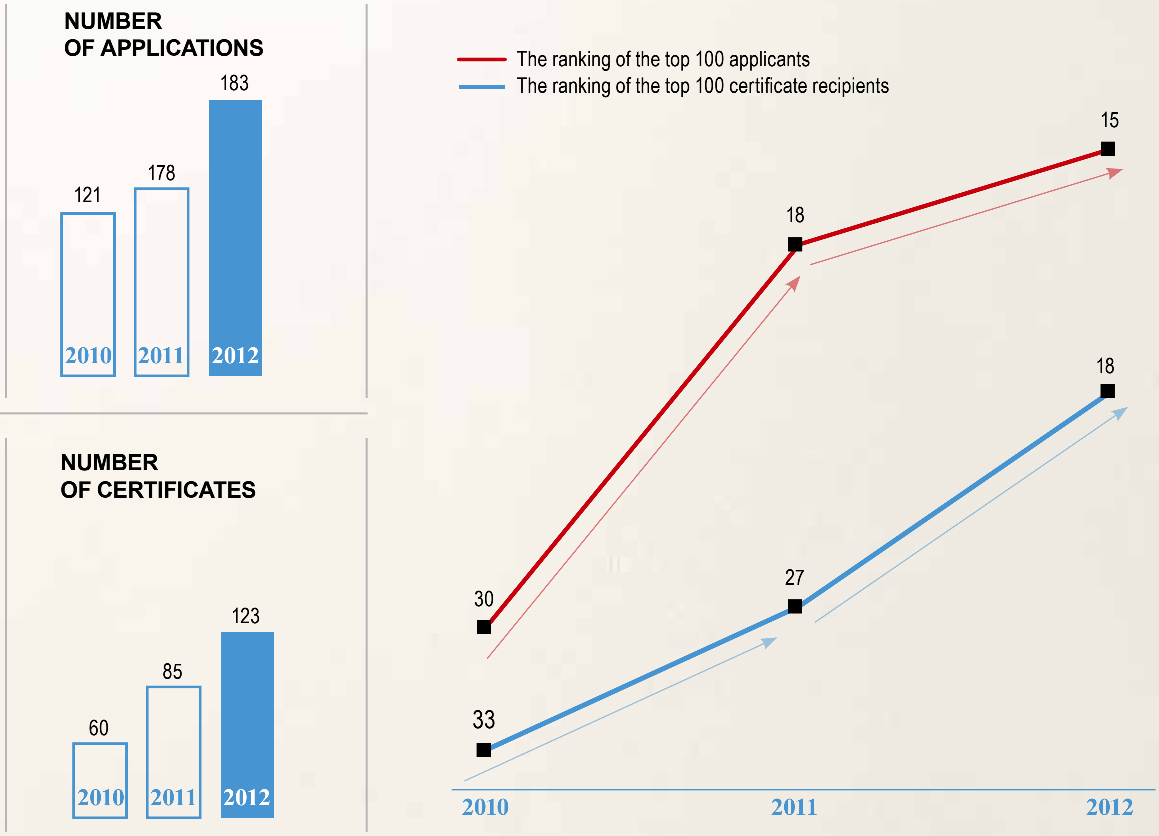
Establishment of the Engineering Research Center and United Experiment Center

To expand the depth and breadth of R&D, CSC focused on the optimization of the three chains (the innovation chain, value chain, and supply chain) of the steel-use industries and the nurture of emerging industry clusters. To smoothly carry out the jobs, CSC established the Engineering Research Center for Value Hightening of the Metal Industry jointly with the Metal Industries R&D Center to make good use of the resources of the academic and research institutions. To strengthen collaborative R&D, CSC had concluded and signed to establish three joint automobile experiment centers with Hua-chung Automobile Information Technical Center Co., Ltd (HAITEC), Chery Automobile Co., Ltd, and JAC Motors, respectively.

Promotion of R&D Alliances for Steel-use Industries

The second phase of R&D alliance projects for the steel-use industry has the following seven items: (1) core technology for high value fasteners, (2) high value technology for the motor industry, (3) core technology of AHSS application for complex geometry auto parts, (4) the development

THE TRENDS OF THE PATENT APPLICATIONS AND CERTIFICATION IN THE PAST THREE YEARS



of forming technology and equipment systems for hot stamping, (5) the development of key technology of high strength steel for the automotive aftermarket industry, (6) R&D alliance of diamond wire saws for wafer slicing, and (7) the preliminary R&D of low alloy steel plate application on high precision press forming of needle roller bearing parts. A total of 32 enterprises and 4 academic and research institutions participated in the projects with an anticipated annual profit of NT$ 20,000 million.

Protection of Intellectual Properties

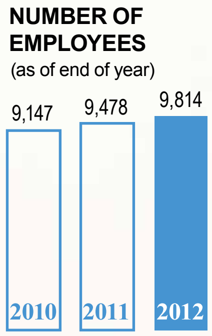
To protect intellectual properties and set up a thorough patent system, CSC has encouraged its employees to participate in the educational training related to intellectual property protection and cultivated talented intellectual property personnel. Furthermore, the Intellectual Property Training Class was also extended to the CSC Group in 2011. In 2012, customized promotion materials for intellectual property training were compiled according to the nature and conditions of every department, which resulted in the rapid increase of intellectual property applications and certification so as to effectively maintain CSC's intellectual properties. The numbers of both applications and patent certificates have progressed for three consecutive years. CSC filed applications for 183 patent cases and was granted patent certification for 123 cases in 2012, which ranked the 15th among the top 100 applicants and the 18th among the patent recipients in Taiwan, respectively.

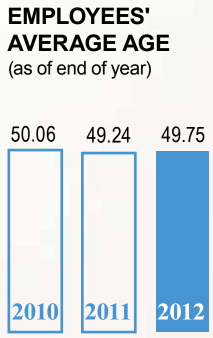
Ceremony for the Awards of R&D Results and Patent Promotion by Excellent Departments

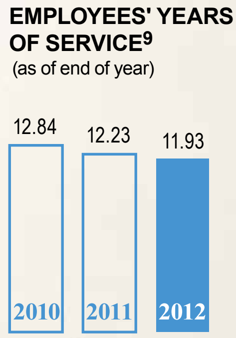

CSC established the joint automobile experiment center with Hua-chung Automobile Information Technical Center Co., Ltd (HAIEC) and the Metal Industries R&D Center.


A CSC Group's special program for the practice and management of intellectual property rights

Employee Relations and Human Resource Development







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

As of the end of 2012, there were 9,814 employees with the average age of 49.75 years at CSC. Among the 9,814 employees, 9,726 (99.1%) of the employees were eligible for membership in the CSC Labor Union.

It is estimated that approximately 6,100 senior employees will retire in the next fifteen years. Thus, future manpower development will be focused on talent management and succession plans. The CSC Corporate Culture Committee was established in October, 2010 to promote and implement tasks of succession and advancement related to corporate culture.

Succession of Manpower

CSC has mapped out appropriate employment plans according to its corporate development strategies and investment plans, supplemented by the retirement and resignation forecasts as well as the periodic manpower requirement reviews by each departments. Short-, medium- and long-term employment plans have been established; periodic manpower inventory for high-ranking managers is carried out for future succession.

Talent Management

To enhance the nurture of manpower, the Roadmap of CSC Talent Management was established. It mainly included six items; namely, training and education of the management talents in the Group, training and education of personnel stationed abroad, general education, training and education of new recruits, e-Learning and knowledge management, and training and education of expertise and quality control. 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. For example, high-ranking executives of the Group took part in the "Wangdao Management Program" held by Stan's Foundation and "Mini MBA and Case Studies" in National Taiwan University; furthermore, they also attended several humanitarian lectures. As for middle-ranking executives, they participated in programs such as "Organization Capability DNA" and "Case Studies in Management". Language and cultural orientation classes were held for personnel stationed abroad while educational training classes were held for new recruits.

In 2012, each employee averaged 23.9 hours of classroom work and 1.1 hours 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 2012, 107 employees went to academic institutions and business organizations abroad under this program. Five selected employees with potential for development also enrolled in universities in Taiwan while 5 employees with the similar quality went abroad for further education.

CSC was the winner of both the Gold and Silver Tower Awards of the 25th National QCC Competition held by Industrial Bureau, MOEA.

Training for new recruits of the CSC Group

A meeting held by CSC Corporate Cultural Committee

"Mini MBA and Case Studies" held in National Taiwan University for the CSC Group

A leisure outing

An activity held by the Tzu Yu Club (in line with the spirit of the Salesian society)

An activity held by the Tieh Ma (Iron Horse) Club

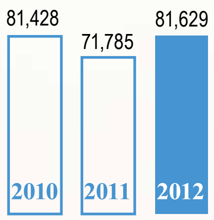
Farewell party for the retirees

Participation in the Grand Final of the 7th Virtual Steelmaking Challenge (2012-2013) held by steeluniversity of worldsteel.

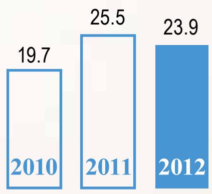
Special Lecture- Corporate Social Responsibility and Legal Boundaries

Group Wedding Ceremony

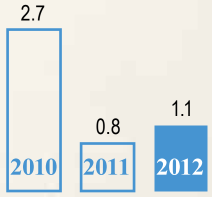
EMPLOYEE TRAINING EXPENSE
(in NT$1,000)



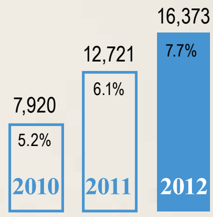
AVERAGE HOURS OF CLASSROOM TRAINING PER EMPLOYEE



AVERAGE HOURS OF E-LEARNING TRAINING PER EMPLOYEE



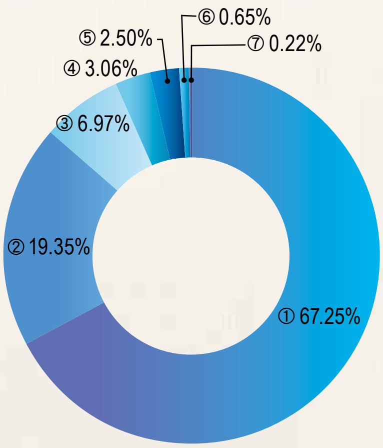
EMPLOYEE TRAINING OUTSIDE THE CORPORATION



(hours and ratio of outside training to total)

BREAKDOWN BY EMPLOYEES' POSITION LEVEL (%)
(as of December 31, 2012)

① Blue-collar workers
② Professional and specialists
③ Fourth echelon supervisors
④ Third echelon supervisors
⑤ Second echelon supervisors
⑥ First echelon supervisors
⑦ Executives



CSC Corporate Culture Committee

The accomplished tasks of the committee in 2012 were:

(1) "CSC Leadership" was compiled to be used as internal training materials for present and future executives.

(2) Six "Case Studies in Management" programs were held for approximately 250 CSC middle-ranking executives. "CSC Corporate Culture" seminars were held for members of the CSC Corporate Culture Committee to discuss the formation, succession, and transformations of the CSC corporate culture.

(3) "CSC Corporate Culture" classes were held for approximately 400 third- and fourth-echelon managers and personnel with expertise.

(4) "CSC Corporate Culture" classes were also held for 411 CSC employees and new recruits to the Group.

A "Retiree Service Department" was set up in December, 2010 to serve CSC retirees. There are over 1,200 retirees. The operating guidelines of the Manpower Data System for Retirees were promulgated in 2012. Related procedures were revised to enhance the service and concerns for retirees and to make proper use of their technical expertise and experiences so that the retirees could continue to contribute to CSC. In addition, the CSC Retiree Volunteer Group was formed to assist the CSC Education Foundation to promote social activities.

Number I Winner in the Large Dragon Boat Section of the 2013 Kaohsiung International Invitational Dragon Boat Race

Celebrating CSC's 41st anniversary

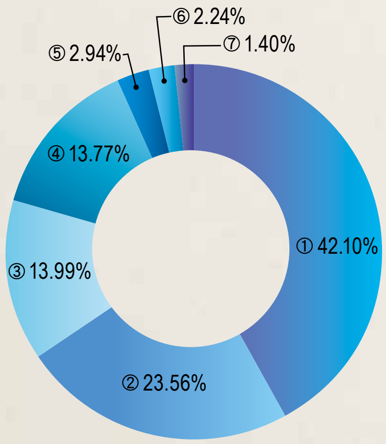
Painting to mark CSC's 41st anniversary

A drum beating show to mark CSC's 41st anniversary

Jogging Activity to mark CSC's 41st anniversary

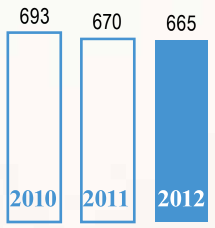
EDUCATIONAL BACKGROUND OF EMPLOYEES (%)
(as of December 31, 2012)

① Senior high (Vocational) school
② Bachelors' degree
③ Junior college
④ Masters' degree
⑤ Junior high school
⑥ Elementary school
⑦ Doctors' degree



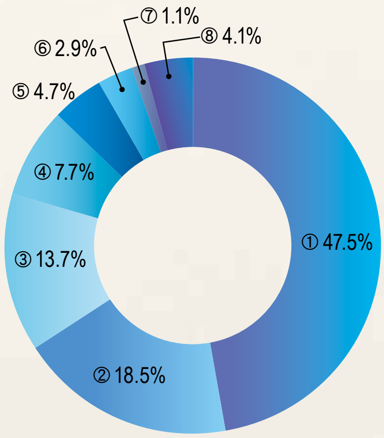
In 2012, CSC reaped more than NT$67 million in benefits from its Creative Development Activities (CDA) and more than NT$120 million in estimated tangible benefits from its Employee Suggestion System. These time-honored activities aim at encouraging employees to discover problems at their workplaces and to make suggestions and offer solutions created by group endeavors. In 2012, CDA involved 593 "activity circles" with 5,597 participants (89.5% of the blue-collar personnel of the departments concerned). They completed 665 topics. 21,885 suggestions were made, 21,585 (98.6%) of which were adopted.

CASES COMPLETED BY CREATIVE DEVELOPMENT ACTIVITIES



CASES COMPLETED BY CREATIVE DEVELOPMENT ACTIVITIES BY SUBJECT MATTER (%)

① Safety
② Maintenance
③ Production
④ Cost
⑤ Quality
⑥ Morale
⑦ Energy
⑧ Others



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. The Chairman's Mail Box was established, and face-to-face labor-management communication meetings between the Chairman/President and employees also took place. A total of 400 employees participated in 40 interactive meetings in 2012. 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 employees and job applicants.

To satisfy CSC employees' welfare needs, the management of CSC and its employees jointly formed the CSC Employee Welfare Committee. The Welfare Section is responsible for all the matters related to employee welfare, including clubs and recreational activities, applications of fiduciary loan for employees, allocations of bonuses on the Chinese New Year, Dragon Boat Festival, Mid-Autumn Festival, and Labor Day, birthday cash gifts, marriage subsidies, cash gifts for employees' newborns, scholarships for employees' children, emergency care and subsidies, leisure outings for members, etc.

CSC has always encouraged its employees to take part in club activities which will help them relax physically and mentally; furthermore, they will have more opportunities to be better acquainted with the conditions of the present society so that they can express their humanitarian concern. As of the end of 2012, 406 activities/group events with 15,360 participants were sponsored by 41 clubs.

In line with the government's promotion of "Environmentally-friendly Restaurants" to reduce resource consumption and the resultant wastes, CSC proactively participated in the Environmentally-friendly Restaurant Campaign held by Environmental Protection Administration (EPA), Executive Yuan in 2012. The CSC Cafeteria was praised and chosen as an "Environmentally-friendly Restaurant" in Kaohsiung.

CSC Kindergarten was established to give admission to pre-school children of the employees of the CSC Group and those from the Siaogang area. It was awarded the honor of being an Excellent Corporation with Affiliated Daycare Facilities by the Council of Labor Affairs, Executive Yuan in 2012, which was an indication that CSC's welfare measures were affirmatively recognized.

Energy Saving and Environmental Protection

CSC's energy and environment concepts and visions are as follows:

(1) CSC will reach international standards of an environmentally-friendly corporation with performance indicators.

(2) CSC will fully utilize its internal and external energy and resources to exert its overall performance.

(3) The goal of "two lows and one high — low carbon, low pollution, and one high added value" is expected to be reached in 2020 by the acceleration of the best available technologies and application of renewable energy. CSC goals are to reduce Greenhouse Gas (GHG) intensity to be lower than 1.97 tCO_2eq/tCS, to maintain zero solid waste from its by-products, a minimum amount of waste water effluent and to meet air pollution emission by international standards during the production processes, and to increase the value of energy integration of its by-products to be over NT$5,000 million annually.

CSC was granted the "Special Contribution Award" for the Morakot post-disaster reconstruction

Major tasks and results of implementing energy saving and environmental protection projects for 2012 were as follows:

(1) Energy saving service:

CSC offered assistance to Kinmen Kaoliang Liquor Inc. and Quintain Steel Co., Ltd. in energy saving. 45 suggestions had been made; the estimated saving was NT$ 12.64 million per annum. It was calculated that 1,398 tons of CO_2, 2 tons of SO_x, and 2 tons of NO_x could be reduced annually.

(2) Continuous promotion of "Energy Conservation Project 2015" :

CSC aimed at saving 240,000 kiloliters of oil equivalents between 2011 and 2015. 147 cases were proposed; 43,000 kiloliters of oil equivalents were saved in 2012.

(3) Water consumption had been decreased from $10.33m^3$ /ton of crude steel at the establishment of CSC to 4.97 m^3 /ton; daily recycled cooling water was $7,580,000m^3$, the recycling rate of which was over 98.29%. CSC's saving of water consumption was exceptional, and it had been granted awards of excellence 11 times by Water Resources Agency, Ministry of Economic Affairs (MOEA).

(4) Promotion of GHG Inventory and Internal Auditing Management:

The 2011 GHG Emission Inventory and internal auditing of GHG Inventory were completed in 2012. Based on EPA's administrative regulations/measures, CSC had implemented the external verification of its early inventory project from 2000 to 2011.

(5) Continuous reutilization of CSC's waste resources: The operation of reutilization of the waste resources was carried out including water quenched BF slag (listed as a renewable resource in January, 2004), BF/BOF sludge, sludge from hot rolling, sludge from cold rolling, used refractories, waste acid liquids, tar sludge, EP dusts, BF/BOF dusts, IWI fly ash and bottom ash, zinc sludge, chromium sludge, and waste grinding wheels.

(6) Continuous assistance to the reutilization of the by-products of the Group : Assistance had been provided to CSC's subsidiaries in reutilizing their by-products and/or wastes, including the tar sludge from China Steel

General lectures for citizens in Kaohsiung

CSC was granted the "2012 Taiwan CSR Awards" by the Taiwan Institute for Sustainable Energy.

CSC was granted the "2012 Safety and Health Excellence Recognition Award" by World Steel Association.

China Steel Building was granted the Excellence Award in Commercial Architecture for the 1st Kaohsiung Green Architecture Campaign.

CSC was awarded as an excellent enterprise in voluntary reduction of GHG emissions by Industrial Development Bureau, MOEA.

CSC was granted the Outstanding Enterprise Award in Energy Conservation by MOEA.

The 2012 CSC Camps

The Steel Journey Activity for elementary school students

Chemical Corporation, waste water and oil from C.S. Aluminium Corporation, waste vessel oil from China Steel Express Corporation, sludge from hot rolling from Chung Hung Steel Corporation, waste acid liquids from China Steel Machinery Corporation, Chung Hung Steel Corporation, and Hung Li Steel Corporation, and waste catalysts from HMAG Magnetic Corporation.

(7) The tests and reports for Particles, SO_x, and NO_x were completed. The total emission amount matched the requirements of environmental impact assessment.

