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# 2017 Annual Report

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## Letter to Shareholders

Dear shareholders,

In the beginning of 2017, steel mills worldwide raised price thanks to cost push factors and expectation of decent global demand. With prevailing optimism, steel inventory soon stacked up, and global spot price went south through the 2nd quarter. In the meantime, coking coal price soared to over \$300 after Cyclone Debbie hit Australia. We experienced margin squeeze in the 2nd and 3rd quarters because of cost pressure and lower selling price. Moving towards the end of the year, we saw better steel demand and more disciplined market as Chinese government eliminated substandard steel and swore to cut production in the wintertime. Our operating performance picked up in the 4th quarter.

To sail through the volatility, we tried our best to save cost and achieved a total saving of NT\$3.96 billion in 2017. CSC's 2017 operating revenue amounted to NT\$207.099 billion, which was 22.60% more than that in 2016 mainly due to the increase of the unit prices of steel products in sales. Gross profit in 2017 was NT\$19.530 billion, which was 10.22% less than that in 2016 mainly owing to the fact that the increase of the unit costs of steel products was more than that of the unit prices. The non-operating income in 2017 was NT\$6.946 billion, which was 40.26% more than that in 2016 and mainly attributable to the increase of the share of profit of subsidiaries and associates recognized under the equity method. Net profit in 2017 amounted to NT\$16.906 billion, which was 5.41% more than that in 2016.

In the past year, we received various awards, such as best IR in materials sector by IR Magazine, Gold Class Sustainability leaders by RobecoSAM, etc. Also, CSC was included in DJSI for the 6th consecutive year, and continued to be the constituent of MSCI ESG and FTSE4Good Emerging Index, showing our strong commitment to corporate social responsibility, corporate governance, and investor relations.

### **An Overview of the Business Situation**

The major issues that the international steel industry faced in 2017 were:

- (1) The global economy continued to expand. On January 22, 2018, the International Monetary Fund (IMF) published the 2017 global economic growth rate to be 3.7%, which was 0.5 percentage point higher than that of 2016 (3.2%).
- (2) The global steel demand was on the increase in a steady manner. World Steel Association (worldsteel) published the statistics that the global apparent use of finished steel in 2017 was 1.587 billion metric tons, which was increased by 4.7% in

comparison with that in 2016.

(3) Global crude steel production continued to grow. World Steel Association also published on January 24, 2018 that the global crude steel production in 2017 was 1.691 billion metric tons, which was increased by 5.3% in comparison with that in 2016.

The main factors which influenced the operations of the steel industry in Taiwan included:

(1) The demand of steel was weak. According to the statistics published by worldsteel, there was a 3.4% decrease of the apparent use of finished steel in Taiwan in 2017 in comparison with that in 2016, the main causes of which were the facts that there were not as many released domestic public construction projects and launch of new construction projects as expected, and domestic vehicle sales fell by 3.75%.

(2) Export sales outperformed domestic sales. According to the statistics on imports and exports published by the Ministry of Finance in 2017, the accumulated export value of base metals and articles of base metals reached US\$29.05 billion, which increased by 18.4% in comparison with that of 2016, indicating that overall sales had increased steadily.

CSC's 2017 operating directives, with the execution status, included the following key points:

(1) Reaching the summit with production and sales of a modular structured smart factory: There were five themes regarding CSC's modular structured smart factory, namely, sales, production, smart services, smart quality control, and integration of export sales. The aim was to enhance punctual delivery and customer satisfaction. Delivery of steel products reached 10.846 million metric tons in 2017, which was 118% of the targeted amount.

(2) Creation of a comparative advantage by increasing profit and cutting expenses: The campaign for the reduction of costs was continuously promoted in a systematic and scientific manner. All of the employees enhanced their awareness of costs. Reduction of costs reached NT\$3.96 billion in 2017, which was 122% of the targeted amount. The expansion of the light rail engineering business was cautiously evaluated. Revenue from external engineering businesses was NT\$2.044 billion in 2017, which was 85.9% of the targeted amount mainly due to the changes of the contracts and project extension for the Danhai Light Rail Transit.

(3) Succession of innovation to make a brand new start: According to the operational

development strategies and industrial trends, planning for five R&D themes, namely, core technology for the electric vehicle industry, smart production technology, technologies for environmental protection and reduction of carbon emissions, development of key industrial materials, and development of key materials for the government's "5+2" Innovative Industrial Plan, was completed to solidify CSC's technical foundation for its sustainable development. Orders for high-grade products reached 5.348 million metric tons, which was 46.98% of the total orders in 2017.

(4) Increasing value of the light rail and wind power businesses: CSC participated in the development of Offshore Wind Farm #29 at Changhua and established a production line of jacket substructure in Sinda Port, Kaohsiung. Furthermore, it continued to promote the three ongoing engineering projects, namely, the Danhai Light Rail Transit (LRT) System, the EPC Project (Phase II) of the Circular Line (KMRT), and the Ankeng Light Rail Transit System.

### **2018 Outlook**

The International Monetary Fund (IMF) published the 2018 global economic growth rate to be 3.9%; global economic activities will be more robust in the next two years.

The Directorate General of Budget, Accounting and Statistics (DGBAS) published the 2018 economic growth rate in Taiwan to be 2.42%. In terms of steel demand, worldsteel predicted that the global steel demand in 2018 would increase by 1.6% in comparison with that in 2017, with the global apparent use of finished steel reaching 1.648 billion metric tons. In terms of steel supply, World Steel Dynamics (WSD) published on December 22, 2017 that global crude steel production in 2018 would be 2.7% more than that in 2017. As observed, the development of infrastructure projects in Europe, North America, Japan, and Southeast Asia is flourishing, and domestic public projects are expected to be launched in 2018, both of which will drive the increase in steel demand. Nonetheless, interest rate policies of central banks, Brexit, geopolitical tensions, and extreme climate change will become uncertain factors affecting the stability of international steel prices. President Trump decided to impose a 25% tariff on imported steel according to the report on investigation into the effect of imports of steel on national security under Section 232 of the Trade Expansion Act of 1962 on March 8, 2018. The impact of this move on the global steel industry remains to be observed as the countries or steel imports may be exempted through negotiation. To sum up, the steel market remains cautiously optimistic in 2018.

To enhance long-term competitiveness, CSC has mapped out its 2018-2022 operation and development strategies (5-year operating strategies) for the steel business as follows: (1) succession of the corporate culture, promotion of career development,

establishment of the LOHAS environment, and promotion of the Group's image, (2) enhancement of lean customer services, strengthening of strategic partnership, consolidation of the sales position in the domestic market, and expansion of the export distribution channels, (3) integration of the deployment of Group resources, uniting related industries, and promotion of the Group's operational synergy, (4) research and development of advanced products as well as materials for national defense use and their application technology, promotion of innovative and smart production, and increasing the value of the steel industry chain (5) enhancement of the Group's engineering autonomy and cautious development of the wind power and light rail businesses, and (6) continuous reduction of costs, improvement of energy conservation and environmental protection, enhancement of safety and health, and increasing the value and quantity of the Group's products.

Based on the 5-year operating strategies, directives for 2018 include: (1) Enhancement of effectiveness by smart production and marketing, (2) reduction of energy consumption and dedication to circular economy, (3) promotion of the grades and quality of products with innovative technology, and (4) succession of heritage and advancement of core values. Targets for 2018 include: (1) reduction of costs equals to or exceeds NT\$3.8 billion, (2) delivery of steel products equals to or exceeds 9.41 million metric tons, (3) orders for high-grade products, including hot-rolled products produced by DSC, equal to or exceed 5.20 million metric tons, (4) revenue from external engineering businesses equals to or exceeds NT\$1.9 billion, and (5) no cases of major occupational accidents.

A big thank you to all shareholders who supported us over the years. Our management team and employees will all keep doing our best to maximize shareholder value. We also look forward to receiving your suggestions and building a brighter future of China Steel together.



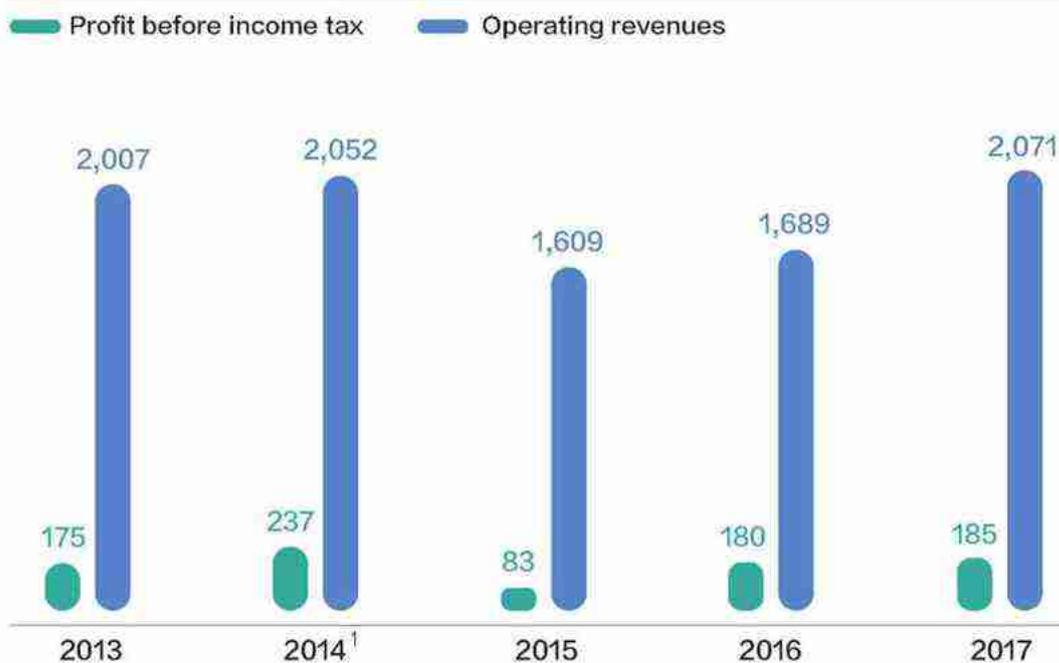
Chao-Tung Wong  
Chairman



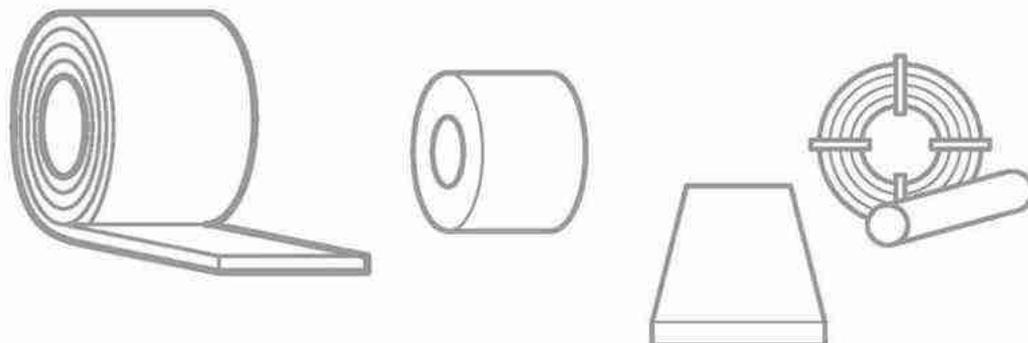
Horng-Nan Lin  
President

# HIGHLIGHTS OF OPERATING RESULTS

## Operating Revenues and Profit before income tax (in hundred millions of New Taiwan Dollars)



<sup>1</sup> Starting from 2015, CSC applied the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the 2013 version of the IFRSs. The 2014 financial statements were recompiled retroactively.

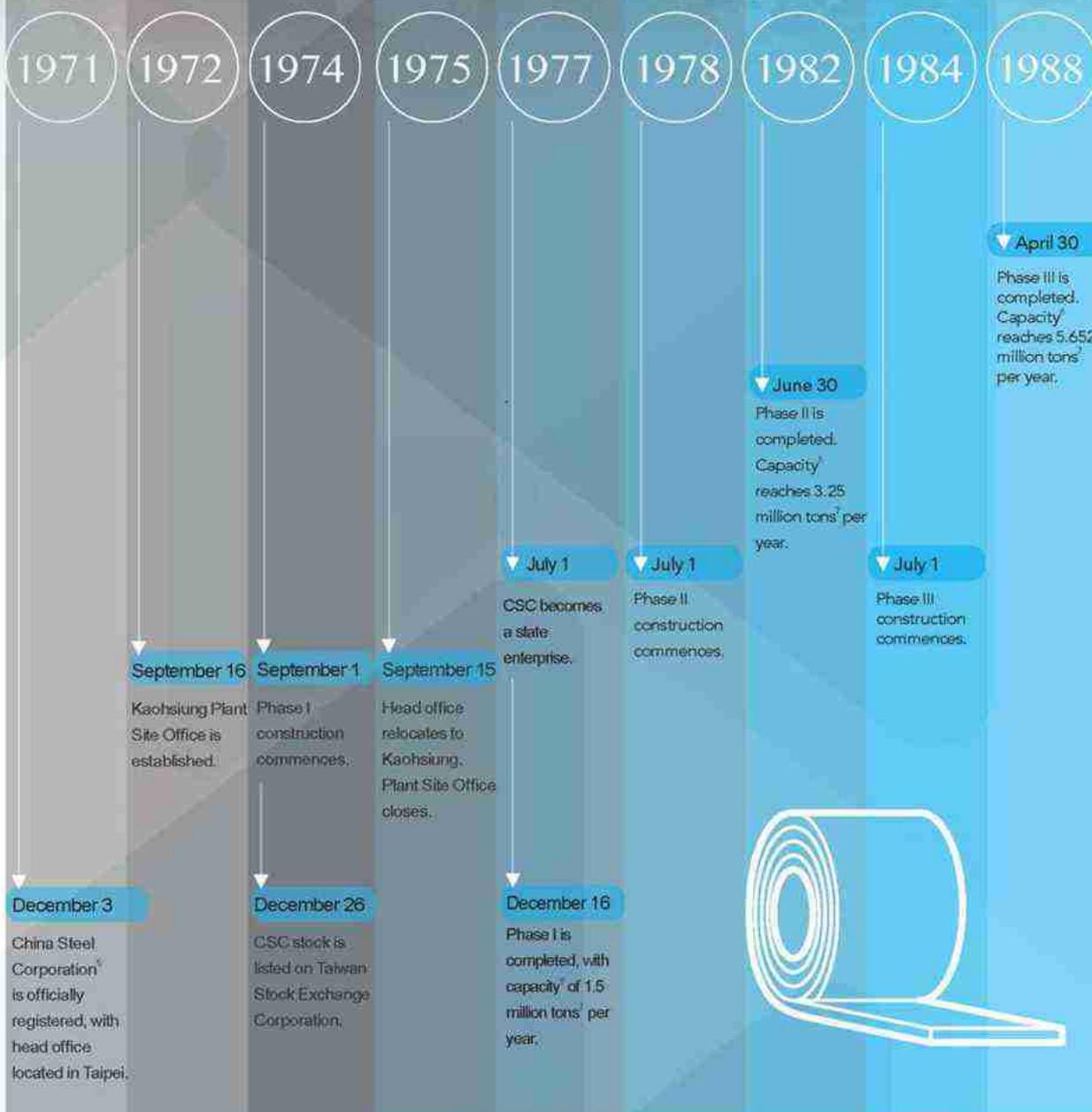




		2017	2016
Operating revenues	(Millions of New Taiwan Dollars)	207,099	168,927
Operating costs and expenses		195,671	155,461
Profit from operations		11,575	13,081
Profit before income tax		18,521	18,033
Employment costs <sup>2</sup>		19,406	19,341
Depreciation		17,395	18,410
Interest expenses net <sup>2</sup>		1,772	1,866
Total assets		472,428	470,275
Capital expenditures		11,818	10,607
Equity		304,010	302,560
Output of steel products	(Thousands of metric tons)	8,832	9,153
Sales volume of steel products		10,846	11,135
Number of employees <sup>3</sup>		10,222	10,280
Return on sales	(%)	8.94	10.68
Return on equity <sup>4</sup>		5.57	5.37

<sup>2</sup>Excluding capital expenditures    <sup>3</sup>As of the end of the calendar year    <sup>4</sup>Based on net income

# Chronology of Major Events



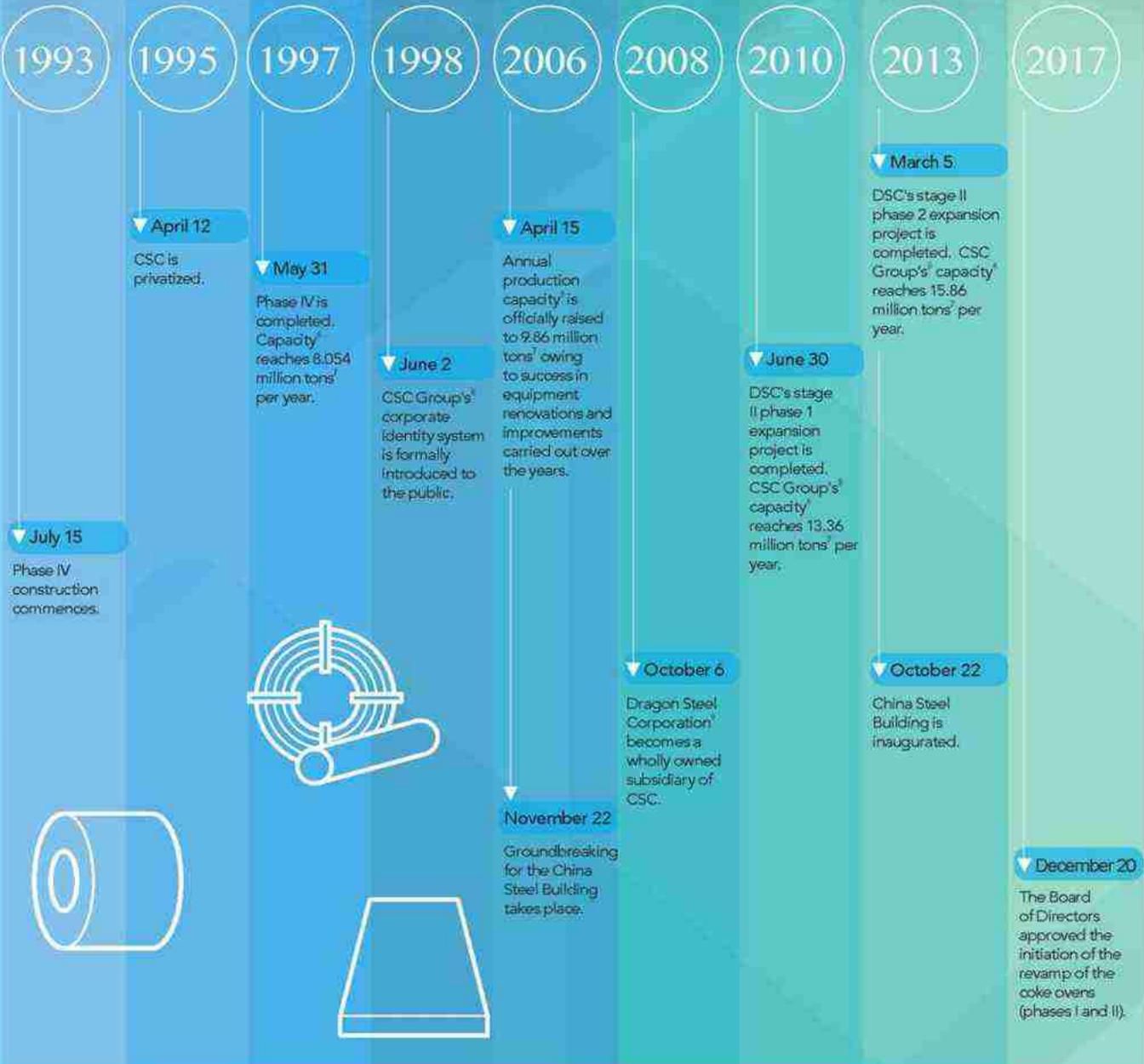
5 Hereinafter also referred to as "the Corporation", "the Company" or "CSC".

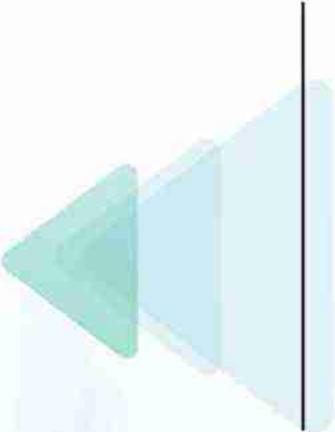
6 In terms of crude steel.

7 All references to "tons" mean metric tons of 1,000 kilograms.

8 Hereinafter also referred to as "The group".

9 Hereinafter also referred to as "DSC".





# An Overview of the Business Situation



Chairman

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Chao-Tung Wong

*Chao-Tung Wong*



President

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Jih-Gang Liu

*J. G. Liu*

## The major issues that the international steel industry faced in 2017 were:

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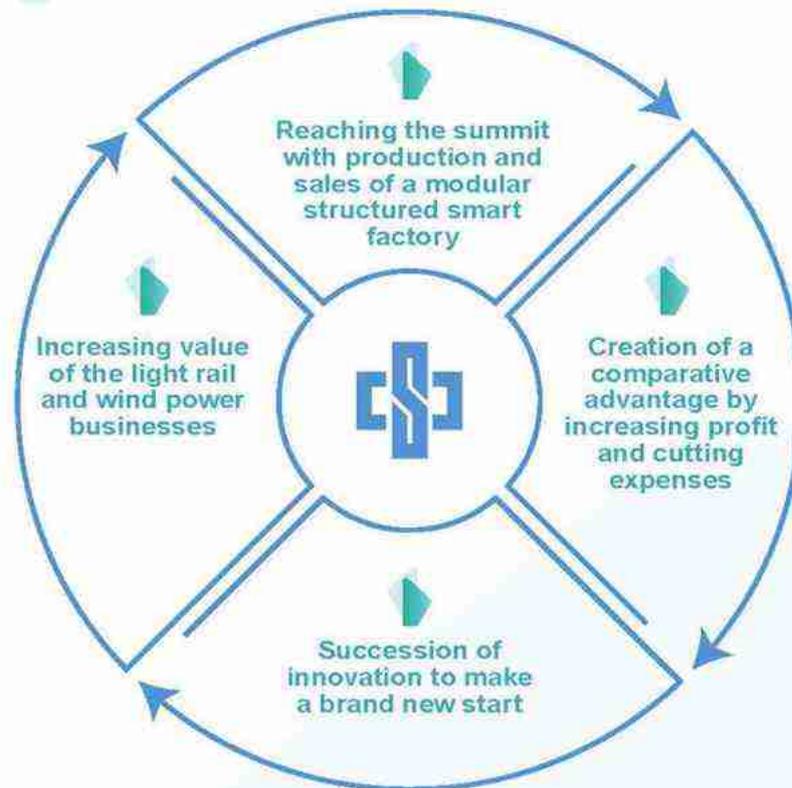
## The main factors which influenced the operations of the steel industry in Taiwan included:

- (1) The demand of steel was weak. According to the statistics published by worldsteel, there was a 3.4% decrease of the apparent use of finished steel in Taiwan in 2017 in comparison with that in 2016, the main causes of which were the facts that there were not as many released domestic public construction projects as expected, and that the launch of new construction projects and domestic vehicle sales fell by 3.75%.
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# Production & Sales



There were dramatic changes in the spot prices of coal in 2017 due to the impact of the cyclones in Australia's coal-producing regions, winter production cuts by steel mills in mainland China, and serious congestion in Australia's major export ports for premium coking coal. Moreover, also because of the impact of the cyclones in Australia, the agreed benchmark pricing mechanism for premium coking coal, which had been practiced in the past six years, came to an end. Pricing for the majority of premium coking coal was based on index pricing, meaning the prices were closer to those in the spot market. In 2017, the price of premium coking coal fluctuated between US\$140 and US\$300 per metric ton FOB.

Due to soaring prices of coking coal and coke at the beginning of the year, together with the Chinese government's efforts to reduce steel production capacity, steel prices in mainland China and spot prices of iron ore were increased. With the implementation of the policy of restricting production and reducing carbon emissions by the Chinese government, the demand for iron ore was decreased, which resulted in the decrease of the spot prices of iron ore. However, Chinese steel mills pursued high production due to profitability and increased the consumption of high-quality iron ore, which prompted the spot prices of iron ore to rise slowly. In 2017, the price of iron ore fluctuated between US\$55 and US\$95 per metric ton CFR North China.

In terms of production and sales, due to the major campaign of the No. 3 Blast Furnace initiated in October, 2017, the production of molten iron, liquid steel, and steel was 9.298 million metric tons, 9.612 million metric tons, and 8.832 million metric tons, respectively, which were less than those of 2016. Sales volume of CSC's steel products was 10.846 million metric tons, 69% of which was domestic sales and 31% of which was overseas sales.

CSC generated 55.1% of the electricity it required in 2017; it was 1.3% more than the amount in 2016 due to the increased power generation by the power plant in coordination with Taipower's demand bidding. Energy consumption per ton of crude steel (slabs and blooms) was 5,692 million calories, which was 62 million calories more than that in 2016 largely because there were fewer slabs and blooms produced in 2017 than in 2016, resulting from the major campaign of the No. 3 Blast Furnace and higher fuel rates consumed in the Nos. 3 and 4 Blast Furnaces.

In order to upgrade the efficiency of regional resource utilization, CSC continued to promote regional integration of energy resources within the Lin Hai Industrial Park by selling excess quantities of self-produced gases such as steam, oxygen, nitrogen, and argon, which amounted to NT\$1.83 billion, a 14.4% increase compared with those of 2016, which was due to the increase of the amount and unit price of steam. The quantity of sales of



steam in 2017 was 1.683 million metric tons, which was 129,000 kiloliters of oil equivalents in terms of energy conservation. 386,000 tons of CO<sub>2</sub>, 1,230 tons of SO<sub>x</sub>, 853 tons of NO<sub>x</sub>, and 121 tons of particulate matters were reduced if converted to benefits in reduction of air pollution and greenhouse gas emissions annually.

### Key tasks and results of the management platform of Production and Marketing of Intelligent development Committee in 2017 were listed as follows:

- (1) Development of the Group's Raw Material Shipping System:** The coal shipping system was completed and initiated officially.
- (2) Precise control of the rolling temperature of steel plates to enhance their quality and rolling efficiency:** With the applications of the rolling profile measurement system for steel plates, the direct online detection rate was about 70%.
- (3) The smart mechanical control system:** Cross-process data collection was completed, and big data modeling technology was developed.
- (4) Scheduling operations for producing products with the lowest production costs:** Scheduling operations for producing hot-dip galvanized products and electrical steel with the lowest production costs was completed, in which the default for the scheduling proportion of producing electrical steel would be increased quarter by quarter by utilizing the lowest-cost production line combination index. The economic benefits created by the conversion of schedules for the whole year were NT\$55.34 million.

### Key tasks and results of quality management in 2017 were listed as follows:

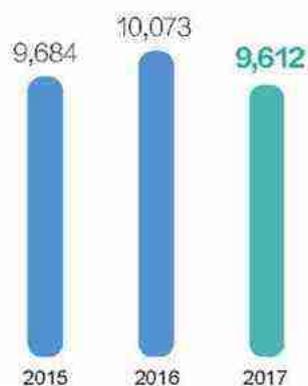
#### 1. New Product Development

40 new products were developed in 2017, the highlights of which included:

- (1) Steel plates:** The development of shipbuilding structural steel plates was completed and also verified by the CR Classification Society. These products were developed in coordination with the government's strategy to build national ships domestically to enhance national defense.
- (2) Bars and wire rods:** The development of EH12KM for automotive engine spray-welding with thin composition was completed and applied to make bonding wires for automotive-engine cylinder walls. Their drawability was good, and their quality was confirmed by customers.
- (3) Hot rolled products:** The development of CSC ACR-TEN 550Y, high strength weathering steel sheets, was completed. The purposes of environmental protection and energy saving can be achieved because of their weather resistance and thinness, and customers can reduce costs effectively by applying them.
- (4) Cold rolled products:** The development of SAE J2340 490XF, high strength low-alloyed steel, was completed to meet the demand for high-strength steel in the automobile components market.
- (5) Hot-dip galvanized products:** The development of SGC540, high strength low-alloyed hot dip galvanized (GI) steel, was completed. It is load bearing and fatigue-resistant; it also has good formability. It has been applied to make products by IKEA.

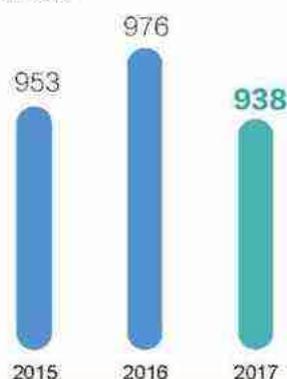
### Crude steel production

(in thousand tons)



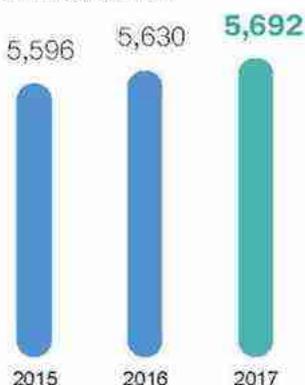
### Output per employee in terms of crude steel

(in tons)



### Energy consumption per ton of crude steel

(in million calories)



**(6) Electrical steel:** The development of 25CS1250HF, electrical steel with thin specs and low iron loss, was completed in response to the demand for drive-motors applied in fast-growing new energy vehicles.

**(7) Special alloys:** The development of JIS SUS 316LS, in-line solution-treated stainless steel, and ASTM B424 UNS N8825 (825 nickel-alloyed), medium thick steel plates, were completed. They can be processed to manufacture corrosion-resistant containers and supports by customers.

## 2. Technological Advancement of Production Processes

**(1) Steelmaking:** Ladle refining technologies, such as slag control, high-carbon deoxidation, and thin composition control, were enhanced. Welding rods with low aluminum and low silicon contents were successfully developed. Transverse cracks on slabs and edge seams of steel coils were effectively improved with the introduction of the chamfer mold technology during continuous casting.

**(2) Production of steel plates:** Production costs of NT\$ 13.3 million in 2017 were saved by replacing stress relief annealing with cold leveling. The production processes of SM570M, ultra-high strength structural steel, were optimized; as a result, 752.5 metric tons of scrap steel were reduced, and production costs of NT\$10.66 million were saved.

**(3) Production of bars and wire rods:** A management system for corrosion inspection in wire rods was developed; a dynamic corrosion inspection plan was made with linked information of the Central Weather Bureau to take timely measures to deal with aging. The total weight of rejected wire rods due to corrosion was reduced from 1,617 metric tons in 2016 to 45 metric tons in 2017, which was a significant improvement.

**(4) Hot rolling:** Smart control of the rolling deflection in the centers of slabs was developed. The rolling mills were automatically controlled with data to reduce deflection of the coiling strips. The reject rate was reduced from 0.24% to 0.07%, saving NT\$45.46 million in production costs.

**(5) Cold rolling:** The pass rate of S50CM, cold-rolled (full-hard) products with 1/3 thickness tolerance, was improved. The metallurgical design of CSC SL330Y, steel for slide rail production, was optimized. Process control capability was improved to reduce customer complaints and reject losses.

**(6) Hot-dip galvanized products:** Separate management was applied in slag modification in steelmaking and grades of slabs. The quality

of slabs applied in making computer cases was optimized in the Continuous Galvanizing Line (CGL) to reduce surface defects in steelmaking and improve the pass rate.

**(7) Electrical steel sheets:** The advancement of the cross-process technique of the specifications of high flux cores was achieved, including hot rolling resumes, annealing conditions, annealing conditions in cold rolling, etc., which effectively improved the magnetic properties of the products.

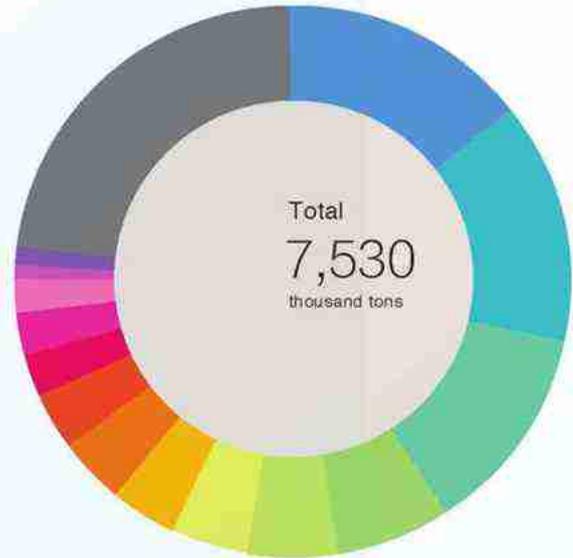
### 3. Certification of Management Systems

The verification of the four revised quality management systems (ISO 9001, IATF 16949, ISO 13485, and AS 9100) for steel products and special alloys was completed. CSC had also passed the certification of TISI from Thailand, Vietnam's import control, Malaysia's SIRIM, EU CE Mark, SNI from Indonesia, etc. In order to comply with the requirements of Malaysian building regulations, CSC conducted the verification of the first CIDB and was granted the certificate, which expanded its distribution channels for the five major products, including steel plates, bars and wire rods as well as hot rolled, cold rolled, and galvanized products.



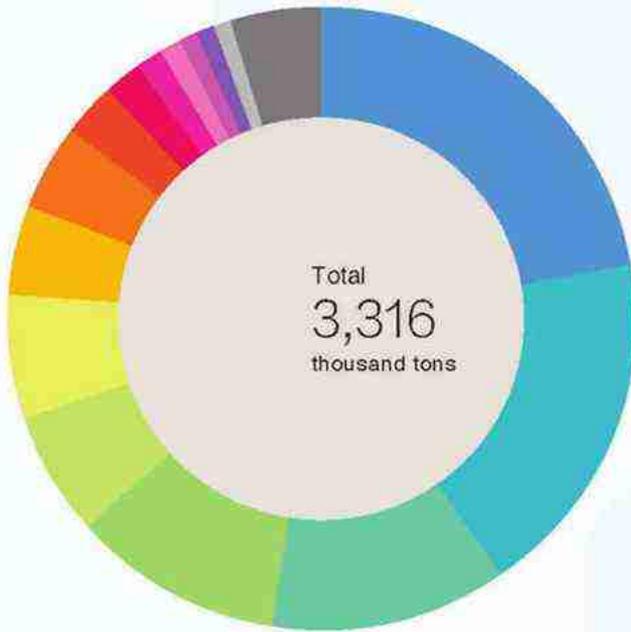
Repackaging equipment for spheroidized wire rods

Percentage of domestic sales by industry, 2017



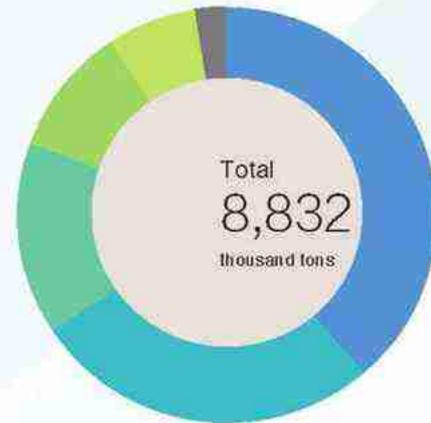
Steel Service Center	14.59 %
Screw and Nuts	14.07 %
Re-roller	12.38 %
Drawing and Cold Finished Steel Bar	6.59 %
Steel piping	5.37 %
Traders	4.33 %
Automotive	3.87 %
Steel Shearing and Cutting	3.85 %
Steel Structures	3.37 %
Direct Users	2.64 %
Motors	2.47 %
Building Material and Pre-painted Galvanized Steel	1.79 %
Hand tools	1.00 %
Shipbuilding	0.96 %
Others	22.72 %

Percentage of export by region, 2017



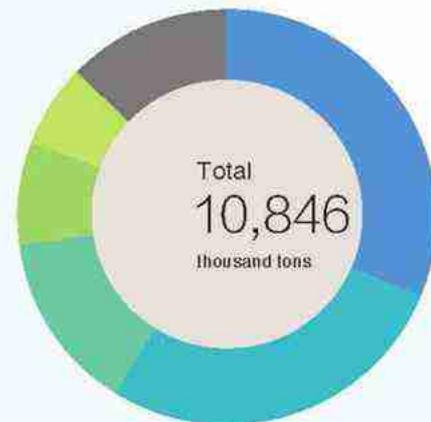
Mainland China (including Hong Kong)...	22.44 %
Japan .....	18.11 %
Vietnam .....	12.17 %
Thailand .....	10.67 %
India .....	6.54 %
Mexico .....	6.38 %
Indonesia .....	4.74 %
Malaysia .....	4.49 %
Italy .....	2.60 %
Pakistan .....	1.94 %
Spain .....	1.39 %
Philippines .....	1.27 %
Singapore .....	0.87 %
Australia .....	0.87 %
Korea .....	0.87 %
Others .....	4.65 %

Percentage of steel production volume by product, 2017



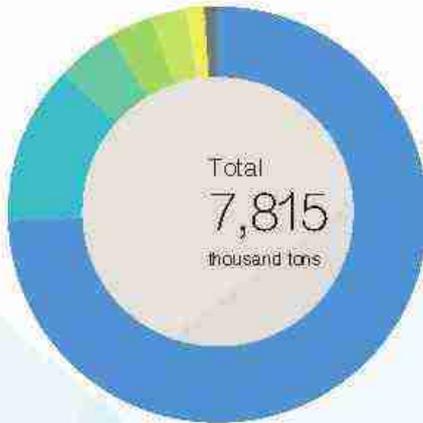
Cold rolled products .....	38.72 %
Hot rolled products .....	27.05 %
Wire rods .....	14.93 %
Plates .....	9.86 %
Bars .....	6.98 %
Others .....	2.46 %

Percentage of steel sales volume by product, 2017



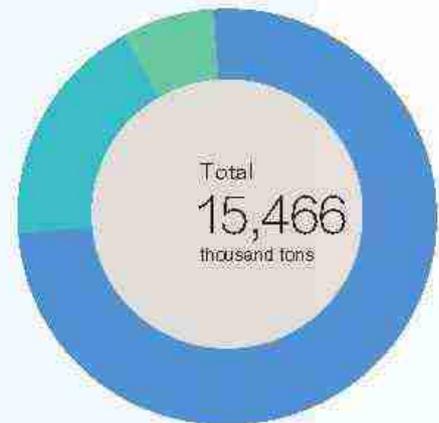
Cold rolled products .....	31.30 %
Hot rolled products .....	27.68 %
Wire rods .....	13.81 %
Plates .....	8.14 %
Bars .....	6.49 %
Others .....	12.59 %

### Sources of coking coal, 2017



Australia	74.47 %
Canada	12.37 %
Indonesia	4.74 %
Mainland China	3.25 %
Russia	2.83 %
Mozambique	1.40 %
Others	0.94 %

### Sources of iron ore, 2017



Australia	74.56 %
Brazil	18.14 %
Canada	7.30 %

### Sources of flux materials, 2017



Japan	37.65 %
Domestic	26.08 %
Philippines	16.92 %
Vietnam	8.31 %
Thailand	5.53 %
Mainland China	5.51 %



Deslagging inside a torpedo car.

# Research & Development (R&D)



Opening of the CSC Metal Laboratory at NCKU

## R&D Strategies

Abundant R&D results had been accomplished in 2017. 40 new products were developed in 2017. Sales for high-grade steel products<sup>10</sup> accounted for 46.98% of the total sales, which propelled CSC to continue to strengthen its competitive advantage in promoting product differentiation.

Regarding patent applications and certificates, CSC filed applications for 203 patent cases and ranked the 9th, and was granted patent certification for 223 cases, which ranked the 6th among the top 100 patent recipients in 2017 according to the Intellectual Property Office, MOEA. CSC, the only corporation in the traditional industry, was on the list of the top 10 patent recipients. It is always dedicated to promoting its patent authorization in order to gain added value of patents.

In terms of the upgrade of the steel industry, four significant results are listed as follows: (1) CSC successfully introduced its top-notch thin electrical steel to an international electric vehicle plant and obtained orders for new models of the plant. Moreover, it also obtained opportunities to supply materials for trials from other automobile manufacturers. (2) CSC entered the supply chain system of Japanese robot manufacturers and began to supply materials. To meet the demand of industrial development, it continued to develop environmentally friendly electrical steel with chromium-free coatings. (3) Hot stamping steel with anti-oxidative coatings was successfully developed and introduced to domestic autonomous automobile manufacturers. A complete hot stamping supply chain system was established in Taiwan, and CSC secured orders for 13 new components. (4) CSC assisted the leading car seat manufacturer to develop 980MPa for the production of high-strength modular seats and high-strength slides; furthermore, it also helped the manufacturer with lightweighting and cost reduction and strengthened its industrial competitiveness.

In order to continue the boosting of R&D energy, CSC had displayed outstanding results in products, production processes, and energy and environmental protection technology in 2017. The more significant ones are listed as follows:

<sup>10</sup> Based on the reviews of the customers according to their differentiated competitive advantages in 2017, stricter standard specifications for high-grade steel products were set.



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



The ceremony for granting the certification of ISO13485 and AS9100 to CSC and CSC's supply of special alloys to the medical and aerospace industries

## The Trends of The Patent Applications And Certification



### 1. Development and improvement of products

- **Development of in-line direct quenching production processes for steel plates:** The cooling capacity of the new and old equipment was integrated. Hybrid cooling control technology was developed. The research results were applied to manufacture new products, such as PA500H, wear-resistant steel plates, S690Q marine structural steel plates, CRHS56, steel plates for shipbuilding, and PZ780, high-strength structural steel plates.
- **Promotion of high-strength automotive steel for customer applications:** Materials with AO coatings were introduced to domestic automobile manufacturers with the assistance of the joint laboratory for automotive steel. CSC assisted Honley Auto Parts Co., Ltd. to obtain orders for hot stamping automotive parts. In addition, with the assistance of the joint laboratory on auto applications by CSC, the GSK Group, and Fine Blanking & Tool Co., Ltd., C60E and 980YH were applied by the GSK Group to make car seats, and CSC was granted a Special Contribution Award.

## 2. Development and improvement of production processes

- 1 **The installation of the mist cooling equipment for wire rods:** The nozzle parameters and the design of cooling water flow were optimized with the mist cooling equipment, and the existing air cooling process was adjusted to establish an integrated cooling operation mode to effectively enhance the strength of wire rods and reduce the variations of their inner strength.
- 2 **The establishment of the low-temperature rolling process for blooms:** Numerical simulations were applied to analyze the effect of temperature reduction in blooms on the rolling force of the rolling mill, and the statistical analysis of fuel consumption was carried out to confirm the benefits low temperature rolling had on the reduction of rolling costs.
- 3 **The establishment of the calculation models regarding the thicknesses of the copper staves in the Nos. 1 and 2 Blast Furnaces:** The relationship between the temperature function and the thickness of a stove was searched with the analysis of a great deal of data to establish the calculation model of the thickness of the stove. It has been installed in the computer program control of the Nos. 1 and 2 Blast Furnaces so that the variations of the thicknesses of the copper staves can be comprehensively monitored, which serves as the basis for operation adjustments of the blast furnaces.
- 4 **Development and applications of personnel emergency rescue and entrance control systems:** The development of the personnel emergency rescue system was completed and applied during the major campaign of the No. 3 Blast Furnace. The positions and statuses of the personnel were immediately learn of, and the alert report function for help and personnel who fell or lied down greatly improved the safety of personnel in operations.

## 3. Energy and environmental protection technology

- 1 **The sinter plants' capabilities to desulfurize flue gas were enhanced:** Innovative research on the mechanisms for the removal of fumes and volatile organic compounds (VOCs) was carried out, and actual testing techniques were developed. 265 metric tons of fumes and 59 metric tons of VOCs were reduced in 2017, demonstrating the effect on air pollution control with wet flue gas desulfurization.

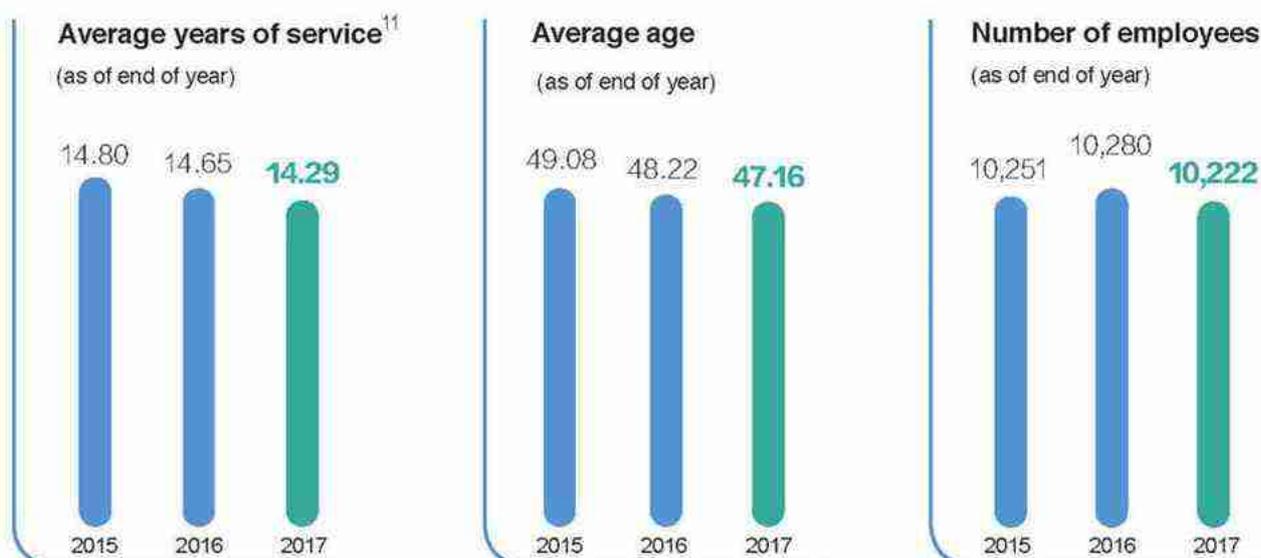
# Employee Relations & Human Resource Development



106年度中鋼集團中高階主管管理研習班



Management programs are held for middle- and high-ranking executives of the Group.



<sup>11</sup> Not counting years of employment prior to the privatization of the Corporation on April 12, 1995.

As of the end of 2017, there were 10,222 employees at CSC. Their average age was 47.16 years. Among the 10,222 employees, 10,130 (99.15%) of the employees were eligible for membership in the CSC Labor Union.

It is estimated that over 2,600 senior employees will retire in the next five years. By upholding CSC's excellent corporate culture, future manpower development will be focused on succession of manpower, strengthening of talent training and education, employee relations, etc.

## Succession of manpower

- 1. Succession in advance:** CSC has mapped out appropriate employment plans according to its corporate development strategies and investment plans, which are supplemented by the retirement and resignation forecasts as well as the periodic manpower requirement reviews by each of the departments. Employees are hired as reserve personnel in advance to facilitate the succession of manpower.
- 2. Implementation of mentor-apprenticeship and knowledge management:** Senior employees are appointed to act as mentors for new recruits and impart their experiences for effective succession in conjunction with knowledge communities, knowledge management systems, e-Learning, knowledge sharing, etc.
- 3. Promotion of cooperative education programs:** To reduce the gap between schooling and applications, CSC has formed cooperative education programs with National Cheng Kung University, Kaohsiung Municipal Chung-Cheng Industrial High School, Municipal Kaohsiung Industrial High School, and National Hualien Industrial Vocational Senior High School to meet its manpower need. As of the end of 2017, 147 students had been hired officially to undertake the business of various departments.



CSC was granted a sustainable growth award in corporate education by NTU SPECS.



A farewell party held for retirees



Senior executives visited on-site staff on duty on the Chinese New Year's Eve.

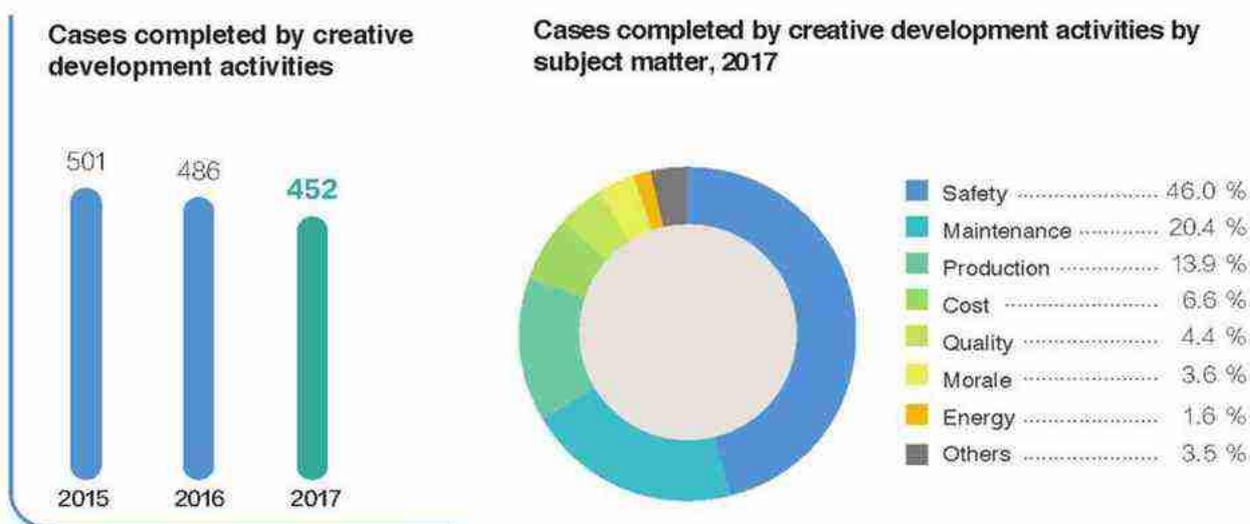
## Strengthening of talent training and education

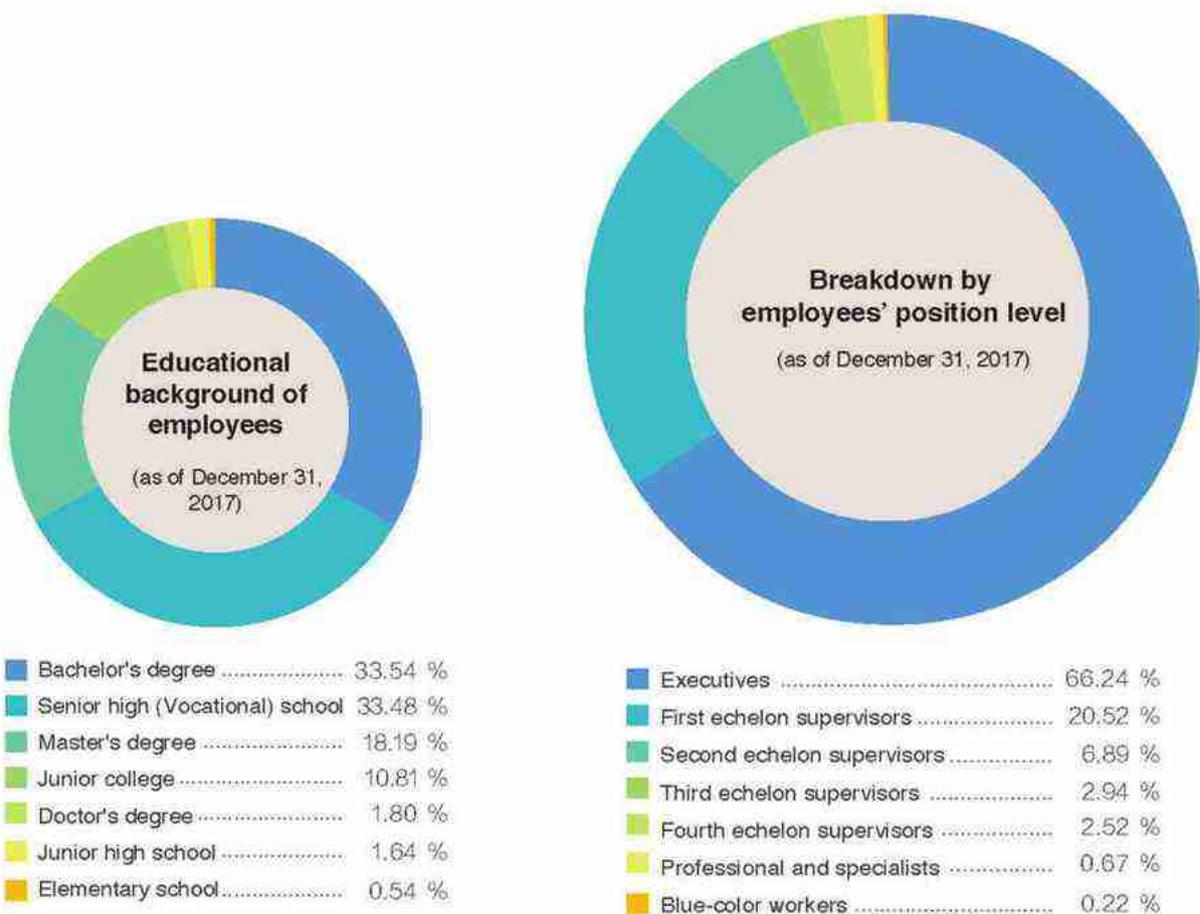
The Development Roadmap of the CSC Group's Talent Training and Education was established to nurture manpower and carry out tasks related to talent training and education, including those for the Group's management talents, dispatched personnel, and new recruits as well as those regarding general education, e-Learning and knowledge management, and professional expertise and quality control. The details are listed as follows:

- 1. Training abroad:** High-ranking executives of the Group took part in short-term overseas management programs. Selected engineers were sent abroad to conduct special research projects on engineering. Selected technicians were sent to College of Industrial Technology in Japan to attend programs. 46 employees in total had been sent abroad for training between 2011 and 2017.
- 2. Talent training for middle- and high-ranking management executives of the Group:** Management programs have been held for these executives in renowned domestic universities since 2012, the themes of which include corporate culture and leadership, in the hope of enhancing their understanding of the corporate culture. As of 2017, 428 executives had taken part in these programs. Moreover, the "Management Training Program" and "Assessment Center" will be held continually. A total of 808 reserve executives had been trained in the past seven years, 409 of whom had qualified.
- 3. Training for internal instructors:** A total of 37 internal TWI instructors, 44 MTP instructors and 63 AC instructors had been trained between 2011 and 2017. 26 instructors on management skills and 23

instructors on performance management had been trained between 2016 and 2017 in preparation for conducting future training courses for second-, third-, and fourth-echelon executives.

4. **Training for new recruits:** Training courses for new recruits include new entry basic training, new technology training, practical training on steel production, steel simulation contests, etc. 6,405 employees (person-times) have been trained in the past six years.
5. **Strengthening the culture and management of industrial safety:** In order to enhance fourth-echelon executives' and engineers' understanding of industrial safety management, perspectives regarding how to strengthen the establishment of disaster prevention measures, and willingness to take active industrial safety measures, industrial safety training programs in the form of seminars were developed and held. Different sessions with teaching, mutual discussions of industrial safety cases, and hands-on practice had been conducted to demonstrate the effectiveness of implementing industrial safety training. 240 employees (person-times) in total had been trained between 2016 and 2017.
6. **Professional expertise and quality control:** Programs regarding autonomous management, statistical quality control, and advanced mechanical and electrical engineering were conducted. Moreover, in response to the Group's new businesses, special programs about quality management of public works and offshore wind power generation were also conducted. 132 sessions with 4,855 participants (person-times) took part in these programs in 2017.
7. **General education:** 22 sessions of corporate culture classes were held for executives and new recruits in 2017. 11 sessions of CSC Lectures related to arts, technology, and new management knowledge were held in the hope of establishing the concept of empathic thinking, which would help the establishment of consensus as well as enhance the executives' management and innovative capabilities. Moreover, knowledge management forums and sharing of training knowledge were held to strengthen the culture of knowledge sharing as well as the professional expertise of employees at CSC.
8. In 2017, each employee averaged 28.9 hours of classroom work and 4.9 hours of e-Learning.





In 2017, CSC reaped approximately NT\$56 million in benefits from its Creative Development Activities (CDA) and NT\$50 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 concrete solutions created by group endeavors. In 2017, CDA involved 596 "quality circles" with 5,302 participants (83.0% of the blue-collar personnel of the departments concerned and 452 completed themes). They made 23,026 suggestions, 22,935 (99.6%) of which were adopted.

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. Moreover, multiple communication channels have been provided, including (1) regular communication meetings are held in each department/unit for opinion exchanges so that problems can be explored, and reasonable solutions can be found jointly. (2) the Staff Grievance Committee, in which employees can voice their complaints if those complaints aren't reasonably taken care through the administrative channels when their rights are violated or mismanaged, and (3) the Sexual Harassment Grievance Committee, which deals with complaints so that an environment free of such annoyances could be provided to CSC employees and job applicants.

To offer good working conditions to satisfy CSC employees' welfare needs, the management of CSC and its employees jointly formed the CSC Employee Welfare Committee, which consists of 27 representatives chosen from both sides. Facilities such as employee canteens, restaurants, dormitories for singles, gyms, 22 shuttle

bus lines, self-service laundry centers, and reading rooms have been established for employees. Among them, employee canteens, restaurants, gyms, and reading rooms are also open to contractors and their employees and neighboring residents. The Employee Benefits Section is responsible for all the matters related to employee welfare, including clubs and recreational activities, applications of fiduciary loans 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, year-end lucky draws and gathering subsidies, subsidies of flexible welfare points, purchases at franchised stores, etc.

CSC has encouraged its employees to take part in club activities which will help them relax physically and mentally. As of the end of 2017, 492 activities/group events with 18,900 participants (person-times) were sponsored by 43 clubs. Based on the concept of investing in employees, taking care of them, and facilitating them to live in a healthy manner, CSC has set up a recreation center for leisure and sports activities. In response to the addition of new recruits, CSC holds group weddings for them regularly. In addition, CSC holds large-scale outings and anniversary celebration annually and commissions each department/unit to hold activities for good neighborliness purposes and year-end dinner parties to enhance a sense of unity.

As of the end of 2017, there are about 3,300 CSC retirees. To assist them to adapt to their new life after their retirement, keep them identified with CSC, and enhance their cohesiveness, it set up a Retirees Service Section to serve them. Two sessions of LOHAS seminars, five farewell tea parties, and four health related lectures were held for them in 2017. Retirees are always invited to take part in CSC's annual anniversary celebration.

### CSC's 46th anniversary celebration and group weddings



Joint drum-beating by senior executives and new recruits, symbolizing succession of a new generation



The Dragon Boat Racing Tournament



Group weddings for 129 pairs of grooms-to-be and brides-to-be

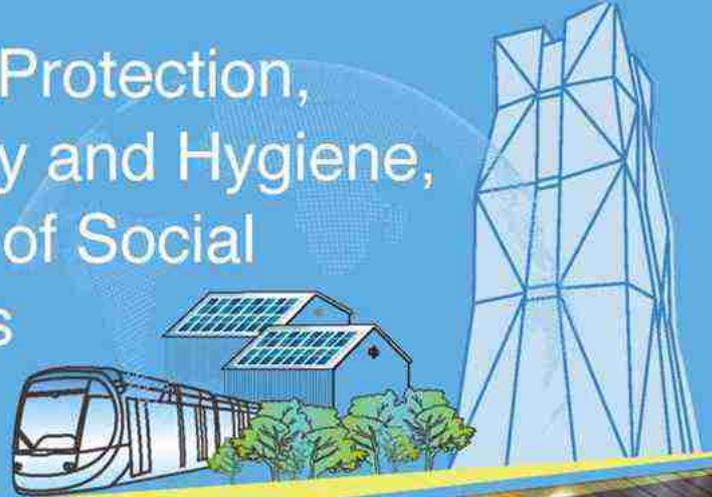


A charitable fair



Opening of the Historical Museum

# Environmental Protection, Industrial Safety and Hygiene, and Fulfillment of Social Responsibilities



Summer eco-education camps were organized for elementary school students in Kaohsiung.

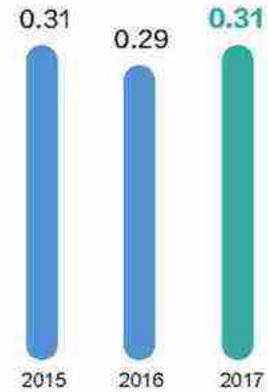
## Key tasks and results of energy conservation and environmental protection in 2017 were listed as follows:

1. Energy conservation services: The CSC Energy Conservation Service Corps was established in 2007 to offer energy conservation services outside CSC. In 2017, it collaborated with the Kaohsiung Municipal Energy Conservation and Carbon Reduction Technology Counseling Corps to offer counseling services to Taiwan Fu Hsing Industrial Co., Ltd., the Lin Yuan plant of LCY Chemical Corp., Ursine Steel Co., Ltd., Tongtai Machine & Tool Co., Ltd., Green Environment Engineering Incorporation, Hanlin Environmental Technology Co., Ltd., Lee Tah Farm Industries Co., Ltd., and Howard Plaza Hotel Kaohsiung about energy conservation and reduction of carbon emissions.
2. Continuous promotion of the Energy Conservation Action Plan 2020, the third five-year plan: CSC has aimed at saving 100,000 kiloliters of oil equivalents between 2016 and 2020. 122 projects were completed in 2017; 40,000 kiloliters of oil equivalents were saved.
3. In response to MOEA's campaign to save electricity consumption by 1% annually between 2015 and 2019, CSC has actively implemented several electricity conservation projects, including improvement of electricity consumption in fans, pumps, cooling towers, air conditioners, lighting fixtures as well as adoption of natural lighting in factories, etc.
4. Water consumption had been decreased from 10.33m<sup>3</sup>/ton of crude steel at the establishment of CSC to 4.91 m<sup>3</sup>/ton of crude steel in 2017; the recycling rate was 98.3%. CSC's saving of water consumption in 2017 was exceptional and had been granted awards of excellence by the Water Resources Agency, MOEA for 15 consecutive years.
5. CSC continued the GHG Inventory and management of internal auditing and external certification. CSC completed its organizational GHG Inventory in 2017 and was verified by a third party certification agency. In addition, CSC also conducted an inventory of GHG emissions produced by employee business travel and waste disposal (Scope 3 Emission Sources), which was also verified by a third party certification agency.
6. Measures taken to improve dust emissions from raw material stock yards: In order to make up for the gap on the dust wall on the south of the raw material stock yard, dust-proof nets were placed on the fence on the south side of CSC's main stock yard.

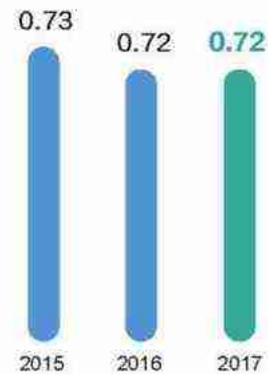
### Air quality

Kg/mt of crude steel

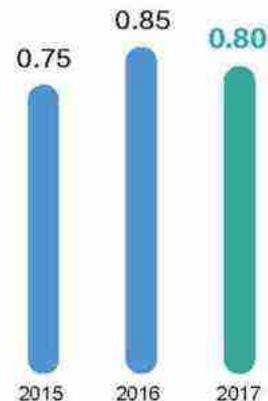
#### Particulate emission



#### SOx emission



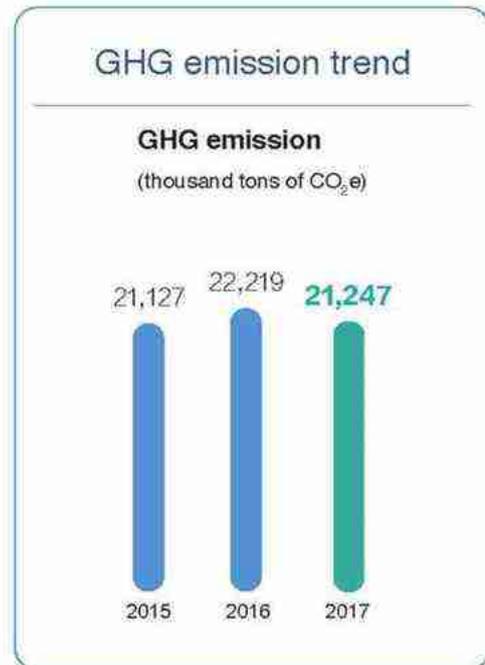
#### NOx emission



7. Continuous reutilization of CSC's waste resources by water quenching: The operation of reutilization of the waste resources, including BF/BOF sludge, sludge from hot rolling, sludge from cold rolling, used refractories, waste acid liquids, EP dusts, BF/BOF dusts, IWI fly ash and bottom ash, zinc sludge, chromium sludge, and waste grinding wheels, was carried out.

8. Continuous assistance to the reutilization of the bi-products of the Group: Assistance had been provided to CSC's subsidiaries in reutilizing their bi-products and/or wastes, including tar sludge from China Steel Chemical Corporation, oily waste from China Steel Aluminium Corporation, waste vessel oil from China Steel Express Corporation, sludge from hot rolling in Chung Hung Steel Corporation, crystallized calcium carbonate from China Ecotek Corporation, and waste acid liquids from China Steel Machinery Corporation, Chung Hung Steel Corporation, and Hung Li Steel Corporation.

9. The tests and reports for particulates, SOx, and NOx were completed. The total emission amounts matched the requirements of the environmental impact assessment in 2017. CSC will continue to promote greening inside the plants. The total area of greening has reached 440,670 m<sup>2</sup>; the greening rate is 8.36%.



## Industrial Safety

The target of zero major occupational disasters of CSC's employees and those of the contractors was reached in 2017, and the frequency of disability injuries among the employees of the contractors had been at a new low since 2013. It was also the first time in five years that the annual target control value was achieved, indicating the effect of continuous development of safety and health management.

Major tasks and results of industrial safety programs for 2017 were listed as follows:

1. CSC was granted the certification of the OHSAS 18001, TOSHMS, ISO 14001, and ISO 50001 systems verified by BSI.
2. CSC has planned to transfer its environmental management systems in 2018. The preliminary assessment reports were completed. The revisions of 14 general documents of the environmental protection and health and safety management systems and computerized systems in terms of the environmental aspect were made. Fourteen sessions of internal auditor training and analysis training between the new and old versions were held. Operations for the transfer to the revised version of the environmental management systems regarding internal audits were carried out.
3. In collaboration with the authorized institutions, implementation of (1) the regular inspections of 1,071 pieces of hazardous machinery and equipment and (2) the reassessment of the safety of the production processes in six type-C hazardous workplaces was carried out. So far, thorough inspections of 36 pieces of hazardous machinery and equipment have been completed.

4. Educational training: (1) CSC held 12 training classes with 66 sessions of various safety licenses for 1,645 licensees on its own. (2) Seven physical simulated training classes with 111 sessions were held for 1,165 participants. (3) Four sessions of educational training on traffic safety were held for 453 participants.
5. Plans for the 2017 operational environment testing were completed. Items for the testing included dust, noise, integrated WBGT (Wet Bulb Globe Temperature) indices, carbon dioxide, and chemical substances.

### Employee Health and Hygiene

Complied with the laws and regulations, CSC continues to hold physical check-ups for its employees, including special physical check-ups for those who work in special operating sites. Health management was conducted to those with abnormal physical check-up results. To promote the health of the employees, CSC has held a series of programs, such as management of health examinations, weight loss, health columns, psychological counseling, quarterly lectures on health, special health campaigns for female employees, and implementation of the Maternal Health Protection Plan, with approximately 5,849 participants in 2017. Among them, 203 employees who took part in the weight loss program lost a total of 458.7 kg; the average lost weight was about 2.26 kg per person.

### Social Responsibilities

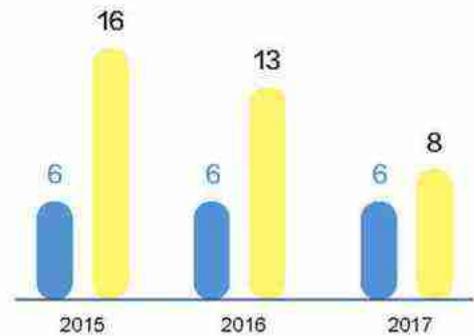
To fulfill its corporate social responsibility, CSC has continued to take action to provide assistance to the nearby communities for their development and sponsor charitable activities in Hsiao Kang District for a long period of time.

CSC, a corporation engaged in environmental protection, community care, and charity, has continued to make its contributions to the society, communities, and disadvantaged groups. Its contributions are as follows: (1) It sponsors equipment and facility upgrades to enhance the students' learning efficiency and greening of the elementary schools in Hsiao Kang District to slow down global warming. (2) It provides scholarships for meritorious students and tuition assistance to students from disadvantaged families in Hsiao Kang District. (3) It also sponsors various social activities for the communities and associations in Hsiao Kang District. (4) It offers funds for social relief of emergencies and gifts of money during the Chinese New Year, Dragon Boat Festival, and Mid-Autumn Festival to assist low-income families in Hsiao Kang District. (5) The ceremony for recognition

### Occupational accident record of CSC

— CSC — Contractors

#### Number of cases with disabling injuries



#### Frequency ratio<sup>12</sup>



<sup>12</sup> FR = Number of cases with disabling injuries × 10<sup>6</sup> ÷ Total number of working hours of the entire company

and promotion of filial piety is held to celebrate Mother's Day in Hsiao Kang District. (6) Graduating elementary school students in Hsiao Kang District are invited to participate in the Steel Journey Activity to get a sense of how steel is produced and the measures taken by CSC in energy conservation, reduction of carbon emissions, and environmental protection. (7) Elementary school students in Hsiao Kang District, especially those from disadvantaged families, are invited to participate in summer camps.

CSC actively assisted local cultural and artistic activities, some of which included the Grassland Concert held in collaboration with the Kaohsiung Philharmonic Cultural & Arts Foundation, the 2017 Kaohsiung Spring Arts Festival, the 2017 Kaohsiung Lantern Festival, a charitable concert for wheelchair users, and another charitable concert held in the Kaohsiung Prison. All of the aforementioned activities injected an impetus into quality arts and culture in Kaohsiung.

Domestic and international honors and awards granted to CSC in 2017 included: (1) the industry leader by the Dow Jones Sustainability World Index (DJSI World) and the DJSI-Emerging Markets, (2) a constituent of the FTSE4Good Index, showing recognition of CSC's efforts and contribution to corporate social responsibility by the FTSE Group, (3) a winner of the CDP's Climate A- List companies of the Climate Change Leaders Index and water program, in which CSC was granted the highest score among all Taiwanese enterprises by the CDP, (4) an "Excellent Enterprise Award in Industrial GHG Voluntary Reduction by the Industrial Development Bureau, MOEA, (5) an award of excellence in water saving by Water Resources Agency, MOEA, (6) a gold award in energy conservation, which was granted to Rolling Mill Department III by the Bureau of Energy, MOEA, and (7) the Ten Most Sustainable Corporate Award for the fourth time by TAISE, which was the highest honor. Furthermore, CSC was also granted the Top 50 Corporate Sustainability Report Award, Talent Development Award, Sustainable Water Management Award, Supply Chain Management Award, Climate Leadership Award, Growth through Innovation Award in the manufacturing category, and Circular Economy Leadership Award.

To be involved in social activities in a broader and more diversified manner, CSC established the CSC Group Education Foundation. Activities conducted by the foundation in 2017 consisted of:

- (1) Six general lectures for citizens in Kaohsiung, four seminars on campus jointly organized with United Daily, and four lectures on spiritual growth organized by Teacher-Chang Foundation.
- (2) The Environment Education Touring Bus had been out to conduct lectures on environmental education in elementary schools in Kaohsiung, rural schools in Pingtung, such as those in Sandimen Township and Majia Township, and those in Sin Hua District, Tainan.



The "Steel Journey" Activity held by CSC in 2017



Recognition of filial piety and granting of meritorious scholarships in Siaogang District



The 2017 King of Wisdom Summer Camp held by CSC

- (3) Eco-education camps were organized for elementary school students. On-site ecological observations were arranged so that the students could rethink the positioning of intelligence and nature.
- (4) "Engineer E-week, Kaohsiung" was held to enhance high school students' abilities to solve problems and teamwork.
- (5) CSC Camps were held, and college students were invited to visit the upstream and downstream sectors of the steel industry to attract them to engage in metal-related industries.
- (6) In collaboration with National Taiwan University, National Tsinghua University National Cheng Kung University, and National Sun Yat-sen University, CSC has continued to offer related courses about steelmaking in those universities. National Chung Hsing University was added to the list of schools in 2017.
- (7) CSC has continued to sponsor the Chemical Materials Department, Kaohsiung University to implement the Entrepreneurship Concentrate-Spin off-Operation- Start up (EC-SOS) Project by offering courses such as "Surface Treatment and Anticorrosion Technology" and "Introduction to Steel and Heat Treatment".

CSC upholds the concept that what is taken from the society must be returned to it, and sincerely takes action to care about and contribute to the society, communities, and disadvantaged groups from the aspects of environment protection, community care, and charity.



Cellist Chen-Chieh Chang's Concert in the Da-liao Opera House (the Kaohsiung Prison)

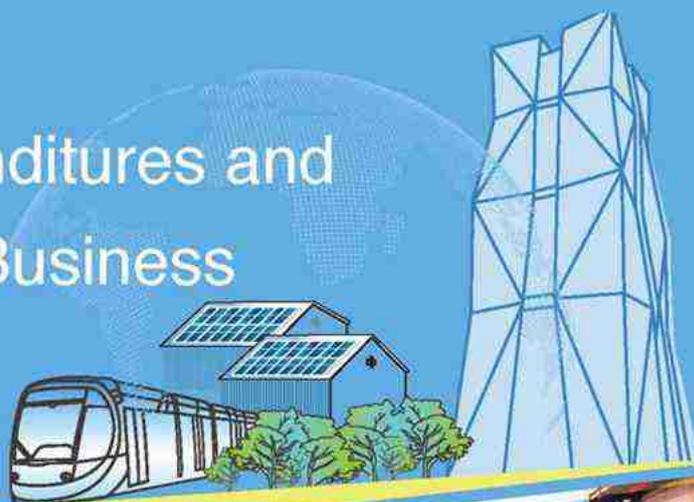


CSC hosted a meeting of the Environment Committee, the World Steel Association (worldsteel).



"Engineer E-week, Kaohsiung" was held by CSC in collaboration with IBM

# Capital Expenditures and Engineering Business



The waste gas desulfurization and denitrification project of the No. 2 Sinter Plant was completed.

## Capital expenditures

(in hundred million of New Taiwan Dollars)



The investment of capital expenditure projects amounted to NT\$11.818 billion in 2017. The projects were listed as follows:

### ● Projects related to equipment revamp:

1. Revamp of the program control and electronic control systems of the No. 2 Hot Strip Mill of Rolling Mill Dept. II
2. Revamp of the No. 1 & 2 heat furnaces of the No. 1 Hot Strip Mill
3. Revamp of the gas tanks of the blast furnaces
4. Revamp of the second major campaign of the No. 3 Blast Furnace
5. Revamp of the main motors, electrical control system, and welders of the No.1 Pickling and Cold Rolling Mill of Rolling Mill Dept. III
6. Revamp of the shells and linings of the No. 34 hot stoves in the No. 3 Blast Furnaces
7. Revamp of the LDG holder in BOF Plant I

### ● Projects related to upgrades of production capacity or quality:

8. Addition of the No.3 ladle refining furnace in the No.1 Steelmaking Plant

### ● Projects related to resource recycling or environmental protection equipment:

9. The Waste Gas Desulfurization and Denitrification Project of the No.2 Sinter Plant
10. Equipment revamp for reduction of effluent ammonia nitrogen ( $\text{NH}_3\text{-N}$ )



The Wind-Team, an international cooperative alliance, was established.

Among the aforementioned projects, Projects 3 and 9 were completed in 2017; the rest have been carried out on schedule. Major projects, which were expected to increase production capacity or effectiveness, with the investment amount of over NT\$2 billion were listed as follows:

**1. Revamp of the program control and electronic control systems of the No. 2 Hot Strip Mill of Rolling Mill Dept. II**

The estimated reduction of CO<sub>2</sub> emissions is 2,989 tons per annum because of the saved electricity consumption and low-temperature rolling, which is due to the reduction of delay rates and enhancement of equipment performance.

**4. Revamp of the second major campaign of the No. 3 Blast Furnace**

The introduction of the best available technology (BAT) and the adoption of innovative campaign practices will not only prolong the expiration date of the campaign, but also enhance and stabilize production, which will reduce CSC's operational costs and enable CSC to become more competitive.

**9. The Waste Gas Desulfurization and Denitrification of the No.2 Sinter Plant**

The implementation of this project is to ensure that the concentration of the emissions of the sulfur oxides and nitrogen oxides from the chimneys of the No.2 Sinter Plant is below 100ppm, which is in line with the new emission regulations and standards so as to effectively improve the environment quality of the perimeter.

**12. Equipment revamp for reduction of effluent ammonia nitrogen (NH<sub>3</sub>-N)**

After the revamp is completed, the discharged concentration of effluent ammonia nitrogen will be reduced to 20 ppm, which will meet IPA's discharge standards for chemical effluents. CSC's daily ammonia nitrogen discharge will be reduced by 1,328 kg, which will effectively improve the quality of the environment and fulfill its corporate social responsibility.



The beam raising ceremony of the Green Mountain Line of the Danhai Light Rail Transit System



The groundbreaking ceremony of the EPC Project (Phase II) of the Circular Line (KMRT)

## Engineering Businesses

Revenue generated from engineering businesses from outside parties amounted to NT\$2.044 billion in 2017, which was 15.68% more than that in 2016 (NT\$1.767 billion). Key tasks and results in 2017 were listed as follows:

### Light Rail Engineering

1. The EPC construction project (Phase 1) of the Danhai Light Rail Transit System: The construction was initiated on November 23, 2014. As of December 31, 2017, the overall project was 71.57% on schedule.
2. The EPC Project (Phase II) of the Circular Line (KMRT): The construction was initiated on October 11, 2016. As of December 31, 2017, the overall project was 21.51% on schedule.
3. The EPC project of the electromechanical systems of the Ankeng Light Rail Transit System: The construction was initiated on May 1, 2017. As of December 31, 2017, the overall project was 1.99% on schedule.
4. With respect to the other engineering businesses from outside parties, the revenue exceeded the annual target value, which was mainly due to the increase on demand for (long-term) resident and short-term consultancy services from customers.

### Wind Power Engineering

#### 1. The Wind-Team:

In order to demonstrate the determination to implement the localization of producing components, CSC assisted the Metal Industries Research & Development Center by inviting four international wind turbine manufacturers and 21 local manufacturers to hold the kick-off of the Wind-Team, an international cooperative alliance, on August 30, 2017.

#### 2. The Offshore Wind Power Generation Development Project:

In order to promote the localization of the offshore wind power industry, CSC signed a trilateral cooperation memorandum with Copenhagen Infrastructure III K/S, a subsidiary of Copenhagen Infrastructure Partners (CIP), and Diamond Generating Asia, a subsidiary of Mitsubishi Corporation in Hong Kong, on October 6, 2017. The focus of the memorandum was on the development of Offshore Wind Farm #29 in Changhua, which was considered to be a training ground for localization and the establishment of a localized supply chain for the offshore wind power industry.

## Investments and Other Equity Interests



The storage yard for finished products at CSC1

As of the end of 2017, CSC has invested in holdings of 60 companies. A newly added company was CSC Solar Corporation, which is a solar photovoltaic project system developer. In addition, CSC disposed all of its holdings of Taiwan Semiconductor Manufacturing Company, Limited (TSMC).

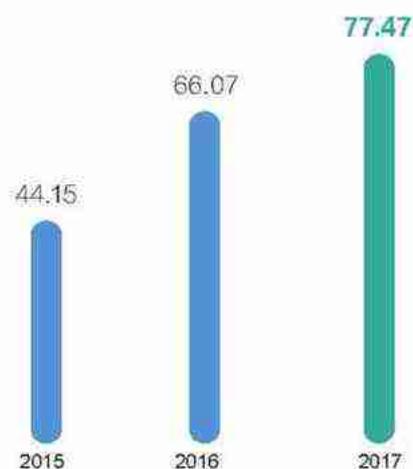
## Operating Performance

Because the steel market was stable in 2017, CSC's recognized reinvestment gains in 2017 amounted to NT\$7.747 billion, which demonstrated an increase compared with those in 2016. The operating performance of the subsidiaries was listed as follows:

- Steel Business:** As the steel market was booming, the profit before income tax of Dragon Steel Corporation in 2017 was increased to NT\$2.903 billion compared with that in 2016 due to increased sales. The profit before income tax of Chung Hung Steel Corporation in 2017 was considerably increased to NT\$2.606 billion compared with that in 2016 (NT\$1.913 billion) due to the support of steel prices and increased sales. In regard to CSC's overseas operations, the profit before income tax of CSC Steel Sdn. Bhd. in 2017 was RM\$71.53 million, which was at about the same level as that in 2016. The profit before income tax of China Steel Sumikin Vietnam Joint Stock Company in 2017 was US\$1.92 million, which was 82.2% more than that in 2016 due to the increase in sales and average sales prices of steel. The profit before income tax of China Steel Corporation India Pvt. Ltd. in 2017 was INR\$136 million, which turned positive for the first time since its operations.
- Engineering Business:** The profit before income tax of China Steel Machinery Corporation in 2017 was NT\$102 million, which was better than that in 2016. With the recognized engineering losses in 2017, the profit before income tax of China Ecotek Corporation was decreased by 36.1% (NT\$121 million). The profit before income tax of China Steel Structure Co., Ltd. in 2017 was NT\$65 million, which was decreased by 19.8% due to the shrinking of projects in construction and public works. InfoChamp System Corporation's operating gross profit in 2017 was less than that in 2016. Its profit before income tax was NT\$274 million, which was decreased by 11.6%.
- Industrial Material Business:** CSAC's sales in 2017 were increased compared with those in 2016. The increase of the unit sales prices of aluminum products was more than that of average costs of goods sold, which resulted in the increase in profit margin. Nonetheless, due to the inclusion of the depreciation of the new equipment for its expansion and the increase in recognized reinvestment losses, it still suffered loss of NT\$235 million before income tax in 2017. The profit before income tax of China Steel Chemical Corporation in 2017 was NT\$1.316 billion, which was 10.2% more than that in 2016 due to increased crude oil prices and geographical relations. As the sales of CHC Resources Corporation's pulverized blast-furnace slag increased in 2017, its profit before income tax was NT\$900 million, which was 23.3% more than that in 2016. The profit before income tax of HIMAG Magnetic Corporation in 2017 was NT\$48 million, which was 10.7% less than that in 2016 due to the decrease of profit margin and sales of its environmentally friendly products. The profit before

### CSC recognized income from invested companies in the past three years

(in hundred million of New Taiwan Dollars)





The installation of the 30MW solar photovoltaic system (phase I) was completed by CSCSC.

income tax of Changzhou China Steel Precision Materials Corporation in 2017 was RMB\$12.94 million, which was a noticeable increase in comparison with its loss in 2016 (RMB\$20.58 million) due to the considerable increase in sales of its main titanium products, operations, and profit margin. The profit before income tax of China Steel Resources Corporation in 2017 was NT\$13.98 million. The construction of CSC Precision Metal Industrial Corporation's plant was completed in 2016 and is in the commissioning phase. Its loss before income tax reached NT\$18.09 million in 2017 as it was still in the initial period of its establishment.

- Trading and Logistics Business:** Although China Steel Express Corporation's operations in 2017 benefited from increased freight and recognized gains from disposal of old vessels, which were less than those in 2016, its profit before income tax was NT\$1.942 billion, which was 19.5% less than that in 2016. China Steel Global Trading Corporation is the trading agent for CSC, Chung Hung Steel Corporation, CSAC, and Formosa Ha Tinh Steel Corporation. Its profit before income tax was NT\$625 million, which was 24.4% more than that in 2016 due to the increase in sales and recognized reinvestment gains. As the steel market was booming, the profit margin of Qingdao China Steel Precision Metals Co., Ltd. was considerably increased, and its profit before income tax was increased to RMB\$12.84 million compared with that in 2016. Sales of China Steel Precision Metals Kunshan Co., Ltd. (CSMK), formerly United Steel Engineering & Construction Corp, reached 45,000 metric tons in 2017, a 37.9% increase compared with those in 2016. Its profit before income tax was RMB\$2.48 million.
- Service and Investment Business:** Due to the increase in recognized reinvestment gains, the profit before income tax of Gains Investment Corporation in 2017 was NT\$482 million, which was 24.3% more than that in 2016. The profit before income tax of China Steel Security Corporation in 2017 was NT\$120 million, which was decreased by 2.1% compared with that in 2016. The profit before income tax of China Prosperity Development Corporation in 2017 was NT\$248 million, which was slightly increased by 4.6% compared with that in 2016. The profit before income tax of China Steel Management Consulting Corporation was NT\$4 million, which was roughly the same as that in 2016. The CSC Group established CSC Solar Corporation (CSCSC) in October, 2016. Although there was profit margin in CSC Solar Corporation in 2017, its initial operating expenses were relatively high. Its loss before income tax in 2017 was NT\$2 million.



Completion of Sakura Ferroalloys Sdn. Bhd.' s plant in Malaysia

## Business Development

In terms of the investment in raw material sources, CSC seeks prudent investment in valuable raw material sources to increase its self-sufficiency rates to reach the target of 30% by taking the advantage of the market dynamics. As of the end of 2017, the self-sufficiency rates of metallurgical coal and iron ore were 1.8% and 15%, respectively. CSC's average self-sufficiency rate of raw materials was 10.8%. In the future, CSC will form strategic alliances with other steel plants or steel trading companies to raise the stakes for raw material investment. Moreover, CSC will adjust its raw material investment flexibly according to the pulse of the steel market.

In collaboration with the demand for expanded sales from overseas production bases and existing and potential overseas customers, the CSC Group actively expands its sales bases and sets up coil centers in its main and potential markets to provide services to local customers in real time to extend its supply service chain in order to consolidate its overseas sales distribution channels.

From the perspective of the CSC Group's overall deployment and cross-support capabilities among its production and sales basis as well as the specific steel demands in emerging Asian countries with relatively higher growth of steel demands and its products with comparative advantages in various markets, it will expand the operational territories of its overall steel business to achieve the goal of the sound development of the CSC Group by utilizing the advantage of the Group's operational synergy to promote the operational efficiency of its non-steel businesses.

# Customer Services



Senior executives visited CSC's overseas customers.

56 new enterprises became CSC's customers in 2017. New customers accounted for 5.24% of the total customers while the old ones accounted for 99.00% of the total operating revenue. On the basis of technological services, CSC not only offers steel products with the appropriate quality, at the adequate amount, and at the appropriate time by providing multi-stage, multi-layer pre-sale, sale, and after-sale services, but it also assists customers to solve their problems in material utilization and processing techniques to promote the growth of the steel-consuming industries.

CSC obtains feedback, which serves as a reference for improvement or development of marketing policies, from its customers by holding regular production and sales confabs with trade associations (or professional groups) in the downstream steel industry, visiting its customers, and holding technological seminars.

## Sales Services

In 2017, 39 confabs regarding domestic sales and four confabs regarding export sales had been held. Overall sales supporting services are provided through e-business and initiation to the supply chain. Moreover, executives and personnel in related businesses visit CSC's customers actively and take orders according to the scheduled production capacity 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.

## Technical Services

Key activities of technical services in 2017 included: (1) 168 cases of technical assistance to customers in improving their manufacturing processes and solving problems related to application of raw materials and processing techniques were completed. 45 surveys of market quality feedback were obtained to effectively promote quality improvement. (2) 12 surveys of material application and quality trends according to industries as well as 15 surveys of new products and quality functions were completed. Certification of 24 items of automobile use materials was granted. (3) 12 domestic and international technical symposia and seminars were held. (4) Representatives from CSC paid 103 visits to key customers. Moreover, professional staff (515 persons/days) were sent abroad to conduct technical interaction and promote CSC's products in mainland China, Japan, the Middle East, India, Southeast Asia, Europe, and the United States.



The seminar on advancement to Industry 4.0



The seminar on weld-brazing of aluminum alloy to steel in 2017



The 2017 Steel Engineering Technology Seminar



The seminar on metallographic analyses and applications of steel (hot/cold rolling)

## The Supply Chain System of Production & Sales

The purpose of CSC's Supply Chain System is to effectively match CSC's production and sales with its customers' order demands by bilateral coordination. With standard ordering procedures and allocation of its production capacity, CSC provides timely and flexible responses to the customers online regarding their orders, which closely meets the demand of the market and promotes the overall efficiency of the production and sales in the supply chain.

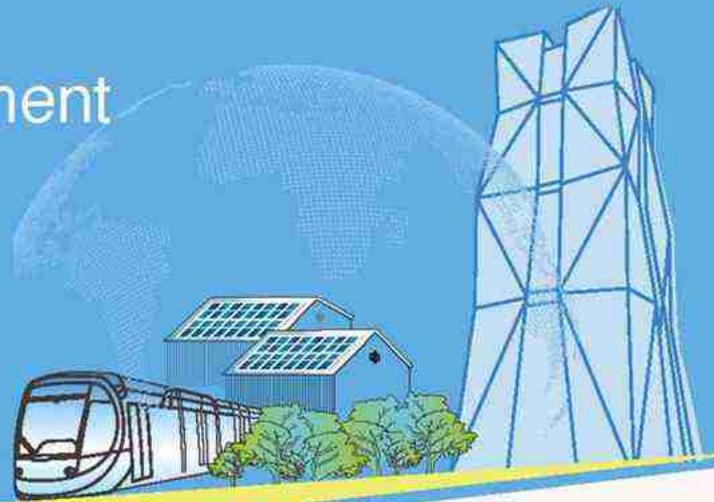
Operation flexibility and efficiency have markedly increased by the constant optimization and improvement of CSC's Supply Chain System regarding production and sales. Customers can get instant answers in regard to the delivery dates, quantities, and prices of their orders by linking up with CSC's Supply Chain System, which keeps track of the planning of sales and production, quotations, order entries and revisions, production plans and schedules, follow-ups of existing orders, storage and transportation, and delivery in a smooth and fast manner. The results and benefits of the system are listed as follows:

- 1 Assistance of 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. Efficiency and precision have been enhanced, and tasks have been simplified. Product value has been raised because there are no borders for accompanying experts, and CSC offers instantaneous information responses.
- 2 CSC has established the Metallurgical Technology Service Cloud to offer differentiated services to its customers. A mobile knowledge databank and the apps for handling customer complaints instantaneously have also been established to further service its customers.
- 3 In accordance with the government's policy on the cloud computing industry and the CSC Group's promotion of its private service cloud, CSC has applied cloud technology in the fastener industry to enhance the overall competitiveness, which will facilitate relevant fastener enterprises to enhance the effectiveness, sales, and succession of knowledge of the industry chain.
- 4 CSC's customer service cloud mobilizes the daily services that customers need so that they can utilize their mobile devices to issue bills of lading, confirm quotations, and track the progress of their orders. Price spreadsheets are also offered so that salespeople at CSC can respond to customers' inquiries immediately.
- 5 CSC has raised its on-time delivery rates by improving order preparations, rationalizing delivery, tracking overdue delivery, coordinating production, sales, and shipping of export products, etc.
- 6 Based on production at the lowest costs and the e-commerce information which meets customers' requirements, CSC will gradually establish its smart production and sales to further cut costs to meet the customers' demand.

## Customer Satisfaction

CSC always commissions an academic institution to conduct a domestic and overseas customer satisfaction survey every year. Results of the 2017 survey were satisfaction indices of 81.4 points, which was an increase of 7.9 points compared with those of 2016, from domestic customers and 73.8 points, which was an increase of 1.4 points compared with those of 2016, from overseas customers. The top three items of the domestic satisfaction index were the salespeople's expertise, the service attitudes of the technical staff, and the technical staff's expertise in products. The top three items of the overseas satisfaction index were the service attitudes of the salespeople, the interaction between the salespeople and customers, and the speed of the technical staff's responses to customers' inquiries.

# Risk Management



**50** worldsteel  
ASSOCIATION  
1967 - 2017



CSC was granted the Climate Action Recognition by worldsteel

## Market Risk Control

To disperse liable risks of concentrated sales in the steel market and take into account the strategy for global deployment, CSC has managed its risk control in two areas. In terms of sales, CSC has adopted the distribution channel strategy of regarding the domestic market as its principal outlet and supplementing it with export sales and adjusted their ratios according to the changes in the market. New product development has been significantly enhanced to create new value at CSC. Moreover, CSC has a full grasp of the dynamics of related industries, expands the range of its supplies, and seeks investment opportunities in the downstream steel industry or industries which consume steel products. Overseas coil centers have been established to satisfy the demands of the customers in potential markets so that long-term steady strategic partnerships can be established. So far, 15 coil centers have been established in mainland China, Southeast Asia, India, and Italy to disperse liable risks due to declining economic factors in individual regions. In terms of production, on the basis of the amount of estimated orders, sales and production plans are simulated to avoid the risks of economic fluctuations. Concrete measures include coordination of the allocation of slab purchase quotas among the subsidiaries in the CSC Group, reduction of production in the furnaces and campaign adjustments, adjustments of the schedules of seasonal/annual maintenance of the production lines, scheduling of raw material transportation, and planning of commissioned rolling. In a nutshell, production plans can be adjusted by various means whenever necessary.

## Risk Control of Raw Material Supply

### 1. Procurement of Raw Materials

To avoid the disruptions of the supply of raw materials, such as coal, iron ore, and limestone, due to the weather or the conditions of the mines, railways, and loading ports, CSC has adopted the following countermeasures:

- The sources and suppliers are cautiously evaluated.
- Safe inventory levels are properly maintained.
- The sources of the raw material supply are diversified; short-term, medium-term, and long-term contracts, ranging from one to five years, are signed with various suppliers in different countries.
- Contracts are executed in good faith; relationships with mutual trust and assistance are maintained with the suppliers.
- Some of the retained amounts are retailed in the spot markets in response to the flexibility in production demand so that opportunities to reduce costs can be sought.
- New sources of the raw material supply are actively developed to intensify competition and avoid domination by only a few suppliers.
- CSC has its own vessels for raw material transportation so that it can control and reduce its transportation costs when there is a price hike in freight; nonetheless, it will also charter vessels for timely transportation of some of its raw materials when necessary.

## 2. Development of Raw Material Sources

- ① Cooperative investment projects are carefully carried out only with prestigious miners with the experiences of coal and iron mining and exploration or joint venture partners, including steel plants and trading companies.
- ① Investigation on the spot is carried out with due diligence so that CSC can fully grasp the status of its raw material investment.
- ① Professional consultants in geology, finance, taxation, and law are commissioned to help carry out feasibility assessment.
- ① Overall assessment and reviews are conducted by related departments internally when necessary.
- ① Decision-making meetings of raw material joint ventures are attended to protect CSC's investment interests.
- ① The development and operations of raw material joint ventures are closely monitored and fully controlled.

### Transportation Risk Control

CSC's ultimate objective in the management of raw material transportation is the uninterrupted supply. Its weekly review of all material inventories serves as the basis for the determination of the optimal shipping plan. Depending upon the sizes of the needed vessels and their economic benefits, special 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 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 on fixed amounts 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.

#### An emergency response drill of a leakage in a gas storage tank of a coke oven



Cooling of the temperature by spraying water from fire engines



The injured were taken to the hospital for treatment with the assistance of the medical staff.

## Risk Control of Utilities

Joint energy systems, including the water, electricity, oil, steam, and gas systems, are monitored and dispatched by the Utility Dispatching Center (UDC) at CSC. Besides the implementation of economic dispatching to control system safety by UDC, PDAs are also utilized to facilitate the examination of the facilities in periodic patrol checks. Revamp of pipelines and power distribution facilities has been conducted continuously to ensure the safety of all systems. Emergency drills in regard to facility failures are held every year to reduce the risks of energy supply. The measures in risk control of utilities taken by CSC include:

### 1. Electricity and gas:

- Replacement of the old equipment used for power generation will be continued, and professional inspections will also be arranged to promote the reliability of power supply.
- Replacement of the old gas pipelines will be carried out to reduce risks.
- In order to avoid the hazards of leak detection in underground gas pipelines, the engineering project of removing them to the ground level was carried out.

### 2. Water:

Emergency limited water usage administrative regulations were established to avoid the damage in the furnaces and coke ovens caused by the tightening of water supply by Taiwan Water Corporation in dry seasons. CSC hopes to reduce the damage in production or facilities caused by the lack of water supply; therefore, it actively takes part in the municipal project of recycling waste water from the Fongshan Creek Sewage Treatment Plant, which could serve as the second source of water supply, to reduce the risk of water supply. It is estimated that 24,000 m<sup>3</sup>/day of recycled water can be generated by 2018, and it will be gradually increased to 44,000 m<sup>3</sup>/day year by year. Moreover, CSC took part in using the reclaimed water coming out of the Linhai Sewage Treatment Plant in 2017. It is estimated that 20,000 m<sup>3</sup>/day of reclaimed water can be generated by 2022.



An emergency response drill on a fire



Physical simulated training: Being hung with a safety belt



CSC took part in purchasing the reclaimed water coming out of the Linhai Sewage Treatment Plant.

## Risk Control of Information Systems

To avoid adverse effects on CSC's business operations due to computer software, hardware, and network irregularities, it has drawn up standard operating procedures and implemented education and training programs as well as instituted strict control measures to effectively reduce the risk of abnormalities, including implementation of (1) multiple backup mechanisms of computer software, hardware, and networks; when activated, the time difference of the taking over of the backup mechanisms can be shortened, (2) backup and restoring mechanisms of files with multi-version support, (3) online control of application systems and version changer mechanisms, (4) prevention of virus and network intrusions, (5) uninterrupted power supply systems and automatic fire suppressing systems, and (6) entrance control with closed circuit televisions. In addition, drills are held periodically.

## Risk Control of Facility Maintenance

### 1. Machinery:

- ① Maintenance spares: Proper inventory levels are maintained according to past maintenance experience and the amounts of spare consumption. Information systems will be enhanced to control the manufacture of spare parts. Large pieces of replaced machinery can serve as reusable machinery, which will be promoted to be preferentially utilized first, after being maintained and qualified in tests to reduce the procurement of new machinery. Overseas purchases can be reduced by the development of domestically manufactured machinery; therefore, delivery of machinery can be controlled. Arrangements of regional storehouses will be promoted in order to have good spare part management.
- ① Maintenance résumés: Problems in mechanical and electrical equipment and facilities are looked for through downtime management; the periods of downtime are reduced to enhance equipment availability in combination with the records of the equipment résumés. The résumés and costs of equipment repairs and maintenance are collected to conduct analyses and applications of all kinds of production lines in the hope of reaching the goal of zero malfunction/failure.
- ① Maintaining of manpower and succession: Retiring employees with technical backgrounds are assigned tasks in advance so that their expertise and experience can be passed down to others through apprenticeship. Information exchange of all units is strengthened on the project management platform, and the implementation résumés of key maintenance are recorded. Knowledge management is enhanced to keep the integrity of maintenance techniques and experience.

### 2. Electrical Control Facilities:

- ① Risk management of the IATF-16949, ISO-9001, ISO-13485, and AS-9100 quality management systems is carried out.
- ① Preparation of the off-site backups of the process control systems and operations of backup and restoring mechanisms of files are implemented.
- ① Fault-tolerant master systems are installed in part of the important process control systems to reduce the frequencies of hardware downtime and increase the reliability of system operations.
- ① Uninterruptible power systems are applied in all process control systems. Entrance control is implemented,

and so are fire and emergency evacuation response drills and preparation of the off-site backups of the process control systems.

## Risk Control of Construction Management

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

The systematization of document management is promoted to ensure that a written record of each process is kept. In terms of external engineering contracts, contracting parties' requests not covered in the original contracts must be reported and documented accordingly as changes to the contracts (for increase of the project costs and extensions of work periods).

In order to have a full grasp of the contractors' financial statuses, CSC commissions domestic credit reporting agencies to conduct credit checks on registered contractors/subcontractors on a regular basis. If the checks of the persons in charge (contractors/subcontractors) bounce, or when they are classified as dishonored account holders by banks, they will be considered as suspended and/or disqualified contractors/subcontractors and prohibited from bidding, or their maximum bidding amounts will be limited.

## Risk Control of Environmental Protection, Safety, and Hygiene

Hazard identification and risk assessment are 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.

CSC has been actively devoted to reducing the emissions of air pollutants and waste water; moreover, it has reinforced water conservation and recycling of waste water.

CSC has taken proper action in response to the trend of environmental protection and reduction of carbon emissions and reduced the risk of climate change.

## Risk Control of Climate Change

With the effect of global warming caused by climate change and the frequent disasters resulted from extreme weather patterns, the mitigation and adaptation of climate change have become important issues that cannot be ignored by humans and corporations. To reduce the operational risks caused by climate change, CSC has adopted the following strategies:

- ① Based on the concept of sustainable development, the goal of the reduction of carbon emissions and promotional strategies are set. The performance of the reduction of carbon emissions is enhanced by best available technology, development and applications of low-carbon energy, the expansion of regional energy integration, etc.
- ② Steel products which conserve energy consumption and reduce carbon emissions will be developed and their life cycles will be assessed to expand the effectiveness of external reduction of carbon emissions.
- ③ CSC will be actively involved in the new green businesses, domestic and overseas cooperative projects regarding reduction of carbon emissions, carbon capture and storage (CCS), and operations of carbon rights.

- Low carbon lifestyles and consumption will be promoted within CSC in the hope of developing a low carbon society.
- In collaboration with the government's targets for the reduction of carbon emissions at different phases, CSC has formulated the corresponding roadmap for the reduction of carbon emissions and implemented related projects for energy conservation and reduction of carbon emissions.

## Financial Risk Control

CSC keeps close watch on the daily balance of foreign currency transactions. In accordance with its demand for foreign exchange funds and the trends of the foreign exchange market, 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 hedging is adopted by offsetting revenue and expenses. If there is a demand (mainly in international currencies) in a new foreign investment project or procurement of imported equipment, CSC will, in principle, hedge against exchange rate risks by taking out an equivalent long-term loan in foreign currencies. Relevant practices can be adjusted at all times depending upon the costs of currency hedging and exchange rate trends. Occasionally, when there is a need for capital injection, the funds are raised in the New Taiwan Dollar if it is a strong currency in terms of its exchange rates.

Clear interest rate risk tolerances are set to control floating interest rate debts. When interest rates in the financial markets turn around significantly, CSC will apply early repayments or interest rate swaps (IRS) to convert the interest rates to fixed rates. In regard to the medium- and long-term demand of NT dollars, corporate bonds will be issued to lock in medium- and long-term capital costs when the capital market is loose to avoid the risks of the increases of interest rates in the future.

CSC assists its customers to increase their credit lines in banks to utilize the operation of AR (accounts receivable) factoring. By means of e-commerce and digital signature security systems, CSC simplifies the payment procedures for its customers to ensure them that their ordered products will be delivered according to normal delivery practice.

CSC also keeps close watch to ensure the faultless operation of its electronic business and security mechanisms and the accuracy and timeliness of the information at all times; 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 and its subsidiaries' 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 reduction of investment are proposed. Moreover, capital allocation among the companies within the CSC Group will be strengthened to increase the efficiency of capital utilization.

## Authorized Economic Operator (AEO)

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 from CSC alone to its partners in the upstream and downstream industries.