(8) CSC's honors and awards:

- stocks listed in the Dow Jones Sustainability Index Constituent Stocks of the Asia-Pacific region.
- the highest ranking of the British Carbon Disclosure Project, 2012.
- three awards granted by MOEA: Outstanding Award in Energy Conservation, excellent corporation in voluntary reduction of GHG emissions by Industrial Development Bureau, and excellent corporation in water conservation
- Excellence in Energy Conservation and Carbon Reduction and the Action Logo by EPA in 2012.

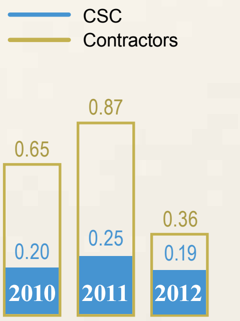
Industrial Safety

CSC has always placed emphasis on industrial safety with the highest standards and actively implemented various types of tasks and educational training in regard to industrial

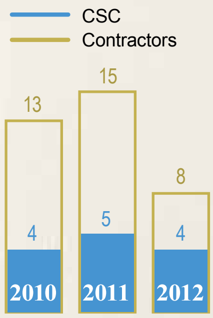
Industrial Safety

Occupational accident record of CSC - past three years

FREQUENCY RATIO [10]



NUMBER OF CASES WITH DISABLING INJURIES

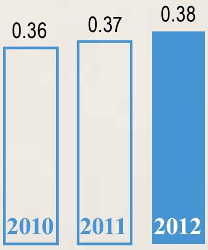


[10] FR = Number of cases with disabling injuries × 10^6 ÷ Total number of working hours of the entire company

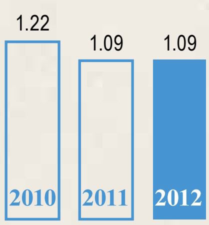
Air quality

(Kg/mt of crude steel)

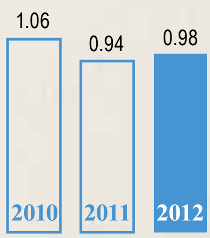
PARTICULATE EMISSION



SO_x EMISSION



NO_x EMISSION



Inauguration of the Environment Education Touring Bus


The first trip of the Environment Education Touring Bus to Liouguei Elementary School to hold environment education activities


The exhibition and commentary activity of the Environment Education Touring Bus

safety. Major tasks and results of industrial safety programs for 2012 were:

1. The goal of 23 million non-disabling injury man-hours, which broke previous records, was accomplished in August 2012.
2. The implementation of the regular inspection of 1,039 pieces of hazardous machinery and equipment and the reassessment of six type-C hazardous workplaces were completed.
3. Addition and revision of related regulations and standards
   In line with the requirements of TOSHMS/CNS15506 and Technical Guidelines on Risk Assessment by Council of Labor Affairs, CSC revised the manual of Environmental Protection, Industrial Safety, and Hygiene Management and Regulations of Risk Assessment of Safety and Health and promulgated the revised management regulations. Hazard identification of the whole factory and risk assessment and control were held again.
4. A case earmarked for the establishment of the new techniques for risk assessment
   Active safety and health culture was established by implementing advanced risk assessment techniques.

CSC signed an agreement with Safety and Health Technology Center regarding the counseling services for projects of new risk assessment techniques. Six communication meetings about revisions of risk assessment methods had been held. 798 participants took part in the educational training and drills on risk assessment methods. Furthermore, risk assessment discussions were held with the representatives from various departments on-site. Five sessions of educational training programs regarding revised management with 246 participants also took place.

5. Five corporate-level contingency drills were held.
6. Safety and health training programs were held including (1) 10 training classes with 61 sessions of various safety licenses were held for 3,421 licensees; (2) 7 sessions of educational training on traffic safety were held for 514 participants.
7. Awards related to industrial safety
   CSC was granted the 2012 Safety and Health Excellence Recognition Award by World Steel Association, as well as the Award of Excellence in Category A in the campaign of "Occupational Safety Week" held by the Council of Labor Affairs in 2012.

Employee Health and Hygiene

CSC continues to arrange physical examinations for its employees according to the requirements of law and regulations and the nature of the jobs. In addition, special physical examinations are provided for employees working in special operational places. Items in the examinations encompassed high heat, noise, lead, powder and dusts, and organic and special chemicals. 2,765 employees were examined in 2012. To ensure operational safety, employees with hypertension who also have to work in a high risk environment were included in the trial long-distance health passport project. 133 employees took part in this project in 2012; their blood pressure and heart beats were monitored in every shift to reduce the occurrence of accidents.

To promote health, lower rates of sick leaves, reduction of occupational accidents, higher productivity, and improved quality of the working environment, the CSC Clinic arranged a series of programs, such as management of health examinations, weight loss, health columns, special health campaigns for male employees, energetic diet, spiritual re-building, lectures on health for CSC employees, and special health campaigns for female employees. In particular, employees with high BMI were invited to participate in the "Weight Loss in 2012 and Health in the First Place" campaign. 324 employees lost a total of 752.6 kg and 453.2 cm of their waistlines.

Social Responsibilities

CSC, a corporation engaged in environment protection, community care services, and public activities, has continued to take action to contribute to the society, communities, and disadvantaged groups including: (1) Sponsoring equipment and facility upgrades and greening of the elementary schools in Siaogang District. (2) The establishment of scholarships for meritorious students and tuition assistance to students from the disadvantaged families in Siaogang District. (3) Sponsoring various activities for the communities and associations in Siaogang District. (4) The establishment of funds for social relief of emergencies and gifts of money during 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 Steel Journey Activity to have a sense of how steel is produced and the measures taken by CSC in energy conservation, reduction of carbon emission, and environmental protection. (6) Elementary school students in Siaogang District, especially those from disadvantaged families, were invited to participate in the "Happy Activity, Happy Exercise, and Happy Summer" camp. (7) The campaign of "Planting Trees to Reduce Carbon Emission to Show love for the Earth" was held jointly by CSC and Guei Lin Elementary School in Siaogang District. Those children were taught the concepts of energy saving, reduction of carbon emission, and the importance of cherishing resources by taking concrete action to slow down global warming.

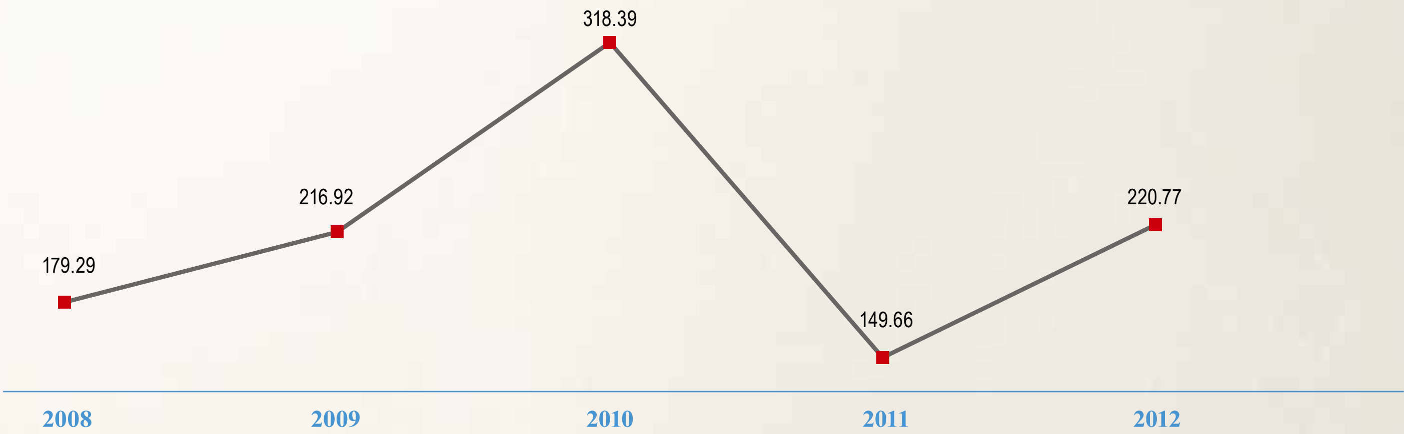
Typhoon Morakot seriously hit southern Taiwan in August, 2009. CSC donated NT$500 million to rebuild Hsin-Fa Bridge. The new bridge was given to the Directorate General of Highways. In addition to the donation, CSC has been involved in the rebuilding and caring for the communities in Liouguei District. Some of the activities include: (1) One-day tours of Yonglin Organic Farm are held irregularly for employees of the CSC Group to give them a chance to be one-day farmers. (2) In collaboration with CSC's anniversary activities in 2012, about 40 vendors from the Wutai Ecotourism Project Area intermediated by the Morakot Post-disaster Reconstruction Council, Executive Yuan and other reconstruction areas from various counties were invited to the community fair. Sales of over NT$400,000 were generated. The activity was identified with and appreciated by the businesspeople from the reconstruction areas and related government agencies. (3) CSC Canteen takes action to help the residents from the reconstruction areas by offering organic vegetables and fruit from Yonglin Organic Farm for sale on an irregular basis. (4) Vegetarian lunch boxes as well as delicious dishes with organic ingredients, purchased mostly from Yonglin Organic Farm, are supplied by CSC Cafeteria, which also helps the farmers from the reconstruction areas to be self-reliant.

To be involved in social activities in a broader and more diversified manner, CSC established the CSC Group Education Foundation in 2007. Activities conducted by the Foundation in 2012 consisted of: (1) Twelve general lectures for citizens in Kaohsiung with approximately 8,500 attendees. (2) The Environment Education Touring Bus had been out 36 times with the participation of approximately 5,000 school children. (3) 8 sessions of the Ecology Summer Camp for elementary school students were held for 240 participants. (4) In collaboration with National Cheng Kung University, National Sun Yat-sen University, and National Taiwan University, CSC offered related courses about steelmaking in those universities and set up scholarships for talented students in steelmaking. A total of 200 students selected those courses. (5) "CSC Camps" were held for university students in both undergraduate and graduate schools in 2012. In addition, 4 sessions of steel-related popular science activities were held with 200 participants.

Capital Expenditures and Engineering Business

CAPITAL EXPENDITURES

(in hundred million of New Taiwan Dollars)



The disbursement of capital expenditure projects amounted to NT$16,970 million in 2012 including the following projects:

I. Projects related to equipment revamp

1. Revamp of the Nos.11, 12 and 13 hot stoves and the peripheral equipment
2. Revamp of the No.1 bar mill
3. Revamp of the first campaign of the No.4 blast furnace
4. Revamp of the coke dry quenching equipment for coke batteries 5 and 6
5. Revamp of the Nos. 3 and 4 sinter plants and installation of the No.7 stacker/reclaimer
6. Revamp of the electrical equipment for the shearing line of the plate mill
7. Revamp of the welder for the No.2 pickling & cold rolling mill of Rolling Mill Dept. III
8. Revamp of the bar in coil (BIC) line of the No.2 bar mill
9. Revamp of the equipment for the No.2 continuous annealing line

II. Projects related to upgrades of production capacity or quality

10. Remodeling of the equipment in the No.1 hot rolling mill
11. Addition of the D4126 overhead charging crane at the steelmaking plant
12. Addition of the No.8 vacuum degasser at the steelmaking plant
13. The warehouse of the vertical automatic coil storage system for bars and wire rods
14. Construction of storage facilities at the Jia-Shing storage area for semi-finished hot rolled products in Rolling Mill Dept. II
15. The production line for non-grain-oriented electrical steel sheets
16. Addition of the No. 3 ladle refining furnace
17. Addition of the B4154 overhead crane and relocation of the ladle maintenance area for Basic Oxygen Furnace Plant I

III. Projects related to resource recycling or environmental protection equipment

18. The off gas boiler system of the No.2 basic oxygen furnace and continuous casting plant
19. Addition of waste gas desulfurization system for No.4 sinter plant
20. The Waste Gas Desulfurization Project of the No.3 Sinter Plant

IV. A new building

21. Construction of the CSC Group Building


Construction in progress of the non-oriented electrical steel production line

Among the aforementioned projects, Projects 1, 2, 11, 12, and 14 were completed in 2012; the rest have been in progress on schedule. Individual projects with investment exceeding NT$2,000 million, which were expected to increase annual production capacity or benefits after completion, are:

Revamp of the first campaign of the No.4 blast furnace	Introduction of the technology of new equipment and revamp of pollution prevention facilities to promote the quality of the environment.
The production line for non-grain-oriented electrical steel sheets	The production capability of extremely thin specifications (0.15mm) to raise the yield percentage of high-grade and high-value-added products
Revamp of No.1 bar mill	The rolling capability of billets with a larger cross sectional area of 145mm x145mm in line with the production of 2.25 metric tons of single bar coils
Remodeling of the equipment in the No.1 hot rolling mill	Increase of the production of high strength and high-grade steel products including steels with specifications of 980Mpa and above for automobile use, eutectic steels, and higher-grade electrical steels.

Non-project types of capital expenditures in 2012 amounted to NT$5,107 million, which focused mainly on revamping equipment, industrial safety and environmental protection, process re-engineering, quality improvement, R&D, energy saving, automation, computerization and miscellaneous facilities necessary for operation needs.

Revenues generated from outside engineering businesses amounted to NT$1,388 million, which were 56% more than those in 2011, and NT$386 million of which were from the technical service contract with DSC for its 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; on March 5, 2013, its second blast furnace was blown in, and the official production was initiated.

Investments and Other Equity Interests

As of the end of 2012, CSC has invested in holdings of 54 companies. Five newly added companies were China Steel Corporation India Pvt. Ltd, Qingdao China Steel Precision Materials Co., Ltd, Roy Hill Holdings Pty Ltd, Eminent II VC Corporation, and White Biotech Corporation, which were engaged in the production of electrical coils, the production of processed coils, upstream supply of iron ore, green energy, and biotechnology business, respectively. CSC's recognized income from invested companies was over NT$3,730 million for 2012.

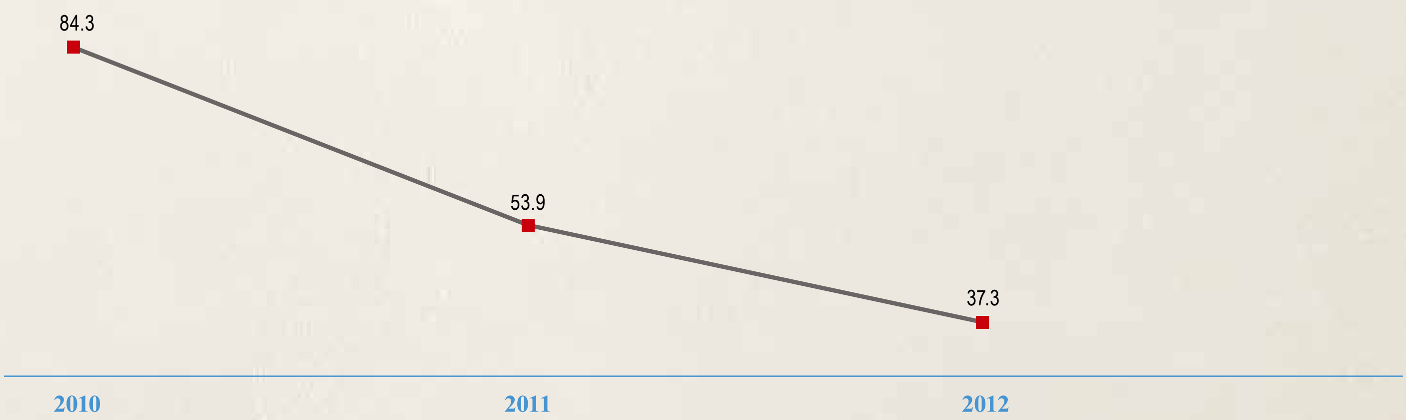
Provision for losses on inventories by Dragon Steel Corporation and Chung Hung Steel Corporation owing to economic downturns, sluggish steel demand and fallen steel prices occurred in 2012. Though hit by the economic downturns, CSC Steel Sdn. Bhd. in Malaysia still maintained its profitability.

Among the CSC-invested logistics and trading businesses, the profits of China Steel Express Corporation (CSEC) in 2012 were more than those in 2011 due to the revenues generated from tactful maneuvering of the chartered carriers as well as the injection of the after-tax earnings from the tax refunds from National Taxation Bureau because of the establishment of CSEC's operational headquarters. The profits China Steel Global Trading Corporation (CSGTC), which is the agent for exporting products of CSC, Chung Hung Steel Corporation, and China Steel Aluminium Corporation (CSAC), made in 2012 were less than those in 2011 due to the recession of the steel market and the decline of transaction volume and steel prices.

Among the industrial material-related subsidiaries, CSAC's pre-tax earnings in 2012 were less than those in 2011 due to the recession of the aluminum market, fallen prices and decrease of sales. China Steel Chemical Corporation (CSCC) was able to maintain its profitability in 2012; its pre-tax earnings were NT$9.94 per share. However, because the economic conditions in 2011 were quite robust, sales revenues and profits in 2012 decreased when compared with those in 2011. Although the sales of CHC Resources Corporation's pulverized blast-furnace slag decreased, its averaged price was more than that in 2011, and there was growth in its sales volume of other products; therefore, it posted the pre-tax profits of NT$784 million in 2012, which was a little better than those in 2011. HIMAG Magnetic Corporation's profits in 2012 were less than those in 2011 due to (1) the economic downturns of the steel market, (2) decrease of delivery of special chemicals and sales of magnetic powder, (3) the increased costs of iron oxide powder, and (4) exchange losses. China Steel Precision

CSC'S RECOGNIZED INCOME FROM INVESTED COMPANIES — PAST THREE YEARS

(in hundred million of New Taiwan Dolldrs)



An investment team from CSC, Korea, Japan, and Australia attended the Roy Hill Historic Signing Ceremony held in Sydney, Australia.


DSC's Stage II Phase 2 Expansion Project: the blast furnace plant


DSC's Stage II Phase 2 Expansion Project: the power plant


DSC's Stage II Phase 2 Expansion Project: the coke oven plant

Materials Corporation posted operational losses in 2012 due to the fact that (1) it is still in its initial stage of operation, (2) its production remains low, (3) unit costs are higher, (4) profit margins of its main products are small, and (5) niche products are still in the developmental stage.

In the engineering business sector, China Ecotek Corporation (CEC) and China Steel Machinery Corporation (CSMC) continued to seed additional businesses to raise their revenues and handed in better operational results than those in 2011. CEC posted the pre-tax profits of NT$756 million in 2012, which was a historic record, and CSMC's were NT$546 million in 2012. Because China Steel Structure Co., Ltd. obtained steel structure projects of wafer fabrication plants with high gross profits as well as the increased delivery of steel frames for high-rise buildings and bridges, its pre-tax profits in 2012 were NT$703 million, which was 7.27% more than those of 2011 and a historic record.

In the finance and service sectors, Gains Investment Corporation operated well in the stock market in the third quarter and disposed some partial direct investments to inject gains. Its pre-tax profits were NT$379 million in 2012, which was 58.45% more than those of 2011. Because the personnel costs went up owing to the changes of the security regulations, China Steel Security Corporation actively sought to increase the unit prices for stationed guards from its customers, retrenched its operational costs and developed new security businesses for maintaining steady monthly revenues. Its pre-tax profits were NT$108 million in 2012, which was 6.57% more than those in 2011. The steady business in 2012 and the injection of the revenues from information system projects in the first half of 2012 enabled Info-Champ Systems Corporation to gain its pre-tax profits of NT$231 million in 2012, which was 12.23% more than those in 2011.

In terms of the operational strategies of the steel business, the CSC Group's No.5 blast furnace (or DSC's No.1 blast furnace) was completed in 2010 and production was initiated. In March, 2013, CSC Group's No.6 blast furnace (or DSC's No. 2 blast furnace) was blown in and the goal of increasing the CSC Group's production capacity in upstream iron making and steelmaking was achieved.

In terms of the investment in raw material sources, Resources Development Department was established in the end of 2010 to proactively seek valuable investment in raw material sources for stabilizing the prices of coal and iron ore. It has been planned that CSC's raw material self-sufficiency rates will reach 30% in 2015. Investment projects for raw material sources in 2012 were: (1) The investment of Roy Hill Holdings Pty Ltd with the total amount of NT$9,367 million. NT$1,407 million was invested in 2012; the rest will be paid in 2013 and 2014, respectively. (2) The investment of AMMC Pellet Project in Canada with the total amount of NT$7,884 million. The amount would be paid in full in March, 2013. As of the end of 2012, the self-sufficiency rate of metallurgical coal was 1.9%, and that of iron ore was 11.6%. The average raw material self-sufficiency rate was 8.6%.

In regard to CSC's oversea deployment, New Asia Projects have been continuously promoted. China Steel Sumikin Vietnam Joint Stock Co. will launch its production of cold-rolled and galvanized steel products in the second quarter of 2013. The phase I project of China Steel Corporation India Pvt. Ltd for setting up an electrical steel coil production line is in progress, and Phase II will be expanded to a cold rolling mill to meet the demand of the local market.

In the future, CSC's prioritized investment locations will still be in the emerging countries with higher growth in steel demand in Asia. The types and scales of investments will be determined according to the plans of CSC Group's overall production, the geographical variations of the demand of steel, and the types of CSC's products with competitive advantages so as to gradually put the CSC Group's international deployment into practice.

Customer Services

The 2012 Seminar on Operation Management of the Steel Industry

Customer Profile

CSC increased 119 new customers in 2012, accounting for 0.62% of the total revenues while the old ones accounted for 99.38%. CSC has proactively promoted sales services and technical marketing, reinforced responses to customer demands, implemented multi-stage and multi-layer service strategies, and assisted customers to reduce costs by purchasing steel products with the right quality, prices, and amounts and solving their problems in material utilization and processing technologies. By providing the aforementioned services, CSC is able to secure its sources of customers and creates its diversified competitive advantages.

Sales Services

CSC obtains feedbacks, 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 industry, visiting its customers, and holding technological seminars. In 2012, 36 confabs had been held. Overall sales supporting services are provided through e-business and initiation to the supply chain. Moreover, customer visits were actively proceeded and efforts were made to promote punctual delivery. To offer even better services, marketing resources from CSC's subsidiaries, e.g. DSC and Chung Hung Steel Corporation, are integrated to mutually support and extend the scope of CSC's services to its customers.

The 2012 Iron and Steel Engineering and Technology Seminar

Technical Services

Key activities of technical services in 2012 included: (1) 102 cases of assistance to customers in improving their manufacturing processes and solving problems related to application of materials and processing technologies were completed. (2) 11 technical symposia and seminars were held to nurture professionals with talents in the steel industry. Seminars on the Operation and Management of the Steel Industry were held to strengthen distribution and promote the development strategies of the values of the supply chain, share advanced operational management to enhance the upstream and downstream partner relationships. (3) Representatives from CSC paid 90 visits to key customers to conduct technical interaction to thoroughly understand the needs of these customers to improve and upgrade CSC's product quality. A total of 237 man-day visits covered the United States, Mexico, India, Italy, Japan, Mainland China, Thailand, Vietnam, Indonesia, and Bangladesh so that CSC could better understand the trends in foreign steel markets and enhance its technical services to the overseas customers and product marketing. (4) 14 surveys of quality functions were completed to develop new products. 22 surveys of market feedbacks were sent to related departments for improvement. 41 surveys of material application and quality trends according to industries were also completed to effectively promote the added values of the products and competitiveness.

The Supply Chain System of Production and Sales

The purpose of CSC's Supply Chain System of Production and Sales is to provide timely, reasonable, and effective mechanisms by proper planning in response to its customers' order demands to achieve the overall efficiency of the supply chain.

Operation flexibility and efficiency have markedly increased by the constant optimization and improvement of CSC's Supply Chain System of Production & Sales. Ordinary customers can get instant answers in regard to the delivery dates, quantities, and prices of their orders by linking up with CSC's Supply Chain System, which keeps track of CSC's 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. The results and benefits of the system are as follows: (1) By integrating planning of supply and production of the plants, the changes of production capacity can be responded in deliverable orders more precisely, which increases the accuracy of delivery. (2) Sales of spot electrical steel coils and hot rolled products have been conducted electronically, and leeway sales of steel plates have been automated, both of which increased the efficiency of spot orders and delivery. (3) Multiple channels of order acceptance are offered and included in the Group's Internet Sales Channel for spot products. Sales of DSC's phase-1 leeway steel products through Internet Sales Channel were completed. (4) Customized information report mechanisms are offered so that customers can access instant reports of the related information on contracts, orders, payment, and delivery. (5) The linking service of the ERP information systems between CSC and its customers has been offered. The operation of customers' purchases, receipt of their orders, inspection, and requests of reimbursement can be interacted with CSC's information on orders, production, delivery, and invoices. At present, CSC has such linkage with 26 customers.

Customer Satisfaction

CSC commissions an academic institution to conduct a customer satisfaction survey every year. In 2012, ten surveyed subjects were: (1) quantities and payments, (2) prices of products, (3) product R&D, (4) quality, (5) claim management, (6) customer services, (7) communication, (8) delivery schedules, (9) transportation, and (10) service of e-commerce. Results of satisfaction indices in the 2012 survey were domestic customers 70.67 points, which was a decrease of 1.99 points compared with those of 2011; overseas customers 70.70 points, which was a decrease of 0.19 point compared with those of 2011. Suggestions made by customers are cordially discussed for improvement at CSC, and the annual results of the survey always serve as references for CSC when operational policies are made.

Market Risk Control

To disperse potential risks in the steel market due to declining economic factors, CSC has executed its risk management in sales and production. In terms of sales, CSC has adopted the marketing channel strategy of regarding the domestic market as its principal outlet and supplementing it with exports and adjusted their ratios according to the changes in the market. Concrete measures to grasp marketing channels were (1) to make more efforts in new product development and trial production to create new values, (2) to grasp the dynamic development of related industries, (3) to expand the range of supplied products, (4) to seek investment opportunities in the downstream steel industry or steel-use industries proactively, and (5) to establish overseas coil centers. In terms of production, sales and production are planned and simulated on the basis of orders estimated by Commercial Division. Concrete measures included (1) coordination of the allocated quotas of imported slabs among CSC Group' s companies, (2) reduction of the blast furnaces' production and adjustments of their campaign revamping schedules, (3) adjustments of the schedules of seasonal and annual maintenance of the production lines, (4) the schedule of the raw material transportation, and (5) contracting out hired rolling.

Risk Control of Raw Material Supply

Procurement of Raw Materials

To avoid interruptions in the supply of the principal raw materials caused by weather conditions or problems at the mines, railway or loading ports, CSC has adopted the following countermeasures: (1) The sources of raw materials are scrupulously evaluated and suppliers are cautiously selected. (2) Safe inventory levels are properly maintained. (3) Short-, medium- and long-term contracts have been signed with various suppliers in different countries to disperse the sources of the raw material supply. (4) Contracts are executed in good faith; relationships with mutual trust and assistance are well maintained with the suppliers. (5) Spot purchase meets the demand of production flexibility in order to deal with contingencies or emergencies, and opportunities of cost reduction are sought. (6) New sources of the raw materials are proactively developed, and eligible supply sources are expanded to avoid the monopolization of a few suppliers. (7) Investment in upstream raw materials is actively evaluated to raise self-sufficiency rates.

Development of Raw Material Sources

Measures taken to control the risks of raw material investment projects in the feasibility stage and after the completion of investments are as follows:

(1) Prestigious miners who have the experiences of coal and iron ore mining and exploration are cautiously selected for cooperative investments.

(2) Miners and mines are investigated on the spot with due diligence.

(3) Outside professional consultants in geology, finance, taxation, and legal affairs are commissioned to help carry out feasibility assessment.

(4) Comprehensive assessment and reviews are conducted by related departments internally when necessary.

(5) The development and operation of raw material investments are closely monitored.

(6) Operation meetings, board meetings and shareholders' meetings of raw material joint venture companies are attended to protect CSC's interests.

(7) Offices for overseas joint venture businesses are evaluated to enhance their liaison and supervision.

Physical simulated training: Elevated walking

Physical simulated training: Hands on experience of being pulled by a roller

Transportation Risk Control

CSC's ultimate objective in the management of raw material transportation is the uninterrupted supply. Weekly review of all material inventories serves as the basis for the determination of the optimum shipping plan. Depending upon the sizes of the needed vessels and their economic benefits, long-lease vessels or provisional chartered ones are flexibly deployed, and their movements are continuously tracked until their discharge is completed. 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 CSC's customers according to agreed-upon schedules and in perfect conditions. If the steel products in delivery are damaged, lost, or delayed, CSC maintains the right to deduct the loss from the freight or the guarantee deposits from the transportation companies to control transportation risks.

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 and system safety control by UDC, personal digital assistants (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) Supply of electricity and gas

(a) The power load shedding system was established, and its improvement is implemented 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 will be continued 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.

(e) Contingency drills in response to utility failures were held in June, 2012.

(2) Supply of water

Administrative regulations for emergency of limited water usage were established to avoid the damage in the blast furnaces and coke ovens caused by the tightening of water supply by Taiwan Water Corporation 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 project of recycling waste water, which could serve as the second source of water supply, to reduce the risk of water supply.

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) system and information backup mechanisms, (2) prevention of virus and network intrusions, (3) automatic fire suppressing systems covering the entire computer facilities, (4) uninterrupted power supply systems, and (5) entrance control with closed circuit televisions. In addition, drills are held periodically.

Risk Control of Facility Maintenance

(1) Machinery

(a) Maintenance of spares: Proper inventory levels are maintained according to past experience and the quantity of spares. Information systems are enhanced to control the manufacture of spare parts. Large pieces of used machinery when replaced can be reused after being maintained and qualified in tests to reduce the expenditures for new machinery.

Development of domestically manufactured machinery is sought to reduce overseas purchases and to control shipping dates. Arrangements of regional storehouses are promoted, and spare part management is implemented well.

(b) Maintaining of manpower and succession:

New technicians are hired earlier to receive the training and mentoring from experienced employees so that their expertise and experience can be imparted through apprenticeship. Knowledge management is enhanced to keep the maintenance techniques and experience completely.

(2) Electrical Control Facilities

(a) To avoid adverse effects on CSC's production operation due to irregularities of the electrical control systems, it has drawn up TS-16949 standard operating procedures for maintenance, which include maintenance of software and hardware, data retrieval, backup mechanisms, management for spares, 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 came from design. At the onset of the design, risk maintenance was considered, and both internal and external inspection was implemented periodically to maintain the effectiveness of the system.

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

Promotion of industrial safety and an outing on for Labor Day

CSC was granted the Award of Excellence in the campaign of "Occupational Safety Week" held by the Council of Labor Affairs in 2011.

Due diligence for the certification of Authorized Economic Operator (AEO) and inspection in the production departments were implemented to secure information safety.

Risk Control of Engineering Management

CSC has established a Capital Expenditure Management Information System and a Contract Management System for all its project-type capital expenditure projects and for DSC's expansion project to exercise strict control over industrial safety, quality, progress, and budgets.

In order to have full grasp of the contractors' financial statuses and project execution capability, CSC commissions domestic credit reporting agencies to investigate registered A-level contractors' credit on a regular basis in civil engineering, steel structure construction, machinery and equipment installation, and instrument/electronics engineering annually. The results are disclosed in the Contracting Work System of the Expansion Project of DSC and CSC's Supplier Management Operation System. Suspended and/or disqualified contractors and subcontractors are prohibited from bidding. In addition, regular financial credit of related contractors is investigated.

Risk Control of Environmental Protection, Safety, and Hygiene

(1) Hazard identification and risk assessment are thoroughly carried out to promote the culture of industrial safety. Measures are taken to reduce the risks in the "high" and "major" categories, and emergency drills are held periodically.

(2) CSC has been devoted its efforts to reducing the emission of air pollutants and waste water and reinforced water conservation and recycling of waste water.

(3) Risk control of the utilization of recycled resources is enhanced.

(4) To cope with the trend of energy conservation and reduction of carbon emission, CSC has paid close attention to the levies of environment tax and energy tax. Advises were provided to help the establishment of a tax system which is fair, reasonable, and just.

Financial Risk Control

CSC keeps close watch on the daily balance of New Taiwan Dollars and foreign currency transactions. In accordance with its demand on foreign exchange funds, it adjusts its holdings of strong and weak foreign currencies flexibly to promote the effectiveness of foreign currency manipulation. For short-term foreign exchange funds, natural hedge is applied in principle. If there is a demand (mainly in U.S. 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 undertake 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 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 enable them to ensure a smooth flow of delivery. In addition, CSC also 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.

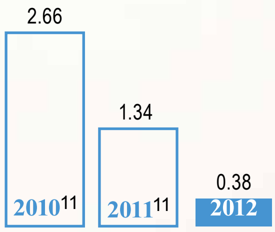
Various indicators are regularly used to analyze CSC's financial structures, solvency, operating capability, profitability, cash flow, and degrees of leverage. Early warning mechanisms are set to prevent the occurrence of any risk. The value of CSC's financial assets is monitored in real time; recommendations of investment or divestment investment are proposed.

Authorized Economic Operator (AEO)

To be in line with International Supply Chain Security Standards, CSC was officially granted the certification of AEO by Customs Administration, Ministry of Finance in March, 2012. Authorized Economic Operators are entitled to have the least random inspection ratios, the substitute of the guarantee for duties and administrative charges with an affidavit, etc. Furthermore, they can accelerate the efficiency of international customs clearance by mutual recognition. There are four themes in CSC's AEO risk management; namely, prevention of illegal entries, physical cargo security, risk management of business partners, and information security. In addition to the annual and regular external audits of business partners and the internal self-examination, CSC strongly recommends its subsidiaries and business partners in the supply chain to obtain their AEO certification so that the control of cargo security can be horizontally and vertically promoted to its partners in the upstream and downstream industries in the hope of achieving overall integration. CSC will fulfill its international corporate responsibility by thoroughly implementing supply chain security.

EARNINGS PER SHARE

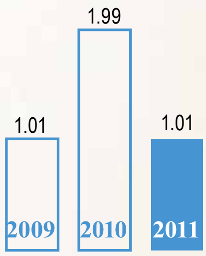
NT$/share



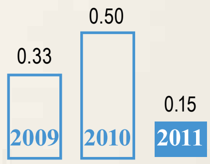
11 After making retroactive adjustments to take into account stock dividends.

COMMON STOCK DIVIDEND PAYOUT NT$/share

CASH DIVIDEND



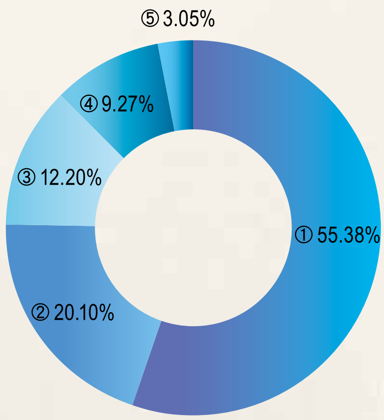
STOCK DIVIDEND



SHAREHOLDERS' STRUCTURE[12]

① Domestic natural person and other juristic person
② Government (official) institution
③ Overseas foreign investment of juristic person, nature person and trust fund (GDR included)
④ Domestic securities investment trust fund
⑤ Domestic financial institution

12 As of August 1st,2012, the record date for ex-right / dividend.



Annual Shareholders' Meeting

Starting from the regular annual shareholders' meeting in 2011, every motion was discussed and voted, and the results of all motions were announced at the meeting first and openly posted on the Market Observation Post System and CSC Website afterwards as references for investors. Electronic voting was initially adopted in 2012; approximately 11.72% of the total issued shares were voted in such a manner by shareholders when exercising their rights. Amendments of the Articles of Incorporation and electoral guidelines for directors and supervisors were also approved by the regular annual shareholders' meeting in 2012, which stated that the nomination system for candidates of directors and supervisors would be adopted to better implement corporate governance.

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 whom is an independent director who serves as the convener and Chairman for presiding the meetings. Two meetings were held in 2012 to mainly discuss the related systems of corporate governance. The minutes of the resolutions were presented to the Board of Directors. The Remuneration Committee consists of three independent directors. Three meetings of the Remuneration Committee were convened in 2012, which covered the discussion of the performance evaluation system for commissioned managers, the evaluation results, and

CSC's 2012 shareholders' meeting


A meeting held by CSC Corporate Governance Committee

related remuneration systems. The proposals drawn from the resolutions of the meetings were also presented to the Board of Directors.

Supervisors

In the Board are three supervisors who sit at the board meetings. The supervisors, chief internal auditor, and certified public accountants (CPA) 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 CPA are reviewed to report opinions by the supervisors.

Internal Auditing

To forestall irregularities and strengthen the effectiveness of corporate administration, key activities of the Internal Auditor for 2012 were to test and assess whether the operational procedures in the 8 operational cycles, which included : (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 areas, 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, (14) prevention of insider trading, and (15) management of the adoption of International Financial Reporting Standards(IFRS). Furthermore, the Internal Auditor also assessed the internal control systems of CSC's 18 subsidiaries with due diligence.

In 2012, 48 audit reports and 443 items for improvement were presented by the Internal Auditor. The audited units and subsidiaries were notified in regard to the items for improvement. The suggestions for improvement were then put into CSC's audit management system; 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.

Disclosures of Information

Full disclosures of information are an indispensible aspect of corporate governance. Over the years, CSC has been performing exceptionally well in the Securities and Futures Institute's "Information Disclosure and Transparency Ranking System," and had been granted the A+ ranking for four consecutive years from 2007 to 2010 in the listed companies of the Taiwan Stock Exchange Corporation (TWSE) and the Gre Tai Securities Market (GTSM). In particular, it was granted the A++ ranking in 2011, which was among the top 17 rankings of the listed 1,228 TWSE and GTSM companies.