# Corporate Governance

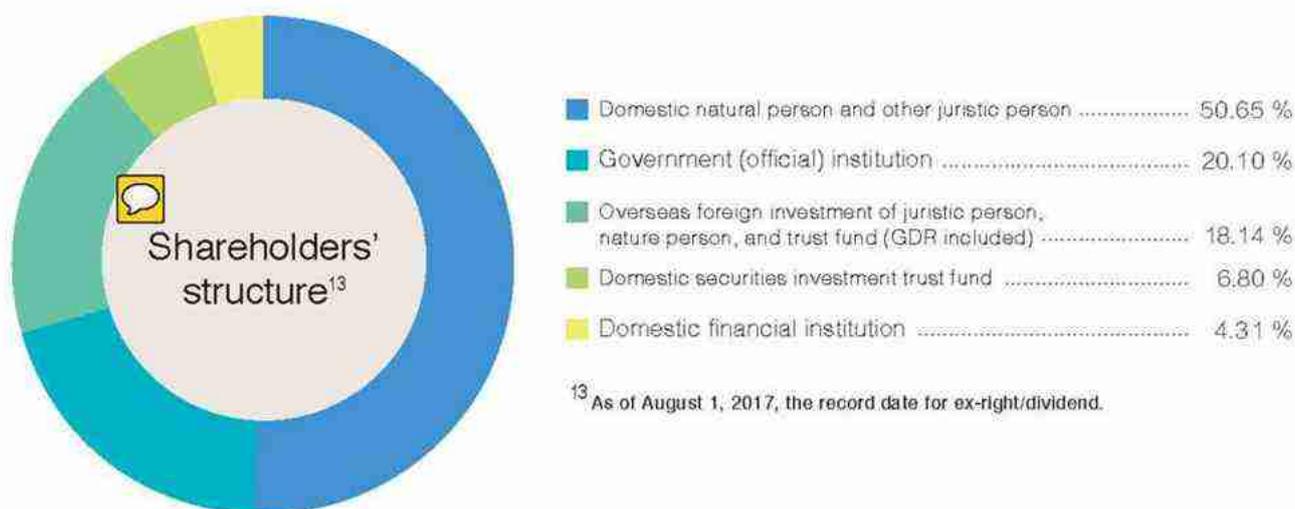


Earnings conferences/conference calls are held.

## Annual Shareholders' Meeting

Starting from 2011, every motion was discussed and voted, and the results of all motions were announced at the regular annual shareholders' meeting first and openly posted on the Market Observation Post System and CSC Website afterwards as references for investors. 2017 was the sixth year when electronic voting was adopted. Approximately 54.20% of all the totaled issued shares were voted in such a manner by shareholders when exercising their rights. The foreign shareholders' voting rights were approximately 17.20% of the total number of shareholders' voting rights. On the Book Closure date, 18.13% of all the totaled issued shares were foreign-owned; in particular, over 95% of foreign shareholders also exercised their rights by voting electronically. The aforementioned facts helped to promote the public's assessment of CSC's corporate governance.

CSC has paid much attention to its shareholders' rights and interests. To ensure that investors and shareholders have smooth communication channels to voice their opinions and maintain their rights to be fully aware of and participate in decision-making regarding major events taking place at CSC, special personnel from the Finance Department have been designated to be responsible for relevant matters. The following measures have been adopted: (1) Shareholders' service channels, such as a toll-free telephone line and an e-mail address, have been established to answer their suggestions and doubts. (2) Significant and instant information regarding CSC's monthly consolidated operating revenue, consolidated operating income, and consolidated income before income tax as well as its sales volume and domestic price adjustments is e-mailed to analysts and investors. Furthermore, relevant data are always updated on CSC's corporate website with transparency and a high degree of timeliness. (3) Designated staff will receive domestic and foreign investors, answer their questions, and make factory tours. The management will also take part in earnings conferences/conference calls actively to let domestic and foreign investors have a better understanding of CSC. (4) Financial, business, and corporate governance information is fully disclosed in the "Shareholders' services" and "Corporate governance" sections on CSC's corporate website; moreover, CSC's CSR Report Section, which posts major issues related to energy and environment management and CSC's annual CSR reports over the years and serves as a reference for investors, is also available on the same website.





CSC's 2017 shareholders' meeting

### The Board of Directors

There are currently 11 directors in the Board of Directors, three of whom are independent directors. "Rules Governing the Election of Directors" have been established, and nominated candidates who are elected will be appointed as directors. In 2017, eight board meetings were held.

Under the Board of Directors are two functional committees, the Audit Committee and the Remuneration Committee, which enhance the operations of the Board of Directors. The Audit Committee consists of three independent directors, one of whom should have accounting and finance expertise. The functions of the Audit Committee include the supervision of the following items: (1) fair presentation of CSC's financial reports, (2) the hiring (and dismissal), independence, and performance of CSC's certified public accountants, (3) the effective implementation of CSC's internal control systems, (4) compliance with relevant laws and regulations by CSC, and (5) management control of the existing or potential risks of CSC. Six meetings were held in 2017, and 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 2017, the key points of which were the discussion of the performance evaluation system for commissioned senior managers and their pay adjustments and the implementation of performance management, and the proposals drawn from the resolutions of the meetings were presented to the Board of Directors.

To implement vigorous energy conservation and reduction of carbon emissions, CSC established the paperless meeting management system in June 2013. Notices, agendas, information, and proceedings of

## COMMON STOCK DIVIDEND PAYOUT

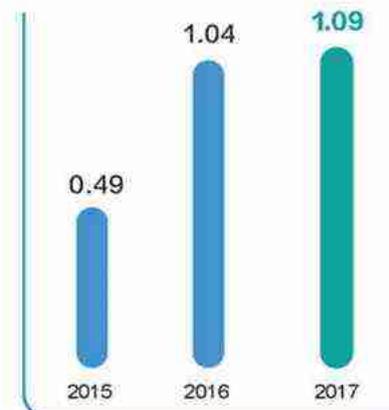
### Cash dividend

NT\$/share



### Earnings per share

NT\$/share



the meetings of the Board were uploaded to the system; attendees were notified electronically to browse the aforementioned information by logging in the system.

## Independent Directors

### 1. Communication with the Internal Auditor

- If there is a gap in implementing a project by using an out-of-date approach, the Internal Auditor will recommend that the department/unit in charge should review and revise the relevant approaches.
- The Internal Auditor sends the audit report and results of the follow-up report to the independent directors for their perusal regularly.
- Principle of management and elaborations on lobbying and audited cases.
- Elaborations of risk control related to accounts receivable of overseas subsidiaries.

### 2. Communication with the Certified Public Accountants

- CSC's certified public accountants attend the quarterly audit committee meetings as well as board meetings to communicate matters related to the financial statements. Based on their professional judgment, they may meet with the independent directors to conduct communication by means of the Audit Committee.
- Quarterly financial reports reviewed by the certified public accountants are submitted to the Audit Committee for communication and discussion. Annual financial statements will be presented to the Audit Committee after being audited by the certified public accountants, who will obtain the Audit Committee's issued consent for reporting.
- The certified public accountants communicate and discuss the key audit items of the audit report with the Audit Committee annually according to regulations.

## Internal Auditing

To forestall irregularities and strengthen the effectiveness of corporate administration, key point activities of the Internal Auditor for 2017 were to test and assess whether the operational procedures in the eight operational cycles, which included business of: (1) sales and receipts, (2) purchase and payment, (3) production, (4) labor and wage, (5) finance, (6) property, plant, and equipment, (7) investment, and (8) research and development, 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 the Regulations Governing Establishment of Internal Control Systems by Public Corporations promulgated by the Financial Supervisory Commission, Executive Yuan, on a number of controls, which included the following: (1) compliance with regulations, (2) management of the use of seals, (3) management of the receipt and use of negotiable instruments, (4) management of budget, (5) acquisitions and disposal of assets, (6) management of asset, (7) management of endorsements and guarantees, (8) derivative financial products, (9) management of liabilities, commitments, and contingencies, (10) implementation of authorization and deputy systems, (11) management of loans to others, (12) management of financial and non-financial information, (13) management of related parties transactions,



CSC was granted the 2017 Taiwan Corporate Sustainability Award.

(14) Management of the procedures for preparation of financial statements, (15) supervision and management of subsidiaries, (16) management of the operation of board meetings, (17) management of the operation of the audit committee meetings, (18) management of shareholder services, (19) management of the protection of personal information, (20) control of information flow security inspection, (21) management of the prevention of insider trading, and (22) IFRS management. Furthermore, the Internal Auditor also assessed the internal control systems of CSC's 21 subsidiaries with due diligence.

In 2017, 52 audit reports and 468 items for improvement were presented by the Internal Auditor. The audited units/departments and subsidiaries were notified in regard to the items for improvement. The suggestions for improvement were then keyed into CSC's audit management system; the progress of improvement was followed up. Each audit, when completed, is sent by letter to the Independent Directors for examination and perusal according to regulations.

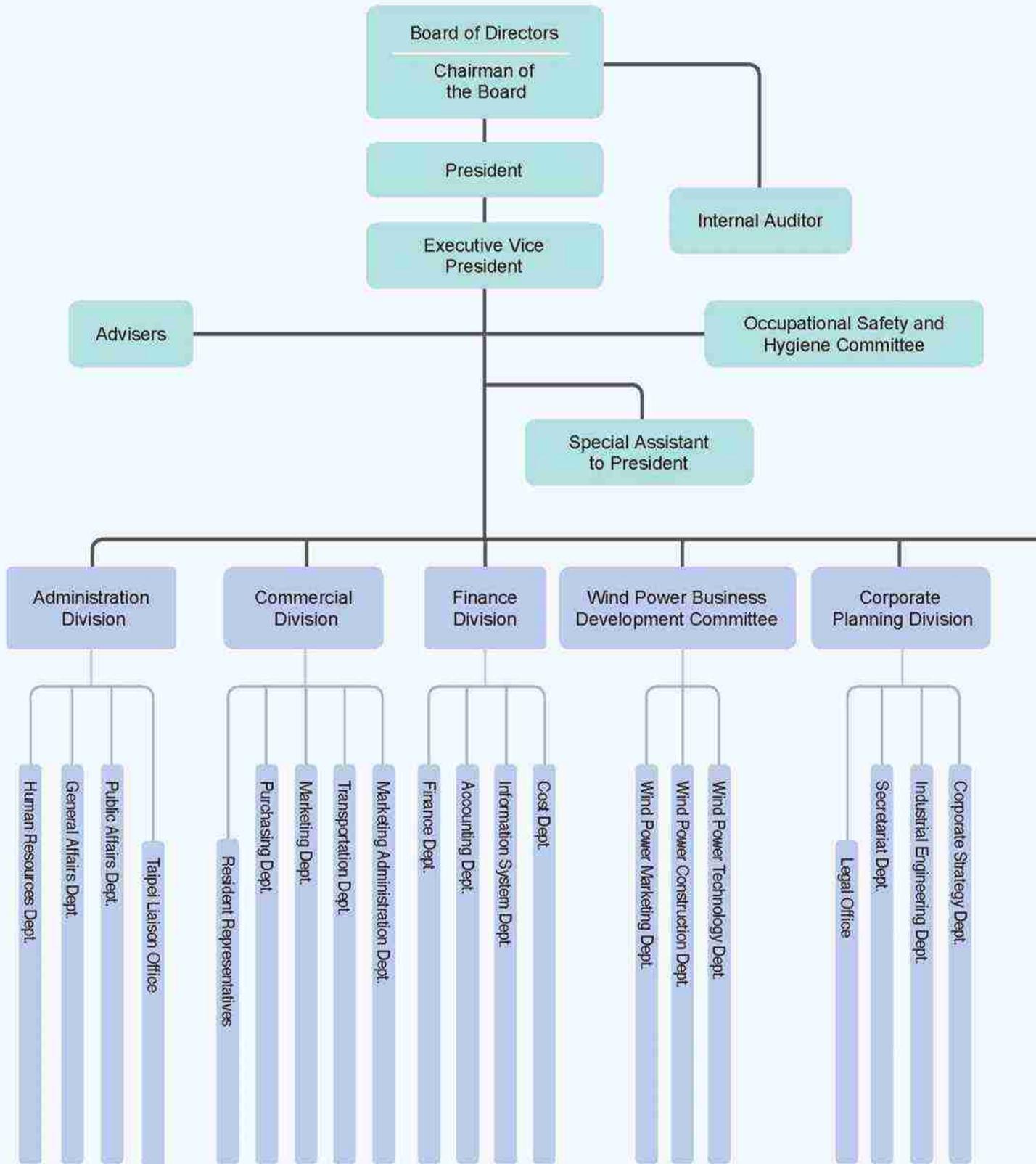
## Performance of Corporate Governance

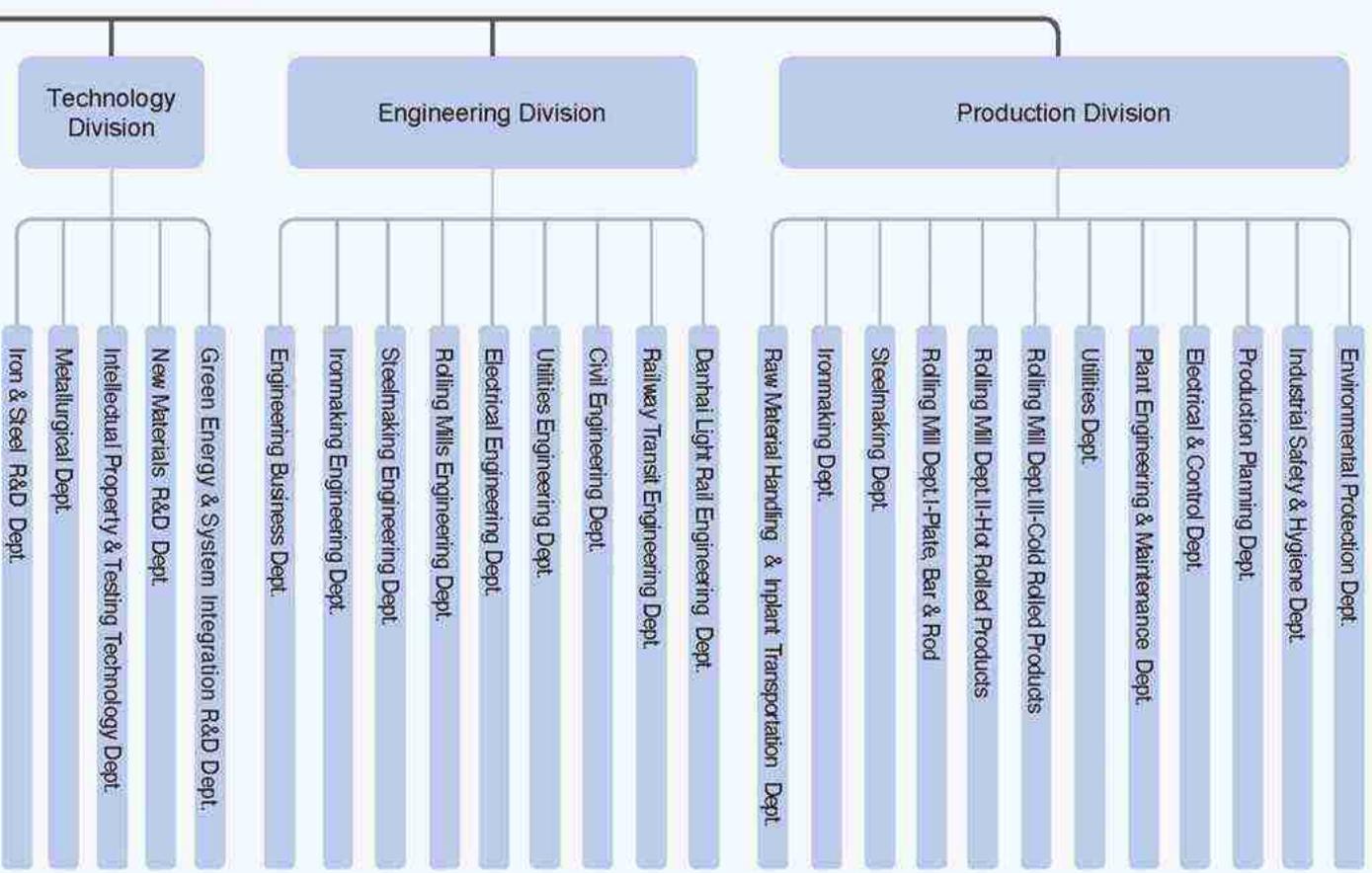
The Financial Supervisory Commission has published the "Corporate Governance Roadmap 2013," which will be modified periodically on a rolling basis in the next five years. "Evaluation of corporate governance" has been implemented since 2015; the scope of evaluation has expanded from merely information disclosure to corporate governance. CSC's ranking has always been among the top 20% of the exchange-listed or OTC-listed companies. Furthermore, the Taiwan Stock Exchange (TWSE) released the results of the second corporate governance evaluation, and CSC was among the top 5% listed companies and belonged to the TWSE Corporate Governance 100 Index.

In terms of CSC's performance in the environmental, social, and corporate governance aspects, it has been listed as a constituent of the FTSE4Good Index, showing recognition of CSC's efforts in corporate governance and corporate social responsibility by the FTSE Group and FTSE Russell.



# Organization Chart







# Board of Directors

(as of December 31, 2017)



Chairman of the Board

**Chao-Tung Wong**

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



Director

**Feng-Sheng Wu**

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



Director

**Jih-Gang Liu**

Representing Gau Ruei Investment Corporation



Director

**Shyi-Chin Wang**

Representing Ever Wealthy International Corporation



Director

**Horng-Nan Lin**

Representing Chiun Yu Investment Corporation



Director

**Cheng-I Weng**

Representing Hung Kao Investment Corporation



Director

**Chao-Chin Wei**

Representing Labor Union of China Steel Corporation



Independent Director

**Min-Hsiung Hon**



Independent Director

**Shyue-Bin Chang**



Independent Director

**Lan-Feng Kao**

# Senior Management

(as of December 31, 2017)



President

Jih-Gang Liu



Executive Vice President  
(Concurrently Spokesman  
for the Corporation)

Shyi-Chin Wang



Assistant Vice President  
-Administration  
(Acting Vice President-Administration)

Chiu-Po Chang



Vice President -  
Commercial

Shin-Min Lee



Vice President  
- Finance

Ming-Hsien Wu



Vice President -  
Corporate Planning

Yi-Lang Lin



Assistant Vice President  
- Technology  
(Acting Vice President-Technology)

Song-Jau Tsai



Vice President -  
Engineering

Chung-Te Chen



Vice President  
- Production

Hsin-Chin Kuo



## Five-Year Summary of Selected Financial Data and Operating Results

(in thousands of New Taiwan Dollars, unless stated otherwise)

	2017	2016	2015	2014 (Restated)	2013
Operating revenues	207,098,630	168,927,075	160,909,464	205,159,602	200,726,268
Operating costs	187,568,805	147,174,784	148,511,291	183,377,897	184,156,015
Gross profit	19,529,825	21,752,291	12,398,173	21,781,705	16,570,253
Realized(Unrealized) gain on the transactions with subsidiaries and associates	147,162	(384,546)	225,679	(293,861)	394,126
Operating expenses	8,101,943	8,286,601	7,469,515	8,263,257	7,345,870
Profit from operations	11,575,044	13,081,144	5,154,337	13,224,587	9,618,509
Non-operating income and expenses	6,945,620	4,952,067	3,161,977	10,431,496	7,888,875
Profit before income tax	18,520,664	18,033,211	8,316,314	23,656,083	17,507,384
Net profit for the year	16,905,588	16,038,369	7,604,721	22,132,134	15,981,540
Other comprehensive income(loss) for the year, net of income tax	(2,475,273)	(87,519)	(2,531,685)	3,561,821	3,524,589
Total comprehensive income for the year	14,430,315	15,950,850	5,073,036	25,693,955	19,506,129
Current assets	73,703,417	65,458,991	63,791,939	65,977,147	67,922,345
Property, plant and equipment	162,042,223	167,632,162	175,420,761	185,285,861	192,022,654
Other assets	236,681,872	237,184,216	225,187,698	212,986,584	197,335,519
Total assets	472,427,512	470,275,369	464,400,398	464,249,592	457,280,518
Current liabilities	65,066,190	45,556,399	57,914,294	51,998,443	54,361,542
Noncurrent liabilities	103,351,259	122,159,084	112,165,285	107,576,551	113,231,922
Total liabilities	168,417,449	167,715,483	170,079,579	159,574,994	167,593,464
Share capital	157,731,290	157,731,290	157,731,290	157,731,290	154,638,520
Capital surplus	38,211,082	37,807,466	37,612,027	37,217,876	36,960,818
Retained earnings	109,227,145	106,917,266	99,630,738	108,150,878	98,628,837
Other equity	7,372,935	8,680,706	7,924,408	10,162,015	7,955,853
Treasury shares	(8,532,389)	(8,576,842)	(8,577,644)	(8,587,461)	(8,496,974)
Total equity	304,010,063	302,559,886	294,320,819	304,674,598	289,687,054
Total liabilities and equity	472,427,512	470,275,369	464,400,398	464,249,592	457,280,518
Equity per common share (NT\$)	19.67	19.58	19.04	19.72	19.11
Earnings per common share (NT\$)	1.09	1.04	0.49	1.43	1.05
Earnings per common share (NT\$) <sup>14</sup>	-	1.04	0.49	1.43	1.03

<sup>14</sup> Recalculated using retroactively adjusted earnings and common shares after taking compensation paid to employees by shares and stock dividends into account.



## Five-Year Summary of Selected Financial Ratios and Percentages

		2017	2016	2015	2014	2013
<b>Current ratio</b>	(%)	113	144	110	127	125
<b>Ratio of long-term liabilities and equity to property, plant and equipment</b>	(%)	241	244	223	214	201
<b>Total liabilities to total assets</b>	(%)	36	36	37	34	37
<b>Net profit ratio</b>	(%)	8	10	5	11	8
<b>Return on total assets</b>	(%)	4	4	2	5	4
<b>Return on equity</b>	(%)	6	5	3	7	6
<b>Revenue growth rate, year to year</b>	(%)	22.60	4.98	(21.57)	2.21	(3.12)
<b>Equity growth rate, year to year</b>	(%)	0.48	2.80	(3.40)	5.18	5.00



# Analysis of the Financial Status and Operating Results

## 1. Two-year analysis of flow ratios

		2017	2016	Increase (Decrease)(%)
Cash flow ratio	(%)	36	69	(48)
Cash flow adequacy ratio <sup>15</sup>	(%)	117	122	(4)
Cash reinvestment ratio	(%)	1.28	3.10	(59)

<sup>15</sup> Based on the data over the past five years.

### Analysis of the increase (decrease) of percentages:

1. The cash flow ratio: The 48% decrease in the cash flow ratio over the previous year was mainly attributable to the decrease in the net cash flow from the operation activities.
2. The appropriate cash flow ratio: The 4% decrease in the appropriate cash flow ratio over the previous year was mainly attributable to the decrease in the net cash flow from the operation activities.
3. The cash reinvestment ratio: The 59% decrease in the cash reinvestment ratio over the previous year was mainly attributable to the decrease in the net cash flow from the operation activities and the increase in the appropriation of cash dividends.

## 2. Analysis of operating results

1. The NT\$38,171,555 thousand increase in the operating revenue was mainly attributable to the increase of the unit sales prices of steel products.
2. The NT\$ 40,394,021 thousand increase in the operating costs was mainly attributable to the increase in the unit costs of steel products.
3. The NT\$2,222,466 thousand decrease in the gross profit was mainly attributable to the fact that the increase of the unit costs of steel products was more than that of the unit sales prices.
4. The NT\$531,708 thousand increase in the realized gain on transactions with subsidiaries and associates was mainly attributable to the fact that there were no engineering projects obtained from the subsidiaries, and that there was more increase in the unrealized profit margin of steel products sold to the subsidiaries in the previous year than that this year.
5. The NT\$184,658 thousand decrease in the operating expenses was mainly attributable to the decrease of professional service fees and other similar fees.
6. The NT\$1,506,100 thousand decrease in the operating income was mainly attributable to the causes in (1) ~ (5).
7. The NT\$1,993,553 thousand increase in the net non-operating income was mainly attributable to the increase of the share of profit from the subsidiaries and associates recognized under the equity method.
8. The NT\$487,453 thousand increase in the profit before income tax was mainly attributable to the causes in (1) ~ (7).
9. The NT\$867,219 thousand increase in the net income was mainly attributable to the increase in the profit before income tax, the causes of which were listed in (1) ~ (7), and the NT\$379,766 thousand decrease in income tax expenses.



## Terms and Conditions of Corporate Bonds

Issue	1st Unsecured Corporate Bonds-B Issue in 2011	1st Unsecured Corporate Bonds-A Issue in 2012	1st Unsecured Corporate Bonds-B Issue in 2012	1st Unsecured Corporate Bonds-A Issue in 2013	1st Unsecured Corporate Bonds-B Issue in 2013
Issue Date	From October 19, 2011 to October 19, 2018	From August 10, 2012 to August 10, 2019	From August 3, 2012 to August 3, 2022	From July 12, 2013 to July 12, 2020	From July 12, 2013 to July 12, 2023
Face Amount	NT\$1 million	NT\$1 million	NT\$1 million	NT\$1 million	NT\$1 million
Issue Price	At par value	At par value	At par value	At par value	At par value
Amount	NT\$5,200 million	NT\$5,000 million	NT\$15,000 million	NT\$6,300 million	NT\$9,700 million
Coupon	1.57%	1.37%	1.50%	1.44%	1.60%
Maturity	Seven years	Seven years	Ten years	Seven years	Ten years
Trustee	Taipei Fubon Bank, Trust Department	Taipei Fubon Bank, Trust Department	Taipei Fubon Bank, Trust Department	Mega International Commercial Bank, Head Office-Trust Department	Mega International Commercial Bank, Head Office-Trust Department
Lead Manager	-	-	-	-	-
Legal Advisor to the Issuer	Chien Yeh Law Offices	Chien Yeh Law Offices	Chien Yeh Law Offices	Chien Yeh Law Offices	Chien Yeh Law Offices
Auditor of the Issuer	Deloitte & Touche	Deloitte & Touche	Deloitte & Touche	Deloitte & Touche	Deloitte & Touche
Repayment	Repay 50% of the principal at the end of the 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 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 9th and 10th 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 9th and 10th year; interest shall be paid annually against interest coupon commencing from the issue date.

Issue	1st Unsecured Corporate Bonds-C Issue in 2013	1st Unsecured Corporate Bonds-A Issue in 2014	1st Unsecured Corporate Bonds-B Issue in 2014	1st Unsecured Corporate Bonds-C Issue in 2014
Issue Date	From July 12, 2013 to July 12, 2028	From January 23, 2014 to January 23, 2021	From January 23, 2014 to January 23, 2024	From January 23, 2013 to January 23, 2029
Face Amount	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
Amount	NT\$3,600 million	NT\$6,900 million	NT\$7,000 million	NT\$9,000 million
Coupon	1.88%	1.75%	1.95%	2.15%
Maturity	Fifteen years	Seven years	Ten years	Fifteen years
Trustee	Mega International Commercial Bank, Head Office-Trust Department	Taipei Fubon Bank, Trust Department	Taipei Fubon Bank, Trust Department	Taipei Fubon Bank, Trust Department
Lead Manager	-	-	-	-
Legal Advisor to the Issuer	Chien Yeh Law Offices	Chien Yeh Law Offices	Chien Yeh Law Offices	Chien Yeh Law Offices
Auditor of the Issuer	Deloitte & Touche	Deloitte & Touche	Deloitte & Touche	Deloitte & Touche
Repayment	Repay 30%、30%、40% of the principal at the end of the 13th、14th、15th 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 9th and 10th year; interest shall be paid annually against interest coupon commencing from the issue date.	Repay 30%、30%、40% of the principal at the end of the 13th、14th、15th year; interest shall be paid annually against interest coupon commencing from the issue date.



## Preferred Stocks

Items	Issuance date	Nov. 18, 1974	Jan. 31, 1980	Nov. 30, 1980	Dec. 31, 1981
	Face value (NT\$)		10	10	10
Issuing price (NT\$)		10	10	10	10
Number of shares		50,000,000	21,887,000	797,000	4,006,000
Total amount (NT\$)		500,000,000	218,870,000	7,970,000	40,060,000
Rights and liabilities	Dividend policy	After all the accounts are settled, taxes paid, deficits offset, and the legal reserve appropriated, the remaining earnings will be distributed as follows: (1) Preferred stock dividends at 14% of the par value (2) Common stock dividends at no more than 14% of the par value (3) The rest of the remaining earnings will be appropriated proportionally to the preferred stockholders and common stockholders as bonuses.			
	Appropriation of residual property	Same as those of common shareholders			
	Voting rights	No right to vote in the elections of board directors or supervisors			
	Others	Other rights and obligations are the same as those of the common shareholders.			
Preferred stock in circulation	Retrieved / converted shares	0 shares (2017 and the first three months of 2018)			
	Unretrieved / unconverted shares	38,267,999 shares (as of March 31, 2018)			
	Retrieving or converting clause	The Corporation may retrieve the preferred stock using earnings or the proceeds from share issuance. Preferred shareholders have the right to convert preferred shares into common shares.			
Market price (NT\$)	2014	High	43.80		
		Low	39.40		
		Average(closing)	41.35		
	2015	High	42.30		
		Low	36.70		
		Average(closing)	40.33		
	2016	High	41.85		
		Low	38.60		
		Average(closing)	40.50		
	2017	High	44.00		
		Low	41.55		
		Average(closing)	42.44		



## Issuance of Global Depositary Shares

Item		Issuance date			
		May 28, 1992	Feb. 10, 1997	Oct 22, 2003	Aug 1, 2011
Issuance and Listing		Asia, Europe, America	Asia, Europe, America	Asia, Europe, America	Asia, Europe, America
Total Amount (US\$)		US\$327,600,000	US\$186,607,572.50	US\$936,086,488	US\$751,067,478
Offering Price Per GDS		US\$18.2/1 unit	US\$18.35/1 unit	US\$15.56/1 unit	US\$19.67/1 unit
Units Issued		18,000,000 units	10,169,350 units	60,159,800 units	38,183,400 units
Underlying Securities		CSC Common Shares	CSC Common Shares	CSC Common Shares	CSC Common Shares
Common Shares Represented		360,000,000	203,387,000	1,203,196,000	763,668,000
Rights and Obligations of GDS Holders		Dividend appropriation is the same as CSC common shares. Other rights and obligation are regulated in Depositary Agreement.			
Trustee		Not Applicable	Not Applicable	Not Applicable	Not Applicable
Depositary Bank		Citibank, N.A.-New York	Citibank, N.A.-New York	Citibank, N.A.-New York	Citibank, N.A.-New York
Custodian Bank		Citibank, N.A-Taipei	Citibank, N.A-Taipei	Citibank, N.A-Taipei	Citibank, N.A-Taipei
GDS Outstanding		26,431,130 shares (as of March 31, 2018)			
Apportionment of Expenses for Issuance and Maintenance		Issuance-related expenses were borne by Ministry of Economic Affairs.	Issuance-related expenses were borne by Ministry of Economic Affairs.	Issuance-related expenses were borne by Ministry of Economic Affairs.	Issuance-related expenses were borne by the Company, CSC.
Terms and Conditions in the Depositary Agreement & Custody Agreement		Omitted	Omitted	Omitted	Omitted
Closing price Per GDS(US\$)	2017	High	US\$ 17.12		
		Low	US\$ 15.16		
		Average	US\$ 16.38		



## Market Price of Stock over Past Three Years

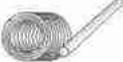
(in NTS / share)

Stock	Price	2017	2016	2015
Common	Highest	26.40	25.90	26.75
	Lowest	23.65	17.05	16.75
	Average(closing)	24.92	21.80	22.77

Source of Information: Taiwan Stock Exchange Corporation



## Principal Products and Uses

Steel Product	Major Uses
 <b>Plates</b>	Shipbuilding, bridges, steel structures, oil country tubular goods (OCTGs), storage tanks, boilers, pressure vessels, die, truck chassis, general construction, etc.
 <b>Bars</b>	Nuts and bolts, hand tools, loudspeaker parts, automobile and motorcycle parts, suspension spring, bearing, machinery parts, free cutting rod, gear, polished bar, etc.
 <b>Wire rods</b>	Nuts and bolts, steel wire and rope, P. C. wire and strand, hand tools, welding electrodes, tire cord, bearing, free cutting rod, umbrella parts, polished bar, etc.
 <b>Hot rolled coils, plates and sheets</b>	Steel pipes and tubes, vehicle parts, containers, pressure vessels, building structures, hydraulic jacks, cold rolled and galvanized substrate, hand tools, light shapes and formed parts, etc.
 <b>Cold rolled coils</b>	Steel pipes and tubes, steel furniture, kitchenware, home appliances, oil barrels, automobile panels and parts, enamelware, substrate for galvanized and coated steel sheets, hardware, etc.
 <b>Electro-galvanized coils</b>	Computer cases/parts and accessories, home appliance panels/parts and accessories, LCD TV back plates/parts, motor cases, construction materials, furniture hardware and components, motorcycle fuel tanks, etc.
 <b>Hot-dip galvanized coils</b>	Automobile panels and parts, home appliance panels/parts and accessories, computer cases/parts and accessories, PPGI substrate, construction materials, furniture hardware and components, etc.
 <b>Electrical steel coils</b>	EV Motors, compressors, home appliance motors, servomotors, industrial motors, machinery motors, generators, transformers, reactors, traditional ballast, etc.
Special Alloy Product	Major Uses
 <b>Ti-Ni Plates</b>	Storage tanks, pressure vessels, flanges, target material, high temperature furnace lined material, electronic equipment parts, bone plates, missile parts, aircraft, chemical resistant hooks, electrode plates, etc.
 <b>Ti-Ni Bars and Wire rods</b>	Nuts and bolts, glasses frame, valve, welding consumables, bone screw, guide template, transfer abutment, artificial root, spring, coke furnace rack, turbo fastener, etc.
 <b>Hot rolled Ti-Ni coils, plates and sheets</b>	Pressure vessels, electrode plates, high temperature furnace lined material, chemical tanks, flanges, electroplated Baskets, etc.
 <b>Cold rolled Ti-Ni coils and sheets</b>	Construction material, furniture and home appliances, heat exchangers, thermal reactors, flue pipes, kitchenware (cups, bowls, tableware), filters, etc.



## Three-Year Summary of Production and Sales Volumes

(in tons)

Product	Volume	2017	2016	2015
Plates	Production	870,478	953,060	920,472
	Sales	882,917	939,831	919,637
Bars	Production	616,330	572,621	552,941
	Sales	703,774	627,911	633,732
Wire rods	Production	1,318,994	1,294,015	1,184,045
	Sales	1,497,478	1,422,983	1,350,458
Hot rolled steel products	Production	2,389,443	2,301,603	2,024,285
	Sales	3,001,523	2,754,220	2,457,216
Cold rolled steel products <sup>16</sup>	Production	3,419,413	3,291,372	3,105,005
	Sales	3,394,432	3,346,243	3,235,267
Commercial slabs	Production	103,690	637,410	265,863
	Sales	1,358,146	2,017,343	926,631
Pig iron	Production	10,909	9,875	6,816
	Sales	1,132	1,314	947
Others <sup>17</sup>	Production	102,413	92,864	82,375
	Sales	6,155	25,266	4,456
Total	Production	8,831,670	9,152,820	8,141,802
	Sales	10,845,557	11,135,111	9,528,344

<sup>16</sup> Including electrogalvanized, hot-dip galvanized products and electrical steel coils

<sup>17</sup> Including alloy products, stainless steels, blooms, and billets

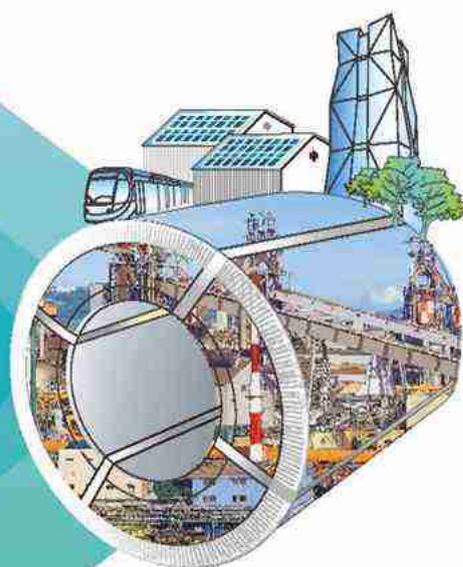
CHINA STEEL CORPORATION

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# STANDALONE FINANCIAL STATEMENTS

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for the Years Ended December 31, 2017 and 2016 and  
Independent Auditors' Report



## INDEPENDENT AUDITORS' REPORT

China Steel Corporation

### Opinion

We have audited the accompanying standalone financial statements of China Steel Corporation (the Corporation), which comprise the standalone balance sheets as of December 31, 2017 and 2016, and the standalone statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the standalone financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the report of other independent auditors (refer to other matter paragraph below), the accompanying standalone financial statements present fairly, in all material respects, the standalone financial position of the Corporation as of December 31, 2017 and 2016, and its standalone financial performance and its standalone cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

### Basis for Opinion

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Standalone Financial Statements section of our report. We are independent of the Corporation in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Based on our audits and the report of other independent auditors, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the standalone financial statements for the year ended December 31, 2017. These matters were addressed in the context of our audit of the standalone financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters of the Corporation's standalone financial statements for the year ended December 31, 2017 are stated as follows:

#### Inventory Valuation

As of December 31, 2017, inventories of the Corporation amounted to NT\$48,024,231 thousand, representing 10% of the Corporation's total assets. Due to the drastic fluctuations in the prices of raw materials and finished goods in steel industry and inventory valuation involved critical accounting estimates, inventory valuation is deemed to be a key audit matter. Refer to Notes 4 and 10 to the Corporation's financial statements for the related accounting policies and disclosures of inventory valuation.

We focused on inventory valuation and the audit procedures we performed included:

1. We evaluated the appropriateness of the approach applied to the inventory valuation.
2. We verified the completeness of inventory included in inventory valuation.
3. We tested the net realizable value of inventory items on a sample basis, and evaluated the underlying assumptions and supporting documents, re-performed and calculated the appropriateness of net realizable value and the value written-off.

#### Valuation of Available-For-Sale Financial Assets - Formosa Ha Tinh (Cayman) Limited

As of December 31, 2017, through its subsidiary, China Steel Asia Pacific Holdings Pte Ltd., the Corporation invested in Formosa Ha Tinh (Cayman) Limited the amount of NT\$31,471,200 thousand, representing 7% of the Corporation's total assets. Such investment is unlisted investment. The Corporation hired an appraiser who composed the valuation report used as the basis for determining the fair value of the investment. The appraiser adopted income approach, and used as basis the income data of Formosa Ha Tinh Steel Corporation, a wholly - owned subsidiary of Formosa Ha Tinh (Cayman) Limited. The valuation model involved various assumptions and unobservable inputs, including the future profitability, the estimation of future cash flows, revenue growth rate, and rate of return to Formosa Ha Tinh Steel Corporation. As a result, the fair value of the investment in Formosa Ha Tinh (Cayman) Limited is deemed to be a key audit matter. Refer to Note 4 to the Corporation's financial statements for the related accounting policies on valuation of financial assets.

The audit procedures we performed included:

1. We assessed the professional qualifications, competence, objectivity and independence of the appraiser hired by the Corporation.
2. We discussed with the management the scope of work performed by the independent appraiser, reviewed the contract terms and conditions signed by the Corporation and the appraiser, and we identified no concerns over the appraiser's objectivity or any restriction imposed on the scope of the work.
3. We confirmed the valuation method the independent appraiser adopted is complied with IFRSs.
4. We reviewed the reasonableness of financial forecasts the independent appraiser adopted.

We also consulted our internal valuation experts in the assessment of the appropriateness of the appraisal and in verifying the key assumptions and the reasonableness of key inputs, including weighted average cost of capital and discount rate.

#### **Other Matter**

Certain investments accounted for using the equity method in the Corporation's financial statements as of December 31, 2016 and for the years ended December 31, 2017 and 2016 were based on financial statements audited by other independent auditors. Such investments accounted for using the equity method amounted to NT\$34,874,658 thousand, representing 7% of the Corporation's total assets, as of December 31, 2016, and the share of comprehensive income amounted to loss NT\$875,298 thousand and NT\$969,122 thousand, representing both 6% of the Corporation's total comprehensive income, for the years ended December 31, 2017 and 2016.

#### **Responsibilities of Management and Those Charged with Governance for the Standalone Financial Statements**

Management is responsible for the preparation and fair presentation of the standalone financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and for

such internal control as management determines is necessary to enable the preparation of the Corporation's financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the standalone financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including the audit committee, are responsible for overseeing the Corporation's financial reporting process.

### **Auditors' Responsibilities for the Audit of the Standalone Financial Statements**

Our objectives are to obtain reasonable assurance about whether the standalone financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these standalone financial statements.

As part of an audit in accordance with the auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the standalone financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the standalone financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the standalone financial statements, including the disclosures, and whether the standalone financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Corporation to express an opinion on the standalone financial statements. We are responsible for the direction, supervision, and performance of the Corporation audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the standalone financial statements for the year ended December 31, 2017 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Lee-Yuan Kuo and Cheng-Hung Kuo.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

March 28, 2018

#### Notice to Readers

*The accompanying standalone financial statements are intended only to present the standalone financial position, financial performance 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 standalone financial statements are those generally applied in the Republic of China.*

*For the convenience of readers, the independent auditors' report and the accompanying standalone 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 independent auditors' report and standalone financial statements shall prevail. Also, as stated in Note 4 to the financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.*



## Standalone Balance Sheets

ASSETS	December 31, 2017		December 31, 2016	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 2,923,910	1	\$ 2,477,746	1
Available-for-sale financial assets - current	111,603	-	780,716	-
Derivative financial assets for hedging - current	44,469	-	32,094	-
Notes receivable	681,901	-	472,193	-
Notes receivable - related parties	223,073	-	324,457	-
Accounts receivable, net	2,246,631	1	1,257,657	-
Accounts receivable - related parties	2,526,127	1	1,815,399	-
Other receivables	805,299	-	1,139,592	-
Other receivables - loans to related parties	7,356,950	2	7,211,809	2
Inventories	48,024,231	10	42,506,461	9
Other financial assets - current	6,869,408	1	6,622,457	2
Other current assets	1,889,815	-	818,410	-
Total current assets	<u>73,703,417</u>	<u>16</u>	<u>65,458,991</u>	<u>14</u>
<b>NONCURRENT ASSETS</b>				
Available-for-sale financial assets - noncurrent	16,418,690	3	15,551,376	3
Derivative financial assets for hedging - noncurrent	12,583	-	2,142	-
Debt investments with no active market - noncurrent	1,761,421	-	1,837,425	-
Investments accounted for using equity method	207,523,641	44	208,545,541	44
Property, plant and equipment	162,042,223	34	167,632,162	36
Investment properties	7,129,792	2	7,127,220	2
Intangible assets	44,810	-	54,785	-
Deferred tax assets	3,371,609	1	2,936,474	1
Refundable deposits	100,092	-	55,688	-
Other financial assets - noncurrent	319,234	-	1,073,565	-
Total noncurrent assets	<u>398,724,095</u>	<u>84</u>	<u>404,816,378</u>	<u>86</u>
<b>TOTAL</b>	<u>\$ 472,427,512</u>	<u>100</u>	<u>\$ 470,275,369</u>	<u>100</u>

(In Thousands of New Taiwan Dollars)

LIABILITIES AND EQUITY	December 31, 2017		December 31, 2016	
	Amount	%	Amount	%
<b>CURRENT LIABILITIES</b>				
Short-term borrowings and bank overdraft	\$ 10,722,766	2	\$ 8,851,509	2
Short-term bills payable	6,296,753	1	-	-
Derivative financial liabilities for hedging - current	20,674	-	8,965	-
Accounts payable	4,145,456	1	4,142,060	1
Accounts payable - related parties	1,813,858	-	969,388	-
Other payables	16,253,268	3	14,929,164	3
Current tax liabilities	2,103,954	1	1,529,584	-
Provisions - current	2,239,559	1	2,404,802	1
Current portion of bonds payable	7,698,974	2	5,199,253	1
Current portion of long-term bank borrowings	9,860,615	2	4,195,825	1
Other current liabilities	3,910,313	1	3,325,849	1
Total current liabilities	<u>65,066,190</u>	<u>14</u>	<u>45,556,399</u>	<u>10</u>
<b>NONCURRENT LIABILITIES</b>				
Derivative financial liabilities for hedging - noncurrent	8,112	-	6,904	-
Bonds payable	59,967,190	13	67,657,491	15
Long-term bank borrowings	20,653,020	5	32,950,349	7
Long-term bills payable	5,899,102	1	5,899,355	1
Deferred tax liabilities	10,715,281	2	10,799,579	2
Net defined benefit liabilities	6,048,974	1	4,785,826	1
Other noncurrent liabilities	59,580	-	59,580	-
Total noncurrent liabilities	<u>103,351,259</u>	<u>22</u>	<u>122,159,084</u>	<u>26</u>
Total liabilities	<u>168,417,449</u>	<u>36</u>	<u>167,715,483</u>	<u>36</u>
<b>EQUITY</b>				
Share capital				
Ordinary shares	157,348,610	33	157,348,610	33
Preference shares	382,680	-	382,680	-
Total share capital	<u>157,731,290</u>	<u>33</u>	<u>157,731,290</u>	<u>33</u>
Capital surplus	<u>38,211,082</u>	<u>8</u>	<u>37,807,466</u>	<u>8</u>
Retained earnings				
Legal reserve	61,538,216	13	59,934,379	13
Special reserve	27,655,869	6	29,786,846	6
Unappropriated earnings	20,033,060	4	17,196,041	4
Total retained earnings	<u>109,227,145</u>	<u>23</u>	<u>106,917,266</u>	<u>23</u>
Other equity	<u>7,372,935</u>	<u>2</u>	<u>8,680,706</u>	<u>2</u>
Treasury shares	( 8,532,389)	( 2)	( 8,576,842)	( 2)
Total equity	<u>304,010,063</u>	<u>64</u>	<u>302,559,886</u>	<u>64</u>
<b>TOTAL</b>	<u>\$ 472,427,512</u>	<u>100</u>	<u>\$ 470,275,369</u>	<u>100</u>



## Standalone Statements of Comprehensive Income

	For the Year Ended December 31			
	2017		2016	
	Amount	%	Amount	%
OPERATING REVENUES	\$ 207,098,630	100	\$ 168,927,075	100
OPERATING COSTS	<u>187,568,805</u>	<u>90</u>	<u>147,174,784</u>	<u>87</u>
GROSS PROFIT	19,529,825	10	21,752,291	13
REALIZED (UNREALIZED) GAIN ON TRANSACTIONS WITH SUBSIDIARIES AND ASSOCIATES	<u>147,162</u>	<u>-</u>	<u>( 384,546)</u>	<u>( 1)</u>
REALIZED GROSS PROFIT	<u>19,676,987</u>	<u>10</u>	<u>21,367,745</u>	<u>12</u>
OPERATING EXPENSES				
Selling and marketing expenses	2,836,946	1	2,725,816	2
General and administrative expenses	3,544,812	2	3,716,730	2
Research and development expenses	<u>1,720,185</u>	<u>1</u>	<u>1,844,055</u>	<u>1</u>
Total operating expenses	<u>8,101,943</u>	<u>4</u>	<u>8,286,601</u>	<u>5</u>
PROFIT FROM OPERATIONS	<u>11,575,044</u>	<u>6</u>	<u>13,081,144</u>	<u>7</u>
NON-OPERATING INCOME AND EXPENSES				
Other income	1,383,476	1	1,322,937	1
Other gains and losses	268,918	-	( 34,229)	-
Finance costs	( 1,919,054)	( 1)	( 1,990,052)	( 1)
Share of the profit of subsidiaries and associates	<u>7,212,280</u>	<u>3</u>	<u>5,653,411</u>	<u>3</u>
Total non-operating income and expenses	<u>6,945,620</u>	<u>3</u>	<u>4,952,067</u>	<u>3</u>
PROFIT BEFORE INCOME TAX	18,520,664	9	18,033,211	10
INCOME TAX EXPENSE	<u>1,615,076</u>	<u>1</u>	<u>1,994,842</u>	<u>1</u>
NET PROFIT FOR THE YEAR	<u>16,905,588</u>	<u>8</u>	<u>16,038,369</u>	<u>9</u>

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

	For the Year Ended December 31			
	2017		2016	
	Amount	%	Amount	%
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
Items that will not be reclassified subsequently to profit or loss				
Remeasurement of defined benefit plans	(\$ 1,179,124)	-	(\$ 657,109)	-
Share of the other comprehensive income of subsidiaries and associates	( 188,829)	-	( 298,416)	-
Income tax benefit relating to items that will not be reclassified subsequently to profit or loss	200,451	-	111,708	-
Items that may be reclassified subsequently to profit or loss				
Exchange differences on translating foreign operations	( 1,726,614)	( 1)	( 867,506)	( 1)
Unrealized gain and losses on available-for-sale financial assets	895,527	-	2,933,162	2
The effective portion of gains and losses on hedging instruments in a cash flow hedge	( 30,552)	-	( 69,360)	-
Share of the other comprehensive income of subsidiaries and associates	( 451,326)	-	( 1,251,789)	( 1)
Income tax benefit relating to items that may be reclassified subsequently to profit or loss	5,194	-	11,791	-
Other comprehensive loss for the year, net of income tax	( 2,475,273)	( 1)	( 87,519)	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>\$ 14,430,315</b>	<b>7</b>	<b>\$ 15,950,850</b>	<b>9</b>
<b>EARNINGS PER SHARE</b>				
Basic	<u>\$ 1.09</u>		<u>\$ 1.04</u>	
Diluted	<u>\$ 1.09</u>		<u>\$ 1.03</u>	



# Standalone Statements of Changes in Equity

	Share Capital			Retained Earnings		
	Ordinary Shares	Preference Shares	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings
<b>BALANCE AT JANUARY 1, 2016</b>	<b>\$ 157,348,610</b>	<b>\$ 382,680</b>	<b>\$ 37,612,027</b>	<b>\$ 59,173,907</b>	<b>\$ 27,132,983</b>	<b>\$ 13,323,848</b>
Appropriation of 2015 earnings						
Legal reserve	-	-	-	760,472	-	( 760,472)
Special reserve	-	-	-	-	2,654,116	( 2,654,116)
Cash dividends to ordinary shareholders - NT\$0.5 per share	-	-	-	-	-	( 7,867,430)
Cash dividends to preference shareholders - NT\$1.4 per share	-	-	-	-	-	( 53,575)
Reversal of special reserve	-	-	-	-	( 253)	253
Net profit for the year ended December 31, 2016	-	-	-	-	-	16,038,369
Other comprehensive income (loss) for the year ended December 31, 2016, net of income tax	-	-	-	-	-	( 843,817)
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	-	-	15,194,552
Adjustment to capital surplus arising from dividends paid to subsidiaries	-	-	159,065	-	-	-
Adjustment from changes in equity of subsidiaries and associates	-	-	36,374	-	-	12,981
<b>BALANCE AT DECEMBER 31, 2016</b>	<b>157,348,610</b>	<b>382,680</b>	<b>37,807,466</b>	<b>59,934,379</b>	<b>29,786,846</b>	<b>17,196,041</b>
Appropriation of 2016 earnings						
Legal reserve	-	-	-	1,603,837	-	( 1,603,837)
Reversal of special reserve	-	-	-	-	( 2,130,614)	2,130,614
Cash dividends to ordinary shareholders - NT\$0.85 per share	-	-	-	-	-	( 13,374,632)
Cash dividends to preference shareholders - NT\$1.4 per share	-	-	-	-	-	( 53,575)
Reversal of special reserve	-	-	-	-	( 363)	363
Net profit for the year ended December 31, 2017	-	-	-	-	-	16,905,588
Other comprehensive income (loss) for the year ended December 31, 2017, net of income tax	-	-	-	-	-	( 1,167,502)
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	-	15,738,086
Purchase of the Corporation's shares by subsidiaries	-	-	-	-	-	-
Disposal of the Corporation's shares held by subsidiaries	-	-	28,066	-	-	-
Adjustment to capital surplus arising from dividends paid to subsidiaries	-	-	267,245	-	-	-
Adjustment from changes in equity of subsidiaries and associates	-	-	108,305	-	-	-
<b>BALANCE AT DECEMBER 31, 2017</b>	<b>\$ 157,348,610</b>	<b>\$ 382,680</b>	<b>\$ 38,211,082</b>	<b>\$ 61,538,216</b>	<b>\$ 27,655,869</b>	<b>\$ 20,033,060</b>