IFRS

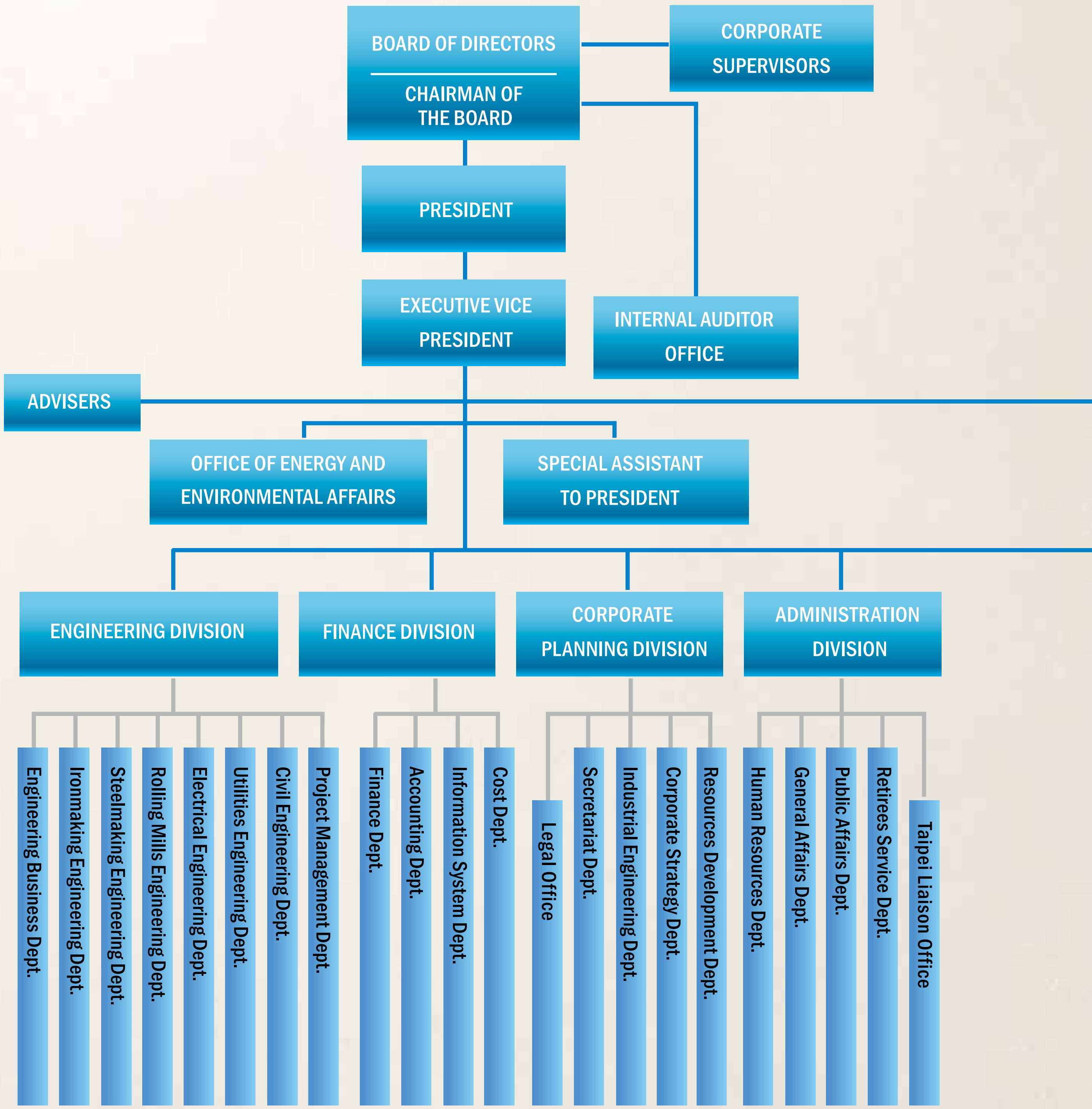
CSC belongs to the phase I companies in the promotion framework of the Financial Supervisory Commission to adopt IFRS in preparing its financial statements. The mandatory adoption of IFRS in preparing CSC' s financial statements begins in 2013.

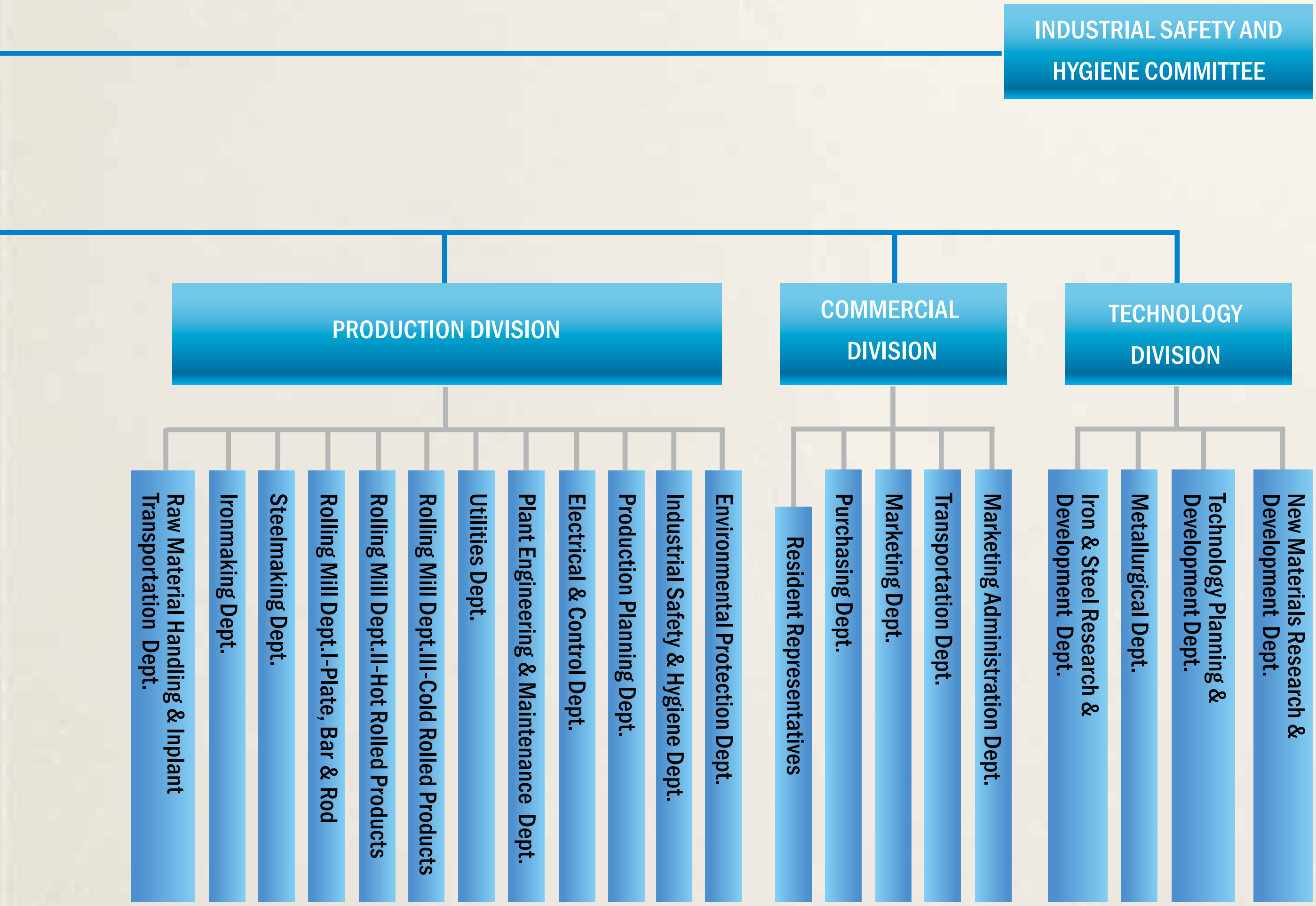
CSC established its cross-department taskforce to promote the operation of Taiwan-IFRS in November, 2009. Cross-department meetings are held every three months and the progress of the implementation of IFRS is reported to the Board of Directors and Taiwan Stock Exchange Corporation. As of the end of 2012, thirteen meetings had been held.

According to the regulations of the Financial Supervisory Commission, CSC compiled its first-quarter, first half, third-quarter, and annual consolidated financial statements in 2012 and disclosed the following information in the notes: (1) the important contents and implementation of its IFRS plan, (2) explanations of the major discrepancies, including the affected amounts between the current accounting policies and those compiled according to IFRS in the future, and (3) accounting policies chosen according to the initial adoption of IFRS regulations. Furthermore, the revisions of the internal control rules, regulations, and systems have been completed accordingly, and the progress complies with IFRS regulations.

CHINA STEEL CORPORATION

Organization Chart




INDUSTRIAL SAFETY AND HYGIENE COMMITTEE
PRODUCTION DIVISION
COMMERCIAL DIVISION
TECHNOLOGY 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.
Resident Representatives
Purchasing Dept.
Marketing Dept.
Transportation Dept.
Marketing Administration Dept.
Iron & Steel Research & Development Dept.
Metallurgical Dept.
Technology Planning & Development Dept.
New Materials Research & Development Dept.

Directors and Supervisors

(as of December 31, 2012)

Chairman of the Board

JO-CHI TSOU
Representing Ministry of Economic Affairs, R. O. C.

Director

MING-JONG LIOU
Representing Ministry of Economic Affairs, R. O. C.

Director

JERRY J. R. OU
Representing Ministry of Economic Affairs, R. O. C.

Director

JYH-YUH SUNG
Representing Ever Wealthy International Corporation

Director

KIN-TSAU LEE
Representing Gau Ruei Investment Corporation

Director

JIH-GANG LIU
Representing Chiun Yu Investment 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

FENG-MING HAO
Representing Bureau of Labor Insurance

Supervisor

I-LIN CHENG

Supervisor

ANDREW DENG

Senior Management

(as of December 31, 2012)

President

JYH-YUH SUNG

Executive Vice President

KIN-TSAU LEE

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

MOU-PIN WANG

Vice President - Technology

SHIN-CHIN WANG

Vice President - Engineering

WEN-DU HSU

Vice President - Production

TSUNG-REN JENG

Five-Year Summary of Selected Financial Data and Operating Results

(in thousands of New Taiwan Dollars unless otherwise noted)

	2012	2011	2010	2009	2008
Revenue	207,193,105	240,376,019	239,186,921	165,408,888	256,358,008
Operating costs	198,229,265	218,781,975	196,235,742	150,698,842	216,798,889
Gross profit	8,963,840	21,594,044	42,951,179	14,710,046	39,559,119
Realized(Unrealized) gain from affiliates,net	(36,337)	61,894	47,610	(179,854)	(437,457)
Operating expenses	6,237,929	7,056,957	6,950,161	6,252,488	6,382,822
Operating income	2,689,574	14,598,981	36,048,628	8,277,704	32,738,840
Nonoperating income(expenses)	3,440,997	5,685,712	8,045,643	11,882,135	(2,483,509)
Income before income tax	6,130,571	20,284,693	44,094,271	20,159,839	30,255,331
Net income	5,811,490	19,493,679	37,586,826	19,602,517	24,030,406
Current assets	67,574,496	87,239,677	63,884,532	65,535,584	88,476,752
Investments	163,700,388	144,049,544	133,951,112	111,427,187	112,559,205
Property, plant and equipment	189,506,218	187,141,146	180,960,303	160,540,199	149,098,005
Other assets	6,484,671	3,504,473	3,591,475	4,804,234	5,486,365
Total assets	427,265,773	421,934,840	382,387,422	342,307,204	355,620,327
Current liabilities	64,448,686	49,454,425	47,970,103	38,165,930	57,613,259
Long-term liabilities	72,333,005	71,243,534	57,261,621	49,417,166	47,701,353
Reserve for land value increment tax	10,011,916	10,011,916	8,673,466	8,673,466	8,673,466
Other liabilities	2,120,099	2,637,956	2,531,867	2,691,479	2,891,780
Total liabilities	148,913,706	133,347,831	116,437,057	98,948,041	116,879,858
Capital stock	153,107,445	150,844,773	135,661,689	131,327,869	125,958,111
Capital surplus	36,673,528	36,247,705	20,072,476	19,598,511	18,410,920
Retained earnings	68,356,193	80,051,881	94,337,962	74,351,367	76,427,107
Unrealized gain (loss) on financial instruments	26,750,124	26,757,590	21,873,940	21,913,148	21,915,248
Unrealized gain on financial instruments	2,458,247	3,020,919	2,374,377	4,216,431	6,508,005
Cumulative translation adjustments	(393,229)	17,192	(101,443)	183,001	358,976
Net loss not recognized as pension	(184,893)	(230,590)	(117,015)	(42,133)	(32,385)
Treasury stock[13]	(8,415,348)	(8,122,461)	(8,151,621)	(8,189,031)	(10,805,513)
Total stockholders' equity	278,352,067	288,587,009	265,950,365	243,359,163	238,740,469
Total liabilities and stockholders' equity	427,265,773	421,934,840	382,387,422	342,307,204	355,620,327
Stockholders' equity per common share (NT$)	18.56	19.51	20.02	18.53	19.55
Earnings per common share (NT$)	0.38	1.36	2.83	1.54	2.03
Earnings per common share (NT$) [14]	-	1.34	2.66	1.40	1.76

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

[14] After making retroactive adjustments to take into account stock dividends.

Five-Year Summary of Selected Financial Ratios and Percentages

	2012	2011	2010	2009	2008
Current ratio (%)	104.85	176.40	133.17	171.71	153.57
Ratio of fixed assets to long-term liabilities and stockholders' equity (%)	54.04	52.01	55.99	54.83	52.05
Total liabilities to stockholders' equity	0.53	0.46	0.43	0.41	0.49
Net income rate (%)	2.89	8.31	16.02	12.12	9.64
Profitability in terms of total assets (%)	1.63	5.00	10.52	5.79	7.65
Profitability in terms of stockholders' equity (%)	2.05	7.03	14.75	8.13	10.42
Revenue growth rate, year to year (%)	(13.80)	0.50	44.60	(35.48)	23.30
Stockholders' equity growth rate, year to year (%)	(3.55)	8.51	9.28	1.93	7.22

Analysis of Financial Status and Operating Results

1. Two-year analysis of flow ratios

	December 31, 2012	December 31, 2011	Increase (Decrease) (%)
Cash flow ratio (%)	63	21	200
Appropriate cash flow ratio (%) [15]	60	60	0
Cash reinvestment ratio (%)	4.01	-2.66	251

15 Based on data over the past five years.

Analysis of increases or decreases in the above ratios:

(1) The 200% increase in the cash flow ratio over the previous year was mainly attributable to the increase in the net cash flow from the operation activities and the small increase in current liabilities.

(2) The 251% increase in the cash reinvestment ratio over the previous year was mainly attributable to the increase in the net cash flow from the operation activities and the decrease in granting cash dividends.

2. Analysis of operating results

(1) The NT$33,182,914 thousand decrease in the operating revenues was mainly attributable to the decrease of market demand, reduction of the sales volume from steel products, and fallen steel prices.

(2) The NT$20,552,710 thousand decrease in the operating costs was mainly attributable to the decrease of the sales volume, reduced 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$12,630,204 thousand decrease in gross profits was mainly attributable to the decrease of the sales volume and the fact that although operating costs were reduced due to the reduction of coal and iron ore costs, the degree of

reduction was less than that of the unit prices.

(4) The NT$819,028 thousand decrease in operating expenses was mainly attributable to the decrease in net income which resulted in the reduction in the bonuses, estimated listing of employee dividends, and donations.

(5) The NT$11,909,407 thousand decrease in the operating income was mainly attributable to the causes in (1) ～ (4).

(6) The NT$2,244,715 thousand decrease in the non-operating income was mainly attributable to the decrease of the investment income recognized under the equity method, the increase of interest expenses, and the increase of gains from the disposal of investments.

(7) The NT$14,154,122 thousand decrease in the pre-tax income was mainly attributable to the causes in (1) ～ (6).

(8) The NT$13,682,189 thousand decrease in the net income was mainly attributable to the decrease of the pre-tax income, the causes of which were listed in(1) ～ (6) and the NT$ 471,933 thousand decrease in income tax expenses.

Terms and Conditions of Corporate Bonds

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	1st Unsecured Corporate Bonds-A Issue in 2012	1st Unsecured Corporate Bonds-B Issue in 2012
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	From August 10, 2012 to August 10, 2019	From August 3, 2012 to August 3, 2022
Face Amount	NT$1 million	NT$1 million	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	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	NT$5,000 million	NT$15,000 million
Coupon	2.42%	2.08%	2.30%	1.36%	1.57%	1.37%	1.50%
Maturity	Five years	Five years	Seven years	Five years	Seven years	Seven years	Ten 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	TaipeiFubon Bank,Trust Department	TaipeiFubon 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	ChienYeh Law Offices	ChienYeh Law Offices
Auditor of the Issuer	Deloitte & Touche	Deloitte & Touche	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 ommencing 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 ommencing 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 ommencing 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 ommencing from the issue date.	Repay 50% of the principal at the end of the 9th and 10th year; interest shall be paid annually against interest coupon ommencing from the issue date.

Preferred Stocks

<table>
<tr><td colspan="2">Items / Issuance date</td><td>Nov. 18, 1974</td><td>Jan. 31, 1980</td><td>Nov. 30, 1980</td><td>Dec. 31, 1981</td></tr>
<tr><td colspan="2">Face value (NT$)</td><td>10</td><td>10</td><td>10</td><td>10</td></tr>
<tr><td colspan="2">Issuing price (NT$)</td><td>10</td><td>10</td><td>10</td><td>10</td></tr>
<tr><td colspan="2">Number of shares</td><td>50,000,000</td><td>21,887,000</td><td>797,000</td><td>4,006,000</td></tr>
<tr><td colspan="2">Total amount (NT$)</td><td>500,000,000</td><td>218,870,000</td><td>7,970,000</td><td>40,060,000</td></tr>
<tr><td rowspan="4">Rights and liabilities</td><td>Dividend policy</td><td colspan="4">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.</td></tr>
<tr><td>Appropriation of residual property</td><td colspan="4">Same as those of common shareholders.</td></tr>
<tr><td>Voting rights</td><td colspan="4">No right to vote in the elections of board directors or supervisors.</td></tr>
<tr><td>Others</td><td colspan="4">Other rights and obligations are the same as those of the common shareholders.</td></tr>
<tr><td rowspan="3">Preferred stock in circulation</td><td>Retrieved / converted shares</td><td colspan="4">0 shares (2012 and the period ended March 31,2013)</td></tr>
<tr><td>Unretrieved / unconverted shares</td><td colspan="4">38,268,000shares (as of March 31,2013)</td></tr>
<tr><td>Retrieving or converting clause</td><td colspan="4">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.</td></tr>
<tr><td rowspan="12">Market price</td><td rowspan="3">2009</td><td>Highest</td><td colspan="3">38.70</td></tr>
<tr><td>Lowest</td><td colspan="3">29.50</td></tr>
<tr><td>Average (closing)</td><td colspan="3">34.35</td></tr>
<tr><td rowspan="3">2010</td><td>Highest</td><td colspan="3">41.40</td></tr>
<tr><td>Lowest</td><td colspan="3">37.20</td></tr>
<tr><td>Average (closing)</td><td colspan="3">38.71</td></tr>
<tr><td rowspan="3">2011</td><td>Highest</td><td colspan="3">42.00</td></tr>
<tr><td>Lowest</td><td colspan="3">38.00</td></tr>
<tr><td>Average (closing)</td><td colspan="3">39.70</td></tr>
<tr><td rowspan="3">2012</td><td>Highest</td><td colspan="3">41.00</td></tr>
<tr><td>Lowest</td><td colspan="3">38.15</td></tr>
<tr><td>Average (closing)</td><td colspan="3">39.26</td></tr>
</table>

Issuance of Global Depositary Shares

<table>
<tr><th colspan="3">Issuing date / Item</th><th>May 28, 1992</th><th>Feb. 10, 1997</th><th>Oct 22, 2003</th><th>Aug 1, 2011</th></tr>
<tr><td colspan="3">Issuance and Listing</td><td>Asia, Europe, America</td><td>Asia, Europe, America</td><td>Asia, Europe, America</td><td>Asia, Europe, America</td></tr>
<tr><td colspan="3">Total Amount (US$)</td><td>US$327,600,000</td><td>US$186,607,572.50</td><td>US$936,086,488</td><td>US$751,067,478</td></tr>
<tr><td colspan="3">Offering Price Per GDS</td><td>US$18.2/1 unit</td><td>US$18.35/1 unit</td><td>US$15.56/1 unit</td><td>US$19.67/1 unit</td></tr>
<tr><td colspan="3">Units Issued</td><td>18,000,000 units</td><td>10,169,350 units</td><td>60,159,800 units</td><td>38,183,400 units</td></tr>
<tr><td colspan="3">Underlying Securities</td><td>CSC Common Shares</td><td>CSC Common Shares</td><td>CSC Common Shares</td><td>CSC Common Shares</td></tr>
<tr><td colspan="3">Common Shares Represented</td><td>360,000,000</td><td>203,387,000</td><td>1,203,196,000</td><td>763,668,000</td></tr>
<tr><td colspan="3">Rights and Obligations of GDS Holders</td><td colspan="4">Dividend appropriation is the same as CSC common shares, other rights and obligation is regulated in Depositary Agreement.</td></tr>
<tr><td colspan="3">Trustee</td><td>Not Applicable</td><td>Not Applicable</td><td>Not Applicable</td><td>Not Applicable</td></tr>
<tr><td colspan="3">Depositary Bank</td><td>Citibank, N.A.-New York</td><td>Citibank, N.A.-New York</td><td>Citibank, N.A.-New York</td><td>Citibank, N.A.-New York</td></tr>
<tr><td colspan="3">Custodian Bank</td><td>Citibank, N.A-Taipei</td><td>Citibank, N.A-Taipei</td><td>Citibank, N.A-Taipei</td><td>Citibank, N.A-Taipei</td></tr>
<tr><td colspan="3">GDS Outstanding</td><td colspan="4">53,610,144 shares as of March 31,2013</td></tr>
<tr><td colspan="3">Apportionment of Expenses for Issuance and Maintenance</td><td>Issuance-related expenses were borne by Ministry of Economic Affairs.</td><td>Issuance-related expenses were borne by Ministry of Economic Affairs.</td><td>Issuance-related expenses were borne by Ministry of Economic Affairs.</td><td>Issuance-related expenses were borne by the Company, CSC.</td></tr>
<tr><td colspan="3">Terms and Conditions in the Depositary Agreement & Custody Agreement</td><td>Skipped</td><td>Skipped</td><td>Skipped</td><td>Skipped</td></tr>
<tr><td rowspan="3">Closing price Per GDS(US$)</td><td rowspan="3">2012</td><td>Highest</td><td colspan="4">US$20.86</td></tr>
<tr><td>Lowest</td><td colspan="4">US$16.10</td></tr>
<tr><td>Average</td><td colspan="4">US$18.38</td></tr>
</table>

Market Price of Stock over Past Three Years

(in NT$ / share)

Stock	Price	2012	2011	2010
Common	Highest	30.90	35.80	35.80
	Lowest	24.00	26.85	29.25
	Average (closing)	27.59	31.98	31.90

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, truck chassis ,and general construction
Bars	Nuts and bolts, hand tools, loudspeaker parts, automobile and motorcycle parts, and machinery parts
Wire rods	Nuts and bolts, steel wire and rope, hand tools, welding electrodes, tire cord and bead, umbrella parts, and chains
Hot rolled coils and sheets	Steel pipes and tubes, vehicle parts, containers, pressure vessels, hydraulic jacks, cold rolled and galvanized products, light shapes, and formed parts in general
Cold rolled coils	Steel pipes and tubes, steel furniture, home appliances, oil barrels, automobile bodies, hardwares, and raw material for galvanized and coated steel sheets
Electrogalvanized coils	Computer cases, home appliance outer shells, parts and accessories, automobile bodies, building materials and components, and hardwares
Hot-dip galvanized coils	Automobile parts and components, computer cases, color coated sheets, and building materials and components
Electrical steel coils	Motors, transformers, and stabilizers

Three-Year Summary Of Production And Sales Volumes

(in tons)

Product	Volume	2012	2011	2010
Steel plates	Production	984,185	1,057,104	1,063,352
	Sales	985,454	1,042,447	1,067,567
Steel bars	Production	563,868	701,333	575,439
	Sales	648,410	770,931	618,680
Wire rods	Production	1,097,243	1,282,870	1,265,198
	Sales	1,220,102	1,488,618	1,362,596
Hot rolled steel products	Production	2,272,624	2,564,088	3,894,081
	Sales	2,485,015	2,804,636	3,913,248
Cold rolled steel products[16]	Production	3,205,589	3,043,479	2,823,770
	Sales	3,280,488	3,031,657	2,904,360
Commercial slabs, blooms and billets	Production	249,505	100,968	92,581
	Sales	170,898	22,707	36,442
Pig iron	Production	9,307	6,203	6,265
	Sales	2,255	5,116	2,538
Others	Production	876	--	--
	Sales	63	--	--
Total	Production	8,383,197	8,756,045	9,720,686
	Sales	8,792,685	9,166,112	9,905,431

[16] Includes electrogalvanized, hot-dip galvanized products and electrical steel coils

CHINA STEEL CORPORATION

FINANCIAL STATEMENTS

For The Years Ended December 31, 2012 and 2011 and Independent Auditors' Report

2012 OPERATION REPORT

Deloitte.
勤業眾信

INDEPENDENT AUDITORS' REPORT

The Board of Directors and the Stockholders
China Steel Corporation

We have audited the accompanying balance sheets of China Steel Corporation (the "Corporation") as of December 31, 2012 and 2011, 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, 2012 and 2011, 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, 2012 and 2011 on which we expressed an unqualified opinion.

Deloitte & Touche

March 22, 2013

Notice to Readers

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. 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.

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

Balance Sheets

ASSETS	2012 Amount	2012 %	2011 Amount	2011 %
CURRENT ASSETS				
Cash (Note 4)	$ 1,733,583	1	$ 683,607	-
Available-for-sale financial assets - current (Notes 2, 6 and 28)	1,645,451	-	2,207,870	1
Hedging derivative assets - current (Notes 2, 7 and 28)	33,120	-	22,630	-
Notes receivable	476,696	-	866,772	-
Notes receivable - related parties (Note 29)	519,453	-	468,399	-
Accounts receivable (Notes 2, 3 and 8)	2,712,325	1	2,764,299	1
Accounts receivable - related parties (Notes 2, 3 and 29)	830,895	-	553,216	-
Other receivables (Notes 11 and 25)	879,092	-	1,162,430	-
Other financial assets - current (Notes 2, 13 and 28)	2,721,077	1	2,399,287	1
Inventories (Notes 2 and 9)	47,510,017	11	67,340,540	16
Deferred income tax assets - current (Notes 2 and 25)	857,148	-	1,379,334	-
Restricted assets - current (Notes 4 and 30)	5,669,636	1	5,678,750	1
Others	1,986,003	1	1,712,543	1
Total current assets	67,574,496	16	87,239,677	21
INVESTMENTS				
Available-for-sale financial assets - noncurrent (Notes 2, 6 and 28)	3,259,169	-	3,260,406	1
Hedging derivative assets - noncurrent (Notes 2, 7 and 28)	4,042	-	89,387	-
Financial assets carried at cost - noncurrent (Notes 2,10 and 28)	8,068,823	2	7,421,220	2
Bond investments with no active market - noncurrent (Notes 2, 11 and 28)	3,364,000	1	3,906,000	1
Investments accounted for by the equity method (Notes 2, 12 and 28)	148,970,411	35	127,252,843	30
Other financial assets - noncurrent (Notes 2, 13 and 28)	33,943	-	2,119,688	-
Total investments	163,700,388	38	144,049,544	34
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 7, 13, 14, 29 and 30)				
Land	9,364,677	2	11,024,276	2
Land improvements	4,222,124	1	4,223,646	1
Buildings	53,040,845	12	44,939,092	11
Machinery and equipment	310,518,644	73	278,296,503	66
Transportation equipment	1,880,782	1	1,804,682	-
Other equipment	5,273,280	1	5,118,133	1
Spare parts	7,326,242	2	6,918,272	2
Total cost	391,626,594	92	352,324,604	83
Revaluation increment	48,664,692	11	48,885,858	12
Cost and revaluation increment	440,291,286	103	401,210,462	95
Less: Accumulated depreciation	274,041,941	64	260,114,511	62
	166,249,345	39	141,095,951	33
Construction in progress and prepayments for equipment	23,256,873	5	46,045,195	11
Net property, plant and equipment	189,506,218	44	187,141,146	44
INTANGIBLE ASSETS (Note 2)	141,888	-	184,081	-
OTHER ASSETS				
Assets leased to others, net (Notes 2 and 15)	4,743,179	1	3,063,360	1
Refundable deposits (Note 28)	144,807	-	223,215	-
Deferred income tax assets - noncurrent (Notes 2 and 25)	1,420,555	1	-	-
Restricted assets - noncurrent (Notes 4 and 30)	34,242	-	33,817	-
Total other assets	6,342,783	2	3,320,392	1
TOTAL	$ 427,265,773	100	$ 421,934,840	100

LIABILITIES AND STOCKHOLDERS' EQUITY	2012 Amount	2012 %	2011 Amount	2011 %
CURRENT LIABILITIES				
Short-term loans and overdraft (Notes 16 and 30)	$ 8,868,560	2	$ 6,467,626	1
Commercial paper payable (Note 17)	13,294,434	3	3,595,877	1
Hedging derivative liabilities - current (Notes 2, 7 and 28)	11,752	-	7,620	-
Accounts payable	3,516,165	1	4,665,602	1
Accounts payable - related parties (Note 29)	496,968	-	851,314	-
Income tax payable (Notes 2 and 25)	1,368,313	-	2,520,677	1
Accrued expenses (Notes 18 and 22)	6,505,403	1	8,306,109	2
Other payables (Notes 2 and 29)	8,552,322	2	4,976,046	1
Bonds payable - current portion (Notes 19 and 28)	11,297,543	3	11,295,086	3
Long-term debt - current portion (Notes 20, 28 and 30)	7,940,886	2	3,682,227	1
Others	2,596,340	1	3,086,241	1
Total current liabilities	64,448,686	15	49,454,425	12
LONG-TERM LIABILITIES				
Hedging derivative liabilities - noncurrent (Notes 2, 7 and 28)	451	-	421	-
Bonds payable (Notes 19 and 28)	46,657,982	11	37,969,340	9
Long-term debt (Notes 20, 28 and 30)				
Long-term notes payable (Notes 21 and 28)	15,180,409	4	21,284,765	5
	10,494,163	2	11,989,008	3
Total long-term liabilities	72,333,005	17	71,243,534	17
	10,011,916	2	10,011,916	2
RESERVE FOR LAND VALUE INCREMENT TAX (Note 14)				
OTHER LIABILITIES				
Accrued pension cost (Note 22)	69,313	-	51,491	-
Deferred income tax liabilities - noncurrent (Notes 2 and 25)	-	-	446,254	-
Deferred credits - gain from affiliates (Note 23)	2,050,786	1	2,140,211	1
Total other liabilities	2,120,099	1	2,637,956	1
Total liabilities	148,913,706	35	133,347,831	32
CAPITAL STOCK - NT$10 par value, authorized 17,000,000 thousand shares (Note 24)				
Common shares - issued 15,272,477 thousand shares and 15,046,209 thousand shares as of December 31, 2012 and 2011, respectively	152,724,765	36	150,462,093	36
Preferred shares - issued 38,268 thousand shares	382,680	-	382,680	-
Total capital stock	153,107,445	36	150,844,773	36
CAPITAL SURPLUS (Notes 2 and 24)	36,673,528	8	36,247,705	8
RETAINED EARNINGS (Notes 2 and 24)	68,356,193	16	80,051,881	19
OTHER EQUITY				
Unrealized revaluation increment (Note 24)	26,750,124	6	26,757,590	6
Unrealized gain on financial instruments (Notes 7, 13 and 24)	2,458,247	1	3,020,919	1
Cumulative translation adjustments (Notes 2 and 24)	(393,229)	-	17,192	-
Net loss not recognized as pension cost	(184,893)	-	(230,590)	-
Treasury stock - 309,816 thousand shares and 295,065 thousand shares as of December 31, 2012 and 2011, respectively (Notes 2 and 24)	(8,415,348)	(2)	(8,122,461)	(2)
Total other equity	20,214,901	5	21,442,650	5
	278,352,067	65	288,587,009	68
Total stockholders' equity				
TOTAL	$ 427,265,773	100	$ 421,934,840	100

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

Statements Of Income

	2012		2011	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 2 and 29)				
Sales	$ 201,072,107	97	$ 234,417,553	98
Other operating revenues	6,120,998	3	5,958,466	2
Total operating revenues	207,193,105	100	240,376,019	100
OPERATING COSTS (Notes 2, 9, 26 and 29)				
Cost of goods sold	194,223,145	94	215,021,873	89
Other operating costs	4,006,120	2	3,760,102	2
Total operating costs	198,229,265	96	218,781,975	91
GROSS PROFIT	8,963,840	4	21,594,044	9
REALIZED (UNREALIZED) GAIN FROM AFFILIATES, NET	(36,337)	-	61,894	-
REALIZED GROSS PROFIT	8,927,503	4	21,655,938	9
OPERATING EXPENSES (Notes 26 and 29)				
Research and development	1,378,211	1	1,437,899	1
Selling	2,412,224	1	2,414,478	1
General and administrative	2,447,494	1	3,204,580	1
Total operating expenses	6,237,929	3	7,056,957	3
OPERATING INCOME	2,689,574	1	14,598,981	6
NONOPERATING INCOME AND GAINS				
Interest income (Note 28)	109,872	-	121,480	-
Investment income recognized under equity method, net (Notes 2 and 12)	2,353,103	1	5,151,451	2
Gain on sale of investments (Notes 2 and 6)	1,140,690	1	1,101	-
Exchange gain (Note 2)	329,097	-	403,480	-
Valuation gain on financial assets (Notes 2 and 5)	-	-	2,828	-
Others (Notes 2, 11 and 29)	1,341,516	1	1,194,643	1
Total nonoperating income and gains	5,274,278	3	6,874,983	3
NONOPERATING EXPENSES AND LOSSES				
Interest expense (Notes 14 and 28)	1,358,092	1	769,406	1
Others (Notes 2, 26 and 29)	475,189	-	419,865	-
Total nonoperating expenses and losses	1,833,281	1	1,189,271	1
INCOME BEFORE INCOME TAX	6,130,571	3	20,284,693	8
INCOME TAX (Notes 2 and 25)	319,081	-	791,014	-
NET INCOME	$ 5,811,490	3	$ 19,493,679	8

(Continued)

	2012		2011	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 27)				
Basic	$ 0.41	$ 0.38	$ 1.40	$ 1.34
Diluted	$ 0.40	$ 0.38	$ 1.39	$ 1.33

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

	2012	2011
Net income	$ 6,123,244	$ 20,153,180
Basic earnings per share based on weighted-average number of outstanding common shares aggregating 15,272,477 thousand shares and 14,782,477 thousand shares for the years ended December 31, 2012 and 2011, respectively	$ 0.40	$ 1.36
Diluted earnings per share based on weighted-average number of outstanding common shares aggregating 15,311,456 thousand shares and 14,911,740 thousand shares for the years ended December 31, 2012 and 2011, respectively	$ 0.40	$ 1.35

(Concluded)

YEARS ENDED DECEMBER 31, 2012 AND 2011
(In Thousands of New Taiwan Dollars, Except Dividends Per Share)

Statements Of Changes In Stockholders' Equity

	Issued			Retained		
	Common Shares	Preferred Shares	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings
BALANCE, JANUARY 1, 2011	$ 135,279,009	$ 382,680	$ 20,072,476	$ 49,070,526	$ 7,615,701	$ 37,651,735
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)
Cash dividends to common stockholders - NT $1.99 per share	-	-	-	-	-	(26,920,523)
Stock dividends to preferred stockholders - NT$0.5 per share	19,134	-	-	-	-	(19,134)
Stock dividends to common stockholders - NT$0.5 per share	6,763,950	-	-	-	-	(6,763,950)
Issuance of common stock for cash (Note 24)	8,400,000	-	15,338,755	-	-	-
Compensation cost of share-based payment	-	-	98,826	-	-	-
Net income in 2011	-	-	-	-	-	19,493,679
Change in unrealized gain on available-for-sale financial assets	-	-	-	-	-	-
Change in unrealized revaluation increment (Note 14)	-	-	-	-	-	-
Adjustment from changes in equity recognized under equity method	-	-	78,147	-	-	-
Foreign exchange gain on translation of foreign-currency financial statements	-	-	-	-	-	-
Foreign exchange loss on hedge of a net investment in a foreign operation	-	-	-	-	-	-
Change in unrealized gain on financial instruments for cash flow hedging	-	-	-	-	-	-
Disposal of the Corporation's shares held by subsidiaries (Note 24)	-	-	106,638	-	-	-
Cash dividends paid by the Corporation to its subsidiaries	-	-	552,863	-	-	-
Purchase of the Corporation's shares by subsidiaries	-	-	-	-	-	-
BALANCE, DECEMBER 31, 2011	150,462,093	382,680	36,247,705	52,829,209	7,615,701	19,606,971
Appropriation of 2011 earnings (Note 24)						
Legal reserve	-	-	-	1,949,368	-	(1,949,368)
Cash dividends to preferred stockholders - NT$1.25 per share	-	-	-	-	-	(47,835)
Cash dividends to common stockholders - NT$1.01 per share	-	-	-	-	-	(15,196,671)
Stock dividends to preferred stockholders -NT$0.15 per share	5,740	-	-	-	-	(5,740)
Stock dividends to common stockholders - NT$0.15 per share	2,256,932	-	-	-	-	(2,256,932)
Net income in 2012	-	-	-	-	-	5,811,490
Change in unrealized gain on available-for-sale financial assets	-	-	-	-	-	-
Change in unrealized revaluation increment (Note 14)	-	-	-	-	-	-
Adjustment from changes in equity recognized under equity method	-	-	114,069	-	-	-
Foreign exchange loss on translation of foreign-currency financial statements	-	-	-	-	-	-
Foreign exchange gain on hedge of a net investment in a foreign operation	-	-	-	-	-	-
Change in unrealized gain on financial instruments for cash flow hedging	-	-	-	-	-	-
Disposal of the Corporation's shares held by subsidiaries (Note 24)	-	-	3,200	-	-	-
Cash dividends paid by the Corporation to its subsidiaries	-	-	308,554	-	-	-
Purchase of the Corporation's shares by subsidiaries	-	-	-	-	-	-
BALANCE, DECEMBER 31, 2012	$ 152,724,765	$ 382,680	$ 36,673,528	$ 54,778,577	$ 7,615,701	$ 5,961,915

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

Earnings	Other Equity					
Total	Unrealized Revaluation Increment	Unrealized Gain on Financial	Cumulative Translation Adjustments	Net Loss not Recognized as Pension Cost	Treasury Stock	Total Stockholders' Equity
$ 94,337,962	$ 21,873,940	$ Instruments	($ 101,443)	($ 117,015)	($ 8,151,621)	$ 265,950,365
-	-	-	-	-	-	-
(76,153)	-	-	-	-	-	(76,153)
(26,920,523)	-	-	-	-	-	(26,920,523)
(19,134)	-	-	-	-	-	-
(6,763,950)	-	-	-	-	-	-
-	-	-	-	-	-	23,738,755
-	-	-	-	-	-	98,826
19,493,679	-	-	-	-	-	19,493,679
-	-	141,223	-	-	-	141,223
-	4,739,111	-	-	-	-	4,739,111
-	144,539	251,529	-	(113,575)	83	360,723
-	-	-	180,788	-	-	180,788
-	-	-	(62,153)	-	-	(62,153)
-	-	253,790	-	-	-	253,790
-	-	-	-	-	404,810	511,448
-	-	-	-	-	-	552,863
-	-	-	-	-	(375,733)	(375,733)
80,051,881	26,757,590	3,020,919	17,192	(230,590)	(8,122,461)	288,587,009
-	-	-	-	-	-	-
(47,835)	-	-	-	-	-	(47,835)
(15,196,671)	-	-	-	-	-	(15,196,671)
(5,740)	-	-	-	-	-	-
(2,256,932)	-	-	-	-	-	-
5,811,490	-	-	-	-	-	5,811,490
-	-	(292,373)	-	-	-	(292,373)
-	(3,699)	-	-	-	-	(3,699)
-	(3,767)	6,430	-	45,697	(7,462)	154,967
-	-	-	(688,584)	-	-	(688,584)
-	-	-	278,163	-	-	278,163
-	-	(276,729)	-	-	-	(276,729)
-	-	-	-	-	18,493	21,693
-	-	-	-	-	-	308,554
-	-	-	-	-	(303,918)	(303,918)
$ 68,356,193	$ 26,750,124	$ 2,458,247	($ 393,229)	($ 184,893)	($ 8,415,348)	$ 278,352,067

YEARS ENDED DECEMBER 31, 2012 AND 2011
(In Thousands of New Taiwan Dollars)