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

**Other Equity**

Exchange Differences on Translating Foreign Operations	Unrealized Gains and Losses on Available-for-sale Financial Assets	The Effective Portion of Gains and Losses on Hedging Instruments in a Cash Flow Hedge	Total Other Equity	Treasury Shares	Total Equity
\$ 1,198,796	\$ 6,573,348	\$ 152,264	\$ 7,924,408	(\$ 8,577,644)	\$ 294,320,819
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	( 7,867,430)
-	-	-	-	-	( 53,575)
-	-	-	-	-	-
-	-	-	-	-	16,038,369
( 1,230,844)	2,077,225	( 90,083)	756,298	-	( 87,519)
( 1,230,844)	2,077,225	( 90,083)	756,298	-	15,950,850
-	-	-	-	-	159,065
-	-	-	-	802	50,157
( 32,048)	8,650,573	62,181	8,680,706	( 8,576,842)	302,559,886
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	( 13,374,632)
-	-	-	-	-	( 53,575)
-	-	-	-	-	-
-	-	-	-	-	16,905,588
( 2,078,545)	964,290	( 193,516)	( 1,307,771)	-	( 2,475,273)
( 2,078,545)	964,290	( 193,516)	( 1,307,771)	-	14,430,315
-	-	-	-	( 19,595)	( 19,595)
-	-	-	-	64,048	92,114
-	-	-	-	-	267,245
-	-	-	-	-	108,305
<u>(\$ 2,110,593)</u>	<u>\$ 9,614,863</u>	<u>(\$ 131,335)</u>	<u>\$ 7,372,935</u>	<u>(\$ 8,532,389)</u>	<u>\$ 304,010,063</u>



## Standalone Statements of Cash Flows

	For the Year Ended December 31	
	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before income tax	\$ 18,520,664	\$ 18,033,211
Adjustments for:		
Depreciation	17,394,877	18,409,717
Amortization	9,975	10,951
Finance costs	1,919,054	1,990,052
Interest income	( 146,636)	( 124,145)
Dividend income	( 335,909)	( 350,156)
Share of profit of subsidiaries and associates	( 7,212,280)	( 5,653,411)
Loss on disposal of property, plant and equipment	9,721	21,862
Gain on disposal of investments	( 771,464)	( 603,519)
Impairment loss recognized on financial assets	532,792	488,299
Impairment loss recognized on nonfinancial assets	40,311	-
Reversal of loss on inventories	( 551,871)	( 2,919,280)
Unrealized (realized) gain on the transactions with subsidiaries and associates	( 147,162)	384,546
Recognition of provisions	7,190,968	7,252,605
Others	49,800	4,461
Changes in operating assets and liabilities		
Notes receivable	( 209,708)	( 28,817)
Notes receivable - related parties	101,384	( 126,058)
Accounts receivable	( 988,974)	( 354,531)
Accounts receivable - related parties	( 710,728)	( 1,128,653)
Other receivables	321,472	( 516,076)
Inventories	( 4,988,766)	( 1,913,314)
Other current assets	( 1,071,405)	170,378
Accounts payable	3,396	2,084,866
Accounts payable - related parties	844,470	611,935
Other payables	1,377,976	2,647,544
Provisions	( 7,356,211)	( 6,547,481)
Other current liabilities	584,464	382,509
Net defined benefit liabilities	84,024	71,415
Other noncurrent liabilities	-	340
Cash generated from operations	24,494,234	32,299,250
Income taxes paid	( 1,355,517)	( 821,131)
Net cash generated from operating activities	23,138,717	31,478,119
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of available-for-sale financial assets	-	( 193,268)
Proceeds from disposal of available-for-sale financial assets	841,250	649,443
Proceeds from the capital reduction on available-for-sale financial assets	1,284	2,267
Proceeds from the capital reduction on investment accounted for using equity method	-	999,968

(In Thousands of New Taiwan Dollars)

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Acquisition of investments accounted for using equity method	( \$ 779,498)	( \$ 11,426,350)
Acquisition of property, plant and equipment	( 11,701,039)	( 10,152,877)
Proceeds from disposal of property, plant and equipment	419	-
Increase in refundable deposits	( 44,404)	( 11,605)
Increase in other receivables - loans to related parties	( 145,141)	( 1,321,809)
Decrease (increase) in other financial assets	466,929	( 941,687)
Interest received	144,903	124,587
Dividends received from subsidiaries and associates	4,963,105	4,993,852
Other dividends received	350,463	335,602
Net cash used in investing activities	<u>( 5,901,729)</u>	<u>( 16,941,877)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from short-term borrowings	17,971,900	15,500,000
Repayments of short-term borrowings	( 16,590,000)	( 16,725,401)
Increase in share-term bills payable	122,646,753	142,052,986
Decrease in short-term bills payable	( 116,350,000)	( 154,900,000)
Proceeds from long-term bills payable	-	5,899,355
Repayments of bonds payable	( 5,200,000)	( 4,650,000)
Proceeds from long-term borrowings	-	14,817,064
Repayments of long-term borrowings	( 4,242,113)	( 10,139,862)
Dividends paid	( 13,428,207)	( 7,911,996)
Interest paid	( 2,088,514)	( 2,129,360)
Net cash used in financing activities	<u>( 17,280,181)</u>	<u>( 18,187,214)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>( 43,193)</b>	<b>( 3,650,972)</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<b><u>872,415</u></b>	<b><u>4,523,387</u></b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b><u>\$ 829,222</u></b>	<b><u>\$ 872,415</u></b>
<b>Reconciliation of the amounts in the standalone statements of cash flows with the equivalent items reported in the standalone balance sheets as of December 31, 2017 and 2016:</b>		
Cash and cash equivalents in the standalone balance sheets	\$ 2,923,910	\$ 2,477,746
Bank overdraft	( 2,094,688)	( 1,605,331)
Cash and cash equivalents in the standalone statements of cash flows	<u>\$ 829,222</u>	<u>\$ 872,415</u>



# Ownership of Subsidiaries and Other Equity Interests

(December 31, 2017)

Companies	Amount (NT\$1,000)	Ownership (%)
<b>Investments Accounted for using Equity Method</b>		
<b>Investments in Subsidiaries</b>		
<b>Listed companies</b>		
Chung Hung Steel Corporation	4,886,391	41
China Steel Chemical Corporation	1,955,790	29
China Steel Structure Corporation	1,358,447	33
China Ecotek Corporation	1,201,380	45
CHC Resources Corporation	776,888	20
Less : Shares held by subsidiaries accounted for as treasury stock	2,036,818	
<b>Subtotal</b>	<b>8,142,078</b>	
<b>Unlisted companies</b>		
Dragon Steel Corporation	101,500,932	100
China Steel Asia Pacific Holdings Pte Ltd.	36,127,072	100
China Steel Australia Holdings Pty Ltd.	15,753,650	100
China Steel Express Corporation	11,129,193	100
C. S. Aluminum Corporation	8,696,161	100
Gains Investment Corporation	7,040,641	100
China Steel Sumikin Vietnam Joint Stock Company	6,896,002	56
China Prosperity Development Corporation	3,695,653	100
China Steel Corporation India Pvt Ltd.	2,228,405	100
China Steel Global Trading Corporation	2,111,723	100
Kaohsiung Rapid Transit Corporation <sup>18</sup>	1,312,936	43
China Steel Resources Corporation	994,103	100
China Steel Machinery Corporation	956,927	74
CSC Precision Metal Industrial Corporation	842,328	100
InfoChamp Systems Corporation	756,401	100
White Biotech Corporation	722,626	87
CSC Solar Corporation	657,994	55
China Steel Security Corporation	529,945	100
Hi-mag Magnetic Corporation	390,505	69
China Steel Management Consulting Corporation	16,606	100
Less : Shares held by subsidiaries accounted for as treasury stock	6,495,571	
<b>Subtotal</b>	<b>195,864,232</b>	
<b>Investments in Associates</b>		
<b>Unlisted companies</b>		
Taiwan Rolling Stock Co., Ltd.	1,194,880	48
Honley Auto Parts Co., Ltd.	655,653	38
Kaohsiung Arena Development Corporation <sup>19</sup>	500,091	18
Eminent II Venture Capital Corporation	435,370	46
Hsin Hsin Cement Enterprise Corp.	361,293	31
Dyna Rechi Co., Ltd.	305,297	25
Overseas Investment & Development Corp.	50,326	6
TaiAn Technologies Corporation <sup>20</sup>	14,421	17

Companies	Amount (NT\$1,000)	Ownership (%)
Subtotal	3,517,331	
Total	207,523,641	
<b>Available-For-Sale Financial Assets-Noncurrent</b>		
<b>Domestic investments</b>		
<b>Listed shares</b>		
Taiwan High Speed Rail Corporation	5,690,478	4
Tang Eng Iron Works Co., Ltd.	1,403,453	9
Reichi Precision Co., Ltd.	659,008	5
CSBC Corporation Taiwan	208,085	2
O-Bank Co., Ltd.	925,283	4
Subtotal	8,886,307	
<b>Emerging market shares and unlisted equity securities</b>		
CDIB Partners Investment Holding Corporation	805,210	5
CDIB BioScience Ventures I, Inc.	11,154	5
Mega I Venture Capital Co., Ltd.	2,006	3
Phalanx Biotech Group	3,224	2
Subtotal	821,594	
<b>Foreign investments</b>		
<b>Listed shares</b>		
Maruichi Steel Tube Ltd.	1,743,720	2
Yodogawa Steel Works, Ltd.	368,823	1
Subtotal	2,112,543	
<b>Unlisted equity securities</b>		
CSN Mineracao S.A.	2,616,509	0
Dongbu Metal Co., Ltd.	0	4
Sakura Ferroalloys Sdn Bhd	1,583,085	19
Sakura Ferroalloys Sdn Bhd – Preferred	398,652	19
Subtotal	4,994,765	
Total	15,551,376	
<b>Bond Investments with no Active Market</b>		
<b>Unlisted preference shares – overseas</b>		
East Asia United Steel Corp.- Preferred A	1,761,421	19
Total	1,761,421	
Total	224,836,438	

<sup>18</sup> The Corporation's total equity in Kaohsiung Rapid Transit Corporation is 50%, including 43% directly owned and 7% indirectly owned through United Steel Engineering and Construction Corporation and China Prosperity Development Corporation and InfoChamp Systems Corporation and China Steel Security Corporation.

<sup>19</sup> 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.

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



# Businesses and Addresses of Main Subsidiaries

(as of March 31, 2018)

## SUBSIDIARIES



### C. S. Aluminium Corporation

Chairman: L. C. Pan  
President: S. M. Lan  
Main business: aluminum products  
Address: 17 Tong Lin Road, Hsiao Kang District, Kaohsiung City 81260, Taiwan, R.O.C.  
Tel: 886-7-871-8666  
Fax: 886-7-872-1852  
CSC Ownership: 99.98%



### CHC Resources Corporation

Chairman: C. T. Charng  
President: P. H. Tsai  
Main businesses: pulverized blast furnace slag and slag cement  
Address: 22F, No.88, Chenggong 2nd Rd., Qianzhen District, Kaohsiung City 80661, Taiwan, R.O.C.  
Tel: 886-7-336-8377  
Fax: 886-7-336-8433  
CSC Ownership: 19.83%



### China Steel Express Corporation

Chairman: C. L. Wu  
President: Y. J. Lai  
Main businesses: marine cargo transportation; chartering of vessels; and shipping agency  
Address: 24F, No.88, Chenggong 2nd Rd., Qianzhen District, Kaohsiung City 80661, Taiwan, R.O.C.  
Tel: 886-7-337-8888  
Fax: 886-7-338-1296  
CSC Ownership: 100%



### China Ecotek Corporation

Chairman: C. T. Chen  
President: R. Q. Chen  
Main businesses: engineering, design and construction of environmental protection installations  
Address: 8F, No.88, Chenggong 2nd Rd., Qianzhen District, Kaohsiung City 80661, Taiwan, R.O.C.  
Tel: 886-7-330-6138  
Fax: 886-7-339-4016  
CSC Ownership: 44.76%



### China Steel Chemical Corporation

Chairman: H. N. Lin  
President: C. M. Lee  
Main business: coal tar chemicals  
Address: 25F, No.88, Chenggong 2nd Rd., Qianzhen District, Kaohsiung City 80661, Taiwan, R.O.C.  
Tel: 886-7-338-3515  
Fax: 886-7-338-3516  
CSC Ownership: 29.04%



### China Steel Structure Co., Ltd.

Chairman: H. P. Chen  
President: J. M. Lin  
Main businesses: steel structures, construction  
Address: No.500, Zhongxing Rd., Yanchao District, Kaohsiung City 824, Taiwan, R.O.C.  
Tel: 886-7-616-8688  
Fax: 886-7-616-8680  
CSC Ownership: 33.24%



### China Steel Global Trading Corporation

Chairman: S. M. Lee  
President: Y. K. Lin  
Main businesses: import / export  
Address: 10F, No.88, Chenggong 2nd Rd., Qianzhen District, Kaohsiung City 80661, Taiwan, R.O.C.  
Tel: 886-7-332-2168  
Fax: 886-7-335-6411  
CSC Ownership: 100%



### Chung Hung Steel Corporation

Chairman: Y. C. Han  
President: T. C. Lee  
Main business: hot rolled and cold rolled steel products, steel pipes  
Address: 317 Yu-Liao Road, Chiao Tou District, Kaohsiung City 82544, Taiwan, R.O.C.  
Tel: 886-7-611-7171  
Fax: 886-7-611-0594  
CSC Ownership: 40.59%



## China Steel Machinery Corporation

Chairman: C. C. Cheng

President: K. C. Wu

Main businesses: machinery manufacturing

Address: 3 Taichi Road, Hsiao Kang District, Kaohsiung City 81246, Taiwan, R.O.C.

Tel: 886-7-802-0111

Fax: 886-7-806-3833

CSC Ownership: 73.97%



## InfoChamp Systems Corporation

Chairman: C. H. Liang

President: E. L. Keo

Main business: information system planning (ERP) and automatic control systems

Address: 19F, No.88, Chenggong 2nd Rd., Qianzhen District, Kaohsiung City 80661, Taiwan, R.O.C.

Tel: 886-7-535-0101

Fax: 886-7-535-0110

CSC Ownership: 100%



## Gains Investment Corporation

Chairman: M. H. Wu

President: P. C. Huang

Main business: hi-tech investments

Address: 26F, No.88, Chenggong 2nd Rd., Qianzhen District, Kaohsiung City 80661, Taiwan, R.O.C.

Tel: 886-7-338-2288

Fax: 886-7-338-7110

CSC Ownership: 100%



## China Steel Management Consulting Corporation

Chairman: Y. T. Liang

President: H. J. Tseng

Main business: management consulting

Address: 1 Chung Kang Road, Hsiao Kang District, Kaohsiung City 81233, Taiwan, R.O.C.

Tel: 886-7-805-1088

Fax: 886-7-803-7819

CSC Ownership: 100%



## China Steel Security Corporation

Chairman: J. S. Yeh

President: K. Y. Wu

Main businesses: security services and systems

Address: 17F, 247 Ming Sheng 1st Road, Hsin Hsing District, Kaohsiung City 80046, Taiwan, R.O.C.

Tel: 886-7-229-9678

Fax: 886-7-226-4078

CSC Ownership: 99.96%



## HIMAG Magnetic Corporation

Chairman: C. M. Hsu

President: C. T. Chen

Main business: magnetic materials and specific chemicals

Address: 24-1 Chien Kuo Road, Nei Pu Industrial Park, Pingtung County 91252, Taiwan, R.O.C.

Tel: 886-8-778-0222

Fax: 886-8-778-0227

CSC Ownership: 69.49%



## China Prosperity Development Corporation

Chairman: C. T. Wong

President: Y. G. Hsu

Main businesses: real estate development and investments

Address: 23F, No.88, Chenggong 2nd Rd., Qianzhen District, Kaohsiung City 80661, Taiwan, R.O.C.

Tel: 886-7-536-2500

Fax: 886-7-536-2413

CSC Ownership: 100%



## Dragon Steel Corporation

Chairman: S. C. Wang

President: D. S. Chen

Main business: hot-rolled steel products

Address: No.100, Longchang Road, Longjing District, Taichung City 43445, Taiwan, R.O.C.

Tel: 886-4-2630-6088

Fax: 886-4-2630-6066

CSC Ownership: 100%



## Businesses and Addresses of Main Subsidiaries

(as of March 31, 2018)



### China Steel Resources Corporation

Chairman: C. T. Chang

Main business: desulfurization slag recycling.

Address: No.38, Yanhai 3rd Rd., Hsiao Kang District, Kaohsiung City 81264, Taiwan, R.O.C.

Tel: 886-7-802-1111#6262

Fax: 886-7-805-1529

CSC Ownership: 100%



### CSC Precision Metal Industrial Corporation

Chairman: J. Y. Lee

Main business: steel rolling, extrusion, post-processing.

Address: 28F, No.88, Chenggong 2nd Rd., Qianzhen District, Kaohsiung City 80661, Taiwan, R.O.C.

Tel: 886-7-802-1111#2766

Fax: 886-7-805-1296

CSC Ownership: 100%



### CSC Steel Sdn. Bhd.<sup>21</sup>

Managing Director: I. H. Lee

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

CSC Ownership: 46.30%



### China Steel Sumikin Vietnam Joint Stock Co.

Chairman & President: C. S. Chen

Main business: cold rolled steel products

Address: MY XUAN A2 INDUSTRIAL ZONE, MY XUAN COMMUNE, TAN THANH DISTRICT, BA RIA-VUNG TAU PROVINCE, VIETNAM

Tel: 84-64-3931168

Fax: 84-64-3932188

CSC Ownership: 56%



### Changzhou China Steel Precision Materials Corporation<sup>21</sup>

Chairman: J. L. Lee

President: T. L. Chang

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

CSC Ownership: 70%



### China Steel Corporation India Pvt. Ltd.

Chairman: C. C. Hwang

President: K. S. Tseng

Main business: electrical steel coils

Address: Office No. 204, 2nd Floor, Iscon Atria, Tower-2, Gotri Road, Vadodara, Gujarat- 390021, India

Tel: 91-922-7989880

CSC Ownership: 100%



### Qingdao China Steel Precision Metals Co., Ltd.<sup>21</sup>

Chairman: Y. K. Lin

President: P. C. Chang

Main business: Metal materials and products, car accessories, customized metal processing.

Address: 3F, No.500, Fenjin Road, Economic & Technological District, Qingdao City, Shandong, CHINA

Tel: 86-532-58718558

CSC Ownership: 60%



### China Steel Precision Metals Kunshan Co., Ltd.<sup>21</sup>

Chairman: Y. K. Lin

President: S. H. Liou

Main business: Metal materials and products, car accessories, customized metal processing

Address: No.168, Shuanghua Road, Huaqiao Economic Development Area, Jiangsu, CHINA

Tel: 86-512-57601373

CSC Ownership: 80%



## CSC Solar Coporation

Chairman: R.Q.Chen

President: S. T. Lin

Main business: Solar power generation

Address: 9F, No.88, Chenggong 2nd Rd., Qianzhen  
District, Kaohsiung City 80661, Taiwan, R.O.C.

Tel: 886-7-333-6138

CSC Ownership: 60%

<sup>21</sup> China Steel Corporation's investment is through  
China Steel Asia Pacific Holdings Pte. Ltd.

# **China Steel Corporation and Subsidiaries**

**Consolidated Financial Statements for the  
Years Ended December 31, 2017 and 2016 and  
Independent Auditors' Report**

## **INDEPENDENT AUDITORS' REPORT**

China Steel Corporation

### **Opinion**

We have audited the accompanying consolidated financial statements of China Steel Corporation (the Corporation) and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the report of other independent auditors (refer to other matter paragraph below), the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation and its subsidiaries as of December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission (FSC) of the Republic of China.

### **Basis for Opinion**

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Corporation and its subsidiaries in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Based on our audits and the report of other independent auditors, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters of the Corporation and its subsidiaries' consolidated financial statements for the year ended December 31, 2017 are stated as follows:

#### **Inventory Valuation**

As of December 31, 2017, inventories of the Corporation and its subsidiaries amounted to NT\$87,963,760 thousand, of which the inventories from steel industry amounted to NT\$74,899,633 thousand, representing 11% of the Corporation and its subsidiaries' total assets. Due to the drastic fluctuations in the prices of raw

materials and finished goods in steel industry and inventory valuation involved critical accounting estimates, inventory valuation is deemed to be a key audit matter. Refer to Notes 4, 5 and 13 to the consolidated financial statements for the related accounting policies and disclosures of inventory valuation.

We focused on inventory valuation and the key audit procedures we performed included:

1. We evaluated the appropriateness of the approach applied to inventory valuation.
2. We verified the completeness of inventory included in inventory valuation.
3. We tested the net realizable value of inventory items on a sample basis, and evaluated the underlying assumptions and supporting documents, re-performed and calculated the appropriateness of net realizable value and the value written - off.

#### Valuation of Available-For-Sale Financial Assets - Formosa Ha Tinh (Cayman) Limited

As of December 31, 2017, through its subsidiary, China Steel Asia Pacific Holdings Pte Ltd., the Corporation invested in Formosa Ha Tinh (Cayman) Limited the amount of NT\$31,471,200 thousand, representing 5% of the Corporation and its subsidiaries' total assets. Such investment is unlisted investment. The Corporation hired an appraiser who composed the valuation report used as the basis for determining the fair value of the investment. The appraiser adopted income approach, and used as basis the income data of Formosa Ha Tinh Steel Corporation, a wholly-owned subsidiary of Formosa Ha Tinh (Cayman) Limited. The valuation model involved various assumptions and unobservable inputs, including the future profitability, the estimation of future cash flows, revenue growth rate, and rate of return to Formosa Ha Tinh Steel Corporation. As a result, the fair value of the investment in Formosa Ha Tinh (Cayman) Limited is deemed to be a key audit matter. Refer to Note 4 to the consolidated financial statements for the related accounting policies on valuation of financial assets.

The key audit procedures we performed included:

1. We assessed the professional qualifications, competence, objectivity and independence of the appraiser hired by the management.
2. We discussed with the management the scope of work performed by the independent appraiser, reviewed the contract terms and conditions signed by the Corporation and the appraiser, and we identified no concerns over the appraiser's objectivity or any restriction imposed on the scope of the work.
3. We confirmed the valuation method the independent appraiser adopted is complied with IFRSs.
4. We reviewed the reasonableness of financial forecasts the independent appraiser adopted.

We also consulted our internal experts in the assessment of the appropriateness of the appraisal and in verifying the key assumptions and the reasonableness of key inputs, including weighted average cost of capital and discount rate.

#### **Other Matter**

Certain investments accounted for using the equity method, in the consolidated financial statements as of December 31, 2016 and for the year then ended were based on financial statements audited by other independent auditors. Such investments accounted for using the equity method amounted to NT\$34,874,658 thousand, representing 5% of the Corporation and its subsidiaries' total assets, as of December 31, 2016, and the share of comprehensive income amounted to loss NT\$875,298 thousand and NT\$969,122 thousand, representing 5% of the Corporation and its subsidiaries' total comprehensive income, for the years ended December 31, 2017 and 2016.

We have also audited the standalone financial statements of China Steel Corporation as of and for the years ended December 31, 2017 and 2016 on which we have issued an unmodified opinion.

## **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Corporation and its subsidiaries' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including the audit committee, are responsible for overseeing the Corporation and its subsidiaries' financial reporting process.

## **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation and its subsidiaries' internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation and its subsidiaries' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Corporation and its subsidiaries to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Corporation and its subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the Corporation and its subsidiaries audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2017 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Lee-Yuan Kuo and Cheng-Hung Kuo.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

March 28, 2018

#### Notice to Readers

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

*For the convenience of readers, the independent auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and consolidated financial statements shall prevail. As stated in Note 4 to the consolidated financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.*

# CHINA STEEL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

ASSETS	December 31, 2017		December 31, 2016		LIABILITIES AND EQUITY	December 31, 2017		December 31, 2016	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash and cash equivalents (Notes 4 and 6)	\$ 12,856,662	2	\$ 15,467,768	2	Short-term borrowings and bank overdraft (Notes 19 and 33)	\$ 35,326,058	5	\$ 35,905,740	5
Financial assets at fair value through profit or loss - current (Notes 4, 5 and 7)	4,910,644	1	3,288,349	1	Short-term bills payable (Note 19)	24,635,582	4	16,632,100	2
Available-for-sale financial assets - current (Notes 4, 5 and 8)	2,186,156	-	2,806,737	-	Financial liabilities at fair value through profit or loss - current (Notes 4 and 7)	247	-	4,941	-
Derivative financial assets for hedging - current (Notes 4 and 10)	54,131	-	36,784	-	Derivative financial liabilities for hedging - current (Notes 4 and 10)	48,218	-	37,609	-
Notes receivable (Notes 4 and 11)	1,797,938	-	1,233,769	-	Notes payable	1,188,154	-	851,631	-
Notes receivable - related parties (Notes 4, 11 and 32)	309,587	-	384,078	-	Accounts payable (Note 21)	13,261,485	2	12,484,269	2
Accounts receivable, net (Notes 4 and 11)	14,311,437	2	11,463,575	2	Accounts payable - related parties (Notes 21 and 32)	37,377	-	536,544	-
Accounts receivable - related parties (Notes 4, 11 and 32)	355,077	-	499,185	-	Amounts due to customers for construction contracts (Notes 4 and 12)	5,426,228	1	3,853,724	1
Amounts due from customers for construction contracts (Notes 4 and 12)	9,400,960	2	8,472,037	1	Other payables (Notes 22 and 32)	23,155,371	3	21,437,649	3
Other receivables (Notes 4 and 32)	1,636,999	-	1,382,410	-	Current tax liabilities (Note 28)	3,127,173	-	2,129,043	-
Current tax assets (Note 28)	181,204	-	139,482	-	Provisions - current (Notes 4 and 23)	4,042,476	-	4,324,106	1
Inventories (Notes 4, 5 and 13)	87,963,760	13	79,489,138	12	Current portion of bonds payable (Notes 4 and 20)	11,198,974	2	5,212,668	1
Non-current assets held for sale (Note 4)	212,780	-	-	-	Current portion of long-term bank borrowings (Notes 19 and 33)	18,549,055	3	16,210,014	2
Other financial assets - current (Notes 4, 16 and 33)	10,752,021	2	11,833,708	2	Other current liabilities	4,323,642	1	3,530,170	1
Other current assets	4,051,059	1	3,558,170	1					
<b>Total current assets</b>	<b>150,980,415</b>	<b>23</b>	<b>140,055,190</b>	<b>21</b>	<b>Total current liabilities</b>	<b>144,320,040</b>	<b>21</b>	<b>123,150,208</b>	<b>18</b>
<b>NONCURRENT ASSETS</b>					<b>NONCURRENT LIABILITIES</b>				
Available-for-sale financial assets - noncurrent (Notes 4, 5 and 8)	58,383,988	9	26,306,913	4	Derivative financial liabilities for hedging - noncurrent (Notes 4 and 10)	210,325	-	36,065	-
Held-to-maturity financial assets - noncurrent (Notes 4 and 9)	129,750	-	222,669	-	Bonds payable (Notes 4 and 20)	83,852,513	13	95,037,294	14
Derivative financial assets for hedging - noncurrent (Notes 4 and 10)	16,237	-	3,354	-	Long-term bank borrowings (Notes 19 and 33)	57,047,876	9	70,329,355	10
Debt investments with no active market - noncurrent (Notes 4 and 14)	1,854,343	-	1,932,814	-	Long-term bills payable (Note 19)	27,613,159	4	36,626,165	6
Investments accounted for using equity method (Notes 4 and 15)	14,729,813	2	49,528,952	7	Provisions - noncurrent (Notes 4 and 23)	835,048	-	815,694	-
Property, plant and equipment (Notes 4, 17 and 33)	413,821,236	62	430,849,587	64	Deferred tax liabilities (Notes 4 and 28)	12,205,775	2	12,261,289	2
Investment properties (Notes 4, 18 and 33)	10,956,078	2	10,316,142	2	Net defined benefit liabilities (Notes 4 and 24)	8,321,780	1	6,901,619	1
Intangible assets (Note 4)	1,938,180	-	2,488,714	-	Other noncurrent liabilities	1,357,376	-	1,384,411	-
Deferred tax assets (Notes 4 and 28)	6,192,780	1	5,372,981	1					
Refundable deposits (Note 4)	700,646	-	566,022	-	<b>Total noncurrent liabilities</b>	<b>191,443,852</b>	<b>29</b>	<b>223,391,892</b>	<b>33</b>
Other financial assets - noncurrent (Notes 4, 16 and 33)	2,623,741	-	3,393,174	-					
Other noncurrent assets	5,388,672	1	5,085,281	1	<b>Total liabilities</b>	<b>335,763,892</b>	<b>50</b>	<b>346,542,100</b>	<b>51</b>
<b>Total noncurrent assets</b>	<b>516,735,464</b>	<b>77</b>	<b>536,066,603</b>	<b>79</b>	<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE CORPORATION (Notes 4 and 25)</b>				
					Share capital				
					Ordinary shares	157,348,610	24	157,348,610	23
					Preference shares	382,680	-	382,680	-
					Total share capital	157,731,290	24	157,731,290	23
					Capital surplus	38,211,082	6	37,807,466	6
					Retained earnings				
					Legal reserve	61,538,216	9	59,934,379	9
					Special reserve	27,655,869	4	29,786,846	4
					Unappropriated earnings	20,033,060	3	17,196,041	3
					Total retained earnings	109,227,145	16	106,917,266	16
					Other equity	7,372,935	1	8,680,706	1
					Treasury shares	(8,532,389)	(1)	(8,576,842)	(1)
					<b>Total equity attributable to owners of the Corporation</b>	<b>304,010,063</b>	<b>46</b>	<b>302,559,886</b>	<b>45</b>
					<b>NON-CONTROLLING INTERESTS</b>	<b>27,941,924</b>	<b>4</b>	<b>27,019,807</b>	<b>4</b>
					<b>Total equity</b>	<b>331,951,987</b>	<b>50</b>	<b>329,579,693</b>	<b>49</b>
<b>TOTAL</b>	<b>\$ 667,715,879</b>	<b>100</b>	<b>\$ 676,121,793</b>	<b>100</b>	<b>TOTAL</b>	<b>\$ 667,715,879</b>	<b>100</b>	<b>\$ 676,121,793</b>	<b>100</b>

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

(With Deloitte & Touche audit report dated March 28, 2018)

# CHINA STEEL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Year Ended December 31			
	2017		2016	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 4, 26, 32 and 36)	\$ 347,012,002	100	\$ 293,055,804	100
OPERATING COSTS (Notes 13, 27 and 32)	<u>307,672,853</u>	<u>89</u>	<u>253,332,496</u>	<u>87</u>
GROSS PROFIT	<u>39,339,149</u>	<u>11</u>	<u>39,723,308</u>	<u>13</u>
OPERATING EXPENSES				
Selling and marketing expenses	5,407,932	1	4,950,440	2
General and administrative expenses	6,940,039	2	7,165,255	2
Research and development expenses	<u>2,069,549</u>	<u>1</u>	<u>2,175,992</u>	<u>1</u>
Total operating expenses	<u>14,417,520</u>	<u>4</u>	<u>14,291,687</u>	<u>5</u>
PROFIT FROM OPERATIONS	<u>24,921,629</u>	<u>7</u>	<u>25,431,621</u>	<u>8</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Notes 27 and 32)	1,778,303	1	1,471,380	-
Other gains and losses (Notes 27 and 32)	745,573	-	(523,311)	-
Finance costs (Note 27)	(3,717,893)	(1)	(3,816,641)	(1)
Share of the profit of associates	<u>(324,315)</u>	<u>-</u>	<u>(663,882)</u>	<u>-</u>
Total non-operating income and expenses	<u>(1,518,332)</u>	<u>-</u>	<u>(3,532,454)</u>	<u>(1)</u>
PROFIT BEFORE INCOME TAX	23,403,297	7	21,899,167	7
INCOME TAX (Notes 4 and 28)	<u>2,972,107</u>	<u>1</u>	<u>2,711,843</u>	<u>1</u>
NET PROFIT FOR THE YEAR	<u>20,431,190</u>	<u>6</u>	<u>19,187,324</u>	<u>6</u>
OTHER COMPREHENSIVE INCOME (Notes 4, 24, 25 and 28)				
Items that will not be reclassified subsequently to profit or loss				
Remeasurement of defined benefit plans	(1,500,451)	-	(1,166,886)	-
Income tax benefit relating to items that will not be reclassified subsequently to profit or loss	236,316	-	182,490	-
Items that may be reclassified subsequently to profit or loss				
Exchange differences on translating foreign operations	(2,073,572)	(1)	(1,827,100)	(1)

(Continued)

# CHINA STEEL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Year Ended December 31			
	2017		2016	
	Amount	%	Amount	%
Unrealized gains and losses on available-for-sale financial assets	\$ 979,157	-	\$ 1,900,382	1
The effective portion of gains and losses on hedging instruments in a cash flow hedge	(198,511)	-	(164,285)	-
Share of the other comprehensive income (loss) of associates	(828,695)	-	(186,690)	-
Income tax benefit relating to items that may be reclassified subsequently to profit or loss	<u>87,480</u>	<u>-</u>	<u>86,036</u>	<u>-</u>
Other comprehensive loss for the year, net of income tax	<u>(3,298,276)</u>	<u>(1)</u>	<u>(1,176,053)</u>	<u>-</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<u>\$ 17,132,914</u>	<u>5</u>	<u>\$ 18,011,271</u>	<u>6</u>
<b>NET PROFIT ATTRIBUTABLE TO:</b>				
Owners of the Corporation	\$ 16,905,588	5	\$ 16,038,369	6
Non-controlling interests	<u>3,525,602</u>	<u>1</u>	<u>3,148,955</u>	<u>1</u>
	<u>\$ 20,431,190</u>	<u>6</u>	<u>\$ 19,187,324</u>	<u>7</u>
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>				
Owners of the Corporation	\$ 14,430,315	4	\$ 15,950,850	5
Non-controlling interests	<u>2,702,599</u>	<u>1</u>	<u>2,060,421</u>	<u>1</u>
	<u>\$ 17,132,914</u>	<u>5</u>	<u>\$ 18,011,271</u>	<u>6</u>
<b>EARNINGS PER SHARE (Note 29)</b>				
Basic	<u>\$ 1.09</u>		<u>\$ 1.04</u>	
Diluted	<u>\$ 1.09</u>		<u>\$ 1.03</u>	

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

(Concluded)

(With Deloitte & Touche audit report dated March 28, 2018)

# CHINA STEEL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (In Thousands of New Taiwan Dollars, Except Dividends Per Share)

	Equity Attributable to Owners of the Corporation						Other Equity				Total Equity Attributable to Owners of the Corporation	Non-controlling Interests	Total Equity	
	Share Capital			Retained Earnings			Exchange Differences on Translating Foreign Operations	Unrealized Gains and Losses on Available-for-sale Financial Assets	The Effective Portion of Gains and Losses on Hedging Instruments in a Cash Flow Hedge	Total Other Equity				Treasury Shares
	Ordinary Shares	Preference Shares	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings								
BALANCE AT JANUARY 1, 2016	\$ 157,348,610	\$ 382,680	\$ 37,612,027	\$ 59,173,907	\$ 27,132,983	\$ 13,323,848	\$ 1,198,796	\$ 6,573,348	\$ 152,264	\$ 7,924,408	\$ (8,577,644)	\$ 294,320,819	\$ 26,404,014	\$ 320,724,833
Appropriation of 2015 earnings (Note 25)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	760,472	-	(760,472)	-	-	-	-	-	-	-	-
Special reserve	-	-	-	-	2,654,116	(2,654,116)	-	-	-	-	-	-	-	-
Cash dividends to ordinary shareholders - NT\$0.5 per share	-	-	-	-	-	(7,867,430)	-	-	-	-	-	(7,867,430)	-	(7,867,430)
Cash dividends to preference shareholders - NT\$1.4 per share	-	-	-	-	-	(53,575)	-	-	-	-	-	(53,575)	-	(53,575)
Reversal of special reserve	-	-	-	-	(253)	253	-	-	-	-	-	-	-	-
Net profit for the year ended December 31, 2016	-	-	-	-	-	16,038,369	-	-	-	-	-	16,038,369	3,148,955	19,187,324
Other comprehensive income for the year ended December 31, 2016, net of income tax	-	-	-	-	-	(843,817)	(1,230,844)	2,077,225	(90,083)	756,298	-	(87,519)	(1,088,534)	(1,176,053)
Total comprehensive income for the year ended December 31, 2016	-	-	-	-	-	15,194,552	(1,230,844)	2,077,225	(90,083)	756,298	-	15,950,850	2,060,421	18,011,271
Adjustment to capital surplus arising from dividends paid to subsidiaries	-	-	159,065	-	-	-	-	-	-	-	-	159,065	96,945	256,010
Adjustment of non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(1,541,573)	(1,541,573)
Adjustment of other equity	-	-	36,374	-	-	12,981	-	-	-	-	802	50,157	-	50,157
BALANCE AT DECEMBER 31, 2016	157,348,610	382,680	37,807,466	59,934,379	29,786,846	17,196,041	(32,048)	8,650,573	62,181	8,680,706	(8,576,842)	302,559,886	27,019,807	329,579,693
Appropriation of 2016 earnings (Note 25)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	1,603,837	-	(1,603,837)	-	-	-	-	-	-	-	-
Reversal of special reserve	-	-	-	-	(2,130,614)	2,130,614	-	-	-	-	-	-	-	-
Cash dividends to ordinary shareholders - NT\$0.85 per share	-	-	-	-	-	(13,374,632)	-	-	-	-	-	(13,374,632)	-	(13,374,632)
Cash dividends to preference shareholders - NT\$1.4 per share	-	-	-	-	-	(53,575)	-	-	-	-	-	(53,575)	-	(53,575)
Reversal of special reserve	-	-	-	-	(363)	363	-	-	-	-	-	-	-	-
Net profit for the year ended December 31, 2017	-	-	-	-	-	16,905,588	-	-	-	-	-	16,905,588	3,525,602	20,431,190
Other comprehensive income for the year ended December 31, 2017, net of income tax	-	-	-	-	-	(1,167,502)	(2,078,545)	964,290	(193,516)	(1,307,771)	-	(2,475,273)	(823,003)	(3,298,276)
Total comprehensive income for the year ended December 31, 2017	-	-	-	-	-	15,738,086	(2,078,545)	964,290	(193,516)	(1,307,771)	-	14,430,315	2,702,599	17,132,914
Purchase of the Corporation's shares by subsidiaries	-	-	-	-	-	-	-	-	-	-	(19,595)	(19,595)	(19,249)	(38,844)
Disposal of the Corporation's shares held by subsidiaries accounted for as treasury shares	-	-	28,066	-	-	-	-	-	-	-	64,048	92,114	21,905	114,019
Adjustment to capital surplus arising from dividends paid to subsidiaries	-	-	267,245	-	-	-	-	-	-	-	-	267,245	163,931	431,176
Adjustment of non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(1,947,069)	(1,947,069)
Adjustment of other equity	-	-	108,305	-	-	-	-	-	-	-	-	108,305	-	108,305
BALANCE AT DECEMBER 31, 2017	\$ 157,348,610	\$ 382,680	\$ 38,211,082	\$ 61,538,216	\$ 27,655,869	\$ 20,033,060	\$ (2,110,593)	\$ 9,614,863	\$ (131,335)	\$ 7,372,935	\$ (8,532,389)	\$ 304,010,063	\$ 27,941,924	\$ 331,951,987

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

(With Deloitte & Touche audit report dated March 28, 2018)

# CHINA STEEL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before income tax	\$ 23,403,297	\$ 21,899,167
Adjustments for:		
Depreciation expense	34,529,292	35,691,883
Amortization expense	346,646	371,594
Net gain on financial assets and liabilities at fair value through profit or loss	(382,240)	(38,984)
Finance costs	3,717,893	3,816,641
Interest income	(290,218)	(317,940)
Dividend income	(586,347)	(574,258)
Share of the profit of associates	254,202	581,025
Gain on disposal of property, plant and equipment	(75,446)	(335,742)
Gain on disposal of intangible assets	(2,741)	(2,741)
Gain on disposal of investments	(1,410,097)	(1,288,242)
Impairment loss recognized on financial assets	784,146	699,784
Impairment loss recognized on nonfinancial assets	829,398	148,168
Reversal of loss on inventories	(880,774)	(3,970,141)
Recognition of provisions	8,948,686	8,665,856
Others	71,743	80,617
Changes in operating assets and liabilities		
Financial instruments held for trading	(92,049)	(296,414)
Notes receivable	(564,169)	(26,983)
Notes receivable - related parties	74,491	(126,073)
Accounts receivable	(2,820,725)	(930,908)
Accounts receivable - related parties	144,252	(50,988)
Amounts due from customers for construction contracts	(928,923)	295,306
Other receivables	(187,347)	38,119
Inventories	(7,729,846)	(6,612,449)
Other current assets	(492,889)	(61,464)
Notes payable	336,523	296,145
Accounts payable	777,216	4,585,809
Accounts payable - related parties	(499,167)	280,413
Amounts due to customers for construction contracts	1,572,504	(261,446)
Other payables	1,946,119	2,591,463
Provisions	(9,237,518)	(7,522,566)
Other current liabilities	793,500	(166,259)
Net defined benefit liabilities	(80,290)	(50,764)
Cash generated from operations	<u>52,269,122</u>	<u>57,407,628</u>
Income taxes paid	<u>(2,797,644)</u>	<u>(2,226,223)</u>
Net cash generated from operating activities	<u>49,471,478</u>	<u>55,181,405</u>

(Continued)

# CHINA STEEL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of financial assets designated as at fair value through profit or loss	\$ (4,415,691)	\$ (3,263,329)
Proceeds from disposal of financial assets designated as at fair value through profit or loss	3,188,616	3,714,862
Acquisition of available-for-sale financial assets	(1,466,827)	(2,570,588)
Proceeds from disposal of available-for-sale financial assets	2,634,032	4,266,220
Proceeds from the capital reduction on available-for-sale financial assets	23,728	16,840
Purchases of debt investments with no active market	(18,451)	(24,269)
Proceeds from disposal of debt investments with no active market	20,000	120,419
Acquisition of held-to-maturity financial assets	-	(19,480)
Proceeds from disposal of held-to-maturity financial assets	-	77,236
Acquisition of investments accounted for using equity method	(1,226,596)	(11,100,850)
Proceeds from disposal of investments accounted for using equity method	240,791	178,384
Disposal of subsidiaries	13,021	-
Acquisition of property, plant and equipment	(21,812,961)	(19,618,793)
Proceeds from disposal of property, plant and equipment	336,150	895,675
Increase in refundable deposits	(134,624)	(86,735)
Acquisition of intangible assets	(39,082)	(382,402)
Acquisition of investment properties	(614,852)	(339,112)
Decrease (increase) in other financial assets	1,888,676	(289,219)
Decrease in other noncurrent assets	671,269	392,851
Interest received	297,593	332,908
Dividends received from associates	660,524	289,575
Dividends received from others	601,667	558,902
	<u>(19,153,017)</u>	<u>(26,850,905)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from short-term borrowings	254,690,716	286,529,045
Repayments of short-term borrowings	(255,597,380)	(283,521,183)
Increase in short-term bills payable	255,688,593	501,168,607
Decrease in short-term bills payable	(247,685,111)	(516,177,793)
Issuance of bonds payable	-	5,400,000
Repayments of bonds payable	(5,213,643)	(4,699,300)
Proceeds from long-term bank borrowings	26,710,000	57,902,133
Repayments of long-term bank borrowings	(34,033,111)	(76,915,897)
Increase in long-term bills payable	7,777,423	179,932,318
Decrease in long-term bills payable	(16,790,429)	(167,766,032)
Increase (decrease) in other noncurrent liabilities	(20,001)	45,656
Dividends paid to owners of the Corporation	(13,264,276)	(7,815,051)
Acquisition of the Corporation's shares by subsidiaries	(38,844)	-

(Continued)

# CHINA STEEL CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Disposal of the Corporation's shares by subsidiaries	\$ 114,019	\$ -
Interest paid	(3,954,803)	(4,032,834)
Decrease in non-controlling interests	<u>(1,947,069)</u>	<u>(1,541,573)</u>
Net cash used in financing activities	<u>(33,563,916)</u>	<u>(31,491,904)</u>
EFFECT OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH AND CASH EQUIVALENTS HELD IN FOREIGN CURRENCIES	<u>(211,212)</u>	<u>(553,340)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,456,667)	(3,714,744)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>13,340,196</u>	<u>17,054,940</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 9,883,529</u>	<u>\$ 13,340,196</u>
Reconciliation of the amounts in the consolidated statements of cash flows with the equivalent items reported in the consolidated balance sheets as of December 31, 2017 and 2016:		
Cash and cash equivalents in the consolidated balance sheets	\$ 12,856,662	\$ 15,467,768
Bank overdraft	<u>(2,973,133)</u>	<u>(2,127,572)</u>
Cash and cash equivalents in the consolidated statements of cash flows	<u>\$ 9,883,529</u>	<u>\$ 13,340,196</u>

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

(Concluded)

(With Deloitte & Touche audit report dated March 28, 2018)

# CHINA STEEL CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

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### 1. GENERAL INFORMATION

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

The shares of the Corporation and its subsidiaries, including China Steel Structure Co., Ltd., China Steel Chemical Corporation, CHC Resources Corporation, China Ecotek Corporation and Chung Hung Steel Corporation Ltd., have been listed on the Taiwan Stock Exchange. The shares of the subsidiary Thintech Materials Technology Co., Ltd. have been traded on the Taipei Exchange. The subsidiary Dragon Steel Corporation has issued shares to the public.

As of December 31, 2017, the Ministry of Economic Affairs (MOEA), Republic of China owned 20.05 % of the Corporation's issued ordinary shares.

The consolidated financial statements are presented in the Corporation's functional currency, New Taiwan dollars.

### 2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Corporation's board of directors and authorized for issue on March 28, 2018.

### 3. APPLICATION OF NEW AND AMENDED STANDARDS AND INTERPRETATIONS

- a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively, the IFRSs) endorsed and issued into effect by the Financial Supervisory Commission (FSC)

Except for the following, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC did not have any material impact on the Corporation and its subsidiaries' accounting policies:

- 1) Amendments to IAS 36 "Recoverable Amount Disclosures for Non-financial Assets"

The amendments clarify that the recoverable amount of an asset or a cash-generating unit is disclosed only when an impairment loss on the asset has been recognized or reversed during the period. Furthermore, if the recoverable amount of an item of property, plant and equipment for which impairment loss has been recognized or reversed is the fair value less costs of disposal, the Corporation and its subsidiaries are required to disclose the fair value hierarchy. If the fair value measurements are categorized within Level 2 or Level 3, the valuation technique and key assumptions used to measure the fair value are disclosed. The discount rate used is disclosed if such fair value less costs of disposal is measured by using the present value technique. The amendments should be applied retrospectively starting from January 1, 2017.

2) Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers

The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed and issued into effect by the FSC. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include an emphasis on certain recognition and measurement considerations and add requirements for disclosures of related party transactions and goodwill.

The amendments stipulate that other companies or institutions of which the chairman of the board of directors or president serves as the chairman of the board of directors or the president of the Corporation and its subsidiaries, or is the spouse or second immediate family of the chairman of the board of directors or president of the Corporation and its subsidiaries, are deemed to have a substantive related party relationship, unless it can be demonstrated that no control, joint control, or significant influence exists. Furthermore, the amendments require the disclosure of the names of the related parties and the relationships with whom the Corporation and its subsidiaries have significant transactions. If the transaction amount or balance with a specific related party is 10% or more of the Corporation and its subsidiaries' respective total transaction amount or balance, such transactions should be separately disclosed by the name of each related party.

The amendments also require additional disclosure if there is a significant difference between the actual operation conditions after a business combination and the expected benefits at the acquisition date.

When the amendments are applied retrospectively from January 1, 2017, the disclosures of related party transactions are enhanced. Refer to Note 32 for the related disclosures.

The initial application of above amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC did not have material impact.

b. The Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed by the FSC for application starting from 2018

<b>New IFRSs</b>	<b>Effective Date Announced by IASB (Note 1)</b>
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendments to IFRS 2 "Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
Amendments to IFRS 9 and IFRS 7 "Mandatory Effective Date of IFRS 9 and Transition Disclosures"	January 1, 2018
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendments to IFRS 15 "Clarifications to IFRS 15 Revenue from Contracts with Customers"	January 1, 2018
Amendment to IAS 7 "Disclosure Initiative"	January 1, 2017
Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of Investment Property"	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The amendment to IFRS 12 is retrospectively applied for annual periods beginning on or after January 1, 2017; the amendments to IAS 28 are retrospectively applied for annual periods beginning on or after January 1, 2018.

1) IFRS 9 “Financial Instruments” and related amendments

Classification, measurement and impairment of financial assets

With regard to financial assets, all recognized financial assets that are within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are subsequently measured at amortized cost or fair value. Under IFRS 9, the requirement for the classification of financial assets is stated below.

For the Corporation and its subsidiaries’ debt instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, their classification and measurement are as follows:

- a) If they are held within a business model whose objective is to collect contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with any impairment loss recognized in profit or loss. Interest revenue is recognized in profit or loss by using the effective interest method;
- b) If they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the financial assets are measured at fair value through other comprehensive income (FVTOCI) and are assessed for impairment. Interest revenue is recognized in profit or loss by using the effective interest method, and other gains or losses shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the debt instruments are derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

Except for the above, all other financial assets are measured at fair value through profit or loss. However, the Corporation and its subsidiaries may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss. No subsequent impairment assessment is required, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

The Corporation and its subsidiaries analyzed the facts and circumstances of its financial assets that exist at December 31, 2017 and performed the assessment of the impact of IFRS 9 on the classification and measurement of financial assets. Under IFRS 9:

- a) Listed shares, emerging market shares, and unlisted shares classified as available-for-sale will be designated as at fair value through other comprehensive income and the fair value gains or losses accumulated in other equity will be transferred directly to retained earnings instead of being reclassified to profit or loss on disposal; in some subsidiaries, available-for-sale will be designated as at fair value through profit or loss.
- b) Debt investments classified as debt investments with no active market and measured at amortized cost will be classified as at fair value through profit or loss under IFRS 9, because on initial recognition, the contractual cash flows are not solely payments of principal and interest on the principal outstanding. In some subsidiaries, debt investments classified as debt investments with no active market and measured at amortized cost will be classified as measured at amortized cost under IFRS 9 because on initial recognition, the contractual cash flows that are solely payments of principal and interest on the principal outstanding and these investments are held within a business model whose objective is to collect contractual cash

flows.

- c) Mutual funds classified as available-for-sale held by some subsidiaries will be classified as at fair value through profit or loss because the contractual cash flows are not solely payments of principal and interest on the principal outstanding and they are not equity instruments; part of the subsidiaries investment in debt investments classified as held-to-maturity financial assets will be classified as at fair value through other comprehensive income under IFRS 9, because on initial recognition, the contractual cash flows that are solely payments of principal and interest on the principal outstanding and these investments are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets.