Statements Of Cash Flows

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 5,811,490	$ 19,493,679
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	17,708,945	16,064,667
Amortization	42,193	42,364
Pension cost	17,822	51,491
Deferred income tax	(1,287,186)	(913,703)
Provision for loss on inventories	1,880,058	3,060,921
Gain on sale of investments	(1,140,690)	(1,101)
Investment income recognized under equity method, net	(2,353,103)	(5,151,451)
Unrealized (realized) gain from affiliates, net	36,337	(61,894)
Cash dividends received from equity method investees	5,120,219	5,582,492
Valuation gain on financial assets	-	(2,828)
Compensation cost of share-based payment	-	98,826
Loss on purchase commitments	362,891	15,478
Others	(228,350)	(119,705)
Net changes in operating assets and liabilities		
Notes receivable	390,076	(160,697)
Notes receivable - related parties	(51,054)	68,809
Accounts receivable	51,974	(866,891)
Accounts receivable - related parties	(277,679)	36,315
Other receivables	215,058	124,373
Inventories	18,288,165	(23,289,268)
Other current assets	(273,460)	(215,013)
Notes payable - related parties	-	(23,163)
Accounts payable	(1,149,437)	34,802
Accounts payable - related parties	(354,346)	(458,350)
Income tax payable	(1,084,084)	(2,478,813)
Accrued expenses	(1,800,706)	(2,426,521)
Other payables	1,433,349	2,223,410
Other current liabilities	(580,381)	(576,170)
Net cash provided by operating activities	40,778,101	10,152,059
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets designated as at fair value through profit or loss	-	(8,000,000)
Proceeds from disposal of financial assets designated as at fair value through profit or loss	-	8,002,828
Proceeds from disposal of available-for-sale financial assets	1,292,350	-
Acquisition of financial assets carried at cost	(811,558)	(4,085,903)
Proceeds from disposal of financial assets carried at cost	52,500	1,101
Proceeds from the capital reduction on financial assets carried at cost	10,176	14,911
Acquisition of investments accounted for by the equity method	(25,012,997)	(3,324,396)
Acquisition of property, plant and equipment	(20,094,040)	(17,189,295)
Proceeds from disposal of property, plant and equipment	-	1,267
Proceeds from disposal of assets leased to others	-	5,000

(Continued)

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

	2012	2011
Decrease (increase) in other financial assets	$ 1,509,563	($ 2,476,273)
Decrease (increase) in refundable deposits	78,408	(106,697)
Decrease (increase) in restricted assets	8,689	(1,031,100)
Net cash used in investing activities	(42,966,909)	(28,188,557)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term loans and overdraft	2,485,755	5,125,862
Increase (decrease) in commercial paper payable	9,698,557	(103,762)
Issuance of bonds payable	20,000,000	19,700,000
Repayments of bonds payable	(11,300,000)	(13,700,000)
Proceeds from long-term debt	1,757,611	1,279,567
Repayments of long-term debt	(2,666,667)	-
Increase (decrease) in long-term notes payable	(1,500,000)	7,500,000
Cash dividends	(15,236,472)	(26,990,933)
Issuance of common stock for cash	-	23,738,755
Net cash provided by financing activities	3,238,784	16,549,489
NET INCREASE (DECREASE) IN CASH	1,049,976	(1,487,009)
CASH, BEGINNING OF YEAR	683,607	2,170,616
CASH, END OF YEAR	$ 1,733,583	$ 683,607
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	$ 1,546,515	$ 1,439,066
Capitalized interest	(283,655)	(644,909)
Interest paid (excluding capitalized interest)	$ 1,262,860	$ 794,157
Income tax paid	$ 2,690,351	$ 4,183,530
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	$ 21,866,042	$ 16,081,479
Decrease (increase) in payable for equipment purchased	(1,772,002)	1,107,816
	$ 20,094,040	$ 17,189,295
Cash dividends paid to stockholders		
Total cash dividends payable to stockholders	$ 15,244,506	$ 26,996,676
Increase in dividends payable	(8,034)	(5,743)
	$ 15,236,472	$ 26,990,933
NON-CASH FINANCING ACTIVITIES	$ 19,238,429	$ 14,977,313
Current portion of long-term liabilities		

(Concluded)

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

As of December 31, 2012 and 2011, the Corporation had about 9,800 and 9,500 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 for their oversight purposes.

Significant accounting policies are summarized as follows:

Foreign-currency Transactions

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

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

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

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

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

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

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 at FVTPL are recognized immediately in profit or loss. At each balance sheet date subsequent to initial recognition, financial assets 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. On derecognition of a financial asset, the difference between its carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

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 placement 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 if the hedged forecast transaction results in the recognition of the non-financial asset or recognized in profit or loss if the hedged forecast transaction affects profit or loss. However, if all or a portion of a loss recognized in stockholders' equity is not expected to be recovered in the future period, the amount that is not expected to be recovered is reclassified into current profit or loss.

c. Hedge of a net investment in a foreign operation

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

The Corporation 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

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

1) Significant financial difficulty of the debtor;
2) Occurrence of overdue accounts receivable;
3) High probability of bankruptcy or financial re-organization of the debtor.

Accounts receivable that are assessed as not impaired individually are further assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of accounts receivable could include the Corporation'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.

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 and losses.

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 on the asset in prior years. A reversal of an impairment loss is recognized in earnings, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is first recognized as gains to the extent that an impairment loss on the same revalued asset was previously charged to earnings. Any excess amount is treated as an increase in the unrealized revaluation increment.

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

Profits from downstream 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) and accumulated depreciation 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 and are amortized over estimated useful lives ranging from 5 to 20 years.

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 8 to 60 years.

Loss on Purchase Commitments

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

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.

Share-based Compensation

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

Treasury Stock

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

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

Revenue Recognition

Revenues from sales of goods are recognized when the significant risks and rewards of ownership of the goods are transferred to customers as follows: domestic sales - when products are delivered out of the Corporation'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.

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 are as follows: (1) impairment of finance lease receivables is now covered by SFAS No. 34; (2) the scope of the applicability of SFAS No. 34 to insurance contracts is amended; (3) loans and receivables originated by the enterprise are now covered by SFAS No. 34; (4) additional guidelines on impairment of financial assets carried at amortized cost when the debtor has financial difficulties and the terms of obligations have been modified; and (5) accounting treatment by a debtor for modifications in the terms of obligations is included. This accounting change did not have a significant impact on the Corporation'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" and the Corporation conformed to the disclosure requirement.

4. CASH

	December 31	
	2012	2011
Cash on hand	$ 7,193	$ 15,459
Checking accounts and demand deposits	1,161,750	568,148
Time deposits	564,640	100,000
	$ 1,733,583	$ 683,607

Foreign bank deposits of the Corporation were as follows:

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

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

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

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS - CURRENT (ONLY FOR THE YEAR ENDED DECEMBER 31, 2011)

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 gain on financial assets designated as at FVTPL for the year ended December 31, 2011 was NT$2,828 thousand.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2012	2011
Domestic quoted stocks	$ 2,926,708	$ 3,488,606
Overseas quoted stocks	1,530,620	1,602,241
Private-placement domestic shares	447,292	377,429
	4,904,620	5,468,276
Less: Current portion	(1,645,451)	(2,207,870)
	$ 3,259,169	$ 3,260,406

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

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

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

7. HEDGING DERIVATIVE FINANCIAL INSTRUMENTS

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

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

	Currency	Period for Generating Cash Flows and Maturity Date	Contract Amount (In Thousands)
December 31, 2012			
Buy	NTD/USD	January 2013 - September 2015	NTD2,031,467/USD70,729
Buy	NTD/EUR	July 2013 - January 2014	NTD67,767/EUR1,728
Sell	JPY/NTD	January 2013	JPY1,000,000/NTD339,200
December 31, 2011			
Buy	NTD/USD	January 2012 - September 2015	NTD2,421,149/USD84,579
Buy	NTD/EUR	March 2012 - October 2013	NTD133,699/EUR3,216

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

	Years Ended December 31	
	2012	2011
Balance, beginning of year	$ 103,976	$ (6,414)
Unrealized gain (loss) of valuation	(73,379)	110,481
Transferred to construction in progress and prepayments for equipment	(5,638)	(91)
Balance, end of year	$ 24,959	$ 103,976

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

	December 31	
	2012	2011
Hedging derivative assets - current	$ 33,120	$ 22,630
Hedging derivative assets - noncurrent	4,042	89,387
Hedging derivative liabilities - current	(11,752)	(7,620)
Hedging derivative liabilities - noncurrent	(451)	(421)
	$ 24,959	$ 103,976

The valuation gain (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, 2012 and 2011 was as follows:

Transaction Counter-party	Advances Received at Year - beginning	Receivables Sold	Amounts Collected by Bank	Advances Received at Year-end	Interest Rate on Advances Received (%)	Credit Line (In Billions of NTD)
Year ended December 31, 2012						
Mega International Commercial Bank	$ 3,565,502	$ 9,202,121	$ 9,675,878	$ 3,091,745	1.24-1.52	$9.0
Bank of Taiwan	1,509,756	3,428,554	3,695,356	1,242,954	1.24-1.52	3.0
	$ 5,075,258	$ 12,630,675	$ 13,371,234	$ 4,334,699		
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		

9. INVENTORIES

	December 31 2012	December 31 2011
Finished products	$ 9,864,295	$ 11,556,342
Work in process	19,106,948	29,285,142
Raw materials	10,659,455	18,617,096
Supplies	4,806,213	4,510,559
Raw materials and supplies in transit	2,450,026	2,479,581
Fuel	202,295	285,713
Others	420,785	606,107
	$ 47,510,017	$ 67,340,540

As of December 31, 2012 and 2011, the allowance for inventory devaluation was NT$3,060,178 thousand and NT$4,034,124 thousand, respectively, and recorded as reduction in inventories. The cost of inventories recognized as operating costs for the years ended December 31, 2012 and 2011 was NT$198,229,265 thousand and NT$218,781,975 thousand, respectively, which included the following items:

	Years Ended December 31 2012	Years Ended December 31 2011
Provision for loss on inventories	$ 1,880,058	$ 3,060,921
Loss on purchase commitments	362,891	15,478
Gain on physical inventory	(337,700)	(154,684)
Income from scrap sales	(225,771)	(226,561)
	$ 1,679,478	$ 2,695,154

10. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

	December 31	
	2012	2011
Unquoted common stocks		
Nacional Minerios S.A.	$ 3,268,550	$ 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
TaiGen Biopharmaceuticals Holdings Limited	85,118	103,000
Overseas Investment & Development Corporation	50,000	50,000
CDIB BioScience Ventures I, Inc.	40,704	50,880
Mega I Venture Capital Co., Ltd.	17,400	17,400
Adimmune Corporation (AC)	-	135,897
Taiwan High Speed Rail Corporation (THSRC)	-	-
Certificate of entitlement		
Formosa Ha Tinh Steel Corporation	1,628,911	817,353
	$ 8,068,823	$ 7,421,220

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

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

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

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

From June 2011, the Corporation continually invested a total of NT$1,628,911 thousand (USD 55,000 thousand) in Formosa Ha Tinh Steel Corporation and acquired 5% ownership. The main business of Formosa Ha Tinh Steel Corporation is manufacture and trading of steel products.

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

11. BOND INVESTMENTS WITH NO ACTIVE MARKET - NONCURRENT

	December 31	
	2012	2011
Unquoted preferred stocks - overseas		
East Asia United Steel Corporation (EAUS) - Preferred A	$ 3,364,000	$ 3,906,000

In May 2003, the Corporation signed a slab production joint-venture contract with Sumitomo Metal Industries, Ltd. (had changed title to Nippon Steel & Sumitomo Metal Corporation in October 2012) and Sumitomo Corporation. In July 2003, the joint venture company EAUS was established. The Corporation invested in EAUS JPY10 billion (Notes 20 and 28). The Corporation thus has a stable supply of slab from this joint venture. The Corporation also signed a contract with the subsidiary, 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, 2012 and 2011 were NT$315,590 thousand and NT$324,593 thousand, respectively (recorded as nonoperating income and gains). As of December 31, 2012 and 2011, the royalty receivable was NT$82,328 thousand and NT$85,692 thousand, respectively (recorded as other receivables).

12. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	December 31			
	2012		2011	
	Amount	% of Ownership	Amount	% of Ownership
Quoted companies				
Chung Hung Steel Corporation (CHSC)	$ 2,510,525	29	$ 3,509,256	29
China Steel Chemical Corporation (CSCC)	1,911,866	29	1,863,351	29
China Steel Structure Co., Ltd. (CSSC)	1,475,367	33	1,463,032	33
China Ecotek Corporation (CEC)	1,034,347	48	854,575	49
China Hi-Ment Corporation (CHC)	710,808	20	713,721	20
	7,642,913		8,403,935	
Less: Shares held by subsidiaries accounted for as treasury stock	1,595,851		1,589,487	
	6,047,062		6,814,448	
Unquoted companies				
Dragon Steel Corporation (DSC)	93,871,635	100	80,358,899	100
China Steel Express Corporation (CSE)	10,786,189	100	10,332,777	100
C. S. Aluminum Corporation (CAC)	9,168,266	100	8,654,634	100
China Steel Sumikin Vietnam Joint Stock Company (CSVC)	8,397,725	51	3,054,014	51
Gains Investment Corporation (GIC)	6,402,205	100	6,019,844	100
China Prosperity Development Corporation (CPDC)	5,058,928	100	4,894,483	100
China Steel Asia Pacific Holdings Pte Ltd. (CSAPH)	4,552,908	100	4,411,728	100
China Steel Global Trading Corporation (CSGT)	2,565,530	100	2,664,337	100
CSC Steel Australia Holdings Pty Ltd. (CSCAU)	2,059,395	100	708,535	100
China Steel Corporation India Pvt. Ltd. (CSCI)	1,446,174	100	-	-
China Steel Machinery Corporation (CSMC)	1,268,646	74	1,334,974	74
Info-Champ Systems Corporation (ICSC)	763,604	100	703,152	100
Kaohsiung Arena Development Corporation (KADC)	479,622	18	478,310	18
Kaohsiung Rapid Transit Corporation (KRTC)	466,249	31	814,035	31
Horng Yih Investment Corporation (HYI)	433,259	100	571,364	100
Long Yuan Fa Investment Corporation (LYFI)	427,794	100	565,559	100
Goang Yaw Investment Corporation (GYI)	424,057	100	558,685	100
China Steel Security Corporation (CSS)	412,890	100	392,109	100
Hsin Hsin Cement Enterprise Corp. (HHCEC)	332,138	31	298,414	31
Eminent II Venture Capital Corporation (EVCC II)	247,510	46	-	-
Hi-mag Magnetic Corporation (HMC)	117,863	50	121,222	50

(Continued)

	December 31			
	2012		2011	
	Amount	% of Ownership	Amount	% of Ownership
White Biotech Corporation (WBC)	$ 26,952	50	$ -	-
China Steel Management Consulting Corporation (CSMCC)	24,223	100	25,850	100
TaiAn Technologies Corporation (TTC)	9,084	17	8,444	17
	149,742,846		126,971,369	
Less: Shares held by subsidiaries accounted for as treasury stock	6,819,497		6,532,974	
	142,923,349		120,438,395	
	$ 148,970,411		$ 127,252,843	

(Concluded)

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 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% indirectly owned through CSCC.

In April and August 2010, the Corporation participated in DSC's and CSSC's private subscription, respectively. In January 2012, the Corporation invested additional NT$16,000,000 thousand in DSC through its private subscription, with the ownership percentage unchanged. 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 April 2011 and the year 2012, the Corporation continually invested additional NT$1,279,566 thousand (USD43,911 thousand) and NT$5,667,959 thousand (USD190,281 thousand) in CSVC without changing the percentage of ownership.

In January 2011 and December 2012, 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) and Qingdao China Steel Precision Metals Co., Ltd., the Corporation invested additional NT$888,941 thousand (USD30,520 thousand) and NT$156,940 thousand (USD 5,400 thousand), respectively, in CSAPH 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.

In July 2012, the Corporation invested additional NT$1,422,376 thousand (AUD45,858 thousand) in CSCAU without changing the percentage of ownership.

In 2012, the Corporation acquired 276,000 thousand common shares (100% shareholding) of CSCI by continually investing NT$1,488,722 thousand (USD50,307 thousand). CSCI mainly engages in sale of steel products.

The market values of listed equity-method investments as of December 31, 2012 and 2011 were as follows:

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

	December 31 2012	December 31 2011
CSCC	$ 8,942,334	$ 7,944,920
CHSC	3,901,285	3,632,943
CEC	3,661,486	2,969,072
CHC	2,177,704	1,765,464
CSSC	1,909,621	1,603,644
	$ 20,592,430	$ 17,916,043

The market values of the above listed stocks are calculated at their closing prices 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) recognized under the equity method for the years ended December 31, 2012 and 2011 was as follows:

	Years Ended December 31 2012	Years Ended December 31 2011
CSE	$ 3,091,422	$ 2,447,058
CAC	633,462	863,846
CSCC	563,541	640,095
CSMC	433,841	352,019
CSGT	411,076	498,217
CEC	322,743	227,791
GIC	295,573	15,127
ICSC	176,316	167,304
CPDC	161,462	139,564
CSSC	157,186	176,706
CHC	130,605	128,039
DSC	(2,327,988)	947,442
CHSC	(1,041,010)	(783,194)
KRTC	(347,786)	(464,698)
HYI	(143,955)	(109,624)
LYFI	(143,601)	(110,381)
GYI	(140,333)	(106,942)
Others	120,549	123,082
	$ 2,353,103	$ 5,151,451

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 CSCAU, Formosa Ha Tinh Steel Corporation and other companies. The related subscription schedule depends on the investees' capital increase requirements. As of December 31, 2012, the Corporation's unexecuted investments in these investees aggregated NT$21,148,986 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, 2012			
Balance, beginning of year	$ 832,969	$ (1,924)	$ 401,018
Reduction	(71,334)	5,911	-
Balance, end of year	$ 761,635	$ 3,987	$ 401,018
Year ended December 31, 2011			
Balance, beginning of year	$ 917,351	$ (1,924)	$ 401,018
Reduction	(84,382)	-	-
Balance, end of year	$ 832,969	$ (1,924)	$ 401,018

The depreciable assets comprised of property, plant and equipment, franchise from Carbon credit and Nox 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	
	2012	2011
Foreign-currency time deposits	$ 1,999,035	$ 4,297,684
Foreign-currency demand deposits	755,985	221,291
	2,755,020	4,518,975
Less: Current portion	2,721,077	2,399,287
	$ 33,943	$ 2,119,688

For the purpose of managing cash flow risk arising from exchange rate fluctuations due to purchasing imported equipment, the Corporation purchased foreign-currency deposits and entered into forward exchange contracts (Note 7). As of December 31, 2012 and 2011, the balance of the foreign-currency deposits, which were designated as hedging instruments and were purchased for expired forward exchange contracts, was NT$2,755,020 thousand (JPY0.8 billion, USD79,766 thousand and EUR 4,404 thousand) and NT$4,518,975 thousand (JPY1.6 billion, USD125,941 thousand and EUR 2,039 thousand), respectively.

The unrealized loss of NT$188,525 thousand and the unrealized gain of NT$173,396 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, 2012 and 2011, respectively. The unrealized gain on financial instruments of NT$65,867 thousand and the unrealized loss on financial instruments of NT$21,985 thousand in stockholders' equity were transferred to construction in progress and prepayments for equipment for the years ended December 31, 2012 and 2011, respectively.