IFRS 9 requires impairment loss on financial assets to be recognized by using the “Expected Credit Losses Model”. The loss allowance is required for financial assets measured at amortized cost, debt investments measured at FVTOCI, lease receivables, contract assets arising from IFRS 15 “Revenue from Contracts with Customers”, certain written loan commitments and financial guarantee contracts. A loss allowance for 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since initial recognition. A loss allowance for full-lifetime expected credit losses is required for a financial asset if its credit risk has increased significantly since initial recognition and is not low. However, a loss allowance for full-lifetime expected credit losses is required for trade receivables that do not constitute a financing transaction.

For originated credit-impaired financial assets, the Corporation and its subsidiaries take into account the expected credit losses on initial recognition in calculating the credit-adjusted effective interest rate. Subsequently, any changes in expected losses are recognized as a loss allowance with a corresponding gain or loss recognized in profit or loss.

The Corporation and its subsidiaries have performed a preliminary assessment that the Corporation and its subsidiaries will apply the simplified approach to recognize lifetime expected credit losses for trade receivables, contract assets and lease receivables. In relation to the debt instrument investment and the financial guarantee contracts, the Corporation and its subsidiaries will assess whether there has been a significant increase in credit risk to determine whether to recognize 12-month or full-lifetime expected credit losses. In general, the Corporation and its subsidiaries anticipate that the application of the expected credit losses model of IFRS 9 will result in an earlier recognition of credit losses for financial assets.

The Corporation and its subsidiaries elect not to restate prior reporting periods when applying the recognition, measurement and impairment of financial assets under IFRS 9 with the cumulative effect of the initial application recognized at the date of initial application.

#### Hedge accounting

The main changes in hedge accounting amended the application requirements for hedge accounting to better reflect an entity’s risk management activities. Compared with IAS 39, the main changes include: (1) enhancing types of transactions eligible for hedge accounting, specifically broadening the risks eligible for hedge accounting of non-financial items; (2) changing the way the hedging cost of derivative instruments are accounted for to reduce profit or loss volatility; and (3) replacing retrospective effectiveness assessment with the principle of economic relationship between the hedging instrument and the hedged item. The assessment of the Corporation and its subsidiaries’ current hedging relationships indicates that they will qualify as continuing hedging relationships upon application of IFRS 9.

- 2) IFRS 15 “Revenue from Contracts with Customers” and related amendments

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersede IAS 18 “Revenue”, IAS 11 “Construction Contracts” and a number of

revenue-related interpretations.

When applying IFRS 15, the Corporation and its subsidiaries recognizes revenue by applying the following steps:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognize revenue when the Group satisfies a performance obligation.

In identifying performance obligations, IFRS 15 and related amendment require that a good or service is distinct if it is capable of being distinct (for example, the Corporation and its subsidiaries and its subsidiaries regularly sell it separately) and the promise to transfer it is distinct within the context of the contract (i.e. the nature of the promise in the contract is to transfer each of those goods or services individually rather than to transfer combined items).

If the customer has retained a portion of payment to the Corporation and its subsidiaries in accordance with the terms of the contract in order to protect the customer from the contractor's possible failure to adequately complete its obligations under the contract, such payment arrangement does not include a significant financing component and is recognized as a contract asset before the contractual obligation is completed under IFRS 15. Currently, any retention receivable under a construction contract is recognized as a receivable and is discounted to reflect the time value of money in accordance with IAS 39.

For the manufacturing of customer-specific goods, if the customer controls the goods when they are created or enhanced, and the customer would compensate the Corporation and its subsidiaries to recover the costs incurred plus a reasonable profit margin whenever the contract is terminated by the customer, revenue will be recognized over time under IFRS 15. Currently, the Corporation and its subsidiaries recognize revenue when goods are delivered.

Under IFRS 15, the net effect of revenue recognized and consideration received and receivable is recognized as a contract asset or a contract liability. Currently, the net effect of the progress billings, cost incurred and recognized profit (loss) of a construction contract is recognized as amounts due from (to) customers for construction contracts under IAS 11.

If a contract with a customer becomes onerous, the Corporation and its subsidiaries will recognize provisions for onerous contracts. Currently, the expected loss on construction contracts is recognized and adjusted to amounts due from (to) customers for construction contracts under IAS 11.

The Corporation and its subsidiaries elect to retrospectively apply IFRS 15 to contracts that are not complete on January 1, 2018 and recognize the cumulative effect of the change in retained earnings on January 1, 2018. In addition, the Corporation and its subsidiaries will disclose the difference between the amount that results from applying IFRS 15 and the amount that results from applying current standards for 2018.

The anticipated impact on assets, liabilities and equity when retrospectively applying IFRS 9 and IFRS 15 on January 1, 2018 is detailed below:

	<b>Carrying Amount as of December 31, 2017</b>	<b>Adjustments Arising from Initial Application</b>	<b>Adjusted Carrying Amount as of January 1, 2018</b>
<u>Impact on assets, liabilities and equity</u>			
Financial assets at fair value through profit or loss - current	\$ 4,910,644	\$ 307,459	\$ 5,218,103
Financial assets at fair value through other comprehensive income - current	-	1,878,697	1,878,697
Available-for-sale financial assets - current	2,186,156	(2,186,156)	-
Derivative financial assets for hedging - current	54,131	(54,131)	-
Financial assets for hedging - current	-	1,988,630	1,988,630
Contract assets - current	-	9,853,404	9,853,404
Accounts receivable, net	14,311,437	(5,913)	14,305,524
Amounts due from customers for construction contracts	9,400,960	(9,400,960)	-
Inventories	87,963,760	85,039	88,048,799
Other financial assets - current	10,752,021	(1,934,499)	8,817,522
Financial assets at fair value through profit or loss - noncurrent	-	2,015,603	2,015,603
Financial assets at fair value through other comprehensive income - noncurrent	-	58,005,745	58,005,745
Available-for-sale financial assets - noncurrent	58,383,988	(58,383,988)	-
Held-to-maturity financial assets - noncurrent	129,750	(129,750)	-
Derivative financial assets for hedging - noncurrent	16,237	(16,237)	-
Financial assets measured at amortized cost - noncurrent	-	120,312	120,312
Financial assets for hedging - noncurrent	-	16,237	16,237
Debt investments with no active market - noncurrent	1,854,343	(1,854,343)	-
Deferred tax assets	<u>6,192,780</u>	<u>(217,793)</u>	<u>5,974,987</u>
Total effect on assets	<u>\$ 196,156,207</u>	<u>\$ 87,356</u>	<u>\$ 196,243,563</u>
Short-term borrowings and bank overdraft	\$ 35,326,058	\$ 193,132	\$ 35,519,190
Derivative financial liabilities for hedging - current	48,218	(48,218)	-
Financial liabilities for hedging - current	-	9,908,833	9,908,833
Contract liabilities - current	-	7,040,043	7,040,043
Amounts due to customers for construction contracts	5,426,228	(5,426,228)	-
Other payables	23,155,371	(1,549,825)	21,605,546
Provisions - current	4,042,476	1,262,557	5,305,033

(Continued)

	Carrying Amount as of December 31, 2017	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2018
Current portion of long-term bank borrowings	\$ 18,549,055	\$ (9,860,615)	\$ 8,688,440
Refund liabilities - current	-	1,582,200	1,582,200
Other current liabilities	4,323,642	(2,579,786)	1,743,856
Derivative financial liabilities for hedging - noncurrent	210,325	(210,325)	-
Financial liabilities for hedging - noncurrent	-	20,863,345	20,863,345
Contract liabilities-noncurrent	-	76,230	76,230
Long-term bank borrowings	57,047,876	(20,653,020)	36,394,856
Deferred tax liabilities	12,205,775	2,549	12,208,324
Other noncurrent liabilities	<u>1,357,376</u>	<u>(76,925)</u>	<u>1,280,451</u>
Total effect on liabilities	<u>\$ 161,692,400</u>	<u>\$ 523,947</u>	<u>\$ 162,216,347</u>
Retained earnings	\$ 109,227,145	\$ 3,842,218	\$ 113,069,363
Exchange differences on translating foreign operations	(2,110,593)	(4,005,260)	(6,115,853)
Unrealized gains and losses on financial assets at fair value through other comprehensive income	-	5,251,741	5,251,741
Unrealized gains and losses on available-for-sale financial assets	9,614,863	(9,614,863)	-
The effective portion of gains and losses on hedging instruments in a cash flow hedge	(131,335)	131,335	-
Gains and losses on hedging instruments	-	3,972,776	3,972,776
Non-controlling interests	<u>27,941,924</u>	<u>(14,538)</u>	<u>27,927,386</u>
Total effect on equity	<u>\$ 144,542,004</u>	<u>\$ (436,591)</u>	<u>\$ 144,105,413</u>

(Concluded)

### 3) Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”

The amendments clarify that the difference between the carrying amount of a debt instrument measured at fair value and its tax base gives rise to a temporary difference, even though there are unrealized losses on that asset, irrespective of whether the subsidiary expects to recover the carrying amount of the debt instrument by sale or by holding it and collecting contractual cash flows.

In addition, in determining whether to recognize a deferred tax asset, the Corporation and its subsidiaries should assess a deductible temporary difference in combination with all of its other deductible temporary differences, unless the tax law restricts the utilization of losses as deduction against income of a specific type, in which case, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type. The amendments also stipulate that, when determining whether to recognize a deferred tax asset, the estimate of probable future taxable profit may include some of the subsidiary’s assets for more than their carrying amount if there is sufficient evidence that it is probable that the subsidiary will achieve the higher amount, and that the estimate for future taxable profit should exclude tax deductions resulting from the reversal of deductible temporary differences.

In assessing a deferred tax asset, the subsidiary currently assumes it will recover the asset at its carrying amount when estimating probable future taxable profit. The amendments will be applied retrospectively in 2018.

4) Amendments to IAS 40 “Transfers of Investment Property”

The amendments clarify that the subsidiary should transfer to, or from, investment property when, and only when, a property meets, or ceases to meet, the definition of investment property and there is evidence of a change in use. In isolation, a change in management’s intentions for the use of a property does not provide evidence of a change in use. The amendments also clarify that evidence of a change in use is not limited to those illustrated in IAS 40.

The subsidiary will reclassify property as necessary according to the amendments to reflect the conditions that exist at January 1, 2018. In addition, the subsidiary will disclose the reclassified amounts in 2018 and the reclassified amounts of January 1, 2018 should be included in the reconciliation of the carrying amount of investment property.

Except for the above impacts, as of the date the consolidated financial statements were issued by the board of directors, the Corporation and its subsidiaries assessed that there would be no material impact of the initial application of other standards and the amendments to interpretations on their financial position and results of operations.

c. New IFRSs in issue but not yet endorsed and issued into effect by the FSC

<b>New IFRSs</b>	<b>Effective Date Announced by IASB (Note 1)</b>
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 “Prepayment Features with Negative Compensation”	January 1, 2019 (Note 2)
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 16 “Leases”	January 1, 2019 (Note 3)
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019 (Note 4)
Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures”	January 1, 2019
IFRIC 23 “Uncertainty Over Income Tax Treatments”	January 1, 2019

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The FSC permits the election for early adoption of the amendments starting from 2018.

Note 3: On December 19, 2017, the FSC announced that IFRS 16 will take effect starting from January 1, 2019.

Note 4: The Corporation shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

1) Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”

The amendments stipulate that, when the Corporation and its subsidiaries sell or contribute assets that constitute a business (as defined in IFRS 3) to an associate or joint venture, the gain or loss

resulting from the transaction is recognized in full. Also, when the Corporation and its subsidiaries lose control of a subsidiary that contains a business but retain significant influence or joint control, the gain or loss resulting from the transaction is recognized in full.

Conversely, when the Corporation and its subsidiaries sell or contribute assets that do not constitute a business as defined in IFRS 3 to an associate or joint venture, the gain or loss resulting from the transaction is recognized only to the extent of the unrelated investors' interest in the associate or joint venture, i.e. the entity's share of the gain or loss is eliminated. Also, when the Corporation and its subsidiaries lose control of a subsidiary that does not contain a business but retain significant influence or joint control over an associate or a joint venture, the gain or loss resulting from the transaction is recognized only to the extent of the unrelated investors' interest in the associate or joint venture, i.e. the entity's share of the gain or loss is eliminated.

## 2) IFRS 16 "Leases"

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 and a number of related interpretations.

Under IFRS 16, if the Corporation and its subsidiaries are lessee, they shall recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for low-value and short-term leases. The Corporation and its subsidiaries may elect to apply the accounting method similar to the accounting for operating leases under IAS 17 to low-value and short-term leases. On the consolidated statements of comprehensive income, the Corporation and its subsidiaries should present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed by using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion and interest portion of lease liabilities are classified within financing activities.

The application of IFRS 16 is not expected to have a material impact on the consolidated financial statements.

When IFRS 16 becomes effective, the Corporation and its subsidiaries may elect to apply this standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the initial application of this standard recognized at the date of initial application.

The Corporation and its subsidiaries are still assessing the effect of the initial application of the standard as lessee.

## 3) IFRIC 23 "Uncertainty Over Income Tax Treatments"

IFRIC 23 clarifies that when there is uncertainty over income tax treatments, the Corporation and its subsidiaries should assume that the taxation authority will have full knowledge of all related information when making related examinations. If the Corporation and its subsidiaries conclude that it is probable that the taxation authority will accept an uncertain tax treatment, the Corporation and its subsidiaries should determine the taxable profit, tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatments used or planned to be used in its income tax filings. If it is not probable that the taxation authority will accept an uncertain tax treatment, the Corporation and its subsidiaries should make estimates using either the most likely amount or the expected value of the tax treatment, depending on which method the entity expects to better predict the resolution of the uncertainty. The Corporation and its subsidiaries have to reassess its judgments and estimates if facts and circumstances change.

On initial application, the Corporation and its subsidiaries shall apply IFRIC 23 either retrospectively to each prior reporting period presented, if this is possible without the use of hindsight, or retrospectively with the cumulative effect of the initial application of IFRIC 23

recognized at the date of initial application.

As of the date the standalone financial statements were issued by the board of directors, the Corporation and its subsidiaries are in the process of assessing the impact of the impending initial application of the aforementioned and other standards and the amendments to interpretations on their financial position and results of operations. Disclosures will be provided after a detailed review of the impact has been completed.

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICY**

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

##### **a. Statement of compliance**

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs as endorsed and issued into effect by the FSC.

##### **b. Basis of preparation**

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair value and net defined liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets.

The fair value measurements are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- 1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- 3) Level 3 inputs are unobservable inputs for the asset or liability.

##### **c. Classification of current and noncurrent assets and liabilities**

Current assets include:

- 1) Assets held primarily for the purpose of trading;
- 2) Assets expected to be realized within twelve months after the reporting period; and
- 3) Cash and cash equivalents unless the asset is restricted from being used for an exchange or used to settle a liability for more than twelve months after the reporting period.

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;

- 2) Liabilities expected to be settled within twelve months after the reporting period even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the consolidated financial statements are authorized for issue; and
- 3) Liabilities without an unconditional right to defer settlement for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

Assets and liabilities that are not classified as abovementioned are classified as noncurrent.

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

d. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Corporation and the entities controlled by the Corporation (i.e. its subsidiaries).

Income and expenses of subsidiaries acquired during the period are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Corporation. All intra-Corporation and its subsidiaries transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Corporation and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Corporation's ownership interests in subsidiaries that do not result in the Corporation losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Corporation's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Corporation.

The consolidated entities were as follows:

Investor	Investee	Main Businesses	Percentage of Ownership (%)		Additional Descriptions
			December 31, 2017	December 31, 2016	
China Steel Corporation	China Steel Express Corporation (CSE)	Ocean freight forwarding and bulk shipping transportation	100	100	
	C. S. Aluminium Corporation (CSAC)	Production and sale of aluminum and other non-ferrous metal	100	100	
	Gains Investment Corporation (GIC)	General investment	100	100	
	China Prosperity Development Corporation (CPDC)	Land and commercial real estate sale, rental and development service	100	100	
	China Steel Asia Pacific Holdings Pte Ltd (CSAPH)	General investment	100	100	
	China Steel Global Trading Corporation (CSGT)	Steel product agency and trading service	100	100	
	China Steel Machinery Corporation	Manufacture and sale of machinery and equipment for railroad, transportation and generator	74	74	Direct and indirect ownerships amounted to 100%
	China Steel Security Corporation	Guard security and system security	100	100	
	InfoChamp Systems Corporation (ICSC)	Design and sale of IT hardware and software	100	100	
	CSC Steel Australia Holdings Pty Ltd. (CSCAU)	General investment	100	100	
	Himag Magnetic Corporation	Manufacture and sale of magnetic material, special usage chemicals and ferric iron oxide	69	69	Direct and indirect ownerships amounted to 88%
	Dragon Steel Corporation (DSC)	Manufacture and sale of steel product	100	100	
	China Steel Management Consulting Corporation	Business management consultant	100	100	

(Continued)

Investor	Investee	Main Businesses	Percentage of Ownership (%)		Additional Descriptions
			December 31, 2017	December 31, 2016	
	China Ecotek Corporation (CEC)	Electrical engineering and co-generation	45	45	Refer to 1) below
	China Steel Chemical Corporation (CSCC)	Production and sale of coal chemistry and specialty chemicals	29	29	Refer to 1) below
	Chung Hung Steel Corporation Ltd. (CHSC)	Manufacture and sale of steel product	41	41	Refer to 1) below
	CHC Resources Corporation (CHC)	Manufacture and sale of slag powder, air - cooled blast - furnace slag and basic - oxygen - furnace slag, treatment and disposal of hazardous waste and recovery of materials	20	20	Direct and indirect ownerships amounted to 36%, and refer to 1) below
	China Steel Structure Co., Ltd. (CSSC)	Design, manufacture and sale of steel structure	33	33	Direct and indirect ownerships amounted to 37%, and refer to 1) below
	China Steel Sumikin Vietnam Joint Stock Company (CSVC)	Manufacture and sale of steel product	56	56	
	China Steel Corporation India Pvt. Ltd. (CSCI)	Manufacture and sale of steel product (electromagnetic steel coil)	100	100	
	Kaohsiung Rapid Transit Corporation (KRTC)	Public Rapid Transit	43	43	Direct and indirect ownerships amounted to 51%
	China Steel Resources Corporation	Manufacture of other non-metallic mineral products	100	100	
	CSC Precision Metal Industrial Corporation	Other non-ferrous metal basic industries	100	100	
	Eminent Venture Capital Corporation (EVCC)	General investment	-	-	Indirect ownership was 55%
	White Biotech Corporation (WBC)	Biology introduction and development	87	87	
	CSC Solar Corporation	Solar power generation	55	55	Direct and indirect ownerships amounted to 100%
China Steel Express Corporation	CSE Transport Corporation (Panama) (CSEP)	Ocean freight forwarding	100	100	
	CSEI Transport Corporation (Panama) (CSEIP)	Ocean freight forwarding	100	100	
	Transyang Shipping Pte Ltd (TSP)	Ocean freight forwarding	51	51	
	Transglory Investment Corporation (TIC)	General investment	50	50	Direct and indirect ownerships amounted to 100%
	Kaohsiung Port Cargo Handling Services Corporation	Cargo Stevedoring	66	66	
C.S. Aluminium Corporation	ALU Investment Offshore Corporation	General investment	100	100	
ALU Investment Offshore Corporation	United Steel International Development Corporation	General investment	65	65	Direct and indirect ownerships amounted to 79%
United Steel International Development Corporation	Ningbo Huayang Aluminium-Tech Co., Ltd.	Manufacture and sale of aluminum alloy material	100	100	
Gains Investment Corporation	Eminence Investment Corporation	General investment	100	100	
	Gainsplus Asset Management Inc.	General investment	100	100	
	Winning Investment Corporation (WIC)	General investment	49	49	Direct and indirect ownerships amounted to 58%
	Mentor Consulting Corporation	Consulting service of management	100	100	
	Betacera Inc. (BETA)	Manufacture and trading of electronic ceramics	48	48	Refer to 1) below
	Universal Exchange Inc.	Wholesale of information software and electronic information supply service	64	64	Direct and indirect ownerships amounted to 99%
	Thintech Materials Technology Co., Ltd. (TMTC)	Manufacture and sale of metal sputter targets	32	32	Direct and indirect ownerships amounted to 40%, and refer to 2) below
Eminence Investment Corporation	Shin-Mau Investment Corporation	General investment	30	30	Direct and indirect ownerships amounted to 100%
	Gau Ruel Investment Corporation	General investment	25	25	Direct and indirect ownerships amounted to 100%

(Continued)

Investor	Investee	Main Businesses	Percentage of Ownership (%)		Additional Descriptions
			December 31, 2017	December 31, 2016	
	Ding Da Investment Corporation	General investment	30	30	Direct and indirect ownerships amounted to 100%
	Chiun Yu Investment Corporation	General investment	25	25	Direct and indirect ownerships amounted to 100%
Shin-Mau Investment Corporation	Hong Chyuan Investment Corporation	General investment	5	5	Direct and indirect ownerships amounted to 100%
	Chii Yih Investment Corporation	General investment	5	5	Direct and indirect ownerships amounted to 100%
Gau Ruel Investment Corporation	Lih Ching Loong Investment Corporation	General investment	5	5	Direct and indirect ownerships amounted to 100%
	Sheng Lih Dar Investment Corporation	General investment	4	4	Direct and indirect ownerships amounted to 100%
Ding Da Investment Corporation	Jiing Cherng Fa Investment Corporation	General investment	4	4	Direct and indirect ownerships amounted to 100%
Betacera Inc. Lefkara Ltd.	Lefkara Ltd.	Electronic ceramics trading	100	100	
	Shang Hai Xike Ceramic Electronic Co., Ltd.	Manufacture and sale of electronic ceramics	100	100	
	Betacera (Su Zhou) Co., Ltd.	Manufacture and sale of electronic ceramics	100	100	
	Suzhou Betacera Technology Co., Ltd.	Manufacture and sale of life-saving equipment for aviation and shipping	100	100	
Thintech Materials Technology Co., Ltd.	Thintech International Limited	International trading and investment service	-	100	End of settlement in July 2017
	Thintech Global Limited	International trading and investment service	100	100	
	Thintech United Limited	International trading and investment service	100	100	
Thintech International Limited	Nantong Zhongxing Materials Technology Co., Ltd. (NZMTCL)	Manufacture new compound metal material and vacuum sputtering targets	-	47	End of settlement in April 2017
Thintech Global Limited	Taicang Thintech Materials Co., Ltd.	Process and sale of targets and electro conductive slurry	100	100	
Thintech United Limited	Thintech United Metal Resources (Taicang) Co., Ltd.	Refining, sale and process of metal	84	84	
China Prosperity Development Corporation	CK Japan Co., Ltd.	Real estate sale and rental	80	80	Direct and indirect ownerships amounted to 100%
China Steel Asia Pacific Holdings Pte Ltd	CSC Steel Holdings Berhad (CSHB)	General investment	46	46	Refer to 1) below
	Changzhou China Steel Precision Materials Co., Ltd. (CCSPMC)	Manufacture and sale of titanium-nickel alloy and non-ferrous metal	70	70	
	China Steel Precision Metals - Qingdao Co., Ltd. (QCSPMC)	Steel cutting and processing	60	60	Direct and indirect ownerships amounted to 70%
	United Steel International Co., Ltd.	General investment	80	80	Direct and indirect ownerships amounted to 100%
	CSC Bio-Coal Sdn. Bhd.	Manufacture bio-coal from bio-mass	-	100	Disposal in September 2017
CSC Steel Holdings Berhad	CSC Steel Sdn. Bhd. (CSCSSB)	Manufacture and sale of steel product	100	100	
	Group Steel Corp. (M) Sdn. Bhd.	Manufacture and sale of steel product	100	100	
CSC Steel Sdn. Bhd.	Constant Mode Sdn. Bhd.	General investment	100	100	
United Steel International Co., Ltd.	China Steel Precision Metals Kunshan Co., Ltd. (CSMK)	Steel cutting and processing	100	100	Renamed in September 2017, the former name was United Steel Engineering and Construction Co., Ltd.
China Steel Global Trading Corporation	Chung Mao Trading (SAMOA) Co., Ltd.	Investment and trading service	100	100	
	CSGT (Singapore) Pte. Ltd.	Steel product agency and trading service	100	100	

(Continued)

Investor	Investee	Main Businesses	Percentage of Ownership (%)		Additional Descriptions
			December 31, 2017	December 31, 2016	
	Chung Mao Trading (BVI) Co., Ltd.	Steel product agency and trading service	65	65	
	Wabo Global Trading Corporation	Steel product agency and trading service	44	44	Direct and indirect ownerships amounted to 50%
	CSGT International Corporation	Investment and trading service	100	100	
Chung Mao Trading (SAMOA) Co., Ltd.	CSGT (Shanghai) Co., Ltd.	Steel product agency and trading service	100	100	
Chung Mao Trading (BVI) Co., Ltd.	CSGT Hong Kong Limited	Steel product agency and trading service	100	100	
CSGT International Corporation	CSGT Metals Vietnam Joint Stock Company	Steel cutting and processing	54	54	Direct and indirect ownerships amounted to 60%
	CSGT Trading India Private Limited	Steel product agency and trading service	99	99	Direct and indirect ownerships amounted to 100%
Wabo Global Trading Corporation	CSGT Japan Co., Ltd.	Steel product agency and trading service	100	100	
China Steel Machinery Corporation	China Steel Machinery Holding Corporation	General investment	100	100	
	China Steel Machinery Vietnam Co., Ltd.	Installation and technology service of machinery and equipment	100	100	
	China Steel Machinery Corporation India Private Limited	Manufacture of machinery	99	99	Direct and indirect ownerships amounted to 100%
China Steel Machinery Holding Corporation	CSMC (Shanghai) Global Trading Co., Ltd.	Wholesale and retail trade	100	100	
China Steel Security Corporation	Steel Castle Technology Corporation	Fire Fighting Equipments Construction	100	100	
	China Steel Management and Maintenance for Buildings Corporation	Building management	100	100	
InfoChamp Systems Corporation	Info-Champ System (B.V.I) Corporation	General investment	100	100	
Info-Champ System (B.V.I) Corporation	Wuham InfoChamp I.T. Co., Ltd.	Software programming	100	100	
CSC Steel Australia Holdings Pty Ltd.	CSC Sonoma Pty. Ltd.	Coal investment	100	100	
Himag Magnetic Corporation	Himag Magnetic (Belize) Corporation	Magnetic powder trading	-	100	End of settlement in June 2017
	Magnpower Corporation	Manufacture and sale of permanent magnetic ferrite	55	55	
China Ecotek Corporation	CEC International Co.	General investment	100	100	
	CEC Development Co.	General investment	100	100	
	CEC Holding Co., Ltd.	General investment	100	100	
	China Ecotek Construction Corporation	Engineering	100	100	
CEC International Co.	China Ecotek India Private Limited	Engineering design and construction	100	100	
CEC Development Co.	China Ecotek Vietnam Company Ltd. (CEVC)	Engineering design and construction	100	100	
	Xiamen Ecotek PRC Co., Ltd.	Metal materials agency and trading service	100	100	
China Steel Chemical Corporation	Ever Glory International Co., Ltd.	International trading	100	100	
	Ever Wealthy International Corporation	General investment	100	100	
	Formosa Ha Tinh CSCC (Cayman) International Limited	International trading	50	50	
Ever Wealthy International Corporation	China Steel Carbon Materials Technology Co., Ltd.	General investment	100	100	
China Steel Carbon Materials Technology Co., Ltd.	Changzhou China Steel New Materials Technology Co., Ltd.	Processing and trading of mesocarbon microbeads powder	100	100	
Chung Hung Steel Corporation Ltd.	Taiwan Steel Corporation (TSC)	Metal smelting	100	100	
	Hung Kao Investment Corporation	General investment	100	100	
	Hung Li Steel Corporation Ltd. (HLSC)	Steel product processing	100	100	
CHC Resources Corporation	Union Steel Development Corp.	Manufacture and trade of metal powder and refractory materials, and trade and manpower dispatch	93	93	
	Pao Good Industrial Co., Ltd.	Fly ash and cement dry mixing processing and trading	51	51	
	Yu Cheng Lime Corporation	Real estate leasing and raw material tally	90	90	
	CHC Resources Vietnam Co., Ltd.	Sales affairs of GBFS and cooperative work of steel mill	85	85	
China Steel Structure Co., Ltd.	United Steel Engineering & Construction Corp.	Contract project of civil engineering and construction engineering, and steel structure installation	100	100	
	China Steel Structure Investment Pte Ltd.	General investment	100	100	
United Steel Engineering & Construction Corp.	United Steel Investment Pte Ltd.	General investment	100	100	
	United Steel Construction (Vietnam) Co., Ltd.	Civil engineering construction and other business contract and management	100	100	
	United Steel Development Co., Ltd.	House and construction development and real estate sale and rental business	100	100	
China Steel Structure Investment Pte Ltd.	China Steel Structure Holding Co., Ltd.	General investment	63	63	Direct and indirect ownerships amounted to 100%

(Continued)

Investor	Investee	Main Businesses	Percentage of Ownership (%)		Additional Descriptions
			December 31, 2017	December 31, 2016	
China Steel Structure Holding Co., Ltd.	China Steel Structure Investment Co., Ltd.	General investment	100	100	
China Steel Structure Investment Co., Ltd.	Chung-Kang Steel Structure (Kunshan) Co., Ltd.	Manufacture, installation and consulting of steel structure and steel cutting	100	100	
White Biotech Corporation (WBC)	Renewable Energy Biotech Corp.	Manufacture and sale of alcohol	100	100	Started the liquidation procedures in December 2017

(Concluded)

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

- a) The actual operations of CEC, CSCC, CHSC, CHC, CSSC and BETA are controlled by the respective board of directors. The Corporation and other subsidiaries jointly had more than half of the seats in the board of directors of CEC, CSCC, CHSC, CHC, CSSC and BETA. The actual operation of CSHB is also controlled by the board of directors. The Corporation's subsidiaries had control of more than half of the voting rights in the board of directors. Therefore, the Corporation had control-in-substance over the aforementioned entities and included them in the consolidated entities.
- b) The chairman and general manager of TMTC are designated by other subsidiaries in order to control its finance, operation, and human resources. Therefore, the Corporation had control-in-substance over TMTC and included it in the consolidated entities.

2) The subsidiary, China Steel Machinery Corporation, acquired 50% of shareholding in Senergy Wind Power Co., Ltd. Under the shareholders' agreement, the subsidiary China Steel Machinery Corporation and the other shareholder of the company each hold half of the seats in the board of directors, respectively. The chairman of the board of directors and chief executive officer are served in turns and actual operations should be approved by more than half of the seats in the board of directors. Thus, the Corporation and its subsidiaries have no control over the company. The management of the Corporation and its subsidiaries, however, believe that they are able to exercise significant influence over the company and therefore classified the company as an associate of the Corporation and its subsidiaries.

3) The Corporation had no subsidiary with material non-controlling interests.

e. Business combinations

Acquisitions of businesses are accounted for using the acquisition method. Acquisition-related costs are generally recognized in profit or loss as incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Non-controlling interests are initially measured at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets.

When a business combination is achieved in stages, the Corporation and its subsidiaries' previously held equity interest in the acquiree is remeasured to fair value at the acquisition date, and the resulting gain or loss is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are recognized on the same basis as would be required if that interest were directly disposed of by the Corporation and its

subsidiaries.

f. Foreign currencies

In preparing the financial statements of each individual consolidated entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the year in which they arise except for exchange differences on transactions entered into in order to hedge certain foreign currency risks.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary items are included in profit or loss for the year except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

For the purpose of presenting consolidated financial statements, the functional currencies of the Corporation's entities (including subsidiaries and associates in other countries that use currency different from the currency of the Corporation) are translated into the presentation currency - New Taiwan dollars as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income (attributed to the owners of the Corporation and non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Corporation and its subsidiaries' entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Corporation are reclassified to profit or loss.

In relation to a partial disposal of a subsidiary that does not result in the Corporation losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests of the subsidiary and is not recognized in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences recognized in other comprehensive income is reclassified to profit or loss.

g. Inventories

Inventories manufactured or traded by the Corporation and its subsidiaries consist of raw materials, supplies, finished goods, work-in-process, etc. Inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at moving average cost or weighted-average cost.

Besides the goods manufactured or traded by the Corporation and its subsidiaries, inventories also include buildings and lands under construction and prepayment for land.

The cost of buildings construction is calculated by each different construction project. The expenditure on land before acquiring land ownership is recorded as prepayment for land. The construction and other costs after acquiring land ownership are recognized as construction in progress, which will be transferred to property held for sale after the completion, and transferred to operating costs based on the ratio of area sold to total area when the lands and buildings are sold and the criteria of revenue recognition were met.

Before the transfer of land ownership and the completion of construction, interest arising from land purchase and cost of construction in progress (including costs of lands and constructions) is capitalized and recorded as acquisition cost of land and construction cost.

h. Investment in associates

An associate is an entity over which the Corporation and its subsidiaries have significant influence and that is neither a subsidiary nor an interest in a joint venture.

The Corporation and its subsidiaries use the equity method to account for their investments in associates. Under the equity method, an investment in an associate is initially recognized at cost and adjusted thereafter to recognize the Corporation and its subsidiaries' share of the profit or loss and other comprehensive income of the associate. The Corporation and its subsidiaries also recognize the changes in the share of equity of associates.

Any excess of the cost of acquisition over the Corporation and its subsidiaries' share of the net fair value of the identifiable assets and liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Corporation and its subsidiaries' share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

When the Corporation and its subsidiaries subscribe for additional new shares of the associate at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Corporation and its subsidiaries' proportionate interest in the associate. The Corporation and its subsidiaries record such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in the Corporation and its subsidiaries' share of equity of associates. If the Corporation and its subsidiaries' ownership interest is reduced due to non-subscription of the new shares of associate, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate is reclassified to profit or loss on the same basis as would be required if the investee had directly disposed of the related assets or liabilities. When the adjustment should be a deduction to capital surplus, but the capital surplus recognized from investments accounted for using equity method is insufficient, the shortage is deducted from retained earnings.

When the Corporation and its subsidiaries' share of losses of an associate equal or exceed their interest in that associate (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Corporation and its subsidiaries' net investment in the associate), the Corporation and its subsidiaries discontinue recognizing their share of further losses. Additional losses and liabilities are recognized only to the extent that the Corporation and its subsidiaries have incurred legal obligations, or constructive obligations, or made payments on behalf of that associate.

When impairment loss is evaluated, the entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is deducted from investment and the carrying amount of investment is net of impairment loss. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment has subsequently increased.

The Corporation and its subsidiaries discontinue the use of the equity method from the date on which their investment cease to be associates. Any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. The Corporation and its subsidiaries account for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities.

When the Corporation and its subsidiaries transact with their associates, profits and losses on these transactions are recognized in the consolidated financial statements only to the extent of interests in the associate that are not related to the Corporation and its subsidiaries.

i. Joint operations

A joint operation is a joint arrangement whereby the Corporation and its subsidiaries and other parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

Any acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business should be treated as a business combination, except when the parties sharing joint control are under the common control of the same ultimate controlling party or parties both before and after the acquisition and that control is not transitory.

The Corporation and its subsidiaries recognize the following items in relation to their interests in a joint operation:

- 1) The assets, including their share of any assets held jointly;
- 2) The liabilities, including their share of any liabilities incurred jointly;
- 3) The revenue from the sale of their share of the output arising from the joint operation;
- 4) The share of the revenue from the sale of the output of the joint operation; and
- 5) The expenses, including their share of any expenses incurred jointly.

The Corporation and its subsidiaries account for the assets, liabilities, revenues and expenses relating to their interests in a joint operation in accordance with the IFRSs applicable to the particular assets, liabilities, revenues and expenses.

When the Corporation and its subsidiaries sell or contribute assets to their joint operation, they recognize gains and losses resulting from such a transaction only to the extent of the other parties' interests in the joint operation. When the Corporation and its subsidiaries purchase assets from its joint operation, they do not recognize their share of the gain or loss until they resell those assets to a third party.

j. Property, plant, and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment loss.

Properties in the course of construction for production, supply or administrative purposes are carried at cost. Cost includes professional fees and borrowing costs eligible for capitalization. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use and depreciated accordingly.

Except that depreciation of the rollers (spare parts) is calculated based on their level of wear and depreciation of the machineries in the recycling plant of the subsidiary CHC is calculated by the working-hour method, other depreciation (including assets held under finance leases) is recognized so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. If the lease term is shorter than the useful lives, assets are depreciated over the lease term. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

#### k. Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes), also include land held for a currently undetermined future use.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss. Depreciation is recognized using the straight-line method.

Investment properties under construction of which the fair value is not reliably measurable are stated at cost less accumulated depreciation and accumulated impairment loss until either such time as the fair value becomes reliably measurable or construction is completed (whichever comes earlier).

Investment properties in the course of construction are stated at cost less accumulated impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Depreciation of these assets commences when the assets are ready for their intended use.

On derecognition of an investment property, the difference between the net disposal proceeds and the carrying amount of the asset is included in profit or loss.

#### l. Goodwill

Goodwill arising from the acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment loss.

For the purposes of impairment testing, goodwill is allocated to each of the Corporation and its subsidiaries' cash-generating units or Corporation and its subsidiaries of cash-generating units (referred to as cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired, by comparing its carrying amount, including the attributed goodwill, with its recoverable amount. However, if the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

m. Intangible assets

1) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

2) Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, they are measured on the same basis as intangible assets that are acquired separately.

3) Derecognition of intangible assets

On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss.

n. Impairment of tangible and intangible assets

At the end of each reporting period, the Corporation and its subsidiaries review the carrying amounts of their tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Corporation and its subsidiaries estimate the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual cash-generating units on a reasonable and consistent basis of allocation; otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. The impairment loss is recognized in profit or loss.

When an impairment loss subsequently is reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined for the asset or cash-generating unit (net of amortization and depreciation) had no impairment loss been recognized in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

o. Non-current assets held for sale

Non-current assets (or disposal groups) are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. To meet the criteria for the sale being highly probable, the appropriate level of management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within 1 year from the date of classification.

When a sale plan would result in a loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale, regardless of whether the Corporation and its subsidiaries will retain a non-controlling interest in that subsidiary after the sale.

p. Financial instruments

Financial assets and financial liabilities are recognized when the Corporation and its subsidiaries become a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

1) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

a) Measurement category

Financial assets held by the Corporation and its subsidiaries include financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets and loans and receivables.

i Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset is either held for trading or it is designated as at fair value through profit or loss.

A financial asset may be designated as at fair value through profit or loss upon initial recognition if:

- i) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- ii) The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Corporation and its subsidiaries' documented risk management or investment strategy, and information about the group is provided internally on that basis; or
- iii) The contract contains one or more embedded derivatives so that the entire hybrid (combined) contract can be designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 31.

ii Held-to-maturity investments

Structure notes and guarantee debt certificates, which are above specific credit ratings and the Corporation and its subsidiaries have positive intent and ability to hold to maturity, are classified as held-to-maturity investments.

Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment.

iii Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are measured at fair value. Changes in the carrying amount of available-for-sale monetary financial assets relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and reclassified in profit or loss when the investment is disposed of or is determined to be impaired.

Dividends on available-for-sale equity investments are recognized when the Corporation and its subsidiaries' right to receive the dividends is established.

iv Loans and receivables

Loans and receivables (including cash and cash equivalents, notes and accounts receivable, net, other receivables, debt investments with no active market, refundable deposits and other financial assets) are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalent includes time deposits, commercial papers and bonds with repurchase agreements with original maturity within three months from the date of acquisition, high liquidity, readily convertible to a known amount of cash and subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

b) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are 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 financial asset, the estimated future cash flows of the investment have been affected.

Financial assets carried at amortized cost, such as accounts receivable, are assessed for impairment on a collective basis even if there is no objective evidence of impairment individually. Objective evidence of impairment for a portfolio of receivables could include the Corporation and its subsidiaries' past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables. The amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the

financial asset's original effective interest rate.

If, in the subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss shall be reversed either directly or by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal shall be recognized in profit or loss.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the securities below its cost is considered to be objective evidence of impairment. For all other financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, breach of contract, such as a default or delinquency in interest or principal payments, the disappearance of an active market for that financial asset because of financial difficulties, or it becoming probable that the borrower will enter bankruptcy or financial re-organization.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period. In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss is not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. In respect of available-for-sale debt securities, the impairment loss is subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account.

c) Derecognition of financial assets

The Corporation and its subsidiaries derecognize a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

2) Equity instruments

Debt and equity instruments issued by the Corporation and its subsidiaries are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments issued by the Corporation and its subsidiaries are recognized at the proceeds received, net of direct issue costs.

3) Financial liabilities

a) Subsequent measurement

Except the following situation, all the financial liabilities are measured at amortized cost using the effective interest method:

### Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss when the financial liability is either held for trading or it is designated as at fair value through profit or loss.

Financial liabilities held for trading are stated at fair value, with any gain or loss arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest or dividend paid on the financial liability.

A financial liability may be designated as at fair value through profit or loss upon initial recognition when doing so results in more relevant information and if:

- i Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- ii The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Corporation and its subsidiaries' documented risk management or investment strategy, and information about the group is provided internally on that basis.
- iii The contract contains one or more embedded derivatives so that the entire combined contract (asset or liability) can be designated as at fair value through profit or loss.

For a financial liability designated as at fair value through profit or loss, the amount of changes in fair value attributable to changes in the credit risk of the liability is presented in other comprehensive income, and it will not be subsequently reclassified to profit or loss. The remaining amount of changes in the fair value of that liability which incorporates any interest or dividend paid on the financial liability is presented in profit or loss. The gain or loss accumulated in other comprehensive income will be transferred to retained earnings when the financial liabilities are derecognized. If this accounting treatment related to credit risk would create or enlarge an accounting mismatch, all changes in fair value of the liability are presented in profit or loss. Fair value is determined in the manner described in Note 31.

#### b) Derecognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

#### 4) Convertible bonds

The component parts of compound instruments (convertible bonds) issued by the Corporation and its subsidiaries are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

On initial recognition, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to capital surplus - share

premium. When the conversion option remains unexercised at the maturity date of the convertible bonds, the balance recognized in equity will be transferred to capital surplus - share premium.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability components (included in the carrying amount of liabilities) and equity components (included in equity) in proportion to the allocation of the gross proceeds.

#### 5) Derivative financial instruments

The Corporation and its subsidiaries enter into a variety of derivative financial instruments to manage their exposure to foreign exchange rate and interest rate risks, including foreign exchange forward contracts and interest rate swap contracts.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. When the fair value of derivative financial instruments is positive, the derivative is recognized as a financial asset; when the fair value of derivative financial instruments is negative, the derivative is recognized as a financial liability.

#### q. Hedge accounting

The Corporation and its subsidiaries designate certain hedging instruments, which include derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

##### 1) Fair value hedges

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in profit or loss in the line item relating to the hedged item.

Hedge accounting is discontinued prospectively when the Corporation and its subsidiaries revoke the designated hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised (the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if it formed part of the Corporation and its subsidiaries' documented hedging strategy from inception), or when the hedging instrument no longer meets the criteria for hedge accounting. The fair value adjustment to the carrying amount of the hedged instrument arising from the hedged risk for which the effective interest method is used is amortized to profit or loss from the date hedge accounting is discontinued. The adjustment which is based on a recalculated effective interest rate at the date amortization begins is amortized fully by maturity of the financial instrument.

##### 2) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

The associated gains or losses that were recognized in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment in the line item relating to the hedged item in the same period when the hedged item affects profit or loss. If a hedge of a forecast

transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the associated gains and losses that were recognized in other comprehensive income are removed from equity and are included in the initial cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued prospectively when the Corporation and its subsidiaries revoke the designated hedging relationship, or when the hedging instrument expires or is sold, terminated, or exercised (the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if it formed part of the Corporation and its subsidiaries' documented hedging strategy from inception), or when the hedging instrument no longer meets the criteria for hedge accounting. The cumulative gain or loss on the hedging instrument that has been previously recognized in other comprehensive income from the period when the hedge was effective remains separately in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

### 3) Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for similar to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in other comprehensive income and accumulated under the heading of foreign currency translation reserve. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

Gains and losses on the hedging instrument relating to the effective portion of the hedge accumulated in the foreign currency translation reserve are reclassified to profit or loss on the disposal or partial disposal of the foreign operation.

#### r. Provisions

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Provisions are measured using the cash flows estimated to settle the present obligation.

#### s. Treasury shares

Shares of the Corporation held by subsidiaries are reclassified to treasury shares from investments accounted for using equity method at the acquisition cost.

#### t. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Allowance for sales returns and liability for returns are recognized at the time of sale based on the seller's reliable estimate of future returns and based on past experience and other relevant factors.

#### 1) Sale of goods

Revenues from the sale of goods are recognized when the significant risks and rewards of ownership of the goods are transferred to the customers as follows: domestic sales - when products are moved out of the Corporation and its subsidiaries' premises for delivery to customers; exports - when products are loaded onto vessels. Revenues are recognized because the earning process is accomplished and revenue is realized or realizable.

Revenues are measured at the fair value, which is the discounted present value of the price (net of commercial discounts and quantity discounts) agreed to by the Corporation and its subsidiaries with

customers. But if the related receivable is due within one year, the difference between its present value and undiscounted amount is immaterial, and sales transactions are frequent, the fair value of receivables is equivalent to the nominal amount of cash to be received.

## 2) Rendering of services

Service revenue is recognized according to the contract and the percentage of completion of the services. If a service contract is estimated to bear a loss prior to completion, the Corporation and its subsidiaries recognize the full amount of the loss immediately.

Freight revenues are recognized according to the proportion of voyage days used to contracted voyage of each ship. Revenues from construction contracts are recognized in accordance with the accounting standards for construction contracts which are described below in "Construction Contracts". Please refer to Note 4 u. for related disclosures.

### u. Construction contracts

When the outcome of a construction contract can be estimated reliably, revenues and costs are recognized by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that are estimated as recoverable. Contract costs are recognized as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

When a contract covers a number of assets, the construction of each asset is treated as a separate contract when separate proposals have been submitted for each asset, each asset has been separately negotiated, contractors and customers can accept or reject any part of the contract related to each asset and the costs and revenues of each asset can be separately identified. A group of contracts performed concurrently or in a continuous sequence is treated as a single construction contract when the contracts were negotiated as a single package and they are so closely inter-related that they constitute a single project with an overall profit margin.

When contract costs incurred to date plus recognized profits less recognized losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognized profits less recognized losses, the surplus is shown as amounts due to customers for contract work.

### v. Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### 1) The Corporation and its subsidiaries as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Contingent rents are recognized as income in the year in which they are incurred.

2) The Corporation and its subsidiaries as lessee

Assets held under finance leases are initially recognized as assets of the Corporation and its subsidiaries at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheets as a finance lease obligation.

Finance expenses implicit in lease payments for each period are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term. Contingent rents are recognized as income in the year in which they are incurred.

w. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All borrowing costs other than those stated above are recognized in profit or loss in the period in which they are incurred.

x. Government grants

Government grants are not recognized until there is reasonable assurance that the subsidiaries will comply with the conditions attaching to them and that the grants will be received.

y. Employee benefits

1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost, past service cost, as well as gains and losses on settlements) and net interest on the net defined benefit liability are recognized as employee benefits expense in the period they occur. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liability (asset) represents the actual deficit (surplus) in the Corporation and its subsidiaries' defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

### 3) Other long-term employee benefits

Other long-term employee benefits are accounted for in the same way as the accounting required for defined benefit plan except that remeasurement is recognized in profit or loss.

### 4) Termination benefits

A liability for a termination benefit is recognized at the earlier of when the Corporation and its subsidiaries can no longer withdraw the offer of the termination benefit and when the Corporation and its subsidiaries recognize any related restructuring costs.

## z. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

### 1) Current tax

Current tax is the amount of tax at statutory rate calculated on the taxable profit at the end of each reporting period. 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.

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

### 2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss carry forward and unused tax credits for purchases of machinery and equipment, and research and development expenditures to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Corporation and its subsidiaries are able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at each balance sheet date and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Corporation and its subsidiaries expect, at the end of the reporting period, to recover or settle the

carrying amount of its assets and liabilities.

3) Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Corporation and its subsidiaries' accounting policies, management is required to make judgments, estimates and assumptions that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. The effect of a change in an accounting estimate shall be recognized prospectively by including it in profit or loss in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

a. Valuation of inventory

Inventories are stated at the lower of cost or net realizable value, and the Corporation and its subsidiaries use judgment and estimate to determine the net realizable value of inventory at the end of the reporting period. Since the net realizable value of inventory is mainly determined on the basis of future selling price, it might be adjusted significantly.

b. Fair value of private-placement shares of listed companies, emerging market shares, unlisted equity securities and impairment loss

As described in Note 31, the Corporation and its subsidiaries applied valuation techniques commonly used by market practitioners to evaluate fair value of the financial instruments that do not have listed market price in an active market. The measurement for the fair value of private-placement shares of listed companies, emerging market shares and unlisted equity securities includes assumptions not based on observable market prices or interest rates; therefore, the fair value may change significantly.

The Corporation and its subsidiaries immediately recognize impairment loss on its available-for-sale financial assets when there is any indication that the investment may be impaired and the carrying amount may not be recoverable. The Corporation and its subsidiaries' management evaluates the impairment based on the estimated future cash flow expected to be generated by the investment and takes into consideration the market conditions and industry development.