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

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

14. PROPERTY, PLANT AND EQUIPMENT

	Land	Land Improvements	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Spare Parts	Construction in Progress and Prepayments for Equipment	Total
Year ended December 31, 2012									
Cost									
Balance, beginning 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
Addition	-	-	8,349,714	34,616,801	96,948	289,935	1,300,966	(22,788,322)	21,866,042
Reclassification	(1,659,599)	-	(118,167)	(82,985)	-	-	-	-	(1,860,751)
Disposal	-	(1,522)	(129,794)	(2,311,675)	(20,848)	(134,788)	(892,996)	-	(3,491,623)
Balance, end of year	9,364,677	4,222,124	53,040,845	310,518,644	1,880,782	5,273,280	7,326,242	23,256,873	414,883,467
Revaluation increment									
Balance, beginning of year	38,842,185	492,990	2,403,001	7,107,073	8,991	31,618	-	-	48,885,858
Disposal	-	(914)	(2,729)	(216,520)	(973)	(30)	-	-	(221,166)
Balance, end of year	38,842,185	492,076	2,400,272	6,890,553	8,018	31,588	-	-	48,664,692
Accumulated depreciation									
Balance, beginning of year	-	4,151,424	24,218,069	224,083,724	1,368,043	4,004,767	2,288,484	-	260,114,511
Depreciation	-	64,316	1,641,742	14,436,868	99,997	427,653	1,026,451	-	17,697,027
Reclassification	-	-	(90,625)	(78,389)	-	-	-	-	(169,014)
Disposal	-	(2,432)	(50,143)	(2,502,537)	(21,702)	(130,773)	(892,996)	-	(3,600,583)
Balance, end of year	-	4,213,308	25,719,043	235,939,666	1,446,338	4,301,647	2,421,939	-	274,041,941
Net book value, end of year	$ 48,206,862	$ 500,892	$ 29,722,074	$ 81,469,531	$ 442,462	$ 1,003,221	$ 4,904,303	$ 23,256,873	$ 189,506,218
Year ended December 31, 2011									
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
Disposal	-	-	(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
Disposal	-	-	(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	-	69,171	1,349,347	12,930,190	90,994	463,263	1,159,049	-	16,062,014
Disposal	-	-	(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

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

	Years Ended December 31	
	2012	2011
Interest expense before capitalization	$ 1,662,652	$ 1,394,216
Less: Capitalized interest - construction in progress and prepayments for equipment	304,560	624,810
Interest expense through income statement	$ 1,358,092	$ 769,406
Capitalization annual rates	1.33%-1.60%	1.36%-1.89%

Information about the revaluation increment of property, plant and equipment and patents was disclosed as follows:

	Revaluation Increment	Reserve for Land Value Increment Tax	Unrealized Revaluation Increment
In 1981 and 1994, the Corporation revalued its property, plant and equipment and patents	$ 17,662,343	$ 3,370,813	$ 14,291,530
In 2005, the government revised the land value increment tax law to reduce the tax rate	-	(1,196,189)	1,196,189
In 2008, the Corporation revalued its land in accordance with current assessed land value	26,913,284	6,502,342	20,410,942
Capitalization as capital stock	-	-	(13,952,356)

(Continued)

	Revaluation Increment	Reserve for Land Value Increment Tax	Unrealized Revaluation Increment
Retirement or sale	$ (1,143,675)	$ (3,500)	$ (37,974)
Tax effect	-	-	(36,576)
Balance, January 1, 2011	43,431,952	8,673,466	21,871,755
In 2011, the Corporation revalued its land in accordance with current assessed land value	6,088,169	1,338,450	4,749,719
Retirement or sale in 2011	(634,263)	-	(10,608)
Balance, December 31, 2011	48,885,858	10,011,916	26,610,866
Retirement or sale in 2012	(221,166)	-	(3,699)
Balance, December 31, 2012	$ 48,664,692	$ 10,011,916	$ 26,607,167

(Concluded)

15. ASSETS LEASED TO OTHERS, NET

	December 31	
	2012	2011
Cost		
Land	$ 4,592,544	$ 2,932,945
Buildings	279,983	161,816
Machinery and equipment	82,985	-
	4,955,512	3,094,761
Accumulated depreciation		
Buildings	132,250	31,401
Machinery and equipment	80,083	-
	212,333	31,401
Net book value, end of year	$ 4,743,179	$ 3,063,360

Some of the Corporation's land, buildings and machinery and equipment are leased to its related parties (Note 29). The depreciation was NT$11,918 thousand and NT$2,653 thousand for the years ended December 31, 2012 and 2011, respectively.

16. SHORT-TERM LOANS AND OVERDRAFT

	December 31	
	2012	2011
Credit loans - interest at 0.73044%-0.87% p.a. and 0.93%-0.95% p.a. as of December 31, 2012 and 2011, respectively	$ 8,125,526	$ 3,700,000
Bank overdraft - both 0.5%-0.6607% interest p.a. as of December 31, 2012 and 2011	667,727	2,764,996
Letters of credit - due within 180 days; interest at 0.5338%-0.7532% p.a. and 0.7357%-1.4157% p.a. as of December 31, 2012 and 2011, respectively	75,307	2,630
	$ 8,868,560	$ 6,467,626

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

The above credit loans as of December 31, 2012, which included USD131,733 thousand (NT$3,825,526 thousand), were used to hedge the exchange rate fluctuations on investment in CSVC (Note 28).

17. COMMERCIAL PAPER PAYABLE

	December 31	
	2012	2011
Commercial paper - interest at 0.73%-0.785% p.a. and 0.45%-0.89% p.a. as of December 31, 2012 and 2011, respectively	$ 13,300,000	$ 3,600,000
Less: Unamortized discounts	5,566	4,123
	$ 13,294,434	$ 3,595,877

The above commercial paper payable of NT$1,200,000 thousand as of December 31, 2011 was secured by Mega Bills Finance Corporation and the rest was unsecured.

18. ACCRUED EXPENSES

	December 31	
	2012	2011
Salaries and incentive bonus	$ 3,141,568	$ 3,683,711
Repair and construction	612,444	1,019,581
Utility fee	531,345	471,097
Bonus to employees, and remuneration to directors and supervisors	419,886	1,425,875
Severance pay	327,728	499,632
Others	1,472,432	1,206,213
	$ 6,505,403	$ 8,306,109

19. BONDS PAYABLE

	December 31	
	2012	2011
5-year unsecured bonds - issued at par in:		
December 2008; repayable in December 2012 and December 2013; interest at 2.08% p.a., payable annually	$ 6,500,000	$ 13,000,000
December 2008; repayable in December 2012 and December 2013; interest at 2.42% p.a., payable annually	4,800,000	9,600,000
October 2011; repayable in October 2015 and October 2016; interest at 1.36% p.a., payable annually	9,300,000	9,300,000
7-year unsecured bonds - issued at par in:		
December 2008; repayable in December 2014 and December 2015; interest at 2.30% p.a., payable annually	7,000,000	7,000,000
October 2011; repayable in October 2017 and October 2018; interest at 1.57% p.a., payable annually	10,400,000	10,400,000
August 2012; repayable in August 2018 and August 2019; interest at 1.37% p.a., payable annually	5,000,000	-

(Continued)

	December 31	
	2012	2011
10-year unsecured bonds - issued at par in:		
August 2012; repayable in August 2021 and August 2022; interest at 1.50% p.a., payable annually	$ 15,000,000	$ -
	58,000,000	49,300,000
Less: Issuance cost of bonds payable	44,475	35,574
Current portion	11,297,543	11,295,086
	$ 46,657,982	$ 37,969,340

(Concluded)

20. LONG-TERM DEBT

	December 31	
	2012	2011
Mortgage loans		
Repayable in 6 semiannual installments from July 2012 (NT$16 billion); interest at 1.46511% p.a. and 1.42706% p.a. as of December 31, 2012 and 2011, respectively	$ 13,333,333	$ 16,000,000
Credit loans		
Repayable in February 2013 (USD58,548 thousand); interest at 0.9769% - 1.01919% p.a. and 0.67712% - 0.71941% p.a. as of December 31, 2012 and 2011, respectively	1,700,234	1,772,541
Repayable in July 2015 (JPY4.95 billion); interest at 0.54379% p.a. and 0.55133% p.a. as of December 31, 2012 and 2011, respectively	1,665,180	1,933,470
Repayable in July 2015 (JPY4.95 billion); interest at 0.56282% p.a. and 0.57036% p.a. as of December 31, 2012 and 2011, respectively	1,665,180	1,933,470
Repayable in April 2014 (USD43,911 thousand); interest at 0.93753% p.a. and 0.89641% p.a. as of December 31, 2012 and 2011, respectively	1,275,175	1,329,406
Repayable in December 2012 (JPY2.6 billion) originally but extended to December 2015; interest at 0.91152% p.a. and 0.56571% p.a. as of December 31, 2012 and 2011, respectively	874,640	1,015,560
Repayable in April 2015 (USD 29,274 thousand); interest at 0.7323% p.a.	850,117	-
Repayable in April 2015 (USD 29,274 thousand); interest at 0.9659% p.a.	850,117	-
Repayable in July 2013 (AUD16,540 thousand); interest at 4.78964% p.a. and 5.65328% p.a. as of December 31, 2012 and 2011, respectively	498,929	508,357
Repayable in November 2013 (JPY1.214 billion); interest at 0.50229% p.a. and 0.535% p.a. as of December 31, 2012 and 2011, respectively	408,390	474,188
	23,121,295	24,966,992
Less: Current portion	7,940,886	3,682,227
	$ 15,180,409	$ 21,284,765

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

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	
	2012	2011
Long-term notes - interest at 0.9%-1.127% p.a. and 0.902%-1.123% p.a. as of December 31, 2012 and 2011, respectively	$ 10,500,000	$ 12,000,000
Less: Unamortized discounts	5,837	10,992
	$ 10,494,163	$ 11,989,008

The Corporation entered into commercial paper contracts with Mega Bills Finance Corporation, China Bills Finance Corporation, International Bills Finance Corporation, Grand Bills Finance Corp. and Taiwan Cooperative Bills Finance Corporation in September 2011. The duration of the contracts is four 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$123,070 thousand and NT$106,862 thousand for the years ended December 31, 2012 and 2011, 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, 2012 and 2011 was NT$773,070 thousand and NT$1,058,256 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, 2012 and 2011 was NT$4,134 thousand and NT$6,196 thousand, respectively.

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

a. Components of net pension cost

	Years Ended December 31	
	2012	2011
Service cost	$ 657,228	$ 718,114
Interest cost	430,341	505,981
Projected return on plan assets	(379,133)	(375,862)
Amortization	50,946	164,728
Settlement loss	17,822	51,491
Net pension cost	$ 777,204	$ 1,064,452

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

	December 31	
	2012	2011
Benefit obligation		
Vested benefit obligation	$ 18,121,224	$ 16,979,251
Non-vested benefit obligation	1,590,691	1,880,807
Accumulated benefit obligation	19,711,915	18,860,058
Additional benefits based on future salaries	3,086,811	3,132,653
Projected benefit obligation	22,798,726	21,992,711
Fair value of plan assets	(19,561,193)	(19,094,675)
Funded status	3,237,533	2,898,036
Unrecognized net asset at transition	13,855	23,432
Unamortized net loss	(3,052,850)	(2,742,137)
Accrued pension cost	198,538	179,331
Recorded as accrued expense	129,225	127,840
Recorded as accrued pension cost	$ 69,313	$ 51,491
Vested benefits	$ 19,961,597	$ 19,463,815

c. Actuarial assumptions

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

	Years Ended December 31	
	2012	2011
d. Contributions to the fund	$ 770,541	$ 923,269
e. Payments from the fund	$ 490,635	$ 940,318

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

23. DEFERRED CREDITS - GAIN FROM AFFILIATES

	December 31	
	2012	2011
Gain on disposal of land	$ 1,136,164	$ 1,136,164
Gain on contracted projects	914,622	968,765
Gain on disposal of stocks	-	35,282
	$ 2,050,786	$ 2,140,211

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, DSC, CAC and CHSC's subsidiary, Hung Li Steel Corporation Ltd., resulting in deferred gain. Such deferred credits are recognized as income over 8 to 28 years after completion of the constructions.

The Corporation sold its financial assets carried at cost to GIC, and recognized unrealized gain on disposal of investments, which will be realized when GIC disposes of the stock.

24. STOCKHOLDERS' EQUITY

a. Capital stock

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

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

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

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

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

b. Treasury stock

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

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

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

c. Overseas depositary receipts

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

d. Preferred stock

Preferred stockholders have the following entitlements and obligation:

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

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

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

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

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

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

e. Capital surplus

Capital surplus comprised the following:

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

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

f. Appropriation of retained earnings and dividend policy

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

1) 10% as legal reserve;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	Appropriation of Earnings	Dividends Per Share (NT Dollars)
Legal reserve	$ 581,149	
Preferred stocks		
Cash dividends	49,748	$ 1.3
Stock dividends	3,827	0.1
		$ 1.4
Common stocks		
Cash dividends	6,108,990	$ 0.4
Stock dividends	1,527,248	0.1
	$ 8,270,962	$ 0.5

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

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

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

g. Unrealized revaluation increment

Unrealized revaluation increment comprised the following:

	December 31	
	2012	2011
Revaluation increment of property, plant and equipment	$ 26,607,167	$ 26,610,866

(Note 14)
Recognized in proportion to the ownership percentage in long-term stock investments

Recognized in proportion to the ownership percentage in long-term stock investments	142,957	146,724
	$ 26,750,124	$ 26,757,590

h. Unrealized gain on financial instruments

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

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

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

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

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

i. Cumulative translation adjustments

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

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

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	
	2012	2011
Income tax at the statutory rate	$ 1,042,197	$ 3,448,398
Tax effect of adjusting items		
Permanent differences		
Investment income recognized under equity method - domestic investees	(409,267)	(877,828)
Unrealized gain on valuation of financial assets and on disposal of investments	(188,032)	(511)
Others	(8,217)	(8,592)
Temporary differences		
Difference between tax reporting and financial reporting - depreciation methods	110,967	112,983
Unrealized loss on purchase commitments	59,060	2,631
Unrealized (realized) provision for loss on inventories	(165,570)	515,177
Realized impairment loss of investees	(5,814)	(41,356)
Cash dividends - foreign investees	-	36,869
Others	(30,517)	(120,840)
Investment tax credits used	(14,082)	(1,533,465)
Additional 10% income tax on unappropriated earnings	3,713	4,838
Income tax currently payable	394,438	1,538,304
Adjustments for prior years' tax	1,211,829	166,413
Current income tax expense	1,606,267	1,704,717
Deferred tax		
Temporary differences	39,638	(543,311)
Investment tax credits	(1,326,824)	(370,392)
	$ 319,081	$ 791,014

b. Changes in income tax payable

	Years Ended December 31	
	2012	2011
Balance, beginning of year	$ 2,520,677	$ 4,834,790
Current income tax expense	1,606,267	1,704,717
Payment in the current year	(2,690,351)	(4,183,530)
Transferred to other receivables	(68,280)	164,700
Balance, end of year	$ 1,368,313	$ 2,520,677

The Corporation adopted the linked tax system for tax filing with subsidiary - DSC since 2009. Payments in 2012 and 2011 included payments of NT$694,722 thousand and NT$1,165,973 thousand, respectively, 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.

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

	December 31	
	2012	2011
Current		
Deferred income tax assets		
Unrealized provision for loss on inventories	$ 518,610	$ 684,180
Unrealized loss on service commitments	172,599	221,163
Unrealized loss on purchase commitments	61,691	2,631
Estimated preferential severance pay	55,681	84,905
Unrealized gain from affiliates	25,067	9,686
Investment tax credits	-	370,392
Others	40,565	27,613
	874,213	1,400,570
Deferred income tax liabilities		
Difference between tax reporting and financial reporting - inventory	(17,065)	(21,236)
Total deferred income tax assets - current, net	857,148	1,379,334
Noncurrent		
Deferred income tax assets		
Investment tax credits	1,697,216	-
Impairment loss	938,658	944,472
Unrealized gain from affiliates	155,486	164,690
Unrealized settlement gain on hedging of forward exchange	103,375	91,220
Others	45,026	46,364
	2,939,761	1,246,746

(Continued)

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

	December 31	
	2012	2011
Deferred income tax liabilities		
Difference between tax reporting and financial reporting - depreciation methods	$ (1,094,613)	$ (1,206,068)
Foreign investment income	(338,503)	(347,743)
Unrealized exchange gains, net	(51,146)	(46,808)
Unrealized gain on revaluation increment	(33,647)	(34,404)
Unrealized gain on cash flow hedge	(1,297)	(57,977)
	(1,519,206)	(1,693,000)
Total deferred income tax assets (liabilities) - noncurrent, net	1,420,555	(446,254)
Total deferred income tax assets	$ 2,277,703	$ 933,080

(Concluded)

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 2016.

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 2008 have been examined by the tax authorities.

d. Information about integrated income tax was as follows:

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

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

For distribution of earnings generated after January 1, 1998, the ratio for the imputation credits allocated to domestic shareholders of the Corporation is based on the balance of the ICA as of the date of dividend distribution. Nonresident stockholders, including holders of overseas depository receipts, are allowed only a tax credit from the 10% income tax on unappropriated earnings, which can be used to offset withholding income tax on dividends paid. The estimated creditable ratio for the 2012 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							
	2012				2011			
	Operating Cost	Operating Expense	Others	Total	Operating Cost	Operating Expense	Others	Total
Personnel								
Salary	$ 11,374,235	$ 2,011,250	$ 203,279	$ 13,588,764	$ 13,651,003	$ 2,448,189	$ 249,154	$ 16,348,346
Labor and health insurance	676,285	112,963	7,227	796,475	630,039	104,047	6,087	740,173
Pension and consolation costs	733,011	226,917	28,198	988,126	931,492	269,025	10,953	1,211,470
Others	369,871	206,763	16,623	593,257	405,329	164,097	14,795	584,221
	$ 13,153,402	$ 2,557,893	$ 255,327	$ 15,966,622	$ 15,617,863	$ 2,985,358	$ 280,989	$ 18,884,210
Depreciation	$ 17,321,688	$ 375,339	$ 11,918	$ 17,708,945	$ 15,694,226	$ 367,788	$ 2,653	$ 16,064,667
Amortization	42,006	187	-	42,193	42,007	357	-	42,364

27. EARNINGS PER SHARE

	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
Year ended December 31, 2012					
Net income	$ 6,130,571	$ 5,811,490			
Less: Dividends on preferred shares	(56,517)	(53,575)			
Basic EPS					
Net income attributable to common stockholders	6,074,054	5,757,915	14,962,661	$ 0.41	$ 0.38
Effect of dilutive potential common stock					
Add: Bonus to employees	-	-	38,979		
Diluted EPS					
Net income attributable to common stockholders plus effect of potential dilutive common stock	$ 6,074,054	$ 5,757,915	15,001,640	0.40	0.38
Year ended December 31, 2011					
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	14,482,986	1.40	1.34
Effect of dilutive potential common stock					
Add: Dividends on preferred shares	55,749	53,575	38,268		
Bonus to employees	-	-	92,101		
Diluted EPS					
Net income attributable to common stockholders plus effect of potential dilutive common stock	$ 20,284,693	$ 19,493,679	14,613,355	1.39	1.33

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

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

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

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

28. FINANCIAL INSTRUMENTS

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

	December 31			
	2012		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Non-derivative financial instruments				
Assets				
Available-for-sale financial assets (including noncurrent)	$ 4,904,620	$ 4,904,620	$ 5,468,276	$ 5,468,276
Financial assets carried at cost	8,068,823		7,421,220	
Bond investments with no active market	3,364,000	3,364,000	3,906,000	3,906,000
Other financial assets (including noncurrent)	2,755,020	2,755,020	4,518,975	4,518,975
Refundable deposits	144,807	144,807	223,215	223,215
Liabilities				
Bonds payable (including current portion)	57,955,525	58,295,428	49,264,426	49,978,155
Long-term debt (including current portion)	23,121,295	23,121,295	24,966,992	24,966,992
Long-term notes payable	10,494,163	10,494,163	11,989,008	11,989,008
Derivative financial instrument				
Hedging derivative assets (including noncurrent)	37,162	37,162	112,017	112,017
Hedging derivative liabilities (including noncurrent)	12,203	12,203	8,041	8,041

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

1) The carrying values 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, 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 hedging derivative financial instruments are determined at their market value. If there is no market value available for reference, the fair values are determined through valuation techniques. For stocks acquired through private placement and not transferred freely in public market, fair values are determined by using valuation techniques adopted by the Corporation based on information from the Market Observation Post System, the Taiwan Stock Exchange and 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 exchange contracts, the translation to New Taiwan dollars used exchange rates 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, 2012 and 2011 were from 0.2% to 4.78964% and from 0.35% to 5.65328%, 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.