## 6. CASH AND CASH EQUIVALENTS

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Cash on hand	\$ 46,814	\$ 47,111
Checking accounts and demand deposits	8,364,630	7,267,847

(Continued)

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Cash equivalents (investments with original maturities less than three months)		
Time deposits	\$ 2,259,696	\$ 3,503,330
Commercial papers with repurchase agreements	1,808,222	3,914,480
Bonds with repurchase agreements	<u>377,300</u>	<u>735,000</u>
	<u>\$ 12,856,662</u>	<u>\$ 15,467,768</u> (Concluded)

## 7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
<u>Financial assets at FVTPL - current</u>		
Financial assets designated as at FVTPL		
Mutual funds	\$ 2,655,982	\$ 1,359,532
Listed shares	46,868	36,488
Future contracts (a)	<u>-</u>	<u>899</u>
	<u>2,702,850</u>	<u>1,396,919</u>
Financial assets held for trading		
Listed shares	1,138,209	607,426
Mutual funds	622,426	732,951
Convertible bonds	229,671	319,100
Emerging market shares	215,464	231,953
Foreign exchange forward contracts (b)	<u>2,024</u>	<u>-</u>
	<u>2,207,794</u>	<u>1,891,430</u>
	<u>\$ 4,910,644</u>	<u>\$ 3,288,349</u>
<u>Financial liabilities at FVTPL - current</u>		
Financial liabilities designated as at FVTPL		
Call and put options (Note 20)	\$ <u>-</u>	\$ <u>405</u>
Financial liabilities held for trading		
Future contracts (a)	247	-
Foreign exchange forward contracts (b)	<u>-</u>	<u>4,536</u>
	<u>247</u>	<u>4,536</u>
	<u>\$ 247</u>	<u>\$ 4,941</u>

- a. The subsidiary Thintech United Metal Resources (Taicang) Co., Ltd. entered into precious metals futures contracts to manage fair value exposures arising from price fluctuation on precious metals. However, some of those contracts did not accounted for by using hedge accounting. As of the balance sheet date, the outstanding precious metals futures contracts were as follows:

Maturity Date	Weight (Kilograms)	Amount (In thousands)
<u>December 31, 2017</u>		
June 15, 2018	510	\$ 8,798 (RMB 1,927 thousand)
<u>December 31, 2016</u>		
June 15, 2017	1,275	25,046 (RMB 5,425 thousand)

- b. The subsidiaries entered into foreign exchange forward contracts to manage exposures due to exchange rate fluctuations of foreign currency denominated assets and liabilities. However, some of those contracts did not accounted for by using hedge accounting. The outstanding foreign exchange forward contracts not under hedge accounting of the subsidiaries at the balance sheet date were as follows:

	Currency	Maturity Date	Contract Amount (In Thousands)
<u>December 31, 2017</u>			
Sell	USD/NTD	January 2018	USD6,805/NTD204,580
Sell	HKD/NTD	January 2018	HKD11,000/NTD42,410
<u>December 31, 2016</u>			
Sell	USD/NTD	January 2017-March 2017	USD7,634/NTD241,717
Sell	HKD/NTD	February 2017	HKD7,500/NTD30,734

## 8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<u>December 31</u>	
	2017	2016
<u>Current</u>		
Domestic investments		
Listed shares	\$ 1,993,089	\$ 2,359,896
Mutual funds	143,539	397,759
Unlisted shares	<u>49,528</u>	<u>49,082</u>
	<u>\$ 2,186,156</u>	<u>\$ 2,806,737</u>
<u>Noncurrent</u>		
Domestic investments		
Listed shares	\$ 9,050,659	\$ 7,428,757
Emerging market shares and unlisted shares	2,482,383	2,754,165
Private-placement shares of listed companies	<u>172,785</u>	<u>136,042</u>
	<u>11,705,827</u>	<u>10,318,964</u>

(Continued)

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Foreign investments		
Unlisted shares	\$ 43,754,121	\$ 12,757,612
Listed shares	2,141,150	2,457,207
Certificate of entitlement	<u>782,890</u>	<u>773,130</u>
	<u>46,678,161</u>	<u>15,987,949</u>
	<u>\$ 58,383,988</u>	<u>\$ 26,306,913</u>
		(Concluded)

#### 9. HELD-TO-MATURITY FINANCIAL ASSETS - NONCURRENT

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Structured notes	\$ 102,360	\$ 110,924
Guarantee debt certificates	-	84,043
Corporate bonds	<u>27,390</u>	<u>27,702</u>
	<u>\$ 129,750</u>	<u>\$ 222,669</u>

#### 10. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
<u>Derivative financial assets for hedging - current</u>		
Foreign exchange forward contracts (a)	<u>\$ 54,131</u>	<u>\$ 36,784</u>
<u>Derivative financial assets for hedging - noncurrent</u>		
Foreign exchange forward contracts (a)	<u>\$ 16,237</u>	<u>\$ 3,354</u>
<u>Derivative financial liabilities for hedging - current</u>		
Foreign exchange forward contracts (a)	\$ 42,433	\$ 28,328
Interest rate swap contracts (b)	<u>5,785</u>	<u>9,281</u>
	<u>\$ 48,218</u>	<u>\$ 37,609</u>
<u>Derivative financial liabilities for hedging - noncurrent</u>		
Foreign exchange forward contracts (a)	\$ 210,325	\$ 17,599
Interest rate swap contracts (b)	<u>-</u>	<u>18,466</u>
	<u>\$ 210,325</u>	<u>\$ 36,065</u>

- a. The Corporation and its subsidiaries entered into foreign exchange forward contracts to manage cash flow and fair value exposures arising from exchange rate fluctuations on foreign-currency capital expenditures and sales and purchases contracts. The outstanding foreign exchange forward contracts

of the Corporation and its subsidiaries at the end of the reporting period were as follows:

	<b>Currency</b>	<b>Period for Generating Cash Flows and Maturity Date</b>	<b>Contract Amount (In Thousands)</b>
<u>December 31, 2017</u>			
Buy	NTD/USD	January 2018-April 2020	NTD8,078,352/USD272,936
Buy	NTD/EUR	January 2018-December 2021	NTD2,416,438/EUR69,571
Buy	NTD/JPY	January 2018-December 2019	NTD134,732/JPY482,808
Buy	NTD/CNY	January 2018-March 2018	NTD16,686/CNY3,750
Sell	USD/NTD	January 2018	USD78/NTD2,356
<u>December 31, 2016</u>			
Buy	NTD/USD	January 2017-February 2020	NTD1,845,189/USD58,454
Buy	NTD/EUR	January 2017-March 2019	NTD983,531/EUR28,130
Buy	NTD/JPY	May 2017-June 2018	NTD140,853/JPY500,540
Buy	NTD/CNY	May 2017	NTD20,736/CNY4,375
Sell	USD/NTD	January 2017-March 2017	USD417/NTD13,321

- b. The subsidiary DSC entered into interest rate swap contracts to manage cash flow exposures arising from interest rate fluctuations on bank loans. The outstanding interest rate swap contracts as of December 31, 2017 and 2016 were all as follows:

<b>Contract Amount (In Thousands)</b>	<b>Maturity Date</b>	<b>Range of Interest Rates Paid (%)</b>	<b>Range of Interest Rates Received</b>
<u>December 31, 2017</u>			
NT\$3,584,000	January 2018-July 2018	1.077-1.14	90 days fixing TAIBOR rate provided by Thomson Reuters
<u>December 31, 2016</u>			
NT\$9,277,000	February 2017-July 2018	0.988-1.14	90 days fixing TAIBOR rate provided by Thomson Reuters

- c. Movements of derivative financial instruments for hedging were as follows:

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Balance, beginning of year	\$ (33,536)	\$ 78,701
Recognized in other comprehensive income	(191,231)	(99,678)
Recognized in other gains and losses	6,317	(27,235)
Transferred to construction in progress and equipment to be inspected	33,771	11,409
Transferred to construction contract	(3,496)	-
Transferred to operating revenues	-	3,267
Balance, end of year	<u>\$ (188,175)</u>	<u>\$ (33,536)</u>

## 11. NOTES AND ACCOUNTS RECEIVABLE, NET (INCLUDING RELATED PARTIES)

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Notes receivable		
Operating	\$ 2,107,525	\$ 1,617,847
Non-operating	<u>-</u>	<u>-</u>
	2,107,525	1,617,847
Less: Allowance for doubtful accounts	<u>-</u>	<u>-</u>
	<u>\$ 2,107,525</u>	<u>\$ 1,617,847</u>
Accounts receivable	\$ 14,718,811	\$ 12,042,400
Less: Allowance for doubtful accounts	<u>52,297</u>	<u>79,640</u>
	<u>\$ 14,666,514</u>	<u>\$ 11,962,760</u>

The allowance for doubtful accounts was recognized based on estimated irrecoverable amounts determined by reference to the account aging analysis, past default experience of the customers and analysis of customers' current financial position. In determining the recoverability of an account receivable, the Corporation and its subsidiaries considered any change in the credit quality of the note and account receivable since the credit was initially granted to the end of the reporting period. For the past due notes and accounts receivable not collected after executing legal procedures, the Corporation and its subsidiaries will recognize 100% allowance for doubtful accounts.

The Corporation and its subsidiaries had not recognized an allowance for some notes and accounts receivable that are past due at the end of the reporting period because there had not been a significant change in credit quality and the amounts were still considered recoverable. The Corporation and its subsidiaries did not hold any collateral or other credit enhancement for these balances.

The aging of notes and accounts receivable was as follows:

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Not past due	\$ 15,518,346	\$ 12,809,916
1 to 30 days	776,274	365,801
31-60 days	170,983	179,756
61-365 days	220,495	156,229
More than 365 days	<u>87,941</u>	<u>68,905</u>
	<u>\$ 16,774,039</u>	<u>\$ 13,580,607</u>

Above aging analysis of notes and accounts receivable after deducting the allowance for doubtful accounts was based on the past due days from end of credit term.

Aging analysis of notes and accounts receivable that are past due but not impaired was as follows:

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Less than 31 days	\$ 769,349	\$ 365,801
31-60 days	169,780	172,525

(Continued)

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
61-365 days	\$ 218,014	\$ 151,389
More than 365 days	<u>84,555</u>	<u>65,846</u>
	<u>\$ 1,241,698</u>	<u>\$ 755,561</u>

(Concluded)

Above analysis of accounts receivable was based on the past due days from end of credit term.

Movements in the allowance for doubtful accounts recognized on accounts receivable were as follows:

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Balance, beginning of year	\$ 79,640	\$ 34,207
Recognition (reversal)	(26,667)	47,025
Write off	(62)	(87)
Effect of foreign currency exchange difference	<u>(614)</u>	<u>(1,505)</u>
Balance, end of year	<u>\$ 52,297</u>	<u>\$ 79,640</u>

Aging analysis of individually impaired accounts receivable was as follows:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Less than 31 days	\$ 6,925	\$ -
31-60 days	1,203	7,231
61-365 days	2,481	4,840
More than 365 days	<u>3,386</u>	<u>3,059</u>
	<u>\$ 13,995</u>	<u>\$ 15,130</u>

Above analysis of accounts receivable after deducting the allowance for doubtful accounts was based on the past due days from end of credit term.

Retentions receivable from construction contracts included in the accounts receivable did not bear interests; they were expected to be received upon the satisfaction of conditions specified in each contract for the payment of such amounts during retention periods, which were within normal operating cycle of the Corporation and its subsidiaries, usually more than twelve months. Refer to Note 12 for details on construction contracts.

The Corporation and its subsidiaries CHSC and CSAC entered into accounts receivable factoring agreements (without recourse) with Mega Bank and other financial institutions. Under the agreements, the Corporation and its subsidiaries are empowered to sell accounts receivable to the banks upon the delivery of products to customers and are required to complete related formalities at the next banking day.

For the years ended December 31, 2017 and 2016, the related information for the Corporation and its subsidiaries CHSC's and CASC'S sale of accounts receivable was as follows. Advances received at year-end dominated in US Dollars were converted to NT Dollars at the closing rate.

Counterparty	Advances Received at Year - Beginning	Receivables Sold	Amounts Collected by Bank	Advances Received at Year - End	Annual Interest Rate on Advances Received (%)	Credit Line
For the Year Ended December 31, 2017						
Mega Bank	\$ 3,407,655	\$ 10,454,377	\$ 9,915,395	\$ 3,946,637	1.02-1.68	NT\$9 billion
Mega Bank	1,099,546	3,137,353	3,148,673	1,088,226	1.19	NT\$3 billion
	106,911	356,052	400,158	62,805	2.58	USD30,000 thousand
Bank of Taiwan						
Bank of Taiwan	1,305,411	4,022,227	3,853,764	1,473,874	1.02-1.68	NT\$3 billion
Bank of Taiwan	658,609	5,912,848	5,921,942	649,515	1.84-2.49	USD130,000 thousand
Bank of Taiwan	-	324,490	166,809	157,681	1.52-2.55	USD15,000 thousand
Taishin Bank	-	726,453	726,453	-	2.610	USD10,000 thousand
Taishin Bank	1,944,923	7,724,850	8,043,560	1,626,213	1.59-2.00	USD123,000 thousand
CTBC Bank	552,811	2,567,555	2,443,121	677,245	1.59-2.02	USD40,000 thousand
	<u>\$ 9,075,866</u>	<u>\$ 35,226,205</u>	<u>\$ 34,619,875</u>	<u>\$ 9,682,196</u>		
For the Year Ended December 31, 2016						
Mega Bank	\$ 985,460	\$ 3,114,118	\$ 3,000,032	\$ 1,099,546	1.19	NT\$3 billion
Mega Bank	2,742,114	8,983,818	8,318,277	3,407,655	1.04-1.68	NT\$9 billion
	-	147,712	40,801	106,911	2.07	USD30,000 thousand
Bank of Taiwan						
Bank of Taiwan	1,256,796	3,385,315	3,336,700	1,305,411	1.04-1.68	NT\$3 billion
Bank of Taiwan	785,395	3,546,130	3,672,916	658,609	1.64-2.61	USD130,000 thousand
Taishin Bank	1,178,084	5,675,101	4,908,262	1,944,923	1.29-1.99	USD110,000 thousand
CTBC Bank	118,633	1,364,966	930,788	552,811	1.29-1.59	USD30,000 thousand
	<u>\$ 7,066,482</u>	<u>\$ 26,217,160</u>	<u>\$ 24,207,776</u>	<u>\$ 9,075,866</u>		

## 12. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONSTRUCTION CONTRACTS

	December 31	
	2017	2016
Amounts due from customers for construction contracts		
Construction costs incurred plus recognized profits less recognized losses to date	\$ 63,159,329	\$ 51,910,226
Less: Progress billings	<u>53,758,369</u>	<u>43,438,189</u>
Amounts due from customers for construction contracts	<u>\$ 9,400,960</u>	<u>\$ 8,472,037</u>
Amounts due to customers for construction contracts		
Progress billings	\$ 14,469,434	\$ 27,629,282
Less: Construction costs incurred plus recognized profits less recognized losses to date	<u>9,043,206</u>	<u>23,775,558</u>
Amounts due to customers for construction contracts	<u>\$ 5,426,228</u>	<u>\$ 3,853,724</u>

(Continued)

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Retentions receivable	<u>\$ 1,371,118</u>	<u>\$ 1,131,990</u>
Retentions payable	<u>\$ 2,717,118</u>	<u>\$ 2,575,200</u> (Concluded)

### 13. INVENTORIES

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Work in progress	\$ 23,421,176	\$ 21,410,134
Finished goods	24,357,521	19,679,031
Raw materials	18,974,890	19,618,052
Supplies	10,675,761	10,064,257
Raw materials and supplies in transit	7,826,224	6,914,867
Buildings and lands under construction	2,482,318	1,462,463
Lands held for construction	-	142,688
Others	<u>225,870</u>	<u>197,646</u>
	<u>\$ 87,963,760</u>	<u>\$ 79,489,138</u>

The cost of inventories recognized as operating costs for the years ended December 31, 2017 and 2016 was NT\$264,013,789 thousand and NT\$207,788,337 thousand, respectively, including reversal of loss on inventories NT\$880,774 and NT\$3,970,141, respectively.

### 14. DEBT INVESTMENTS WITH NO ACTIVE MARKET

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
<u>Noncurrent</u>		
Unlisted preference shares - overseas		
East Asia United Steel Corporation (EAUS) - Preference A	\$ 1,761,421	\$ 1,837,425
Bonds	88,907	71,038
Subordinated financial bonds	<u>4,015</u>	<u>24,351</u>
	<u>\$ 1,854,343</u>	<u>\$ 1,932,814</u>

In July 2003, the Corporation and Sumitomo Metal Industries, Ltd. (renamed as Nippon Steel & Sumitomo Metal Corp. in October 2012) and Sumitomo Corporation established the joint venture Company EAUS in Japan. The Corporation invested JPY10 billion in EAUS to acquire 10,000 shares of preference A. The Corporation also signed a long-term purchase agreement with EAUS and promised to purchase certain amount of slabs annually. In 2015, the Corporation sold 3,333 shares of preference A of EAUS to Nippon Steel & Sumitomo Metal Corp.

## 15. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Material associates		
7623704 Canada Inc.	\$ 8,059,570	\$ 8,738,490
Formosa Ha Tinh (Cayman) Limited	-	34,874,658
Associates that are not individually material	<u>6,670,243</u>	<u>5,915,804</u>
	<u>\$ 14,729,813</u>	<u>\$ 49,528,952</u>

### a. Material associates

Name of Associate	Nature of Activities	Principal Place of Business	Percentage of Ownership and Voting Rights (%)	
			December 31, 2017	December 31, 2016
7623704 Canada Inc.	Mineral Investment	Canada	25	25
Formosa Ha Tinh (Cayman) Limited	General investment	Cayman	-	25

The summarized financial information below represents amounts shown in the financial statements of 7623704 Canada Inc., which has been prepared in accordance with IFRSs, converted to the functional currency and adjusted for the purposes of applying equity method.

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Current assets	\$ 106,549	\$ 134,511
Noncurrent assets	32,736,293	35,474,697
Current liabilities	<u>(260)</u>	<u>(38)</u>
Equity	<u>\$ 32,842,582</u>	<u>\$ 35,609,170</u>
Percentage of the Corporation and its subsidiaries' ownership (%)	25	25
Equity attributable to the Corporation and its subsidiaries (carrying amount of the investment)	<u>\$ 8,059,570</u>	<u>\$ 8,738,490</u>
	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Net profit for the year	<u>\$ 2,215,665</u>	<u>\$ 1,014,821</u>
Total comprehensive income for the year	<u>\$ (455,667)</u>	<u>\$ 1,440,686</u>
Dividends received from 7623704 Canada Inc.	<u>\$ 531,892</u>	<u>\$ 179,564</u>
Equity attributable to the Corporation and its subsidiaries (carrying amount of the investment)	<u>\$ (111,821)</u>	<u>\$ 344,997</u>

In July 2017, the subsidiary CSAPH did not participate in cash capital increase of Formosa Ha Tinh (Cayman) Limited following by decrease in its shareholdings. Since the Corporation and its subsidiary CSAPH have no right to participate in the financial and operating policy decisions of Formosa Ha Tinh (Cayman) Limited, the Corporation and CSAPH have no ability to exercise significant influence over Formosa Ha Tinh (Cayman) Limited and the investment was reclassified to

available-for-sale financial assets.

The summarized financial information below represents amounts shown in the financial statements of Formosa Ha Tinh (Cayman) Limited prepared in accordance with IFRSs, and has been converted to the Corporation's functional currency and adjusted for the purposes of applying equity method.

	<b>December 31, 2016</b>
Current assets	\$ 33,309,463
Noncurrent assets	253,081,599
Current liabilities	(16,863,112)
Noncurrent liabilities	<u>(137,090,790)</u>
Equity	<u>\$ 132,437,160</u>
Percentage of the Corporation and its subsidiaries' ownership (%)	25
Equity attributable to the Corporation and its subsidiaries	\$ 33,107,828
Intangible assets	<u>1,766,830</u>
Carrying amount of the investment	<u>\$ 34,874,658</u>

	<b>For the Nine Months Ended September 30, 2017</b>	<b>For the Year Ended December 31, 2016</b>
Net loss for the period	<u>\$ (4,355,509)</u>	<u>\$ (3,132,536)</u>
Total comprehensive income for the period	<u>\$ (4,355,509)</u>	<u>\$ (3,132,536)</u>
Comprehensive income attributable to the Corporation and its subsidiaries	<u>\$ (875,298)</u>	<u>\$ (969,122)</u>

b. Information about associates that are not individually material was as follows:

	<b><u>For the Year Ended December 31</u></b>	
	<b>2017</b>	<b>2016</b>
The Corporation and its subsidiaries' share of		
Net profit for the year	\$ 77,372	\$ 147,607
Other comprehensive income	<u>(173,150)</u>	<u>(291,197)</u>
Total comprehensive income	<u>\$ (95,778)</u>	<u>\$ (143,590)</u>

Fair values (Level 1) of investments in associates with available published price quotation are summarized as follows:

	<b><u>December 31</u></b>	
	<b>2017</b>	<b>2016</b>
Chateau International Development Co., Ltd.	<u>\$ 791,532</u>	<u>\$ 869,182</u>

The investments accounted for using equity method as of December 31, 2017 and 2016, and the Corporation and its subsidiaries' share of profit and other comprehensive income of those investments for

the years ended December 31, 2017 and 2016, were based on the associates' audited financial statements for the same period.

## 16. OTHER FINANCIAL ASSETS

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
<b>Current</b>		
Pledged time deposits	\$ 6,580,282	\$ 6,327,109
Time deposits with original maturities more than three months	2,108,285	3,098,858
Hedging foreign-currency deposits	1,874,979	2,407,725
Deposits for projects	<u>188,475</u>	<u>16</u>
	<u>\$ 10,752,021</u>	<u>\$ 11,833,708</u>
<b>Noncurrent</b>		
Pledged receivables	\$ 2,000,000	\$ 2,000,000
Deposits for projects	337,023	1,090,454
Pledged time deposits	264,574	279,024
Time deposits with original maturities more than three months	<u>22,144</u>	<u>23,696</u>
	<u>\$ 2,623,741</u>	<u>\$ 3,393,174</u>

For the purpose of managing cash flow risk arising from exchange rate fluctuations due to purchasing imported equipment, the Corporation and its subsidiaries purchased foreign-currency deposits and entered into foreign exchange forward contracts. As of December 31, 2017 and 2016, the balance of the foreign-currency deposits, which consist of those designated as hedging instruments and were settlements of expired foreign exchange forward contracts, was NT\$1,874,979 thousand (JPY1.08 billion, RMB63,443 thousand, USD29,386 thousand, EUR11,562 thousand and GBP332 thousand), NT\$2,407,725 thousand (JPY1.17 billion, RMB118,463 thousand, USD37,820 thousand, EUR9,040 thousand and GBP332 thousand), respectively. As of December 31, 2017 and 2016 cash outflows would be expected from aforementioned contracts for the periods from 2018 and 2017, respectively.

Movements of hedging foreign-currency deposits were as follows:

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Balance, beginning of year	\$ 2,407,725	\$ 2,438,316
Increase	(495,189)	52,079
Recognized in other comprehensive income	(38,730)	(57,849)
Transferred to construction in progress and equipment to be inspected	376	(24,821)
Transferred to construction contract	<u>797</u>	<u>-</u>
Balance, end of year	<u>\$ 1,874,979</u>	<u>\$ 2,407,725</u>

Refer to Note 33 for information relating to other financial assets pledged as collateral.

## 17. PROPERTY, PLANT AND EQUIPMENT

### For the year ended December 31, 2017

	Land	Land Improvements	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Spare Parts	Rental Assets	Construction in Progress and Equipment to be Inspected	Total
Cost										
Balance at January 1, 2017	\$ 63,547,108	\$ 4,992,881	\$ 122,481,708	\$ 618,315,362	\$ 29,763,661	\$ 17,086,014	\$ 9,906,663	\$ 323,003	\$ 17,497,100	\$ 883,913,500
Additions	3,294,316	57,984	1,667,674	8,368,272	258,808	659,561	1,217,484	-	6,014,342	21,538,441
Disposals	(11,260)	-	(11,781)	(3,113,979)	(855,554)	(245,466)	(1,649,315)	-	(1,728)	(5,889,083)
Reclassification	5,106	162	(204,731)	(654,614)	1,415	(5,069)	858,280	-	(522,761)	(522,212)
Effect of foreign currency exchange difference	(600)	(2,682)	(287,642)	(1,382,304)	(1,631,796)	(19,783)	-	-	(2,321)	(3,327,128)
Others	-	-	-	1,362	-	-	(32,648)	-	-	(31,286)
Balance at December 31, 2017	<u>\$ 66,834,670</u>	<u>\$ 5,048,345</u>	<u>\$ 123,645,228</u>	<u>\$ 621,534,099</u>	<u>\$ 27,536,534</u>	<u>\$ 17,475,257</u>	<u>\$ 10,300,464</u>	<u>\$ 323,003</u>	<u>\$ 22,984,632</u>	<u>\$ 895,682,232</u>
Accumulated depreciation and impairment										
Balance at January 1, 2017	\$ 25,546	\$ 4,568,858	\$ 44,480,284	\$ 375,772,170	\$ 11,541,392	\$ 12,646,644	\$ 4,006,875	\$ 22,144	\$ -	\$ 453,063,913
Depreciation	-	71,377	3,902,393	26,127,985	1,574,188	1,176,926	1,595,535	10,702	-	34,459,106
Disposals	-	-	(8,921)	(3,041,143)	(703,831)	(225,169)	(1,649,315)	-	-	(5,628,379)
Impairment losses	-	-	-	781,099	(167,147)	786	94,895	-	-	876,780
Reclassification	-	-	(33,217)	(167,147)	1,415	(1,228)	194,417	-	-	(5,760)
Effect of foreign currency exchange difference	-	(417)	(25,130)	(226,771)	(647,804)	(5,904)	-	-	-	(906,026)
Others	-	-	-	1,362	-	-	-	-	-	1,362
Balance at December 31, 2017	<u>\$ 25,546</u>	<u>\$ 4,639,818</u>	<u>\$ 48,315,409</u>	<u>\$ 399,247,555</u>	<u>\$ 11,765,360</u>	<u>\$ 13,592,055</u>	<u>\$ 4,242,407</u>	<u>\$ 32,846</u>	<u>\$ -</u>	<u>\$ 481,860,996</u>
Carrying amount at December 31, 2017	<u>\$ 66,809,124</u>	<u>\$ 408,527</u>	<u>\$ 75,329,819</u>	<u>\$ 222,286,544</u>	<u>\$ 15,771,174</u>	<u>\$ 3,883,202</u>	<u>\$ 6,058,057</u>	<u>\$ 290,157</u>	<u>\$ 22,984,632</u>	<u>\$ 413,821,236</u>

### For the year ended December 31, 2016

	Land	Land Improvements	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Spare Parts	Rental Assets	Construction in Progress and Equipment to be Inspected	Total
Cost										
Balance at January 1, 2016	\$ 63,550,486	\$ 5,025,039	\$ 120,691,611	\$ 604,487,779	\$ 33,561,105	\$ 16,821,603	\$ 10,731,091	\$ 322,270	\$ 21,071,613	\$ 876,262,597
Additions	-	20,512	2,131,538	17,246,496	2,052,113	498,266	1,244,520	733	(3,397,812)	19,796,366
Disposals	(1,880)	(1,201)	(76,084)	(2,300,198)	(5,566,777)	(212,495)	(2,046,502)	-	-	(10,205,137)
Reclassification	-	(48,146)	66,099	(119,144)	10,270	25,918	-	-	(152,406)	(217,409)
Effect of foreign currency exchange difference	(1,498)	(3,323)	(331,456)	(999,571)	(293,050)	(47,278)	-	-	(24,295)	(1,700,471)
Others	-	-	-	-	-	-	(22,446)	-	-	(22,446)
Balance at December 31, 2016	<u>\$ 63,547,108</u>	<u>\$ 4,992,881</u>	<u>\$ 122,481,708</u>	<u>\$ 618,315,362</u>	<u>\$ 29,763,661</u>	<u>\$ 17,086,014</u>	<u>\$ 9,906,663</u>	<u>\$ 323,003</u>	<u>\$ 17,497,100</u>	<u>\$ 883,913,500</u>
Accumulated depreciation and impairment										
Balance at January 1, 2016	\$ 25,546	\$ 4,493,123	\$ 40,756,301	\$ 350,679,360	\$ 15,360,049	\$ 11,591,381	\$ 4,656,809	\$ 11,447	\$ -	\$ 427,574,016
Depreciation	-	77,217	3,860,583	27,341,461	1,654,446	1,271,175	1,395,253	10,697	-	35,610,832
Disposals	-	(1,199)	(74,207)	(1,941,610)	(5,399,687)	(181,999)	(2,046,502)	-	-	(9,645,204)
Impairment losses	-	-	151	44,799	-	218	-	-	-	45,168
Reclassification	-	-	10,846	(1,464)	533	(1,583)	1,315	-	-	9,647
Effect of foreign currency exchange difference	-	(283)	(73,390)	(350,376)	(73,949)	(32,611)	-	-	-	(530,609)
Others	-	-	-	-	-	63	-	-	-	63
Balance at December 31, 2016	<u>\$ 25,546</u>	<u>\$ 4,568,858</u>	<u>\$ 44,480,284</u>	<u>\$ 375,772,170</u>	<u>\$ 11,541,392</u>	<u>\$ 12,646,644</u>	<u>\$ 4,006,875</u>	<u>\$ 22,144</u>	<u>\$ -</u>	<u>\$ 453,063,913</u>
Carrying amount at December 31, 2016	<u>\$ 63,521,562</u>	<u>\$ 424,023</u>	<u>\$ 78,001,424</u>	<u>\$ 242,543,192</u>	<u>\$ 18,222,269</u>	<u>\$ 4,439,370</u>	<u>\$ 5,899,788</u>	<u>\$ 300,859</u>	<u>\$ 17,497,100</u>	<u>\$ 430,849,587</u>

The following items of property, plant and equipment are depreciated on a straight-line basis over the following useful lives:

#### Land improvements

Drainage system	40 years
Wharf	20-40 years
Wall	20-40 years
Others	5-15 years

#### Buildings

Main structure	2-60 years
Facility	8-40 years
Mechanical and electrical facilities	10-15 years
Trellis and corrugated iron building	3-20 years
Others	3-10 years

#### Machinery and equipment

Power equipment	2-25 years
Process equipment	8-40 years

(Continued)

Lifting equipment	8-25 years
Electrical equipment	3-16 years
High-temperature equipment	3-17 years
Examination equipment	3-10 years
Others	2-25 years
Transportation equipment	
Ship equipment	18-25 years
Railway equipment	5-20 years
Telecommunication equipment	5-6 years
Transportation equipment	3-10 years
Others	2-3 years
Other equipment	
Leasehold improvement	3-35 years
Office, air condition and extinguishment equipment	5-25 years
Computer equipment	3-15 years
Others	2-15 years
Rental assets	
Financial lease assets	30 years (Concluded)

The subsidiary CHSC bought farmlands for warehousing at the Jia Xing Section and Quing Shui Section of the Gangshan District in Kaohsiung City. However, certain regulations prohibit CHSC from registering the title of these farmlands in CHSC's name; therefore, the registration was made in the name of an individual person. The individual person consented to fully cooperate with CHSC in freely changing the land title to CHSC or to the name of other people under CHSC instructions. Meanwhile, the land had been pledged to CHSC as collateral. As of December 31, 2017 and 2016, the book value of the farmlands were NT\$55,433 thousand and NT\$66,753 thousand, respectively, recorded as land.

Portions of subsidiary DSC's property, plant and equipment are idle or have high possibility to become idle in the future; as a result, the management of DSC assessed the amounts were not considered recoverable and recognized impairment loss in the amount of NT\$795,330 thousand, recorded as operating costs in the statements of comprehensive income.

Refer to Note 33 for the carrying amount of property, plant and equipment that had been pledged by the Corporation and its subsidiaries to secure borrowings.

## 18. INVESTMENT PROPERTIES

For the year ended December 31, 2017

Cost	Land	Buildings	Total
Balance at January 1, 2017	\$ 8,222,428	\$ 3,236,752	\$ 11,459,180
Additions	-	614,852	614,852
Transfer from inventory	142,688	-	142,688
Transfer to property, plant and equipment	(5,106)	(9,612)	(14,718)
Effect of foreign currency exchange difference	(6,476)	(16,535)	(23,011)
Balance at December 31, 2017	<u>\$ 8,353,534</u>	<u>\$ 3,825,457</u>	<u>\$ 12,178,991</u>

(Continued)

	<b>Land</b>	<b>Buildings</b>	<b>Total</b>
<u>Accumulated depreciation and impairment</u>			
Balance at January 1, 2017	\$ 222,057	\$ 920,981	\$ 1,143,038
Impairment loss	15,307	-	15,307
Depreciation	-	70,186	70,186
Transfer to property, plant and equipment		(3,477)	(3,477)
Effect of foreign currency exchange difference		(2,141)	(2,141)
Balance at December 31, 2017	<u>\$ 237,364</u>	<u>\$ 985,549</u>	<u>\$ 1,222,913</u>
Carrying amount at December 31, 2017	<u>\$ 8,116,170</u>	<u>\$ 2,839,908</u>	<u>\$ 10,956,078</u> (Concluded)

For the year ended December 31, 2016

	<b>Land</b>	<b>Buildings</b>	<b>Total</b>
<u>Cost</u>			
Balance at January 1, 2016	\$ 8,220,781	\$ 2,963,556	\$ 11,184,337
Additions	-	339,112	339,112
Transfer to property, plant and equipment	-	(62,113)	(62,113)
Effect of foreign currency exchange difference	1,647	(3,803)	(2,156)
Balance at December 31, 2016	<u>\$ 8,222,428</u>	<u>\$ 3,236,752</u>	<u>\$ 11,459,180</u>
<u>Accumulated depreciation and impairment</u>			
Balance at January 1, 2016	\$ 222,057	\$ 854,091	\$ 1,076,148
Depreciation	-	81,051	81,051
Transfer to property, plant and equipment	-	(11,903)	(11,903)
Effect of foreign currency exchange difference	-	(2,258)	(2,258)
Balance at December 31, 2016	<u>\$ 222,057</u>	<u>\$ 920,981</u>	<u>\$ 1,143,038</u>
Carrying amount at December 31, 2016	<u>\$ 8,000,371</u>	<u>\$ 2,315,771</u>	<u>\$ 10,316,142</u>

The above items of investment properties are depreciated on a straight-line basis over the following useful lives:

Buildings 2-60 years

The Corporation and its subsidiaries participated in “Qianzhen Residential Building Project” conducted by the subsidiary CPDC and signed the land purchase agreement with its employees. According to the purchase agreement, land prices received from its employees are deposited in the Bank of Taiwan and recognized as other financial assets-noncurrent and other noncurrent liabilities.

The fair value of the investment properties was arrived at on the basis of valuation carried out in 2013, 2014, 2015 and 2017 by independent appraisers, who are not related parties. Lands were valued under market approach, income approach and land developing analysis approach. Buildings were evaluated using Level 3 inputs under market approach, cost approach and income approach. In December 2016, due to the significant change in the present value assessed for several pieces of land, the Corporation, based on the actual land sale prices in the vicinity, reappraised the land value. The important assumptions and fair

value were as follows:

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Fair value	\$ <u>27,140,670</u>	\$ <u>25,137,693</u>
Depreciation rate (%)	1.20-2.00	1.20-2.00
Discount rate (%)	0.85-2.13	2.11-4.14

All of the Corporation and its subsidiaries' investment properties are held under freehold interests. Refer to Note 33 for the carrying amount of the investment properties that had been pledged by the Corporation and its subsidiaries to secure borrowings.

## 19. BORROWINGS

### a. Short-term borrowings and bank overdraft

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Unsecured loans - interest at 0.42%-7.40% p.a. and 0.35%-8.52% p.a. as of December 31, 2017 and 2016, respectively	\$ 29,311,397	\$ 31,384,879
Bank overdraft - interest at 0.14%-7.40% p.a. and 0.14%-8.35% p.a. as of December 31, 2017 and 2016, respectively	2,973,133	2,127,572
Letters of credit - interest at 0%-1.25% p.a. and 0.93%-1.85% p.a. as of December 31, 2017 and 2016, respectively	1,503,507	2,088,590
Export bill loans - interest at 0.37%-6.45% p.a. as of December 31, 2017	780,207	-
Secured loans (Note 33) - interest at 0.88%-5.30% p.a. and 4.35% p.a. as of December 31, 2017 and 2016, respectively	<u>757,814</u>	<u>304,699</u>
	<u>\$ 35,326,058</u>	<u>\$ 35,905,740</u>

Starting from January 2016, the subsidiary CCSPMC entered into several credit facility agreements with ANZ (China) and several banks for total amount of USD35,000 thousand (or equal amount in RMB, the credit line remained unchanged) and RMB102,000 thousand credit line. Under the agreements, the Corporation and its subsidiaries should collectively hold over 50% of the CCSPMC's equity and half or more of the seats in the board of directors and supervisors. As of December 31, 2017, the subsidiary CSAPH held 70% equity of CCSPMC and three-quarters of the seats in the board of directors and supervisors.

Starting from March 2015, the subsidiary CSMK entered into short-term financing contract with CTBC and several Banks for USD45,000 thousand credit line (or equal amount in RMB, the credit line remained unchanged) and RMB50,000 thousand credit line. Under the agreements, the Corporation and its subsidiaries should directly or indirectly hold 100% of CSMK issued shares and all of the seats in the board of directors. As of December 31, 2017, CSAPH and CSGT, both subsidiaries, collectively held 100% equity of CSMK and all of the seats in the board of directors.

Starting from May 2014, the subsidiary CSCI entered into short-term financing contracts with CTBC Bank and several banks for INR 2.06 billion credit line. Under the agreements, the Corporation should collectively hold at least 75% of CSCI's issued shares and hold two-thirds or more of the seats in the board of directors. As of December 31, 2017, the Corporation held 100% equity of CSCI and all of the seats in the board of directors.

Starting from May 2014, the subsidiary CSVC continuously entered into short-term financing contracts with Standard Chartered Bank and several banks for a USD25,000 thousand credit lines (or equal amount in VND, the credit line remained unchanged) and USD32,500 thousand short-term credit line. Under the agreements, the Corporation should hold at least 56% of CSVC's issued shares and half or more of the seats in the board of directors. As of December 31, 2017, the Corporation held 56% equity of CSVC and half or more of the seats in the board of directors.

Starting from September 2016, the subsidiary QCSPMC entered into short-term financing contracts with MUFG Bank (Qingdao) and Sumitomo Mitsui Bank (Shanghai) for USD 10,000 thousand credit lines (or equal amount in RMB, the credit line remained unchanged), respectively. Under the agreements, the Corporation and its subsidiaries should collectively hold at least 70% of QCSPMC's issued shares and half or more of the seats in the board of directors. As of December 31, 2017, the Subsidiaries CSAPH held 70% equity of QCSPMC and four fifths seats in the board of directors.

b. Short-term bills payable

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Commercial paper - interest at 0.39%-1.14% p.a. and 0.40%-1.00% p.a. as of December 31, 2017 and 2016, respectively	\$ 24,643,000	\$ 16,639,000
Less: Unamortized discounts	<u>7,418</u>	<u>6,900</u>
	<u>\$ 24,635,582</u>	<u>\$ 16,632,100</u>

The above commercial paper was secured by Mega Bills Finance Corporation, China Bills Finance Corporation, International Bills Finance Corporation, Grand Bills Finance Corp., Taiwan Finance Corporation, Taiwan Cooperative Bills Finance Corporation, Union Bank of Taiwan, Bank of Taiwan, Hua Nan Bills Finance Corp., Taiwan Cooperative Bank and Dah Chung Bills Finance Corp., Shanghai Commercial & Savings Bank and Bangkok Bank, etc.

c. Long-term borrowings

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Syndicated bank loans		
Bank of Taiwan and other banks loan to CHSC		
Repaid in December 2017, interest at 1.58% p.a.	\$ -	\$ 2,672,308
Repayable in March 2019 with a revolving credit, interest at 1.58% p.a. as of December 31, 2017 and 2016, respectively	2,250,000	2,250,000
Bank of Taiwan and other banks loan to DSC		
Repayable in 14 equal semiannual installments from January 2012 to July 2018, interest at 1.14% p.a. and 1.11% p.a. as of December 31, 2017 and 2016, respectively	6,523,540	13,053,540
Bank of Taiwan and other banks loan to the Corporation		
Repayable in several installments from February 2020, interest at 2.94% p.a. and 2.42% p.a. as of December 31, 2017 and 2016, respectively	14,880,000	16,125,000
Mizuho Bank and other banks loan to the Corporation		
Repayable in August 2018, interest at 2.50%-2.57% p.a., 1.97%-1.99% p.a. as of December 31, 2017 and 2016, respectively	4,464,000	4,837,500

(Continued)

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Mega Bank and other banks loan to CSVC		
Repayable in 10 semiannual installments from September 2015 to March 2020, interest at 2.53% and 2.25% p.a. as of December 31, 2017 and 2016, respectively	\$ 2,812,320	\$ 3,453,975
CTBC Bank and other banks loan to CSCI		
Repayable in 5 semiannual installments from June 2017 to June 2019, interest at 3.35% p.a. and 3.00% p.a. as of December 31, 2017 and 2016, respectively	3,269,178	3,559,603
Mortgage loans (Note 33)		
Due on various dates through April 2032, interest at 1.26%-2.44% p.a. and 1.22%-2.02% p.a. as of December 31, 2017 and 2016, respectively	8,009,239	9,968,040
Unsecured loans		
Due on various dates through June 2022, interest at 0.28%-2.57% p.a. and 0.31%-2.81% p.a. as of December 31, 2017 and 2016, respectively	<u>33,409,554</u>	<u>30,664,227</u>
	75,617,831	86,584,193
Less: Syndicated loan fee	20,900	44,824
Current portion	<u>18,549,055</u>	<u>16,210,014</u>
	<u>\$ 57,047,876</u>	<u>\$ 70,329,355</u>
		(Concluded)

- 1) In December 2011, the subsidiary CHSC entered into a syndicated credit facility agreement with Bank of Taiwan and 11 other financial institutions for a NT\$16 billion credit line, which consists of NT\$7 billion secured loans with a non-revolving credit line, which had been repaid in December 2017, and NT\$9 billion unsecured loans with a revolving credit line. Under the agreement, the Corporation and its related parties should collectively hold at least 30% of the CHSC's issued shares and control CHSC's operation. Starting from 2012, CHSC should meet some financial ratios and criteria.

The amounts referring to the above financial ratios and criteria should be based on audited annual financial statements. If CHSC breaches the agreements, it should take remedial measures within half a year from the next day of the financial statements' declaration date; otherwise, the interest rate needs to be adjusted in accordance with the agreement. CHSC was in compliance with syndicated credit facility agreements base on its standalone financial statements for the years ended December 31, 2017 and 2016. As of December 31, 2017, the Corporation directly held 41% equity of CHSC and held half or more of the seats in the board of directors and controlled its operation.

- 2) In July 2012, the subsidiary DSC entered into a syndicated credit facility agreement with Bank of Taiwan and 17 other financial institutions for a NT\$35 billion credit line, which consists of NT\$30 billion secured loans with a non-revolving credit line and NT\$5 billion secured commercial paper with a revolving credit line (recognized as long-term bills payable); in February 2008, DSC entered into a syndicated credit facility agreement with Bank of Taiwan and 13 other financial institutions for a NT\$51.7 billion credit line. Under the agreements, the Corporation and its associates should collectively hold at least 80% and 40% of DSC's issued shares and hold half or more of the seats in the board of directors. Starting from 2012, DSC should meet some financial ratios and criteria.

DSC was in compliance with the syndicated credit facility agreement based on its financial statements of 2017 and 2016. As of December 31, 2017, the Corporation held 100% equity of DSC and all of the seats in the board of directors.

- 3) In October 2012, the subsidiary CSVC entered into a syndicated credit facility agreement with Mega Bank and 11 other banks for a USD246,000 thousand credit line, which consists of USD126,000 thousand long-term borrowings with a non-revolving credit line and USD120,000 thousand short-term borrowings for operation with a revolving credit line. The syndicated credit facility agreement has been re-signed in December 2017 for a USD94,500 thousand credit line. Under the agreements, the Corporation should hold at least 51% of CSVC's issued shares and half of the seats in the board of directors. Starting from 2015, CSVC should meet some financial ratios and criteria. CSVC was not in compliance with the syndicated credit facility agreement based on its 2016 audited financial statements. Breaching of financial ratios referring to the above has made the interest rate adjusted in accordance with the agreement; however, the interest rate adjusted was not being considered breaching of agreement. As of December 31, 2017, the Corporation held 56% equity of CSVC and half or more of the seats in the board of directors.
- 4) In January 2013, the subsidiary CSCI entered into a syndicated credit facility agreement with CTBC Bank and 9 other banks for a USD110,000 thousand credit line. Under the agreement, the Corporation should collectively hold at least 75% of CSCI's issued shares and hold two thirds or more of the seats in the board of directors. If CSCI expands or invites new strategic investors, the Corporation should collectively hold at least 60% of CSCI's issued shares and hold half or more of the seats in the board of directors. The syndicated credit facility agreement has been re-signed in November 2016. CSCI should meet some financial ratios and criteria required by the new syndicated credit facility agreement based on the Corporation's reviewed financial statements for the six months ended June 30 and audited annual financial statements as well as CSCI's unreviewed financial statements for the six months ended September 30 and audited annual financial statements. CSCI was in compliance with the syndicated credit facility agreement based on its financial statement for the six months ended September 30, 2017 and 2016 audited financial statements. As of December 31, 2017, the Corporation held 100% equity of CSCI and held all of the seats in the board of directors.
- 5) In July and August 2015, the Corporation entered into syndicated credit facility agreement with Mizuho bank with 7 other financial institutions and Bank of Taiwan with 14 other financial institutions for a USD150,000 thousand and USD500,000 thousand unsecured non-revolving credit line, respectively. Under the agreement, the Corporation should meet some financial ratios and criteria which were based on reviewed consolidated financial statements for the six months ended June 30 and audited annual consolidated financial statements. If the Corporation breaches the financial ratios or the clauses, the management bank can, based on the decision by majority of banks, immediately terminate the credit line, declare the Corporation's outstanding principal and interest to maturity as due, and request the Corporation to settle immediately. The Corporation was in compliance with the syndicated credit facility agreements based on its consolidated financial statements for the years ended December 31, 2017 and 2016.
- 6) The above unsecured loans and syndicated credit facility agreements included those obtained by the Corporation in JPY, AUD and USD to hedge the exchange rate fluctuations on equity investments in EAUS, CSAPH, CSVC, and CSCAU, and on the available-for-sale financial assets in Maruichi Steel Tube Ltd. and Yodogawa Steel Works, Ltd.

d. Long-term bills payable

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Commercial paper - interest at 0.40%-1.00% p.a. and 0.41%-1.05% p.a. as of December 31, 2017 and 2016, respectively	\$ 26,620,000	\$ 31,640,000

(Continued)

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Secured commercial paper in syndicated bank loans - interest at 0.96% p.a. and 0.97% p.a. as of December 31, 2017 and 2016, respectively	\$ 1,000,000	\$ 5,000,000
	27,620,000	36,640,000
Less: Unamortized discounts	<u>6,841</u>	<u>13,835</u>
	<u>\$ 27,613,159</u>	<u>\$ 36,626,165</u> (Concluded)

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

The subsidiary DSC issued secured commercial paper in a syndicated bank loan with the duration of seven years. Refer to c. 2) for details.

The above commercial paper was secured by Mega Bank, Agricultural Bank of Taiwan, Taishin Bank, ANZ Bank (Taiwan), Hua Nan Bank, Bangkok Bank, Bank of Taiwan and Bank BNP Paribas, etc.

## 20. BONDS PAYABLE

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
5-year unsecured bonds - issued at par by DSC in:		
June 2014; repayable in June 2018 and 2019; interest at 1.40% p.a., payable annually	\$ 7,000,000	\$ 7,000,000
June 2015; repayable in June 2019 and 2020; interest at 1.45% p.a., payable annually	7,500,000	7,500,000
June 2016; repayable in June 2020 and 2021; interest at 0.89% p.a., payable annually	5,400,000	5,400,000
7-year unsecured bonds - issued at par by the Corporation in:		
October 2011; repayable in October 2017 and 2018; interest at 1.57% p.a., payable annually	5,200,000	10,400,000
August 2012; repayable in August 2018 and 2019; interest at 1.37% p.a., payable annually	5,000,000	5,000,000
July 2013; repayable in July 2019 and 2020; interest at 1.44% p.a., payable annually	6,300,000	6,300,000
January 2014; repayable in January 2020 and 2021; interest at 1.75% p.a., payable annually	6,900,000	6,900,000
7-year unsecured bonds - issued at par by DSC in:		
June 2014; repayable in June 2020 and 2021; interest at 1.75% p.a., payable annually	5,000,000	5,000,000
June 2015; repayable in June 2021 and 2022 respectively; interest at 1.72% p.a., payable annually	2,500,000	2,500,000
		(Continued)

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
10-year unsecured bonds - issued at par by the Corporation in: August 2012; repayable in August 2021 and 2022; interest at 1.50% p.a., payable annually	\$ 15,000,000	\$ 15,000,000
July 2013; repayable in July 2022 and 2023; interest at 1.60% p.a., payable annually	9,700,000	9,700,000
January 2014; repayable in January 2023 and 2024; interest at 1.95% p.a., payable annually	7,000,000	7,000,000
15-year unsecured bonds - issued at par by the Corporation in: July 2013; repayable 30% in July 2026 and 2027, and 40% in July 2028; interest at 1.88% p.a., payable annually	3,600,000	3,600,000
January 2014; repayable 30% in January 2027 and 2028, and 40% in January 2029; interest at 2.15% p.a., payable annually	9,000,000	9,000,000
Liability component of secured domestic convertible bonds - issued by TMTC	-	14,000
	<u>95,100,000</u>	<u>100,314,000</u>
Less: Issuance cost of bonds payable	33,836	43,256
Unamortized discount on bonds payable	14,677	20,782
Current portion	<u>11,198,974</u>	<u>5,212,668</u>
	<u>\$ 83,852,513</u>	<u>\$ 95,037,294</u>
		(Concluded)

In September 2013, the subsidiary TMTC issued NT\$200,000 thousand of 3-year secured domestic convertible bonds at par from September 2013 to September 2016 which were secured by Hua Nan Commercial Bank. From one month after the issuance date to 10 days before the maturity date, bondholders may request TMTC to convert the bonds into its ordinary shares (except for the related book closure period). On the repurchase date, two years after the issuance date, bondholders may request TMTC to repurchase the bonds at their face value plus interest (1.9090% of face value, yield to put 0.95%) by cash in five trading days. From one month after the issuance date to 40 days before the maturity date, if the closing price of TMTC's shares on the Taipei Exchange is higher than 130% of the conversion price for 30 consecutive trading days or when the outstanding convertible bonds are less than 10% of initial issued bonds, TMTC may redeem the remaining bonds at their face value by cash in five trading days after the redemption date. As of December 31, 2017, the convertible bonds with NT\$151,700 thousand face value have been converted and redeemed into NT\$5,766 thousand ordinary share capital.

In September 2013, the subsidiary TMTC issued NT\$100,000 thousand of 5-year unsecured domestic convertible bonds at par from September 2013 to September 2018. From one month after the issuance date to 10 days before the maturity date, bondholders may request TMTC to convert the bonds into its ordinary shares (except for the related book closure period). On the repurchase dates, two years, three years and four years after the issuance date, bondholders may request TMTC to repurchase the bonds at their face value plus interest (2.5156%, 3.7971% and 5.0945% of face value for two years, three years and four years, respectively, yield to put 1.25%) by cash in five trading days. From one month after the issuance date to 40 days before the maturity date, if the closing price of TMTC's shares on the Taipei Exchange is higher than 130% of the conversion price for 30 consecutive trading days or when the outstanding convertible bonds are less than 10% of initial issued bonds, TMTC may redeem the remaining bonds at their face value by cash in five trading days after the redemption date. As of December 31, 2017, the convertible bonds with NT\$100,000 thousand face value have been redeemed or converted into NT\$21,975 thousand ordinary share capital.

According to IAS 32 and IAS 39, TMTC has separately recognized the embedded derivatives and the host contract - bonds payable. The embedded derivatives, including put options and call options, were recognized in financial instruments at fair value through profit or loss (Note 7) and measured at fair value.

## 21. ACCOUNTS PAYABLE (INCLUDING RELATED PARTIES)

Accounts payable includes advances received on construction contracts. Advances received on construction contracts bears no interests and are expected to be paid until the satisfaction of conditions specified in each contract for the payment of such amounts during retention periods, which were within the normal operating cycle of the Corporation and its subsidiaries, usually more than twelve months. Refer to Note 12 for details on construction contracts.

## 22. OTHER PAYABLES

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Salaries and incentive bonus	\$ 7,470,082	\$ 7,820,606
Purchase of equipment	2,568,395	2,788,624
Employee compensation and remuneration of directors and supervisors	1,690,094	1,708,289
Sales returns and discounts	1,522,348	1,492,872
Outsourced repair and construction	1,154,788	1,084,736
Interest payable	1,073,702	1,091,405
Others	<u>7,675,962</u>	<u>5,451,117</u>
	<u>\$ 23,155,371</u>	<u>\$ 21,437,649</u>

## 23. PROVISIONS

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
<b>Current</b>		
Onerous contracts (a)	\$ 3,573,465	\$ 3,750,118
Construction warranties (b)	309,472	463,355
Sale returns and discounts (c)	55,946	24,415
Others	<u>103,593</u>	<u>86,218</u>
	<u>\$ 4,042,476</u>	<u>\$ 4,324,106</u>
<b>Noncurrent</b>		
Provision for stabilization funds (d)	\$ 828,352	\$ 802,859
Others	<u>6,696</u>	<u>12,835</u>
	<u>\$ 835,048</u>	<u>\$ 815,694</u>

	<b>Onerous Contracts</b>	<b>Construction Warranties</b>	<b>Sale Returns and Discounts</b>	<b>Provision for Stabilization Funds</b>	<b>Others</b>	<b>Total</b>
Balance at January 1, 2017	\$ 3,750,118	\$ 463,355	\$ 24,415	\$ 802,859	\$ 99,053	\$ 5,139,800
Recognized (reversal)	7,585,438	(152,673)	1,494,113	26,556	21,808	8,975,242
Paid	<u>(7,762,091)</u>	<u>(1,210)</u>	<u>(1,462,582)</u>	<u>(1,063)</u>	<u>(10,572)</u>	<u>(9,237,518)</u>
Balance at December 31, 2017	<u>\$ 3,573,465</u>	<u>\$ 309,472</u>	<u>\$ 55,946</u>	<u>\$ 828,352</u>	<u>\$ 110,289</u>	<u>\$ 4,877,524</u>

(Continued)

	Onerous Contracts	Construction Warranties	Sale Returns and Discounts	Provision for Stabilization Funds	Others	Total
Balance at January 1, 2016	\$ 2,611,156	\$ 491,899	\$ -	\$ 793,851	\$ 90,386	\$ 3,987,292
Recognized	7,897,571	1,331	745,506	9,218	21,448	8,675,074
Paid	(6,758,609)	(29,875)	(721,091)	(210)	(12,781)	(7,522,566)
Balance at December 31, 2016	<u>\$ 3,750,118</u>	<u>\$ 463,355</u>	<u>\$ 24,415</u>	<u>\$ 802,859</u>	<u>\$ 99,053</u>	<u>\$ 5,139,800</u>

(Concluded)

- The provision for onerous contracts represents the present value of the future payments that the Corporation and its subsidiaries were presently obligated to make under non-cancellable onerous purchase and service contracts, less revenue expected to be earned on the contracts.
- The provision for construction warranties represents the present value of management's best estimate of the future outflow of economic benefits that will be required under the Corporation and its subsidiaries' obligations for warranties. The estimate had been made on the basis of historical warranty trends.
- The provision for sales returns and discounts, recognized as a reduction of operating revenues, represents the annual rewards estimated on the basis of historical experience, management's judgments and other known reasons.
- The provision for stabilization funds represents the provision recognized in accordance with the build-operate-transfer contract by the subsidiary KRTC. The provision was used for capital demand due to force majeure, exceptional events, operating deficits, etc. The provision for stabilization funds was recognized based on increase in stabilization funds.

## 24. RETIREMENT BENEFIT PLANS

### a. Defined contribution plans

The Corporation and its domestic subsidiaries adopted a pension plan under the Labor Pension Act (the LPA), which is a state-managed defined contribution plan. Based on the LPA, the Corporation and its subsidiaries make monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages. The foreign subsidiaries also make contribution in accordance with the local regulations, which is a defined contribution plan.

### b. Defined benefit plans

The Corporation and its domestic subsidiaries adopted the defined benefit plan under the Labor Standards Law, under which pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Corporation and its domestic subsidiaries make contributions, equal to a certain percentage of total monthly salaries, to a pension fund, which is deposited in the Bank of Taiwan in the name of and administered by the pension fund monitoring committee. Before the end of each year, the Corporation and its domestic subsidiaries assess the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Corporation and its domestic is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Corporation and its subsidiaries have no right to influence the investment policy and strategy. The Corporation and its subsidiaries, such as CSGT, ICSC, CHC, etc., also makes contributions, equal to a certain percentage of salaries of management personnel, to another pension fund, which are deposited and administered by the officers' pension fund management committee. The Corporation and its subsidiaries, such as CSAC, CHSC, CSCC, etc., also set up rules of consolation payment and holiday benefits, which are defined benefit plans.

The amounts included in the consolidated balance sheets in respect of the Corporation and its subsidiaries' defined benefit plans were as follows:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Present value of defined benefit obligation	\$ 29,361,216	\$ 29,668,411
Fair value of plan assets	<u>(20,982,995)</u>	<u>(22,698,162)</u>
Deficit	8,378,221	6,970,249
Net defined benefit liabilities - recognized as other payables, other current assets or other noncurrent assets	<u>(56,441)</u>	<u>(68,630)</u>
Net defined benefit liability	<u>\$ 8,321,780</u>	<u>\$ 6,901,619</u>

Movements of net defined benefit liability were as follows:

	<b>Present Value of the Defined Benefit Obligation</b>	<b>Fair Value of the Plan Assets</b>	<b>Net Defined Benefit Liability</b>
Balance at January 1, 2017	<u>\$ 29,668,411</u>	<u>\$ (22,698,162)</u>	<u>\$ 6,970,249</u>
Service cost			
Current service cost	758,757	-	758,757
Past service cost and loss on settlements	9,202	-	9,202
Interest expense (income)	<u>279,223</u>	<u>(213,816)</u>	<u>65,407</u>
Recognized in profit or loss	<u>1,047,182</u>	<u>(213,816)</u>	<u>833,366</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(13,589)	(13,589)
Actuarial loss - changes in demographic assumptions	99,817	-	99,817
Actuarial loss - changes in financial assumptions	539,512	-	539,512
Actuarial loss - experience adjustments	<u>874,711</u>	<u>-</u>	<u>874,711</u>
Recognized in other comprehensive income	<u>1,514,040</u>	<u>(13,589)</u>	<u>1,500,451</u>
Contributions from the employer	-	(858,065)	(858,065)
Contributions of employee returning	(3,125)	(3,133)	(6,258)
Benefits paid	(2,865,195)	2,803,770	(61,425)
Others	<u>(97)</u>	<u>-</u>	<u>(97)</u>
	<u>(2,868,417)</u>	<u>1,942,572</u>	<u>(925,845)</u>
Balance at December 31, 2017	<u>\$ 29,361,216</u>	<u>\$ (20,982,995)</u>	<u>\$ 8,378,221</u>
Balance at January 1, 2016	<u>\$ 29,823,879</u>	<u>\$ (23,812,775)</u>	<u>\$ 6,011,104</u>
Service cost			
Current service cost	779,771	-	779,771
Past service cost and loss on settlements	(728)	-	(728)
Interest expense (income)	<u>382,390</u>	<u>(307,944)</u>	<u>74,446</u>
Recognized in profit or loss	<u>1,161,433</u>	<u>(307,944)</u>	<u>853,489</u>

(Continued)

	<b>Present Value of the Defined Benefit Obligation</b>	<b>Fair Value of the Plan Assets</b>	<b>Net Defined Benefit Liability</b>
<b>Remeasurement</b>			
Return on plan assets (excluding amounts included in net interest)	\$ -	\$ 148,758	\$ 148,758
Actuarial loss - changes in demographic assumptions	77,748	-	77,748
Actuarial loss - changes in financial assumptions	174,432	-	174,432
Actuarial loss - experience adjustments	<u>765,948</u>	<u>-</u>	<u>765,948</u>
Recognized in other comprehensive income	<u>1,018,128</u>	<u>148,758</u>	<u>1,166,886</u>
Contributions from the employer	-	(950,818)	(950,818)
Contributions of employee returning	9,010	(22,728)	(13,718)
Benefits paid	(2,343,882)	2,247,426	(96,456)
Others	<u>(157)</u>	<u>(81)</u>	<u>(238)</u>
	<u>(2,335,029)</u>	<u>1,273,799</u>	<u>(1,061,230)</u>
Balance at December 31, 2016	<u>\$ 29,668,411</u>	<u>\$ (22,698,162)</u>	<u>\$ 6,970,249</u> (Concluded)

An analysis by function of the amounts recognized in profit or loss in respect of the defined benefit plans is as follows:

	<b><u>For the Year Ended December 31</u></b>	
	<b><u>2017</u></b>	<b><u>2016</u></b>
Operating costs	\$ 588,066	\$ 626,116
Operating expenses	243,294	225,339
Others	<u>2,006</u>	<u>2,034</u>
	<u>\$ 833,366</u>	<u>\$ 853,489</u>

Through the defined benefit plans under the Labor Standards Law, the Corporation and its subsidiaries are exposed to the following risks:

1) Investment risk

The plan assets are invested in domestic and foreign equity securities, debt securities, and bank deposits, etc. The investment is conducted at the discretion of the Bureau of Labor Funds, Ministry of Labor or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.

2) Interest risk

A decrease in the government and corporate bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.

### 3) Salary risk

The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The principal assumptions used for the purposes of the actuarial valuations were as follows:

	<u>December 31</u>	
	<b>2017</b>	<b>2016</b>
Discount rate (%)	0.875-1.625	0.875-1.500
Expected rate of salary increase (%)	1.875-3.250	1.500-3.250
Turnover rate (%)	0.000-21.500	0.000-24.000

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

	<u>December 31</u>	
	<b>2017</b>	<b>2016</b>
Discount rate		
0.25% increase	<u>\$ (505,980)</u>	<u>\$ (519,225)</u>
0.25% decrease	<u>\$ 522,501</u>	<u>\$ 543,690</u>
Expected rate of salary increase		
0.25% increase	<u>\$ 507,811</u>	<u>\$ 519,320</u>
0.25% decrease	<u>\$ (494,360)</u>	<u>\$ (505,343)</u>

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	<u>December 31</u>	
	<b>2017</b>	<b>2016</b>
The expected contributions to the plan for the next year	<u>\$ 899,095</u>	<u>\$ 751,385</u>
The average duration of the defined benefit obligation	4.1-18.2 years	5.0-17.0 years

## 25. EQUITY

### a. Share capital

	<u>December 31</u>	
	<b>2017</b>	<b>2016</b>
Number of shares authorized (in thousands)	<u>17,000,000</u>	<u>17,000,000</u>
Shares authorized	<u>\$ 170,000,000</u>	<u>\$ 170,000,000</u>

(Continued)

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Number of shares issued and fully paid (in thousands)		
Ordinary shares (in thousands)	15,734,861	15,734,861
Preference shares (in thousands)	<u>38,268</u>	<u>38,268</u>
	<u>15,773,129</u>	<u>15,773,129</u>
Shares issued		
Ordinary shares	\$ 157,348,610	\$ 157,348,610
Preference shares	<u>382,680</u>	<u>382,680</u>
	<u>\$ 157,731,290</u>	<u>\$ 157,731,290</u>

(Concluded)

1) Ordinary shares

Fully paid ordinary shares, which have a par value of NT\$10, carry one vote per share and the right to dividends.

2) Preference shares

Preference shareholders have the following entitlements or rights:

- a) 14% annual dividends, with dividend payments ahead of those to ordinary shareholders;
- b) Preference over ordinary shares in future payment of dividends in arrears;
- c) The sequence and percentage of appropriation of residual property are the same with ordinary shares;
- d) The same rights as ordinary shareholders, except the right to vote for directors and supervisors; and
- e) Redeemable by the Corporation and convertible to ordinary shares by preference shareholders with the ratio of 1:1.

3) 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 MOEA, the largest shareholder of the Corporation, the Corporation issued 126,512,550 units of GDR. The depositary receipts then increased by 6,924,354 units resulting from the capital increase out of retained earnings. Each unit represents 20 shares of the Corporation's ordinary shares and the issued GDRs account for the Corporation's ordinary shares totaling 2,668,738,370 shares (including 290 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, 2017 and 2016, the outstanding depositary receipts were 1,019,241 units and 1,055,002 units and equivalent to 20,385,130 ordinary shares (including 310 fractional shares) and 21,100,350 ordinary shares (including 310 fractional shares), which represented 0.13% of the outstanding ordinary shares.

b. Capital surplus

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
May be used to offset deficits, distribute cash or transfer to share capital (see 1 below)		
Additional paid-in capital	\$ 31,154,766	\$ 31,154,766
Treasury share transactions	329,296	301,230
Others	<u>8,099</u>	<u>8,099</u>
	<u>31,492,161</u>	<u>31,464,095</u>
May be used to offset deficits only (see 2 below)		
Treasury share transactions	6,148,057	5,880,812
Share of change in equity of subsidiaries	467,953	441,368
Share of change in equity of associates	<u>102,911</u>	<u>21,191</u>
	<u>6,718,921</u>	<u>6,343,371</u>
	<u>\$ 38,211,082</u>	<u>\$ 37,807,466</u>

- 1) The capital surplus could be used to offset a deficit and distribute as cash dividends or transferred to capital when the Corporation has no deficit (limited to a certain percentage of the Corporation's paid-in capital and once a year).
- 2) The capital surplus included the share of change in equity of subsidiaries recognized without any actual acquisition or disposal of subsidiaries' share by the Corporation or the adjustments to capital surplus of subsidiaries under equity method.

c. Retained earnings and dividend policy

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

- 1) 10% as legal reserve;
- 2) Preference share dividends at 14% of par value;
- 3) Ordinary share dividends at 14% of par value; and
- 4) The remainder, if any, as additional dividends divided equally between the holders of preference and ordinary shares.

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

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 shares.

Appropriation of earnings to legal reserve could be made until the legal reserve equals the Corporation's paid-in capital. Legal reserve may be used to offset deficit. If the Corporation has no deficit 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.

Under Rule issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs", the Corporation should appropriate or reverse a special

reserve. In addition, if the market price of the Corporation's ordinary 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. Any special reserve appropriated may be reversed to the extent of the increase in valuation.

Except for non-ROC resident shareholders, all shareholders receiving the dividends are entitled a tax credit equal to their proportionate share of the income tax paid by the Corporation.

The appropriations of earnings for 2016 and 2015 had been approved in the shareholders' meeting on June 2017 and June 2016, respectively. The appropriations and dividends per share were as follows:

	<b>Appropriation of Earnings</b>		<b>Dividend Per Share (NT\$)</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Legal reserve	\$ 1,603,837	\$ 760,472		
Special reserve (reversal)	(2,130,614)	2,654,116		
Preference shares				
Cash dividends	53,575	53,575	<u>\$ 1.40</u>	<u>\$ 1.40</u>
Ordinary shares				
Cash dividends	13,374,632	7,867,430	<u>\$ 0.85</u>	<u>\$ 0.50</u>

The appropriations of earnings for 2017 had been proposed by the Corporation's board of directors on March 28, 2018 as follows:

	<b>Appropriations of Earnings</b>	<b>Dividends Per Share (NT\$)</b>
Legal reserve	\$ 1,690,558	
Reversal of special reserve	(5,992)	
Preference shares		
Cash dividends	53,575	<u>\$ 1.40</u>
Ordinary shares		
Cash dividends	13,846,677	<u>\$ 0.88</u>

The appropriations of earnings for 2017 are subject to the resolution of the shareholders' meeting to be held in June 2018.

d. Special reserves

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Balance, beginning of year	\$ 29,786,846	\$ 27,132,983
Appropriation in respect of		
The difference between market value and carrying amount of the Corporation's shares held by subsidiaries	-	2,654,116
Reversal of special reserve		
The rise in market value of the Corporation's shares held by subsidiaries	(2,130,614)	-
Disposal of property, plant and equipment	<u>(363)</u>	<u>(253)</u>
Balance, end of year	<u>\$ 27,655,869</u>	<u>\$ 29,786,846</u>

e. Other equity items

1) Exchange differences on translating foreign operations

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Balance, beginning of year	\$ (32,048)	\$ 1,198,796
Exchange differences arising on translating the net investment in foreign operations	(3,816,672)	(2,264,151)
Income tax relating to exchange differences arising on translating the net assets of foreign operations	48,787	21,170
Gains and losses on hedging instruments designated in hedges of the net investment of foreign operations	2,288,725	952,456
Share of exchange difference of associates accounted for using the equity method	<u>(599,385)</u>	<u>59,681</u>
Balance, end of year	<u>\$ (2,110,593)</u>	<u>\$ (32,048)</u>

2) Unrealized gains and losses on available-for-sale financial assets

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Balance, beginning of year	\$ 8,650,573	\$ 6,573,348
Unrealized gains on available-for-sale financial assets	1,485,880	2,640,007
Income tax relating to unrealized gains and losses on available-for-sale financial assets	369	9,427
Reclassified to profit or loss on disposal of available-for-sale financial assets	(1,027,027)	(971,208)
Impairment on available for-sale financial assets	725,240	613,540
Share of unrealized gains and losses on available-for-sale financial assets of associates accounted for using the equity method	<u>(220,172)</u>	<u>(214,541)</u>
Balance, end of year	<u>\$ 9,614,863</u>	<u>\$ 8,650,573</u>

3) The effective portion of gains and losses on hedging instruments in a cash flow hedge

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Balance, beginning of year	\$ 62,181	\$ 152,264
Fair value changes of hedging instrument	(256,415)	(107,454)
Income tax relating to fair value changes	38,519	22,980
Fair value changes of hedging instruments transferred to profit or loss	-	2,458
Income tax relating to amounts transferred to profit or loss	-	(418)
Fair value changes of hedging instruments transferred to adjust carrying amount of hedged items	28,865	(9,216)
Income tax relating to amounts transferred to adjust carrying amount of hedged items	<u>(4,485)</u>	<u>1,567</u>
Balance, end of year	<u>\$ (131,335)</u>	<u>\$ 62,181</u>

f. Treasury shares

Purpose of Treasury Shares	Thousand Shares			December 31	
	Beginning of Year	Addition	Reduction	Thousand Shares	Book Value
For the year ended December 31, 2017					
Shares held by subsidiaries reclassified from investments accounted for using equity method to treasury shares	<u>318,007</u>	<u>804</u>	<u>3,645</u>	<u>315,166</u>	<u>\$ 8,532,389</u>
For the year ended December 31, 2016					
Shares held by subsidiaries reclassified from investments accounted for using equity method to treasury shares	<u>318,036</u>	<u>-</u>	<u>29</u>	<u>318,007</u>	<u>\$ 8,576,842</u>

The Corporation's shares acquired and held by subsidiaries for the purpose of investment are accounted for as treasury shares. 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 ordinary shareholders. The increase of treasury shares was due to acquisition of the Corporation's shares by subsidiaries in which the Corporation has less than 50% shareholding. The decrease of treasury shares was mainly due to subsidiaries' sale of the Corporation's shares and change in percentage of ownership.

For the year ended December 31, 2017, a total of 4,490 thousand shares of the Corporation held by its subsidiaries were sold for proceeds of NT\$114,019 thousand. Calculated based on the percentage of shares held, the proceeds of treasury shares sold were NT\$92,114 thousand, and after deducting book values, the remainders amounted to NT\$28,066 thousand, recorded as addition to the capital surplus. As of December 31, 2017 and 2016, the market values of the treasury shares calculated by combined holding percentage were NT\$7,801,566 thousand and NT\$7,840,025 thousand, respectively.

g. Non-controlling interests

	For the Year Ended December 31	
	2017	2016
Balance, beginning of year	\$ 27,019,807	\$ 26,404,014
Attributable to non-controlling interests:		
Share of net profit for the year	3,525,602	3,148,955
Exchange difference on translating foreign operations	(545,625)	(515,405)
Income tax relating to exchange difference on translating foreign operations	4,682	11,788
Unrealized gains and losses on available-for-sale financial assets	(66,285)	(126,326)
Income tax relating to unrealized gains and losses on available-for-sale financial assets	452	16,133
Impairment of available-for-sale financial assets	22,056	7,277
Reclassified to profit or loss on disposal of available-for-sale financial assets	(160,707)	(262,908)
Fair value changes of cash flow hedges	26,454	(50,078)
Income tax relating to cash flow hedges	(844)	3,389

(Continued)

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Fair value changes of hedging instruments transferred to adjust the carrying amount of hedged items	\$ 2,585	\$ 5
Remeasurement on defined benefit plans	(102,521)	(157,270)
Income tax relating to remeasurement on defined benefit plans	5,888	16,690
Share of other comprehensive income of associates accounted for using the equity method	(9,138)	(31,830)
Changes of non-controlling interest arising from obtaining subsidiaries	-	381,814
Capital reduction from subsidiaries	(180,040)	-
Non-controlling interest arising from acquisition of subsidiaries	(10,265)	(16,421)
Dividend distributed by subsidiaries	(1,762,037)	(2,029,248)
Others	<u>171,860</u>	<u>219,228</u>
Balance, end of year	<u>\$ 27,941,924</u>	<u>\$ 27,019,807</u> (Concluded)

## 26. OPERATING REVENUES

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Revenues from the sale of goods	\$ 319,717,226	\$ 263,932,828
Construction contract revenues	17,496,736	19,760,229
Freight and service revenues	6,936,438	7,254,353
Other revenues	<u>2,861,602</u>	<u>2,108,394</u>
	<u>\$ 347,012,002</u>	<u>\$ 293,055,804</u>

## 27. PROFIT BEFORE INCOME TAX

The following items were included in profit before income tax:

- a. Other income

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Dividends income	\$ 460,644	\$ 433,634
Interest income	290,218	317,940
Insurance claim income	246,601	43,299
Rental income	127,813	122,968
Others	<u>653,027</u>	<u>553,539</u>
	<u>\$ 1,778,303</u>	<u>\$ 1,471,380</u>

b. Other gains and losses

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Gain on disposal of investments	\$ 1,098,751	\$ 822,674
Net foreign exchange gain	683,424	65,866
Gain arising on financial assets at fair value through profit or loss	126,218	30,720
Loss on disposal of property, plant and equipment	(54,510)	(371,274)
Impairment loss	(621,291)	(596,784)
Other losses	<u>(487,019)</u>	<u>(474,513)</u>
	<u>\$ 745,573</u>	<u>\$ (523,311)</u>

The components of net foreign exchange gain were as follows:

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Foreign exchange gain	\$ 2,121,017	\$ 1,688,239
Foreign exchange loss	<u>(1,437,593)</u>	<u>(1,622,373)</u>
Net exchange gains	<u>\$ 683,424</u>	<u>\$ 65,866</u>

c. Finance costs

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Total interest expense	\$ 3,937,073	\$ 4,037,507
Less: Amounts included in the cost of qualifying assets	<u>219,180</u>	<u>220,866</u>
	<u>\$ 3,717,893</u>	<u>\$ 3,816,641</u>

Information about capitalized interest was as follows:

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Capitalized amounts	\$ 219,180	\$ 220,866
Capitalized annual rates (%)	0.40-1.60	0.53-1.63

d. Impairment loss recognized on (reversal of) financial assets

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Available-for-sale financial assets	\$ 747,296	\$ 620,817
Held-to maturity financial assets	86,737	-
Accounts receivable	(26,667)	47,025
Long-term receivable (recorded as other noncurrent assets)	<u>(23,220)</u>	<u>31,942</u>
	<u>\$ 784,146</u>	<u>\$ 699,784</u>

(Continued)

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Analysis of impairment loss recognized on (reversal of) financial assets by function		
Operating costs	\$ 231,503	\$ 127,033
Operating expenses	(26,677)	97,727
Other income	(23,210)	(18,760)
Others gains and losses	<u>602,530</u>	<u>493,784</u>
	<u>\$ 784,146</u>	<u>\$ 699,784</u>
		(Concluded)

e. Impairment loss recognized on (reversal of) non-financial assets

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Property, plant and equipment	\$ 876,780	\$ 45,168
Investments accounted for using equity method	(103,000)	103,000
Investment properties	15,307	-
Goodwill	<u>40,311</u>	<u>-</u>
	<u>\$ 829,398</u>	<u>\$ 148,168</u>
Analysis of impairment loss recognized on (reversal of) non-financial assets by function		
Operating costs	\$ 792,260	\$ 45,452
Operating expenses	18,377	(284)
Others gains and losses	<u>18,761</u>	<u>103,000</u>
	<u>\$ 829,398</u>	<u>\$ 148,168</u>

f. Depreciation and amortization

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Property, plant and equipment	\$ 34,459,106	\$ 35,610,832
Investment properties	70,186	81,051
Intangible assets	262,994	275,947
Others	<u>83,652</u>	<u>95,647</u>
	<u>\$ 34,875,938</u>	<u>\$ 36,063,477</u>
Analysis of depreciation by function		
Operating costs	\$ 32,849,676	\$ 34,123,879
Operating expenses	1,653,654	1,544,252
Others	<u>25,962</u>	<u>23,752</u>
	<u>\$ 34,529,292</u>	<u>\$ 35,691,883</u>
		(Continued)

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Analysis of amortization by function		
Operating costs	\$ 190,640	\$ 214,057
Operating expenses	145,508	152,741
Others	<u>10,498</u>	<u>4,796</u>
	<u>\$ 346,646</u>	<u>\$ 371,594</u>
		(Concluded)

g. Operating expenses directly related to investment properties

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Direct operating expenses of investment properties that generated rental income	<u>\$ 161,976</u>	<u>\$ 173,181</u>

h. Employee benefits

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Short-term employee benefits		
Salaries	\$ 30,870,934	\$ 30,441,763
Labor and health insurance	1,973,203	1,902,650
Others	<u>1,374,425</u>	<u>1,326,544</u>
	<u>34,218,562</u>	<u>33,670,957</u>
Post-employment benefits		
Defined contribution plans	756,725	699,625
Defined benefit plans (Note 24)	<u>833,366</u>	<u>853,489</u>
	<u>1,590,091</u>	<u>1,553,114</u>
Termination benefits	<u>77,701</u>	<u>89,689</u>
	<u>\$ 35,886,354</u>	<u>\$ 35,313,760</u>
Analysis of employee benefits by function		
Operating costs	\$ 28,789,792	\$ 28,213,232
Operating expenses	6,619,529	6,604,868
Others	<u>477,033</u>	<u>495,660</u>
	<u>\$ 35,886,354</u>	<u>\$ 35,313,760</u>

The numbers of employees of the Corporation and its subsidiaries combined were 28,332 and 26,639 as of December 31, 2017 and 2016, respectively.

i. Employee's compensation and remuneration of directors

The Corporation distributed employees' compensation and remuneration of directors at the rates no less than 0.1% and no higher than 0.15%, respectively, of the pre-tax profit prior to deducting employees' compensation and remuneration of directors.

The employees' compensation and remuneration of directors for the years ended December 31, 2017 and 2016 which have been approved by the Corporation's board of directors in March 2018 and 2017, respectively, were as follows:

Amount

	<u>For the Year Ended December 31</u>	
	<u>2017</u>	<u>2016</u>
Employees' compensation	\$ 1,213,396	\$ 1,320,926
Remuneration of directors	22,751	24,767

Accrual rate

	<u>For the Year Ended December 31</u>	
	<u>2017</u>	<u>2016</u>
Employees' compensation (%)	6.14	6.82
Remuneration of directors (%)	0.12	0.13

If there is a change in the proposed amounts after the annual consolidated financial statements are authorized for issue, the difference is recorded as a change in accounting estimate.

There was no difference between the actual amounts of employees' compensation and remuneration of directors paid and the amounts recognized in the consolidated financial statements for the years ended December 31, 2016 and 2015.

Information on the employees' compensation and remuneration of directors resolved by the board of directors in 2018 and 2017 are available at the Market Observation Post System website of the Taiwan Stock Exchange.

## 28. INCOME TAX

a. Income tax recognized in profit or loss

	<u>For the Year Ended December 31</u>	
	<u>2017</u>	<u>2016</u>
Current tax		
In respect of the current year	\$ 3,144,422	\$ 2,484,969
Income tax on unappropriated earnings	404,006	121,761
In respect of prior years	(28,238)	(203,193)
Deferred tax		
In respect of the current year	(223,652)	297,486
In respect of prior years	<u>(324,431)</u>	<u>10,820</u>
	<u>\$ 2,972,107</u>	<u>\$ 2,711,843</u>

The reconciliation of accounting profit and income tax expense was as follows:

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Profit before income tax	\$ <u>23,403,297</u>	\$ <u>21,899,167</u>
Income tax expense calculated at the statutory rate	\$ 4,381,933	\$ 4,123,151
Non-deductible expenses in determining taxable income	20,321	19,929
Tax-exempt income	(621,142)	(642,138)
Others	21,940	(70,195)
Additional income tax under the Alternative Minimum Tax Act	9,693	9,411
Income tax on unappropriated earnings	404,006	121,761
Unrecognized deductible temporary differences	(219,645)	(275,429)
Unrecognized loss carryforwards	(294,660)	(184,812)
Unrecognized investment credits	(377,670)	(197,462)
In respect of prior years	<u>(352,669)</u>	<u>(192,373)</u>
	<u>\$ 2,972,107</u>	<u>\$ 2,711,843</u>

The applicable tax rate used above is the corporate tax rate of 17% payable by the Corporation and its subsidiaries in ROC, while the applicable tax rate used by subsidiaries in China is 25%. Tax rates used by other group entities operating in other jurisdictions are based on the tax laws in those jurisdictions.

In February 2018, it was announced by the President that the Income Tax Act in the ROC was amended and starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. Deferred tax assets and deferred tax liabilities recognized as at December 31, 2017 are expected to be adjusted and would increase by NT\$965,484 thousand and NT\$292,340 thousand, respectively. In addition, the tax rate of the corporate unappropriated earnings in 2018 will be reduced from 10% to 5%.

As the status of appropriations of earnings for 2017 is uncertain, the potential income tax consequences of 2017 unappropriated earnings are not reliably determinable.

b. Income tax recognized directly in equity

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Current tax		
Reversal of special reserve due to disposal of property, plant and equipment	\$ 92	\$ 64
Deferred tax		
Reversal of special reserve due to disposal of property, plant and equipment	<u>(92)</u>	<u>(64)</u>
	<u>\$ -</u>	<u>\$ -</u>

c. Income tax benefit recognized in other comprehensive income

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Translation of foreign operations	\$ 53,469	\$ 32,958
Unrealized gains and losses on available-for-sale financial asset	821	25,560

(Continued)

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Fair value changes of cash flow hedges	\$ 37,675	\$ 26,369
Remeasurement on defined benefit plans	236,316	182,490
Fair value changes of hedging instruments in cash flow hedges transferred to adjust carrying amounts of hedged items	(4,485)	1,567
Fair value changes of hedging instruments in cash flow hedges transferred to profit or loss	<u>-</u>	<u>(418)</u>
	<u><b>\$ 323,796</b></u>	<u><b>\$ 268,526</b></u> (Concluded)

d. Current tax assets and liabilities

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
<b>Current tax assets</b>		
Tax refund receivable	\$ 179,277	\$ 132,124
Prepaid income tax	<u>1,927</u>	<u>7,358</u>
	<u><b>\$ 181,204</b></u>	<u><b>\$ 139,482</b></u>
<b>Current tax liabilities</b>		
Income tax payable	<u><b>\$ 3,127,173</b></u>	<u><b>\$ 2,129,043</b></u>

e. Deferred tax assets and liabilities

The Corporation and its subsidiaries offset certain deferred tax assets and deferred tax liabilities which met the offset criteria.

Changes of deferred tax assets and liabilities were as follows:

For the Year Ended December 31, 2017

	<b>Balance, beginning of year</b>	<b>Recognized in Profit or Loss</b>	<b>Recognized in Other Comprehensive Income</b>	<b>Recognized Directly in Equity</b>	<b>Exchange Differences</b>	<b>Closing Balance</b>
<u>Deferred tax assets</u>						
Temporary differences						
Defined benefit plan and estimated preferential severance pay	\$ 1,118,088	\$ (7,358)	\$ 234,460	\$ -	\$ -	\$ 1,345,190
Unrealized loss on inventories	1,038,741	(115,588)	-	-	(63)	923,090
Provisions	729,422	(55,846)	-	-	-	673,576
Impairment loss on financial assets	126,361	90,915	-	-	-	217,276
Unrealized loss on construction	55,633	232,980	-	-	-	288,613
Difference between tax reporting and financial reporting - revenue recognition	163,449	(44,655)	-	-	-	118,794
Unrealized gain on the transactions with subsidiaries and associates	194,359	(18,605)	-	-	-	175,754
Unrealized settlement loss on foreign exchange forward for hedging	85,239	(13,520)	-	-	-	71,719
Foreign investment loss	519,409	94,772	-	-	-	614,181
Others	<u>947,835</u>	<u>293,434</u>	<u>77,387</u>	<u>-</u>	<u>7,950</u>	<u>1,326,606</u>
	4,978,536	456,529	311,847	-	7,887	5,754,799
Tax losses	384,781	51,525	-	-	(702)	435,604
Investment credits	<u>9,664</u>	<u>(7,287)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,377</u>
	<u><b>\$ 5,372,981</b></u>	<u><b>\$ 500,767</b></u>	<u><b>\$ 311,847</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 7,185</b></u>	<u><b>\$ 6,192,780</b></u>

(Continued)

	Balance, beginning of year	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Recognized Directly in Equity	Exchange Differences	Closing Balance
<u>Deferred tax liabilities</u>						
Temporary differences						
Land value increment tax	\$ 10,240,123	\$ -	\$ -	\$ -	\$ -	\$ 10,240,123
Difference between tax reporting and financial reporting - depreciation methods	808,075	(93,121)	-	-	2,982	717,936
Foreign investment income	972,942	119,520	-	-	861	1,093,323
Others	240,149	(73,715)	(11,949)	(92)	-	154,393
	<u>\$ 12,261,289</u>	<u>\$ (47,316)</u>	<u>\$ (11,949)</u>	<u>\$ (92)</u>	<u>\$ 3,843</u>	<u>\$ 12,205,775</u>

(Concluded)

### For the Year Ended December 31, 2016

	Balance, beginning of year	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Recognized Directly in Equity	Exchange Differences	Closing Balance
<u>Deferred tax assets</u>						
Temporary differences						
Defined benefit plan and estimated preferential severance pay	\$ 972,213	\$ (20,179)	\$ 161,837	\$ -	\$ 4,217	\$ 1,118,088
Unrealized loss on inventories	1,660,471	(621,274)	-	-	(456)	1,038,741
Provisions	538,871	190,551	-	-	-	729,422
Impairment loss on financial assets	43,350	83,011	-	-	-	126,361
Unrealized loss on construction	100,823	(45,190)	-	-	-	55,633
Difference between tax reporting and financial reporting - revenue recognition	165,665	(2,216)	-	-	-	163,449
Unrealized gain on the transactions with subsidiaries and associates	129,848	64,511	-	-	-	194,359
Unrealized settlement loss on foreign exchange forward for hedging	93,805	(8,566)	-	-	-	85,239
Foreign investment loss	292,666	226,743	-	-	-	519,409
Others	967,159	(108,457)	88,492	-	641	947,835
	4,964,871	(241,066)	250,329	-	4,402	4,978,536
Tax losses	273,917	115,968	-	-	(5,104)	384,781
Investment credits	319,368	(309,704)	-	-	-	9,664
	<u>\$ 5,558,156</u>	<u>\$ (434,802)</u>	<u>\$ 250,329</u>	<u>\$ -</u>	<u>\$ (702)</u>	<u>\$ 5,372,981</u>
<u>Deferred tax liabilities</u>						
Temporary differences						
Land value increment tax	\$ 10,240,123	\$ -	\$ -	\$ -	\$ -	\$ 10,240,123
Difference between tax reporting and financial reporting - depreciation methods	932,354	(115,535)	-	-	(8,744)	808,075
Foreign investment income	928,890	36,031	6,947	-	1,074	972,942
Others	316,108	(46,992)	(25,144)	(64)	(3,759)	240,149
	<u>\$ 12,417,475</u>	<u>\$ (126,496)</u>	<u>\$ (18,197)</u>	<u>\$ (64)</u>	<u>\$ (11,429)</u>	<u>\$ 12,261,289</u>

- f. Deductible temporary differences, unused loss carryforwards and unused investment credits for which no deferred tax assets have been recognized in the consolidated balance sheets

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
Loss carryforwards	<u>\$ 13,502,694</u>	<u>\$ 14,588,271</u>
Investment credits		
Purchase of machinery and equipment (due in 2017)	<u>\$ -</u>	<u>\$ 2,126,423</u>
Deductible temporary differences	<u>\$ 803,693</u>	<u>\$ 568,999</u>

The unrecognized loss carryforwards will expire from 2018 to 2027.

g. Information about unused investment credits

As of December 31, 2017, investment credits were comprised of:

<b>Laws and Statutes</b>	<b>Tax Credit Source</b>	<b>Remaining Creditable Amount</b>	<b>Expiry Year</b>
Statute for Encouragement of Private Participation in Transportation Infrastructure Projects	Transportation Infrastructure	\$ <u>2,377</u>	2019

Loss carryforwards as of December 31, 2017 comprised of:

<b>Unused Amount</b>	<b>Expiry Year</b>
\$ <u>2,464,906</u>	2018-2027

h. Integrated income tax

	<b>December 31</b>	
	<b>2017 (Note)</b>	<b>2016</b>
Unappropriated earnings		
Before January 1, 1998	Note	\$ 15,954
On and after January 1, 1998	Note	<u>17,180,087</u>
		<u>\$ 17,196,041</u>
Imputation credits accounts (ICA)	Note	<u>\$ 484,021</u>
		<b>For the Year Ended December 31</b>
	<b>2017</b>	<b>2016</b>
Tax creditable ratio for distribution of earnings (%)	Note	14.21

Note: Since the amended Income Tax Act announced in February 2018 abolished the imputation tax system, the related information about integrated income tax in 2017 is no longer applicable.

i. Income tax assessments

The Corporation's income tax returns through 2015 and the subsidiaries' income tax returns through 2013 to 2016 have been assessed by the tax authorities.

## 29. EARNINGS PER SHARE

The net profit and weighted average number of ordinary shares outstanding in the computation of earnings per share were as follows:

## Net profit for the year

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Net profit for the year attributable to owners of the Corporation	\$ 16,905,588	\$ 16,038,369
Less: Dividends on preference shares	<u>53,575</u>	<u>53,575</u>
Net profit used in computation of basic earnings per share	<u>\$ 16,852,013</u>	<u>\$ 15,984,794</u>

## Weighted average number of ordinary shares outstanding (in thousand shares)

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Weighted average number of ordinary shares in computation of basic earnings per share	15,420,290	15,416,854
Effect of dilutive potential ordinary shares:		
Employees' compensation	<u>60,344</u>	<u>56,949</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>15,480,634</u>	<u>15,473,803</u>

Preference shares were not included in the calculation of diluted earnings per share for the years ended December 31, 2017 and 2016 because of their anti-dilutive effect.

Since the Corporation offered to settle the compensation paid to employees by cash or shares, the Corporation assumed that the entire amount of the compensation would be settled in shares and the resulting potential shares are included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the shares have a dilutive effect. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the board of directors resolve the number of shares to be distributed to employees in the following year.

## **30. CAPITAL MANAGEMENT**

The management of the Corporation and its subsidiaries optimized the balances of working capital, debt and equity as well as the related cost through monitoring the Corporation and its subsidiaries' capital structure and capital demand by reviewing quantitative data and considering industry characteristics, domestic and international economic environment, rate fluctuation, strategies for development, etc.

Except for Note 19, the Corporation and its subsidiaries are not subject to any externally imposed capital requirements.

## **31. FINANCIAL INSTRUMENTS**

### a. Fair value of financial instruments that are not measured at fair value

Except as detailed in the following table, the Corporation and its subsidiaries believe the carrying amounts of financial instruments, including cash and cash equivalents, receivables, debt investments with no active market, and payables recognized in the consolidated financial statements approximated their fair values.

	<b>December 31</b>			
	<b>2017</b>		<b>2016</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
<u>Financial assets</u>				
Held-to-maturity investments	<u>\$ 129,750</u>	<u>\$ 108,683</u>	<u>\$ 222,669</u>	<u>\$ 197,485</u>

The fair value of held-to-maturity investment, which were grouped into Level 2, was measured under valuation method. The estimates and assumptions used by the Corporation and its subsidiaries were consistent with those that market participants would use in setting a price for the financial instrument.

b. Fair value of financial instruments that are measured at fair value on a recurring basis

1) Fair value hierarchy

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<u>December 31, 2017</u>				
Financial assets at fair value through profit or loss				
Mutual funds	\$ 3,278,408	\$ -	\$ -	\$ 3,278,408
Listed shares	1,185,077	-	-	1,185,077
Convertible bonds	229,671	-	-	229,671
Emerging market shares	-	-	215,464	215,464
Foreign currency forward contracts	<u>-</u>	<u>2,024</u>	<u>-</u>	<u>2,024</u>
	<u>\$ 4,693,156</u>	<u>\$ 2,024</u>	<u>\$ 215,464</u>	<u>\$ 4,910,644</u>
Available-for-sale financial assets				
Foreign unlisted shares	\$ -	\$ -	\$ 44,537,011	\$ 44,537,011
Domestic emerging market shares and unlisted shares	-	-	2,531,911	2,531,911
Domestic listed shares	11,043,748	-	-	11,043,748
Foreign listed shares	2,141,150	-	-	2,141,150
Mutual funds	143,539	-	-	143,539
Private-placement shares of listed companies	<u>-</u>	<u>172,785</u>	<u>-</u>	<u>172,785</u>
	<u>\$ 13,328,437</u>	<u>\$ 172,785</u>	<u>\$ 47,068,922</u>	<u>\$ 60,570,144</u>
Derivative financial assets for hedging				
Foreign exchange forward contracts	<u>\$ -</u>	<u>\$ 70,368</u>	<u>\$ -</u>	<u>\$ 70,368</u>
Financial liabilities at fair value through profit or loss				
Future contracts	<u>\$ -</u>	<u>\$ 247</u>	<u>\$ -</u>	<u>\$ 247</u>

(Continued)

	Level 1	Level 2	Level 3	Total
Derivative financial liabilities for hedging				
Interest rate swap contracts	\$ -	\$ 5,785	\$ -	\$ 5,785
Foreign exchange forward contracts	<u>-</u>	<u>252,758</u>	<u>-</u>	<u>252,758</u>
	<u>\$ -</u>	<u>\$ 258,543</u>	<u>\$ -</u>	<u>\$ 258,543</u>
<u>December 31, 2016</u>				
Financial assets at fair value through profit or loss				
Mutual funds	\$ 2,092,483	\$ -	\$ -	\$ 2,092,483
Listed shares	643,914	-	-	643,914
Convertible bonds	319,100	-	-	319,100
Emerging market shares	-	-	231,953	231,953
Futures contracts	<u>-</u>	<u>899</u>	<u>-</u>	<u>899</u>
	<u>\$ 3,055,497</u>	<u>\$ 899</u>	<u>\$ 231,953</u>	<u>\$ 3,288,349</u>
Available-for-sale financial assets				
Foreign unlisted shares	\$ -	\$ -	\$ 13,530,742	\$ 13,530,742
Domestic emerging market shares and unlisted shares	-	-	2,803,247	2,803,247
Domestic listed shares	9,788,653	-	-	9,788,653
Foreign listed shares	2,457,207	-	-	2,457,207
Mutual funds	397,759	-	-	397,759
Private-placement shares of listed companies	<u>-</u>	<u>136,042</u>	<u>-</u>	<u>136,042</u>
	<u>\$ 12,643,619</u>	<u>\$ 136,042</u>	<u>\$ 16,333,989</u>	<u>\$ 29,113,650</u>
Derivative financial assets for hedging				
Foreign exchange forward contracts	<u>\$ -</u>	<u>\$ 40,138</u>	<u>\$ -</u>	<u>\$ 40,138</u>
Financial liabilities at fair value through profit or loss				
Foreign exchange forward contracts	\$ -	\$ 4,536	\$ -	\$ 4,536
Call and put options	<u>-</u>	<u>405</u>	<u>-</u>	<u>405</u>
	<u>\$ -</u>	<u>\$ 4,941</u>	<u>\$ -</u>	<u>\$ 4,941</u>
Derivative financial liabilities for hedging				
Interest rate swap contracts	\$ -	\$ 27,747	\$ -	\$ 27,747
Foreign exchange forward contracts	<u>-</u>	<u>45,927</u>	<u>-</u>	<u>45,927</u>
	<u>\$ -</u>	<u>\$ 73,674</u>	<u>\$ -</u>	<u>\$ 73,674</u>

(Concluded)

There was no transfer between Level 1 and Level 2 for the years ended December 31, 2017 and 2016.

2) Reconciliation of Level 3 fair value measurements of financial assets

	<b>Financial Assets at Fair Value Through Profit or Loss</b>	<b>Available-for- sale Financial Assets</b>	<b>Total</b>
<u>For the year ended December 31, 2017</u>			
Balance, beginning of year	\$ 231,953	\$ 16,333,989	\$ 16,565,942
Recognized in profit or loss	7,195	(741,703)	(734,508)
Recognized in other comprehensive income (classified as unrealized gains and losses on available-for-sale financial assets)	-	742,273	742,273
Purchase	-	364,035	364,035
Reclassification	-	32,133,525	32,133,525
Transfer out of Level 3	-	(796,102)	(796,102)
Disposal	(23,684)	(135,154)	(158,838)
Capital reduction	-	(23,728)	(23,728)
Effect of foreign currency exchange difference	-	(808,213)	(808,213)
	<u>215,464</u>	<u>47,068,922</u>	<u>47,284,386</u>
Balance, end of year	<u>\$ 215,464</u>	<u>\$ 47,068,922</u>	<u>\$ 47,284,386</u>
<u>For the year ended December 31, 2016</u>			
Balance, beginning of year	\$ 245,455	\$ 45,129,968	\$ 45,375,423
Recognized in profit or loss	(13,502)	(343,550)	(357,052)
Recognized in other comprehensive income (classified as unrealized gains and losses on available-for-sale financial assets)	-	1,884,679	1,884,679
Purchase	-	539,720	539,720
Reclassification	-	(25,194,760)	(25,194,760)
Transfer out of Level 3	-	(4,458,702)	(4,458,702)
Disposal	-	(525,987)	(525,987)
Capital reduction	-	(14,040)	(14,040)
Effect of foreign currency exchange difference	-	(683,339)	(683,339)
	<u>231,953</u>	<u>16,333,989</u>	<u>16,565,942</u>
Balance, end of year	<u>\$ 231,953</u>	<u>\$ 16,333,989</u>	<u>\$ 16,565,942</u>

- 3) Valuation techniques and inputs applied for the purpose of measuring Level 2 fair value measurement

<b>Financial Instrument</b>	<b>Valuation Techniques and Inputs</b>
Derivative instruments	A discounted cash flow analysis was performed using the applicable yield curve for the duration of the instruments for non-option derivatives, and option pricing models for option derivatives. The estimates and assumptions used by the Corporation and its subsidiaries were consistent with those that market participants would use in setting a price for the financial instrument.
Private-placement shares of listed companies	Based on information from the Market Observation Post System, the Taipei Exchange, etc. and calculated by using the Black-Scholes Model.

- 4) Valuation techniques and inputs applied for the purpose of measuring Level 3 fair value measurement

- a) For emerging market shares, fair values were estimated on the basis of the closing price and liquidity.
- b) For domestic unlisted shares, some foreign unlisted shares and certificate of entitlement, fair values were determined based on industry types, valuations of similar companies and operations, or by using the net worth of companies.
- c) For other foreign unlisted shares, fair values were measured under income approach and calculated by the present value of the expected returns by using discounted cash flow model. Significant unobservable inputs were as follows; if the long-term pre-tax operating income rate increased or discount rate decreased, the fair value of the investments would increase.

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Long-term pre-tax operating income rate (%)	11.08-52.06	19.13-51.68
Discount rate (%)	6.52-10.37	6.52-8.24

If the below input to the valuation model was changed to reflect reasonably possible alternative assumptions while all other variables were held constant, the fair value of the equity investment would increase (decrease) as follows:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Long-term pre-tax operating income rate		
Increase 1%	<u>\$ 199,149</u>	<u>\$ 104,370</u>
Decrease 1%	<u>\$ (200,299)</u>	<u>\$ (124,143)</u>
Discount rate		
Increase 1%	<u>\$ (579,987)</u>	<u>\$ (511,318)</u>
Decrease 1%	<u>\$ 716,859</u>	<u>\$ 637,710</u>

c. Categories of financial instruments

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
<b>Financial assets</b>		
Fair value through profit or loss		
Designated as at fair value through profit or loss	\$ 2,702,850	\$ 1,396,919
Held for trading	2,207,794	1,891,430
Derivative instruments in designated hedge accounting relationships	70,368	40,138
Available-for-sale financial assets	60,570,144	29,113,650
Held-to-maturity investments	129,750	222,669
Loans and receivables 1)	47,198,451	48,156,503
<b>Financial liabilities</b>		
Fair value through profit or loss		
Held for trading	247	4,536
Designated as at fair value through profit or loss	-	405
Derivative instruments in designated hedge accounting relationships	258,543	73,674
Measured at amortized cost 2)	296,392,387	311,543,875

1) The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, notes and accounts receivable (including related parties), other receivables, debt investments with no active market, refundable deposits and other financial assets.

2) The balances included financial liabilities measured at amortized cost, which comprise short-term borrowings and bank overdraft, short-term bills payable, notes and accounts payable (including related parties), other payables, bonds payable, long-term borrowings, long-term bills payable and deposits received.

d. Financial risk management objectives and policies

The Corporation and its subsidiaries are extremely focused on financial risk management. By tracking and managing the market risk, credit risk, and liquidity risk efficiently, the management ensured that the Corporation and its subsidiaries were equipped with sufficient and lower cost working capital, which reduced financial uncertainty that may have adverse effects on the operations.

The significant financial activities of the Corporation and its subsidiaries are reviewed by the board of directors in accordance with relevant regulations and internal controls. The finance department follows the accountability and related financial risk control procedures required by the Corporation for executing financial projects. Compliance with policies and exposure limits is continually reviewed by the internal auditors. The Corporation and its subsidiaries did not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

1) Market risk

a) Foreign currency risk

The Corporation and its subsidiaries were exposed to foreign currency risk due to sales, purchases, capital expenditures and equity investments denominated in foreign currencies. Exchange rate exposures were managed within approved policy parameters utilizing foreign exchange forward contracts, foreign deposits or foreign borrowings.

The carrying amounts of the significant non-functional currency monetary assets and liabilities (including those eliminated on consolidation) at the balance sheet date were referred to Note 35.

The Corporation and its subsidiaries were mainly exposed to the currencies USD and RMB. The following table details the sensitivity to a 1% increase in the functional currencies against the relevant foreign currencies.

	USD Impact		RMB Impact	
	For the Year Ended		For the Year Ended	
	December 31		December 31	
	2017	2016	2017	2016
Pre-tax profit or loss	\$ 6,434	\$ 28,583 i	\$ (16,158)	\$ (8,872) i
Pre-tax equity	270,504	288,872 ii	(3,015)	(5,647) ii

i. These were mainly attributable to the exposure of cash, outstanding receivables and payables, which were not hedged at the balance sheet date, and debt investments with no active market and borrowings, which were respectively designated as hedged items and hedging instruments in fair value hedges.

ii. These were attributable to other financial assets, which were designated as hedging instruments in cash flow hedges, and changes in fair value of designated hedging instruments of hedges of net investments in foreign operations.

In management's opinion, the sensitivity analysis was unrepresentative of the inherent foreign exchange risk because the exposure at the balance sheet date did not reflect the exposure during the period.

b) Interest rate risk

The Corporation and its subsidiaries were exposed to interest rate risk because the Corporation and its subsidiaries borrowed funds at both fixed and floating interest rates. The risk is managed by the Corporation and its subsidiaries by maintaining an appropriate mix of fixed and floating rate borrowings, and using interest rate swap contracts.

The carrying amounts of the Corporation and its subsidiaries' financial liabilities with exposure to interest rates at the balance sheet date were as follows:

	December 31	
	2017	2016
Fair value interest rate risk		
Financial liabilities	\$ 119,687,069	\$ 116,882,062
Cash flow interest rate risk		
Financial liabilities	138,536,148	159,071,274

If interest rates had been 1% higher/lower and all other variables were held constant, the Corporation and its subsidiaries' pre-tax profit would have been lower/higher by NT\$1,385,361 thousand and NT\$1,590,713 thousand, respectively, for the years ended December 31, 2017 and 2016.

c) Other price risk

The Corporation and its subsidiaries were exposed to equity price risk through their investments in mutual funds and listed shares.

If equity prices had been 1% higher/lower, the pre-tax profit for the years ended December 31, 2017 and 2016 would have been higher/lower by NT\$44,635 thousand and NT\$27,364 thousand, respectively, as a result of the fair value changes of financial assets at fair value through profit or loss, and the other comprehensive income for the years ended December 31, 2017 and 2016 would have been higher/lower by NT\$133,284 thousand and NT\$126,436 thousand, respectively, as a result of the changes in fair value of available-for-sale financial assets.