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	
	2012	2011	2012	2011
Assets				
Available-for-sale financial assets (including noncurrent)	$ 4,457,328	$ 5,090,847	$ 447,292	$ 377,429
Bond investments with no active market	-	-	3,364,000	3,906,000
Other financial assets (including noncurrent)	-	-	2,755,020	4,518,975
Hedging derivative assets (including noncurrent)	-	-	37,162	112,017
Refundable deposits	-	-	144,807	223,215
Liabilities				
Hedging derivative liabilities (including noncurrent)	-	-	12,203	8,041
Bonds payables (including current portion)	58,295,428	49,978,155	-	-
Long-term debt (including current portion)	-	-	23,121,295	24,966,992
Long-term notes payable	-	-	10,494,163	11,989,008

d. There was no gain or loss from changes in fair value by using valuation technique for the years ended December 31, 2012 and 2011.

e. As of December 31, 2012 and 2011, financial liabilities exposed to cash flow interest rate risk amounted to NT$42,484,018 thousand and NT$43,423,626 thousand, respectively, and financial liabilities exposed to fair value interest rate risk amounted to NT$71,249,959 thousand and NT$52,860,303 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$109,872 thousand and NT$1,662,652 thousand, respectively, for the year ended December 31, 2012 and NT$121,480 thousand and NT$1,394,216 thousand, respectively, for the year ended December 31, 2011.

g. Financial risks

1) Market risk

Market risk includes exchange rate risk, fair value risk of interest rate change, and market price risk. The Corporation had loans in foreign currencies to hedge the exchange rate fluctuations on its long term investment in foreign currencies, thus, the exchange rate risk can be hedged naturally. The Corporation issues bonds with fixed interest rate, but the fair value of the bonds payable may be influenced by market interest rate change. If market interest rate increases or decreases by 1%, the fair value of bonds payable will decrease or increase by about NT$2,701,796 thousand.

The Corporation's available-for-sale financial assets are subject to market price risk. If the share price increases or decreases by 1%, the fair value will increase or decrease by about NT$49,046 thousand.

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

2) Credit risk

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

As of December 31, 2012, the maximum credit risk of off-balance-sheet guarantees provided to DSC for procurement compliance and CSCAU for investment compliance was NT$22,503,365 thousand (USD399,565 thousand and AUD359,314 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$424,840 thousand.

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

The Corporation has debts 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 bank deposits - foreign currency and forward contracts to effectively hedge the exchange rate fluctuations on capital expenditures and sales contracts.

		Designated Hedging Instrument		
			Changes in Fair Value	
			Years Ended December 31	
Hedge Type	**Hedged Item**	**Financial Instrument**	**2012**	**2011**
Fair value hedge	Investments in EAUS Corporation (recorded as bond investments with no active market - noncurrent)	Debt in JPY	$ 536,580	$ (320,265)
Fair value hedge	Investments in Maruichi Steel Tube Ltd. (recorded as available-for-sale financial assets - noncurrent)	Debt in JPY	140,920	(84,110)
Fair value hedge	Investments in Yodogawa Steel Works, Ltd. (recorded as available-for-sale financial assets - noncurrent)	Debt in JPY	65,798	(39,273)
Hedge of a net investment in a foreign operation	Investment in CSCAU (recorded as investments accounted for by the equity method)	Debt in AUD	9,428	(17,466)
Hedge of a net investment in a foreign operation	Investment in CSVC (recorded as investments accounted for by the equity method)	Debt in USD	268,735	(44,687)
Cash flow hedge	Contracts for purchasing machinery and equipment	Bank deposits-foreign - currency	(188,525)	173,396
Cash flow hedge	Contracts for selling goods and contracts for purchasing machinery and equipment	Forward contracts	(73,379)	110,481

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

As of December 31, 2012 and 2011, the fair values of the above foreign currency deposits on cash flow hedge were NT$2,755,020 thousand and NT$4,518,975 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 Co., Ltd. (CSSC)	Affiliate
Chung Hung Steel Corporation (CHSC)	Affiliate
China Steel Machinery Corporation (CSMC)	Affiliate
Gains Investment Corporation	Affiliate
China Steel Security Corporation	Affiliate
China Prosperity Development Corporation	Affiliate
Info-Champ Systems Corporation (ICSC)	Affiliate
China Steel Management Consulting Corporation	Affiliate
Hi-mag Magnetic Corporation (HMC)	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	Affiliate
CSC Steel Australia Holdings Pty Ltd. (CSCAU)	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 Corporation	Affiliate
Union Steel Development Corp.	Affiliate
Betacera Inc.	Affiliate
Wabo Globe Trading Corporation	Affiliate
Universal Exchange Inc.	Affiliate
United Steel 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.	Affiliate
Group Steel Corp. (M) Sdn. Bhd.	Affiliate

(Continued)

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

Related Parties	Relationship with the Corporation
CSGT JAPAN Co., Ltd.	Affiliate
CSGT Hong Kong Limited	Affiliate
CSGT (SHANGHAI) Co., Ltd.	Affiliate
Ever Glory International Co., Ltd.	Affiliate
CSC Sonoma Pty Ltd.	Affiliate
Changzhou China Steel Precision Materials Corporation	Affiliate
Kaohsiung Rapid Transit Corporation	Equity method investee
TaiAn Technologies Corporation	Equity method investee
Hsin Hsin Cement Enterprise Corp.	Equity method investee
Kaohsiung Port Cargo Handling Services Corp.	Equity method 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.	Rechi Precision Co., Ltd.'s director
CSC Educational Foundation	Foundation established mainly from the Corporation's donation
Others	Substantial control and significant influence over investees, but no material transaction

(Concluded)

b. Significant related-party transactions were as follows:

Sales

Sales to related parties were NT$17,678,400 thousand (9%, including CSBC, CSSC and CSCC, etc.) and NT$18,597,483 thousand (8%, including CSBC, CSSC and CSCC, etc.) respectively, for the years ended December 31, 2012 and 2011.

Purchase

Purchases from related parties were NT$19,107,363 thousand (14%, including CSEP, DSC and CSE, etc.) and NT$25,327,323 thousand (14%, including DSC, CSEP and CAC, etc.) respectively, for the years ended December 31, 2012 and 2011.

Except for selling product to CSCC and purchasing product from CSEP, DSC, CSE and CAC which the Corporation had no similar transaction with other unrelated parties, sales to and purchases from related parties were made under normal terms applied to similar transactions in the market.

Commission revenue

The Corporation signed the brokerage contract with DSC. For the years ended December 31, 2012 and 2011, the commission revenue was NT$351,656 thousand and NT$403,924 thousand, respectively.

Assets lease

The Corporation leases its land and machinery equipment to CAC, CSMC, CSCC, HMC 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:

	Expiry of Contracts	Rental Income for the Years Ended December 31			
		2012		2011	
		Amount	%	Amount	%
CSMC	November 2016	$ 68,141	39	$ 30,155	20
CAC	February 2016	37,080	21	39,142	26
CSCC	June 2019	23,714	13	23,078	15
Others	October 2017	20,858	12	28,919	18
		$ 149,793	85	$ 121,294	79

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, 2012					
DSC	$ 854,555	14	$ 3,549	1	$ 858,104
TEI	661,359	11	125	-	661,484
CHSC (Note 11)	68,268	1	315,926	37	384,194
Others	992,903	16	78,321	9	1,071,224
	$ 2,577,085	42	$ 397,921	47	$ 2,975,006
Year ended December 31, 2011					
DSC	$ 1,344,688	23	$ 10,483	2	$ 1,355,171
TEI	707,547	12	125	-	707,672
CHSC (Note 11)	60,766	1	321,659	40	382,425
Others	609,629	10	98,016	12	707,645
	$ 2,722,630	46	$ 430,283	54	$ 3,152,913

Other expenditures

Other expenditures paid to related parties for the years ended December 31, 2012 and 2011 (including CEC, CHC and CSMC, etc.) were NT$4,968,768 thousand and NT$4,983,283 thousand, respectively. Other expenditures that pertained to commissions for processing services, 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.

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

Capital expenditures

	Years Ended December 31			
	2012		2011	
	Amount	%	Amount	%
CEC	$ 2,169,414	10	$ 1,029,230	7
CSMC	1,910,546	8	1,928,664	13
Others	2,196,389	10	1,189,566	7
	$ 6,276,349	28	$ 4,147,460	27

Guarantees

As of December 31, 2012, guarantees provided to DSC for procurement compliance and to CSCAU for investment compliance were NT$22,503,365 thousand (USD399,565 thousand and AUD359,314 thousand); as of December 31, 2011, guarantees provided to DSC for procurement compliance were NT$13,803,860 thousand (USD 455,197 thousand).

Balances at year-end

	December 31			
	2012		2011	
	Amount	%	Amount	%
Notes receivable - related parties				
CSBC	$ 519,433	52	$ 468,369	35
Others	20	-	30	-
	$ 519,453	52	$ 468,399	35
Accounts receivable - related parties				
CSCC	$ 303,385	8	$ 278,479	9
DSC	289,865	8	119,663	4
Others	237,645	7	155,074	4
	$ 830,895	23	$ 553,216	17
Accounts payable - related parties				
CSE	$ 168,359	4	$ 206,972	3
CSEP	122,289	3	378,810	7
Others	206,320	5	265,532	5
	$ 496,968	12	$ 851,314	15
Consignment payable (recorded as other payables)				
DSC	$ 816,401	10	$ 345,327	7
Repair and construction payable (recorded as other payables)				
CSMC	$ 625,537	7	$ 388,975	8
ICSC	449,665	5	280,612	6
CEC	416,375	5	235,616	5
Others	230,140	3	85,316	1
	$ 1,721,717	20	$ 990,519	20

c. Compensation of directors, supervisors and management personnel

	Years Ended December 31	
	2012	2011
Salaries	$ 55,415	$ 78,527
Incentives	8,231	21,307
Bonus	6,222	21,534
	$ 69,868	$ 121,368

30. PLEDGED ASSETS

Time deposits of NT$5,658,819 thousand (recorded as restricted assets - current and noncurrent) as of both December 31, 2012 and 2011, have been pledged mainly as collaterals for bank overdraft, etc. As of both December 31, 2012 and 2011, land with book value (including revaluation increment) of NT$18,875,450 thousand, had been pledged as collateral for a long-term debt.

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

a. The Corporation provide letters of credits of NT$463,722 thousand guaranteed by Mega International Commercial Bank, Shanghai Commercial and Savings Bank and the Land Bank of Taiwan for several construction, lease and payment contracts.

b. Unused letters of credit to import materials and machinery amounted to NT$6 billion.

c. Property purchase and construction contracts of NT$6.8 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 7,380,000 metric tons of coal, 17,600,000 metric tons of iron ore, and 2,120,000 metric tons of limestone are at prices negotiable by the counter parties. Purchase commitments as of December 31, 2012 were USD10.3 billion (including 9,890,000 metric tons of coal; 70,400,000 metric tons of iron ore; and 550,000 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, 2012, 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, 2012, the Corporation's equity in DSC aggregated 100% and held all board seats.

g. Guarantees provided to related parties for procurement and investment compliances were NT$22,503,365 thousand (USD399,565 thousand and AUD359,314 thousand) (Note 29).

32. OPERATING SEGMENT INFORMATION

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

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

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

	December 31					
	2012			2011		
	Foreign Currencies (Thousands)	Exchange Rate	New Taiwan Dollars (Thousands)	Foreign Currencies (Thousands)	Exchange Rate	New Taiwan Dollars (Thousands)
Monetary financial assets						
USD	$ 180,715	29.04	$ 5,247,974	$ 177,733	30.275	$ 5,380,863
JPY	11,181,621	0.3364	3,761,470	12,508,348	0.3906	4,885,761
EUR	4,461	38.49	171,697	2,059	39.18	80,658
Non-monetary financial assets						
JPY	4,550,000	0.3364	1,530,620	4,102,000	0.3906	1,602,241
Investments accounted for by the equity method						
USD	445,958	29.04	12,950,633	246,598	30.275	7,465,742
AUD	68,271	30.165	2,059,395	23,053	30.735	708,535
INR	2,729,660	0.5298	1,446,174	-	-	-
Monetary financial liabilities						
USD	390,794	29.04	11,348,733	258,417	30.275	7,823,574
JPY	14,008,891	0.3364	4,712,591	13,899,203	0.3906	5,429,029
AUD	16,540	30.165	498,929	16,540	30.735	508,357
EUR	586	38.49	22,555	142	39.18	5,554

Derivative Financial Instruments

	Currency	Contract Exchange Rate	Contract Amount (In Thousands)
December 31, 2012			
Forward exchange contracts - buy	NTD/USD	27.208-29.896	NTD2,031,467/USD70,729
Forward exchange contracts - buy	NTD/EUR	38.865-40.58	NTD67,767/EUR1,728
Forward exchange contracts - sell	JPY/NTD	0.3385-0.3401	JPY1,000,000/NTD339,200
December 31, 2011			
Forward exchange contracts - buy	NTD/USD	27.208-30.238	NTD2,421,149/USD84,579
Forward exchange contracts - buy	NTD/EUR	40.58-42.915	NTD133,699/EUR3,216

Ownership Of Subsidiaries And Other Equity Interests

December 31, 2012

Companies	Amount	Ownership
	(NT$1,000)	(%)
Investments Accounted for by the Equity Method		
Stocks listed on the Taiwan Stock Exchange		
Chung Hung Steel Corporation[17]	2,510,525	29
China Steel Chemical Corporation	1,911,866	29
China Steel Structure Corporation[18]	1,475,367	33
China Ecotek Corporation	1,034,347	48
CHC Resources Corporation	710,808	20
Less Shares held by subsidiaries accounted for as treasury stock	1,595,851	
Subtotal	6,047,062	
Stock without quoted market prices		
Dragon Steel Corporation	93,871,635	100
China Steel Express Corporation	10,786,189	100
C. S. Aluminum Corporation	9,168,266	100
China Steel Sumikin Vietnam Joint Stock Company	8,397,725	51
Gains Investment Corporation	6,402,205	100
China Prosperity Development Corporation	5,058,928	100
China Steel Asia Pacific Holdings Pte Ltd	4,552,908	100
China Steel Global Trading Corporation	2,565,530	100
China Steel Australia Holdings Pty Ltd	2,059,395	100
China Steel Corporation India Pvt Ltd	1,446,174	100
China Steel Machinery Corporation	1,268,646	74
Info-Champ System Corporation	763,604	100
Kaohsiung Arena Development Corporation[19]	479,622	18
Kaohsiung Rapid Transit Corporation	466,249	31
Horng Yih Investment Corporation	433,259	100
Long Yuan Fa Investment Corporation	427,794	100
Goang Yaw Investment Corporation	424,057	100
China Steel Security Corporation	412,890	100
Hsin Hsin Cement Enterprise Corp.[20]	332,138	31
Eminent II Venture Capital Corporation	247,510	46
Hi-mag Magnetic Corporation	117,863	50
White Biotech Corporation	26,952	50
China Steel Management Consulting Corporation	24,223	100
TaiAn Technologies Corporation [21]	9,084	17
Baolai Greeting Development Co., Ltd	0	45
Less Shares held by subsidiaries accounted for as treasury stock	6,819,497	
Subtotal	142,923,349	
Total	148,970,411	

[17] 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. On December 27, 2012, the resolution of merger with Goang Yaw Investment Corporation, Horng Yih Investment Corporation, and Long Yuan Fa Investment Corporation was adopted in the Corporation’s 16th meeting of the 14th Board of Directors. The above resolution will be reported to shareholders’ meeting in June 2013.

[18] 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.

	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
TaiGen Biopharmaceuticals Holdings Limited	85,118	4
Overseas Investment & Development Corporation	50,000	6
CDIB BioScience Ventures I, Inc	40,704	5
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	6,439,912	
Certificate of entitlement		
Formosa Ha Tinh Steel Corporation	1,628,911	5
Total	8,068,823	
Bond Investments with no Active Market		
Unquoted preferred stocks		
East Asia United Steel Corp.- Preferred A	3,364,000	29
Total	3,364,000	
Available-For-Sale Financial Assets-Noncurrent		
Quoted stocks		
Maruichi Steel Tube Ltd.	1,332,144	2
Tang Eng Iron Works Corporation	952,556	9
CSBC Corporation Taiwan	328,701	2
Yodogawa Steel Works, Ltd	198,476	1
Subtotal	2,811,877	
Private-placement shares		
Rechi Precision Co., Ltd	447,292	5
Total	3,259,169	
TOTAL	164,204,403	

19 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.

20 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.

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

Main Businesses And Addresses Of Subsidiaries

(as of March 31, 2013)

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 business: 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 business: 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 business: 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 business: 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: Yi-Hwa Lee
Main business: steel structures, construction
Address: No.500, Zhongxing Rd., Yanchao Dist., Kaohsiung City 824, Taiwan, R.O.C.
Tel: 886-7-616-8688
Fax: 886-7-616-8680

Chung Hung Steel Corporation

Chairman: Y. S. Chen
President: Terry J.C. King
Main business: hot rolled and cold rolled steel products, steel pipe
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 business: 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 business: 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 business: 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: 886-7-805-1088
Fax: 886-7-803-7819

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: Jyh-Yuh Sung
President: Horng-Nan Lin
Main business: hot-rolled steel products
Address: No.100, Lung Chang Road, Li Shui Village, Lung Ching District, Taichung 43445, Taiwan, R.O.C.
Tel: 886-4-2630-6088
Fax: 886-4-2630-6066

CSC Steel Sdn. Bhd. [22]

President: High-Pinn Chen
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-(0)64-3931168
Fax: 84-(0)64-3932188

China Steel Precision Materials Corporation [22]

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 Pvt. Ltd.

Chairman: J. D. Lin
President: Chun-Kung Chang
Main business: electrical steel coils (under construction)
Address: 804 Iscon Atria , Opp. GEB Training Center, Gotri Road, Vadodara – 390015, Gujarat, India
Tel: 91-922-7989880

Qingdao China Steel Precision Metals Co., Ltd. [22]

Chairman: Wen-Du Hsu
President: Kuen Liu
Main business: Metal materials and products, car accessories, customized metal processing (under construction)
Address: 3F. No.500 , Fenjin Road, Economic & Technological District. Qingdao City, Shandong , China
Tel: 86-532-58718558

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

HEAD OFFICE
1 Chung Kang Road, Siaogang District, Kaohsiung 81233,
Taiwan, R.O.C.
Tel：886-7-802-1111
Fax：886-7-802-2511, 801-9427
Web-site：http: //www.csc.com.tw

TAIPEI LIAISON OFFICE
Room A, 28F, Taipei 101 Tower, 7 Xin-Yi Road, Section 5, Taipei 11049,
Taiwan, R.O.C.
Tel：886-2-8758-0000
Fax：886-2-8758-0007

SINGAPORE OFFICE
#14-01 MAS Building, 10 Shenton Way,
Singapore 079117
Tel：65-6223-8777~8
Fax：65-6225-6054

OSAKA OFFICE
Osaka U2 Bldg., 4-7 Uchihonmachi 2-Chome,
Chuoku, Osaka 540-0026, Japan
Tel：81-6-6910-0888
Fax：81-6-6910-0887

NEW DELHI OFFICE
S-3 Level, Block-E, International Trade Tower,
Nehru Place, New Delhi-110019, India
Tel：91-11-4057-3739
Fax：91-11-4057-3741

CHINASTEEL

PRINTED WITH SOY INK