2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Corporation and its subsidiaries. As at the balance sheet date, the Corporation and its subsidiaries' maximum exposure to credit risk is the carrying amount of the financial assets on the consolidated balance sheets and the amount of contingent liabilities in relation to financial guarantee issued by the Corporation and its subsidiaries.

The Corporation and its subsidiaries do not expect significant credit risk because the counterparties are creditworthy financial institutions and companies.

Counterparties of accounts receivable consisted of a large number of different customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the customers' financial condition.

The Corporation and its subsidiaries did not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Corporation and its subsidiaries define counterparties as having similar characteristics if they are related entities.

As of December 31, 2017 and 2016, the maximum credit risk of off-balance-sheet guarantees and amount provided to investees of co-investment for procurement compliance was NT\$23,504,137 thousand and NT\$13,196,277 thousand.

3) Liquidity risk

The management of the Corporation and its subsidiaries continuously monitor the movement of cash flows, net cash position, significant capital expenditures and the utilization of bank loan commitments to control proportion of the long-term and short-term bank loans or issue bonds payable, and ensures compliance with loan covenants.

The following table details the undiscounted cash flows of the Corporation and its subsidiaries' remaining contractual maturity for its non-derivative financial liabilities from the earliest date on which they can be required to pay. The tables included both interest and principal cash flows. Specifically, bank loans with a repayment on demand clause were included in the earliest time span regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities were based on the agreed repayment dates.

The table below summarizes the maturity profile of the Corporation and its subsidiaries' financial liabilities based on contractual undiscounted payments:

	<b>Less Than 1 Year</b>	<b>1-5 Years</b>	<b>Over 5 Years</b>	<b>Total</b>
<u>December 31, 2017</u>				
Non-derivative financial liabilities				
Non-interest bearing liabilities	\$ 36,072,502	\$ 496,183	\$ -	\$ 36,568,685
Variable interest rate liabilities	56,551,013	83,807,062	1,649,263	142,007,338
Fixed interest rate liabilities	34,546,614	66,824,023	25,881,204	127,251,841
Financial guarantee liabilities	<u>191,898</u>	<u>8,771,760</u>	<u>14,540,479</u>	<u>23,504,137</u>
	<u>\$ 127,362,027</u>	<u>\$ 159,899,028</u>	<u>\$ 42,070,946</u>	<u>\$ 329,332,001</u>
<u>December 31, 2016</u>				
Non-derivative financial liabilities				
Non-interest bearing liabilities	\$ 33,114,877	\$ 1,103,811	\$ -	\$ 34,218,688
Variable interest rate liabilities	53,965,318	106,590,665	2,721,873	163,277,856
Fixed interest rate liabilities	24,184,220	61,814,679	40,085,283	126,084,182
Financial guarantee liabilities	<u>-</u>	<u>197,622</u>	<u>12,998,655</u>	<u>13,196,277</u>
	<u>\$ 111,264,415</u>	<u>\$ 169,706,777</u>	<u>\$ 55,805,811</u>	<u>\$ 336,777,003</u>

The amounts included above for financial guarantee liabilities were the maximum amounts the Corporation and its subsidiaries could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the balance sheet date, the Corporation and its subsidiaries considered that it is more likely than not that none of the amount will be payable under the arrangement.

### 32. TRANSACTIONS WITH RELATED PARTIES

Balances and transactions between the Corporation and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Corporation and other related parties are disclosed below:

- a. The name of the company and its relationship with the Corporation and its subsidiaries

<u>Company</u>	<u>Relationship</u>
TaiAn Technologies Corporation	Associates
FUKUTA ELECTRIC & MACHINERY CO., LTD.	Associates
Hsin Hsin Cement Enterprise Corporation	Associates
Nikken & CSSC Metal Products Co., Ltd.	Associates
Eminent II Venture Capital Corporation	Associates
iPASS Corporation	Associates
Honley Auto. Parts Co., Ltd.	Associates
Majestic Solid Light Corporation	Associates

(Continued)

Company	Relationship
Ascentek Venture Capital Corp.	Associates
TAIWAN ROLLING STOCK COMPANY LTD.	Associates
CHUNGKANG STEEL STRUCTURE (CAMBODIA) CO., LTD.	Associates
Formosa Ha Tinh Steel Corporation	Other related parties (Associates before July 2017)
Formosa Ha Tinh (Cayman) Limited	Other related parties (Associates before July 2017)
Wuhan Huade Ecotek Corporation	Associates
HC&C Auto Parts Co., Ltd.	Associates
PT. MICS Steel Indonesia	Associates
SINO Vietnam Hi-tech Material Co., Ltd.	Associates
Tatt Giap Steel Centre Sdn. Bhd.	Associates
TSK Steel Company Limited	Associates
Wuhan WISCO YUTEK Environment Technology Co., Ltd.	Associates
Dyna Rechi Co., Ltd.	Associates
Dyna Rechi (Jiujiang) Co., Ltd.	Associates
Changchun CECK Auto. Parts Co., Ltd.	Associates
Mahindra Auto Steel Private Limited	Associates
Chateau International Development Co., Ltd.	Associates
Kaohsiung Arena Development Corp.	Associates
Overseas Investment & Development Corp.	Associates (Reclassified as the Corporation as key management personnel of other related parties before September 2017)
CSBC Corporation, Taiwan	The Corporation as key management personnel of other related parties
Taiwan High Speed Rail Corporation	The Corporation as key management personnel of other related parties
Rechi Precision Co., Ltd.	The Corporation as key management personnel of other related parties
East Asia United Steel Corporation	The Corporation as key management personnel of other related parties
Sakura Ferroalloys Sdn. Bhd.	The Corporation as key management personnel of other related parties
CDIB Bioscience Ventures I, Inc.	The Corporation as key management personnel of other related parties
Ministry of Economic Affairs, R.O.C.	Director of the Corporation
The CSC Labor Union	Director of the Corporation
HSIN KUANG STEEL CO., LTD	Other related parties as supervisors of the Corporation (The relationship ended since July 2016)

(Concluded)

b. Operating revenues

Account Items	Related Parties Types	For the Year Ended December 31	
		2017	2016
Revenues from sales of goods	Other related parties	\$ 395,916	\$ -
	Associates	1,642,273	3,447,408
	The Corporation as key management personnel of other related parties	961,962	3,228,028
	Others	<u>1,426,418</u>	<u>2,548,473</u>
		<u>\$ 4,426,569</u>	<u>\$ 9,223,909</u>
Construction contract revenues	Other related parties	\$ 589,311	\$ -
	Associates	440,251	1,249,956
	Others	<u>111</u>	<u>169,844</u>
		<u>\$ 1,029,673</u>	<u>\$ 1,419,800</u>

Sales to related parties were made at arm's length. The construction contracts undertaken by the Corporation and its subsidiaries with related parties were different from those with unrelated parties; therefore, the prices were not comparable while the collection terms have no material differences.

c. Purchase of goods

Related Parties Types	For the Year Ended December 31	
	2017	2016
Other related parties	\$ 2,371,206	\$ -
Associates	1,718,906	295,461
Others	<u>-</u>	<u>4,370,839</u>
	<u>\$ 4,090,112</u>	<u>\$ 4,666,300</u>

Purchases from related parties were made at arm's length.

d. Receivables from related parties

Account Items	Related Parties Types	For the Year Ended December 31	
		2017	2016
Notes and accounts receivable	The Corporation as key management personnel of other related parties	\$ 223,217	\$ 475,496
	Other related parties	219,246	-
	Associates	48,668	127,622
	Others	<u>173,533</u>	<u>280,145</u>
		<u>\$ 664,664</u>	<u>\$ 883,263</u>

(Continued)

Account Items	Related Parties Types/Names	For the Year Ended December 31	
		2017	2016
Other receivables	Other related parties		
	Formosa Ha Tinh (Cayman) Limited	\$ 208,320	\$ 232,684
	Formosa Ha Tinh Steel Corporation	7,970	-
	Others	<u>29,384</u>	<u>36</u>
		<u>\$ 245,674</u>	<u>\$ 232,720</u> (Concluded)

The subsidiary China Ecotek Corporation recognized and reverse the allowance for doubtful accounts in the amount of reversal of NT\$2,837 thousand and recognition of NT\$1,903 thousand for the years ended December 31, 2017 and 2016, respectively. As of December 31, 2017 and 2016, the allowance for doubtful accounts amounted to NT\$151 thousand and NT\$3,059 thousand, respectively.

e. Payables to related parties

Account Items	Related Parties Types	For the Year Ended December 31	
		2017	2016
Accounts payable	Associates	\$ 37,377	\$ 44,998
	Others	<u>-</u>	<u>491,546</u>
		<u>\$ 37,377</u>	<u>\$ 536,544</u>
Other payables	Other related parties	\$ 551,072	\$ -
	The Corporation as key management personnel of other related parties	121,442	37,919
	Associates	12,662	598,693
	Others	<u>11,261</u>	<u>31,478</u>
		<u>\$ 696,437</u>	<u>\$ 668,090</u>

The outstanding payables to related parties were unsecured.

f. Others

Account Items	Related Parties Types	For the Year Ended December 31	
		2017	2016
Service and other revenues	Associates	\$ 325,884	\$ 497,394
	Other related parties	160,174	-
	Others	<u>7,555</u>	<u>112,805</u>
		<u>\$ 493,613</u>	<u>\$ 610,199</u>

- g. Endorsements and guarantees provided by the Corporation and its subsidiaries

Related Parties Types/Names	For the Year Ended December 31	
	2017	2016
Other related parties - Formosa Ha Tinh (Cayman) Limited (former associates)		
Amount endorsed	\$ 30,332,880	\$ 27,251,250
Amount utilized	<u>(22,833,360)</u>	<u>(12,400,125)</u>
	<u>\$ 7,499,520</u>	<u>\$ 14,851,125</u>
The Corporation as key management personnel of others		
Amount endorsed	\$ 927,582	\$ 807,392
Amount utilized	<u>(670,777)</u>	<u>(796,152)</u>
	<u>\$ 256,805</u>	<u>\$ 11,240</u>

Endorsements and guarantees above are provided to investee by the percentage of shareholdings under joint venture agreements.

- h. Compensation of key management personnel

The remuneration of directors and other members of key management personnel were as follows:

	For the Year Ended December 31	
	2017	2016
Short-term employee benefits	\$ 92,973	\$ 87,813
Post-employment benefits	<u>758</u>	<u>1,107</u>
	<u>\$ 93,731</u>	<u>\$ 88,920</u>

### 33. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

The Corporation and its subsidiaries' assets mortgaged or pledged as collateral for long-term borrowings, short-term borrowings and bank overdraft, performance guarantees and bankers' acceptance bills, etc. were as follows (listed based on their carrying amounts):

	December 31	
	2017	2016
Net property, plant and equipment	\$ 116,024,557	\$ 124,349,476
Time deposits (Note 16)	6,844,856	6,606,133
Shares (a.)	5,838,525	5,814,935
Net investment properties	1,464,627	1,511,854
Pledged receivables (Note 16) (b.)	<u>2,000,000</u>	<u>2,000,000</u>
	<u>\$ 132,172,565</u>	<u>\$ 140,282,398</u>

- a. Shares of the Corporation were pledged by WIC and TIC, both subsidiaries, and were recorded as treasury shares in the consolidated financial statements.
- b. In accordance with revised agreements of build-operate-transfer contract in 2013, the subsidiary KRTC reclassified NT\$2,000,000 thousand including arbitration receivable - Kaohsiung City Government and part of the consideration of transferred assets to operating performance guarantees.

### **34. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS**

In addition to those disclosed in Note 19, significant commitments and contingencies of the Corporation and its subsidiaries as of December 31, 2017 were as follows:

- a. The Corporation and its subsidiaries provided letters of credits for NT\$7.8 billion guaranteed by financial institutions for several constructions, lease contracts and payment. Guarantee notes for NT\$69.9 billion were provided to banks and owners for loans, purchase agreements and warranties.
- b. Unused letters of credit for importation of materials and machinery amounted to NT\$9.3 billion.
- c. Property purchase and construction contracts for NT\$5.4 billion were signed but not yet recorded.
- d. Construction contracts for NT\$31.6 billion were not yet being completed.
- e. The Corporation and its subsidiaries entered into raw material purchase contracts with suppliers in Australia, Brazil, Canada, China, Japan, Philippines, Vietnam, Indonesia and domestic companies with contract terms of 1 to 5 years. Contracted annual purchases of 10,080,000 metric tons of coal, 23,650,000 metric tons of iron ore, and 3,520,000 metric tons of limestone are at prices negotiable with the counterparties. Purchase commitments as of December 31, 2017 were USD6.1 billion (including 9,030,000 metric tons of coal, 57,000,000 metric tons of iron ore, and 1,020,000 metric tons of limestone).
- f. Starting from August 2014, the associate Changchun CECK Auto. Parts Co., Ltd. (CCCA) entered into credit facility agreements with Taipei Fubon Bank and several banks for USD10,000 thousand (or the equal amount in EUR, the credit line remained unchanged) and USD14,000 thousand credit lines. Under the agreements, the Corporation and its associates should collectively hold at least 38% and 30% of CCCA's issued shares and one seat in the board of directors. As of December 31, 2017, the Corporation indirectly held 38% equity of CCCA and one seat in the board of directors.
- g. In November 2014, the associate Honley Auto. Parts Co., Ltd. (HAPC) entered into a construction financing agreement with Shanghai Commercial and Savings Bank for a NT\$295,000 thousand factory building loan commitment which had been transferred to long-term credit line in March 2016. Under the agreement, the Corporation and its associates should collectively hold at least 30% of HAPC's issued shares and two seats in the board of directors. As of December 31, 2017, the Corporation held 38% equity of HAPC and two seats in the board of directors.

### **35. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES**

The following information was aggregated by the foreign currencies other than functional currencies of the Corporation and its subsidiaries and the exchange rates between foreign currencies and respective functional currencies were disclosed. The significant assets and liabilities denominated in foreign currencies were as follows:

	Foreign Currencies (In Thousands)	Exchange Rate		Carrying Amount (In Thousands of New Taiwan Dollars)
<u>December 31, 2017</u>				
Monetary foreign currency assets				
USD	\$ 262,256	29.7600	(USD:NTD)	\$ 7,804,749
USD	19,305	6.5192	(USD:RMB)	574,530
USD	10,565	1.2836	(USD:AUD)	314,416
USD	8,429	4.2081	(USD:MYR)	250,859
JPY	8,067,470	0.2642	(JPY:NTD)	2,131,426
RMB	418,269	4.5650	(RMB:NTD)	1,909,400
VND	836,695,307	0.00004	(VND:USD)	995,667
EUR	15,628	35.5700	(EUR:NTD)	555,886
Non-monetary foreign currency assets				
Available-for-sale financial assets				
USD	1,190,666	29.7600	(USD:NTD)	35,434,212
JPY	7,996,000	0.2642	(JPY:NTD)	2,112,543
MYR	280,223	7.0720	(MYR:NTD)	1,981,737
RMB	30,899	4.5650	(RMB:NTD)	141,054
Associates accounted for using equity method				
USD	1,445,806	29.7600	(USD:NTD)	43,023,074
AUD	679,476	23.1850	(AUD:NTD)	15,753,650
INR	4,793,299	0.4649	(INR:NTD)	2,228,405
Monetary foreign currency liabilities				
USD	1,084,227	29.7600	(USD:NTD)	32,266,606
USD	110,000	64.0138	(USD:INR)	3,273,600
USD	17,589	6.5192	(USD:RMB)	523,441
USD	24,398	24800.0000	(USD:VND)	726,085
JPY	11,421,430	0.2642	(JPY:NTD)	3,017,542
<u>December 31, 2016</u>				
Monetary foreign currency assets				
USD	244,290	32.2500	(USD:NTD)	7,878,362
USD	18,827	6.9851	(USD:RMB)	607,164
USD	10,039	1.3850	(USD:AUD)	323,762
USD	8,914	4.6705	(USD:MYR)	287,483
USD	3,883	24,807.6923	(USD:VND)	125,226
JPY	7,729,021	0.2756	(JPY:NTD)	2,130,118
RMB	304,794	4.6170	(RMB:NTD)	1,407,236
EUR	10,559	33.9000	(EUR:NTD)	357,942
VND	1,035,080,000	0.00004	(VND:USD)	1,335,253
Non-monetary foreign currency assets				
Available-for-sale financial assets				
USD	93,665	32.2500	(USD:NTD)	3,020,686
JPY	8,832,000	0.2756	(JPY:NTD)	2,434,099
MYR	255,987	6.9050	(MYR:NTD)	1,767,588
KRW	20,541,000	0.0270	(KRW:NTD)	554,607
RMB	80,198	4.6170	(RMB:NTD)	370,272

(Continued)

	<b>Foreign Currencies (In Thousands)</b>	<b>Exchange Rate</b>		<b>Carrying Amount (In Thousands of New Taiwan Dollars)</b>
Associates accounted for using equity method				
USD	\$ 1,447,829	32.2500	(USD:NTD)	\$ 46,657,095
AUD	711,451	23.2850	(AUD:NTD)	16,566,147
INR	4,656,887	0.4762	(INR:NTD)	2,217,610
Monetary foreign currency liabilities				
USD	1,107,225	32.2500	(USD:NTD)	35,708,001
USD	110,000	67.7240	(USD:INR)	3,547,500
USD	24,279	6.9850	(USD:RMB)	782,986
USD	21,709	24,807.6923	(USD:VND)	700,127
USD	9,133	4.6710	(USD:MYR)	294,536
AUD	180,194	23.2850	(AUD:NTD)	4,195,825
JPY	11,053,025	0.2756	(JPY:NTD)	3,046,214
				(Concluded)

The total realized and unrealized foreign exchange gains were NT\$683,424 thousand and NT\$65,866 thousand for the years ended December 31, 2017 and 2016, respectively. It is impractical to disclose net foreign exchange gains and losses by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of each entity.

### 36. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. As a result, those whose nature of the products and production processes are similar have been considered single operation segments. Reported segments of the Corporation and its subsidiaries were as follows:

- Steel department - manufacture and sell steel products, including the Corporation, DSC, CHSC, CSCSSB, CSVC, CSCI, HLSC and TSC.

#### a. Segment revenues and operating results

The following is an analysis of the Corporation and its subsidiaries' revenues and results of operations by reportable segment.

	<b>Steel Department</b>	<b>Others</b>	<b>Adjustment and Elimination</b>	<b>Total</b>
<hr/> For the year ended December 31, 2017 <hr/>				
Revenues from external customers	\$ 280,433,594	\$ 66,578,408	\$ -	\$ 347,012,002
Inter-segment revenues	<u>83,222,397</u>	<u>49,759,201</u>	<u>(132,981,598)</u>	<u>-</u>
Segment revenues	<u>\$ 363,655,991</u>	<u>\$ 116,337,609</u>	<u>\$ (132,981,598)</u>	<u>\$ 347,012,002</u>

(Continued)

	<b>Steel Department</b>	<b>Others</b>	<b>Adjustment and Elimination</b>	<b>Total</b>
Segment profit	\$ 17,909,851	\$ 7,304,089	\$ (292,311)	\$ 24,921,629
Interest income	179,938	181,117	(70,837)	290,218
Financial costs	(3,141,382)	(620,430)	43,919	(3,717,893)
Share of the profit (loss) of associates	7,438,653	1,947,849	(9,710,817)	(324,315)
Other non-operating income and expenses	<u>2,394,578</u>	<u>558,787</u>	<u>(719,707)</u>	<u>2,233,658</u>
Profit before income tax	24,781,638	9,371,412	(10,749,753)	23,403,297
Income tax	<u>(1,984,831)</u>	<u>(997,609)</u>	<u>10,333</u>	<u>(2,972,107)</u>
Net profit for the year	<u>\$ 22,796,807</u>	<u>\$ 8,373,803</u>	<u>\$ (10,739,420)</u>	<u>\$ 20,431,190</u>
<u>For the year ended December 31, 2016</u>				
Revenues from external customers	\$ 230,821,150	\$ 62,234,654	\$ -	\$ 293,055,804
Inter-segment revenues	<u>60,496,533</u>	<u>40,341,630</u>	<u>(100,838,163)</u>	<u>-</u>
Segment revenues	<u>\$ 291,317,683</u>	<u>\$ 102,576,284</u>	<u>\$(100,838,163)</u>	<u>\$ 293,055,804</u>
Segment profit	\$ 18,553,416	\$ 6,655,435	\$ 222,770	\$ 25,431,621
Interest income	205,861	174,635	(62,556)	317,940
Financial costs	(3,346,114)	(507,080)	36,553	(3,816,641)
Share of the profit (loss) of associates	5,839,250	458,136	(6,961,268)	(663,882)
Other non-operating income and expenses	<u>1,004,649</u>	<u>322,026</u>	<u>(696,546)</u>	<u>630,129</u>
Profit before income tax	22,257,062	7,103,152	(7,461,047)	21,899,167
Income tax	<u>(1,842,915)</u>	<u>(833,029)</u>	<u>(35,899)</u>	<u>(2,711,843)</u>
Net profit for the year	<u>\$ 20,414,147</u>	<u>\$ 6,270,123</u>	<u>\$ (7,496,946)</u>	<u>\$ 19,187,324</u> (Concluded)

Inter-segment revenues were accounted for according to market price or cost-plus pricing.

Segment profit represented the profit from operations earned by each segment and was the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

b. Segment total assets and liabilities

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
<u>Segment assets</u>		
Steel department	\$ 722,336,406	\$ 728,761,785
Others	237,018,165	237,849,833
Adjustment and elimination	<u>(291,638,692)</u>	<u>(290,489,825)</u>
Consolidated total assets	<u>\$ 667,715,879</u>	<u>\$ 676,121,793</u>
<u>Segment liabilities</u>		
Steel department	\$ 281,461,836	\$ 293,415,373
Others	76,873,211	73,719,248
Adjustment and Elimination	<u>(22,571,155)</u>	<u>(20,592,521)</u>
Consolidated total liabilities	<u>\$ 335,763,892</u>	<u>\$ 346,542,100</u>

c. Revenues from major products and services

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

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Steel products	\$ 287,137,194	\$ 234,621,561
Non-ferrous materials	32,255,497	28,975,673
Construction contract revenues	17,496,736	19,760,229
Freight and service revenues	6,936,438	7,254,353
Others	<u>3,186,137</u>	<u>2,443,988</u>
	<u>\$ 347,012,002</u>	<u>\$ 293,055,804</u>

d. Geographical information

The Corporation and its subsidiaries operate in five principal geographical areas - Taiwan, Malaysia, China, Vietnam and India.

The Corporation and its subsidiaries' revenues from continuing operations from external customers and information about its non-current assets by geographical location were detailed below:

	<b>Revenues from External Customers</b>		<b>Noncurrent Assets</b>	
	<b>For the Year Ended December 31</b>		<b>December 31</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Taiwan	\$ 303,319,159	\$ 258,526,517	\$ 393,562,138	\$ 404,952,118
Vietnam	20,361,997	16,569,248	15,556,015	18,030,115
Malaysia	8,922,984	7,727,096	1,885,363	1,988,172
China	7,791,599	5,965,053	3,634,948	3,952,537
India	3,711,027	1,935,617	5,455,860	5,557,033
Others	<u>2,905,236</u>	<u>2,332,273</u>	<u>12,009,842</u>	<u>14,259,749</u>
	<u>\$ 347,012,002</u>	<u>\$ 293,055,804</u>	<u>\$ 432,104,166</u>	<u>\$ 448,739,724</u>

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

e. Information about major customers

No revenue from any individual customer exceeds 10% of the Corporation and its subsidiaries' total revenues for the years ended December 31, 2017 and 2016.

## **China Steel Corporation**

**Standalone Financial Statements for the  
Years Ended December 31, 2017 and 2016 and  
Independent Auditors' Report**

## **INDEPENDENT AUDITORS' REPORT**

China Steel Corporation

### **Opinion**

We have audited the accompanying standalone financial statements of China Steel Corporation (the Corporation), which comprise the standalone balance sheets as of December 31, 2017 and 2016, and the standalone statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the standalone financial statements, including a summary of significant accounting policies.

In our opinion, based on our audits and the report of other independent auditors (refer to other matter paragraph below), the accompanying standalone financial statements present fairly, in all material respects, the standalone financial position of the Corporation as of December 31, 2017 and 2016, and its standalone financial performance and its standalone cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

### **Basis for Opinion**

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Standalone Financial Statements section of our report. We are independent of the Corporation in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Based on our audits and the report of other independent auditors, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the standalone financial statements for the year ended December 31, 2017. These matters were addressed in the context of our audit of the standalone financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters of the Corporation's standalone financial statements for the year ended December 31, 2017 are stated as follows:

#### Inventory Valuation

As of December 31, 2017, inventories of the Corporation amounted to NT\$48,024,231 thousand, representing 10% of the Corporation's total assets. Due to the drastic fluctuations in the prices of raw materials and finished goods in steel industry and inventory valuation involved critical accounting estimates, inventory valuation is deemed to be a key audit matter. Refer to Notes 4 and 10 to the Corporation's financial statements for the related accounting policies and disclosures of inventory valuation.

We focused on inventory valuation and the audit procedures we performed included:

1. We evaluated the appropriateness of the approach applied to the inventory valuation.
2. We verified the completeness of inventory included in inventory valuation.
3. We tested the net realizable value of inventory items on a sample basis, and evaluated the underlying assumptions and supporting documents, re-performed and calculated the appropriateness of net realizable value and the value written-off.

#### Valuation of Available-For-Sale Financial Assets - Formosa Ha Tinh (Cayman) Limited

As of December 31, 2017, through its subsidiary, China Steel Asia Pacific Holdings Pte Ltd., the Corporation invested in Formosa Ha Tinh (Cayman) Limited the amount of NT\$31,471,200 thousand, representing 7% of the Corporation's total assets. Such investment is unlisted investment. The Corporation hired an appraiser who composed the valuation report used as the basis for determining the fair value of the investment. The appraiser adopted income approach, and used as basis the income data of Formosa Ha Tinh Steel Corporation, a wholly - owned subsidiary of Formosa Ha Tinh (Cayman) Limited. The valuation model involved various assumptions and unobservable inputs, including the future profitability, the estimation of future cash flows, revenue growth rate, and rate of return to Formosa Ha Tinh Steel Corporation. As a result, the fair value of the investment in Formosa Ha Tinh (Cayman) Limited is deemed to be a key audit matter. Refer to Note 4 to the Corporation's financial statements for the related accounting policies on valuation of financial assets.

The audit procedures we performed included:

1. We assessed the professional qualifications, competence, objectivity and independence of the appraiser hired by the Corporation.
2. We discussed with the management the scope of work performed by the independent appraiser, reviewed the contract terms and conditions signed by the Corporation and the appraiser, and we identified no concerns over the appraiser's objectivity or any restriction imposed on the scope of the work.
3. We confirmed the valuation method the independent appraiser adopted is complied with IFRSs.
4. We reviewed the reasonableness of financial forecasts the independent appraiser adopted.

We also consulted our internal valuation experts in the assessment of the appropriateness of the appraisal and in verifying the key assumptions and the reasonableness of key inputs, including weighted average cost of capital and discount rate.

#### **Other Matter**

Certain investments accounted for using the equity method in the Corporation's financial statements as of December 31, 2016 and for the years ended December 31, 2017 and 2016 were based on financial statements audited by other independent auditors. Such investments accounted for using the equity method amounted to NT\$34,874,658 thousand, representing 7% of the Corporation's total assets, as of December 31, 2016, and the share of comprehensive income amounted to loss NT\$875,298 thousand and NT\$969,122 thousand, representing both 6% of the Corporation's total comprehensive income, for the years ended December 31, 2017 and 2016.

#### **Responsibilities of Management and Those Charged with Governance for the Standalone Financial Statements**

Management is responsible for the preparation and fair presentation of the standalone financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers, and for

such internal control as management determines is necessary to enable the preparation of the Corporation's financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the standalone financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including the audit committee, are responsible for overseeing the Corporation's financial reporting process.

### **Auditors' Responsibilities for the Audit of the Standalone Financial Statements**

Our objectives are to obtain reasonable assurance about whether the standalone financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these standalone financial statements.

As part of an audit in accordance with the auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the standalone financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the standalone financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the standalone financial statements, including the disclosures, and whether the standalone financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Corporation to express an opinion on the standalone financial statements. We are responsible for the direction, supervision, and performance of the Corporation audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the standalone financial statements for the year ended December 31, 2017 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Lee-Yuan Kuo and Cheng-Hung Kuo.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

March 28, 2018

#### Notice to Readers

*The accompanying standalone financial statements are intended only to present the standalone financial position, financial performance 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 standalone financial statements are those generally applied in the Republic of China.*

*For the convenience of readers, the independent auditors' report and the accompanying standalone 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 independent auditors' report and standalone financial statements shall prevail. Also, as stated in Note 4 to the financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.*

# CHINA STEEL CORPORATION

## STANDALONE BALANCE SHEETS (In Thousands of New Taiwan Dollars)

ASSETS	December 31, 2017		December 31, 2016		LIABILITIES AND EQUITY	December 31, 2017		December 31, 2016	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash and cash equivalents (Notes 4 and 6)	\$ 2,923,910	1	\$ 2,477,746	1	Short-term borrowings and bank overdraft (Notes 16, 28 and 29)	\$ 10,722,766	2	\$ 8,851,509	2
Available-for-sale financial assets - current (Notes 4 and 7)	111,603	-	780,716	-	Short-term bills payable (Note 16)	6,296,753	1	-	-
Derivative financial assets for hedging - current (Notes 4 and 8)	44,469	-	32,094	-	Derivative financial liabilities for hedging - current (Notes 4 and 8)	20,674	-	8,965	-
Notes receivable (Notes 4 and 9)	681,901	-	472,193	-	Accounts payable	4,145,456	1	4,142,060	1
Notes receivable - related parties (Notes 4, 9 and 28)	223,073	-	324,457	-	Accounts payable - related parties (Note 28)	1,813,858	-	969,388	-
Accounts receivable, net (Notes 4 and 9)	2,246,631	1	1,257,657	-	Other payables (Notes 18 and 28)	16,253,268	3	14,929,164	3
Accounts receivable - related parties (Notes 4, 9 and 28)	2,526,127	1	1,815,399	-	Current tax liabilities (Note 24)	2,103,954	1	1,529,584	-
Other receivables	805,299	-	1,139,592	-	Provisions - current (Notes 4 and 19)	2,239,559	1	2,404,802	1
Other receivables - loans to related parties (Note 28)	7,356,950	2	7,211,809	2	Current portion of bonds payable (Note 17)	7,698,974	2	5,199,253	1
Inventories (Notes 4, 5 and 10)	48,024,231	10	42,506,461	9	Current portion of long-term bank borrowings (Note 16)	9,860,615	2	4,195,825	1
Other financial assets - current (Notes 4, 13 and 29)	6,869,408	1	6,622,457	2	Other current liabilities	3,910,313	1	3,325,849	1
Other current assets	1,889,815	-	818,410	-					
<b>Total current assets</b>	<b>73,703,417</b>	<b>16</b>	<b>65,458,991</b>	<b>14</b>	<b>Total current liabilities</b>	<b>65,066,190</b>	<b>14</b>	<b>45,556,399</b>	<b>10</b>
<b>NONCURRENT ASSETS</b>					<b>NONCURRENT LIABILITIES</b>				
Available-for-sale financial assets - noncurrent (Notes 4, 5 and 7)	16,418,690	3	15,551,376	3	Derivative financial liabilities for hedging - noncurrent (Notes 4 and 8)	8,112	-	6,904	-
Derivative financial assets for hedging - noncurrent (Notes 4 and 8)	12,583	-	2,142	-	Bonds payable (Note 17)	59,967,190	13	67,657,491	15
Debt investments with no active market - noncurrent (Notes 4 and 11)	1,761,421	-	1,837,425	-	Long-term bank borrowings (Note 16)	20,653,020	5	32,950,349	7
Investments accounted for using equity method (Notes 4 and 12)	207,523,641	44	208,545,541	44	Long-term bills payable (Note 16)	5,899,102	1	5,899,355	1
Property, plant and equipment (Notes 4, 14 and 28)	162,042,223	34	167,632,162	36	Deferred tax liabilities (Notes 4 and 24)	10,715,281	2	10,799,579	2
Investment properties (Notes 4 and 15)	7,129,792	2	7,127,220	2	Net defined benefit liabilities (Notes 4 and 20)	6,048,974	1	4,785,826	1
Intangible assets	44,810	-	54,785	-	Other noncurrent liabilities	59,580	-	59,580	-
Deferred tax assets (Notes 4 and 24)	3,371,609	1	2,936,474	1	<b>Total noncurrent liabilities</b>	<b>103,351,259</b>	<b>22</b>	<b>122,159,084</b>	<b>26</b>
Refundable deposits (Note 4)	100,092	-	55,688	-	<b>Total liabilities</b>	<b>168,417,449</b>	<b>36</b>	<b>167,715,483</b>	<b>36</b>
Other financial assets - noncurrent (Notes 4 and 13)	319,234	-	1,073,565	-	<b>EQUITY (Notes 4 and 21)</b>				
<b>Total noncurrent assets</b>	<b>398,724,095</b>	<b>84</b>	<b>404,816,378</b>	<b>86</b>	Share capital				
					Ordinary shares	157,348,610	33	157,348,610	33
					Preference shares	382,680	-	382,680	-
					Total share capital	157,731,290	33	157,731,290	33
					Capital surplus	38,211,082	8	37,807,466	8
					Retained earnings				
					Legal reserve	61,538,216	13	59,934,379	13
					Special reserve	27,655,869	6	29,786,846	6
					Unappropriated earnings	20,033,060	4	17,196,041	4
					Total retained earnings	109,227,145	23	106,917,266	23
					Other equity	7,372,935	2	8,680,706	2
					Treasury shares	(8,532,389)	(2)	(8,576,842)	(2)
					<b>Total equity</b>	<b>304,010,063</b>	<b>64</b>	<b>302,559,886</b>	<b>64</b>
<b>TOTAL</b>	<b>\$ 472,427,512</b>	<b>100</b>	<b>\$ 470,275,369</b>	<b>100</b>	<b>TOTAL</b>	<b>\$ 472,427,512</b>	<b>100</b>	<b>\$ 470,275,369</b>	<b>100</b>

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

(With Deloitte & Touche audit report dated March 28, 2018)

# CHINA STEEL CORPORATION

## STANDALONE STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Year Ended December 31			
	2017		2016	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 4, 22 and 28)	\$ 207,098,630	100	\$ 168,927,075	100
OPERATING COSTS (Notes 10 and 28)	<u>187,568,805</u>	<u>90</u>	<u>147,174,784</u>	<u>87</u>
GROSS PROFIT	19,529,825	10	21,752,291	13
REALIZED (UNREALIZED) GAIN ON TRANSACTIONS WITH SUBSIDIARIES AND ASSOCIATES	<u>147,162</u>	<u>-</u>	<u>(384,546)</u>	<u>(1)</u>
REALIZED GROSS PROFIT	<u>19,676,987</u>	<u>10</u>	<u>21,367,745</u>	<u>12</u>
OPERATING EXPENSES				
Selling and marketing expenses	2,836,946	1	2,725,816	2
General and administrative expenses	3,544,812	2	3,716,730	2
Research and development expenses	<u>1,720,185</u>	<u>1</u>	<u>1,844,055</u>	<u>1</u>
Total operating expenses	<u>8,101,943</u>	<u>4</u>	<u>8,286,601</u>	<u>5</u>
PROFIT FROM OPERATIONS	<u>11,575,044</u>	<u>6</u>	<u>13,081,144</u>	<u>7</u>
NON-OPERATING INCOME AND EXPENSES				
Other income (Notes 23 and 28)	1,383,476	1	1,322,937	1
Other gains and losses (Notes 23 and 28)	268,918	-	(34,229)	-
Finance costs (Notes 23 and 28)	(1,919,054)	(1)	(1,990,052)	(1)
Share of profit of subsidiaries and associates	<u>7,212,280</u>	<u>3</u>	<u>5,653,411</u>	<u>3</u>
Total non-operating income and expenses	<u>6,945,620</u>	<u>3</u>	<u>4,952,067</u>	<u>3</u>
PROFIT BEFORE INCOME TAX	18,520,664	9	18,033,211	10
INCOME TAX EXPENSE (Notes 4 and 24)	<u>1,615,076</u>	<u>1</u>	<u>1,994,842</u>	<u>1</u>
NET PROFIT FOR THE YEAR	<u>16,905,588</u>	<u>8</u>	<u>16,038,369</u>	<u>9</u>
OTHER COMPREHENSIVE INCOME (LOSS) (Notes 4, 20, 21 and 24)				
Items that will not be reclassified subsequently to profit or loss				
Remeasurement of defined benefit plans	(1,179,124)	-	(657,109)	-

(Continued)

# CHINA STEEL CORPORATION

## STANDALONE STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Year Ended December 31			
	2017		2016	
	Amount	%	Amount	%
Share of the other comprehensive income of subsidiaries and associates	\$ (188,829)	-	\$ (298,416)	-
Income tax benefit relating to items that will not be reclassified subsequently to profit or loss	200,451	-	111,708	-
Items that may be reclassified subsequently to profit or loss				
Exchange differences on translating foreign operations	(1,726,614)	(1)	(867,506)	(1)
Unrealized gain and losses on available-for-sale financial assets	895,527	-	2,933,162	2
The effective portion of gains and losses on hedging instruments in a cash flow hedge	(30,552)	-	(69,360)	-
Share of the other comprehensive income of subsidiaries and associates	(451,326)	-	(1,251,789)	(1)
Income tax benefit relating to items that may be reclassified subsequently to profit or loss	<u>5,194</u>	<u>-</u>	<u>11,791</u>	<u>-</u>
Other comprehensive loss for the year, net of income tax	<u>(2,475,273)</u>	<u>(1)</u>	<u>(87,519)</u>	<u>-</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<u>\$ 14,430,315</u>	<u>7</u>	<u>\$ 15,950,850</u>	<u>9</u>
<b>EARNINGS PER SHARE (Note 25)</b>				
Basic	<u>\$ 1.09</u>		<u>\$ 1.04</u>	
Diluted	<u>\$ 1.09</u>		<u>\$ 1.03</u>	

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

(With Deloitte & Touche audit report dated March 28, 2018)

(Concluded)

# CHINA STEEL CORPORATION

## STANDALONE STATEMENTS OF CHANGES IN EQUITY (In Thousands of New Taiwan Dollars, Except Dividends Per Share)

	Share Capital		Capital Surplus	Retained Earnings			Other Equity			Total Other Equity	Treasury Shares	Total Equity
	Ordinary Shares	Preference Shares		Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized Gains and Losses on Available-for-sale Financial Assets	The Effective Portion of Gains and Losses on Hedging Instruments in a Cash Flow Hedge			
BALANCE AT JANUARY 1, 2016	\$ 157,348,610	\$ 382,680	\$ 37,612,027	\$ 59,173,907	\$ 27,132,983	\$ 13,323,848	\$ 1,198,796	\$ 6,573,348	\$ 152,264	\$ 7,924,408	\$ (8,577,644)	\$ 294,320,819
Appropriation of 2015 earnings (Note 21)												
Legal reserve	-	-	-	760,472	-	(760,472)	-	-	-	-	-	-
Special reserve	-	-	-	-	2,654,116	(2,654,116)	-	-	-	-	-	-
Cash dividends to ordinary shareholders - NT\$0.5 per share	-	-	-	-	-	(7,867,430)	-	-	-	-	-	(7,867,430)
Cash dividends to preference shareholders - NT\$1.4 per share	-	-	-	-	-	(53,575)	-	-	-	-	-	(53,575)
Reversal of special reserve	-	-	-	-	(253)	253	-	-	-	-	-	-
Net profit for the year ended December 31, 2016	-	-	-	-	-	16,038,369	-	-	-	-	-	16,038,369
Other comprehensive income (loss) for the year ended December 31, 2016, net of income tax	-	-	-	-	-	(843,817)	(1,230,844)	2,077,225	(90,083)	756,298	-	(87,519)
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	-	-	15,194,552	(1,230,844)	2,077,225	(90,083)	756,298	-	15,950,850
Adjustment to capital surplus arising from dividends paid to subsidiaries	-	-	159,065	-	-	-	-	-	-	-	-	159,065
Adjustment from changes in equity of subsidiaries and associates	-	-	36,374	-	-	12,981	-	-	-	-	802	50,157
BALANCE AT DECEMBER 31, 2016	157,348,610	382,680	37,807,466	59,934,379	29,786,846	17,196,041	(32,048)	8,650,573	62,181	8,680,706	(8,576,842)	302,559,886
Appropriation of 2016 earnings (Note 21)												
Legal reserve	-	-	-	1,603,837	-	(1,603,837)	-	-	-	-	-	-
Reversal of special reserve	-	-	-	-	(2,130,614)	2,130,614	-	-	-	-	-	-
Cash dividends to ordinary shareholders - NT\$0.85 per share	-	-	-	-	-	(13,374,632)	-	-	-	-	-	(13,374,632)
Cash dividends to preference shareholders - NT\$1.4 per share	-	-	-	-	-	(53,575)	-	-	-	-	-	(53,575)
Reversal of special reserve	-	-	-	-	(363)	363	-	-	-	-	-	-
Net profit for the year ended December 31, 2017	-	-	-	-	-	16,905,588	-	-	-	-	-	16,905,588
Other comprehensive income (loss) for the year ended December 31, 2017, net of income tax	-	-	-	-	-	(1,167,502)	(2,078,545)	964,290	(193,516)	(1,307,771)	-	(2,475,273)
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	-	15,738,086	(2,078,545)	964,290	(193,516)	(1,307,771)	-	14,430,315
Purchase of the Corporation's shares by subsidiaries	-	-	-	-	-	-	-	-	-	-	(19,595)	(19,595)
Disposal of the Corporation's shares held by subsidiaries	-	-	28,066	-	-	-	-	-	-	-	64,048	92,114
Adjustment to capital surplus arising from dividends paid to subsidiaries	-	-	267,245	-	-	-	-	-	-	-	-	267,245
Adjustment from changes in equity of subsidiaries and associates	-	-	108,305	-	-	-	-	-	-	-	-	108,305
BALANCE AT DECEMBER 31, 2017	\$ 157,348,610	\$ 382,680	\$ 38,211,082	\$ 61,538,216	\$ 27,655,869	\$ 20,033,060	\$ (2,110,593)	\$ 9,614,863	\$ (131,335)	\$ 7,372,935	\$ (8,532,389)	\$ 304,010,063

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

(With Deloitte & Touche audit report dated March 28, 2018)

# CHINA STEEL CORPORATION

## STANDALONE STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before income tax	\$ 18,520,664	\$ 18,033,211
Adjustments for:		
Depreciation	17,394,877	18,409,717
Amortization	9,975	10,951
Finance costs	1,919,054	1,990,052
Interest income	(146,636)	(124,145)
Dividend income	(335,909)	(350,156)
Share of profit of subsidiaries and associates	(7,212,280)	(5,653,411)
Loss on disposal of property, plant and equipment	9,721	21,862
Gain on disposal of investments	(771,464)	(603,519)
Impairment loss recognized on financial assets	532,792	488,299
Impairment loss recognized on nonfinancial assets	40,311	-
Reversal of loss on inventories	(551,871)	(2,919,280)
Unrealized (realized) gain on the transactions with subsidiaries and associates	(147,162)	384,546
Recognition of provisions	7,190,968	7,252,605
Others	49,800	4,461
Changes in operating assets and liabilities		
Notes receivable	(209,708)	(28,817)
Notes receivable - related parties	101,384	(126,058)
Accounts receivable	(988,974)	(354,531)
Accounts receivable - related parties	(710,728)	(1,128,653)
Other receivables	321,472	(516,076)
Inventories	(4,988,766)	(1,913,314)
Other current assets	(1,071,405)	170,378
Accounts payable	3,396	2,084,866
Accounts payable - related parties	844,470	611,935
Other payables	1,377,976	2,647,544
Provisions	(7,356,211)	(6,547,481)
Other current liabilities	584,464	382,509
Net defined benefit liabilities	84,024	71,415
Other noncurrent liabilities	-	340
Cash generated from operations	24,494,234	32,299,250
Income taxes paid	(1,355,517)	(821,131)
Net cash generated from operating activities	<u>23,138,717</u>	<u>31,478,119</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of available-for-sale financial assets	-	(193,268)
Proceeds from disposal of available-for-sale financial assets	841,250	649,443
Proceeds from the capital reduction on available-for-sale financial assets	1,284	2,267

(Continued)

# CHINA STEEL CORPORATION

## STANDALONE STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars)

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Proceeds from the capital reduction on investment accounted for using equity method	\$ -	\$ 999,968
Acquisition of investments accounted for using equity method	(779,498)	(11,426,350)
Acquisition of property, plant and equipment	(11,701,039)	(10,152,877)
Proceeds from disposal of property, plant and equipment	419	-
Increase in refundable deposits	(44,404)	(11,605)
Increase in other receivables - loans to related parties	(145,141)	(1,321,809)
Decrease (increase) in other financial assets	466,929	(941,687)
Interest received	144,903	124,587
Dividends received from subsidiaries and associates	4,963,105	4,993,852
Other dividends received	<u>350,463</u>	<u>335,602</u>
Net cash used in investing activities	<u>(5,901,729)</u>	<u>(16,941,877)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from short-term borrowings	17,971,900	15,500,000
Repayments of short-term borrowings	(16,590,000)	(16,725,401)
Increase in share-term bills payable	122,646,753	142,052,986
Decrease in short-term bills payable	(116,350,000)	(154,900,000)
Proceeds from long-term bills payable	-	5,899,355
Repayments of bonds payable	(5,200,000)	(4,650,000)
Proceeds from long-term borrowings	-	14,817,064
Repayments of long-term borrowings	(4,242,113)	(10,139,862)
Dividends paid	(13,428,207)	(7,911,996)
Interest paid	<u>(2,088,514)</u>	<u>(2,129,360)</u>
Net cash used in financing activities	<u>(17,280,181)</u>	<u>(18,187,214)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(43,193)	(3,650,972)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>872,415</u>	<u>4,523,387</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 829,222</u>	<u>\$ 872,415</u>
Reconciliation of the amounts in the standalone statements of cash flows with the equivalent items reported in the standalone balance sheets as of December 31, 2017 and 2016:		
Cash and cash equivalents in the standalone balance sheets	\$ 2,923,910	\$ 2,477,746
Bank overdraft	<u>(2,094,688)</u>	<u>(1,605,331)</u>
Cash and cash equivalents in the standalone statements of cash flows	<u>\$ 829,222</u>	<u>\$ 872,415</u>

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

(With Deloitte & Touche audit report dated March 28, 2018)

(Concluded)

# CHINA STEEL CORPORATION

## NOTES TO STANDALONE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

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### 1. GENERAL INFORMATION

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

The shares of the Corporation have been listed on the Taiwan Stock Exchange since December 1974. As of December 31, 2017, the Ministry of Economic Affairs (MOEA), Republic of China owned 20.05% of the Corporation's issued ordinary shares.

The standalone financial statements are presented in the Corporation's functional currency, New Taiwan dollars.

### 2. APPROVAL OF FINANCIAL STATEMENTS

The standalone financial statements were approved by the board of directors and authorized for issue on March 28, 2018.

### 3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS

- a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively, the IFRSs) endorsed and issued into effect by the Financial Supervisory Commission (FSC)

Except for the following, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC did not have any material impact on the Corporation's accounting policies:

- 1) Amendments to IAS 36 "Impairment of Assets"

The amendments "Disclosures for Non-financial Assets" clarifies that the recoverable amount of an asset or a cash-generating unit is disclosed only when an impairment loss on the asset has been recognized or reversed during the period. Furthermore, if the recoverable amount of an item of property, plant and equipment for which impairment loss has been recognized or reversed is the fair value less costs of disposal, the Corporation is required to disclose the fair value hierarchy. If the fair value measurements are categorized within Level 2 or Level 3, the valuation technique and key assumptions used to measure the fair value are disclosed. The discount rate used is disclosed if such fair value less costs of disposal is measured by using the present value technique. The amendments should be applied retrospectively starting from January 1, 2017.

- 2) Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers

The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed and issued into effect by the FSC. In addition, as a result of the post implementation review of IFRSs in Taiwan, the

amendments also include an emphasis on certain recognition and measurement considerations and add requirements for disclosures of related party transactions and goodwill.

The amendments stipulate that other companies or institutions of which the chairman of the board of directors or president serves as the chairman of the board of directors or the president of the Corporation, or is the spouse or second immediate family of the chairman of the board of directors or president of the Corporation, are deemed to have a substantive related party relationship, unless it can be demonstrated that no control, joint control, or significant influence exists. Furthermore, the amendments require the disclosure of the names of the related parties and the relationships with whom the Corporation has significant transactions. If the transaction amount or balance with a specific related party is 10% or more of the Corporation's respective total transaction amount or balance, such transactions should be separately disclosed by the name of each related party.

When the amendments are applied retrospectively from January 1, 2017, the disclosures of related party transactions are enhanced. Refer to Note 28 for the related disclosures.

The initial application of above amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC did not have material impact on the Corporation.

- b. The Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed by the FSC for application starting from 2018

<b>New IFRSs</b>	<b>Effective Date Announced by IASB (Note 1)</b>
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendments to IFRS 2 "Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
Amendments to IFRS 9 and IFRS 7 "Mandatory Effective Date of IFRS 9 and Transition Disclosures"	January 1, 2018
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendments to IFRS 15 "Clarifications to IFRS 15 Revenue from Contracts with Customers"	January 1, 2018
Amendment to IAS 7 "Disclosure Initiative"	January 1, 2017
Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of Investment Property"	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The amendment to IFRS 12 is retrospectively applied for annual periods beginning on or after January 1, 2017; the amendments to IAS 28 are retrospectively applied for annual periods beginning on or after January 1, 2018.

- 1) IFRS 9 "Financial Instruments" and related amendments

Classification, measurement and impairment of financial assets

With regard to financial assets, all recognized financial assets that are within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at amortized cost or fair value. Under IFRS 9, the requirement for the classification of financial assets is stated

below.

For the Corporation's debt instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, their classification and measurement are as follows:

- a) If they are held within a business model whose objective is to collect contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with any impairment loss recognized in profit or loss. Interest revenue is recognized in profit or loss by using the effective interest method;
- b) If they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the financial assets are measured at fair value through other comprehensive income (FVTOCI) and are assessed for impairment. Interest revenue is recognized in profit or loss by using the effective interest method, and other gains or losses shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the debt instruments are derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

Except for the above, all other financial assets are measured at fair value through profit or loss. However, the Corporation may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss. No subsequent impairment assessment is required, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

The Corporation analyzed the facts and circumstances of its financial assets that exist at December 31, 2017 and performed the assessment of the impact of IFRS 9 on the classification and measurement of financial assets. Under IFRS 9:

- a) Listed shares, emerging market shares, and unlisted shares classified as available-for-sale will be designated as at fair value through other comprehensive income and the fair value gains or losses accumulated in other equity will be transferred directly to retained earnings instead of being reclassified to profit or loss on disposal.
- b) Debt investments classified as debt investments with no active market and measured at amortized cost will be classified as at fair value through profit or loss under IFRS 9, because on initial recognition, the contractual cash flows are not solely payments of principal and interest on the principal outstanding.

IFRS 9 requires impairment loss on financial assets to be recognized by using the "Expected Credit Losses Model". A loss allowance is required for financial assets measured at amortized cost, lease receivables, contract assets arising from IFRS 15 "Revenue from Contracts with Customers", certain written loan commitments and financial guarantee contracts. A loss allowance for 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since initial recognition. A loss allowance for full-lifetime expected credit losses is required for a financial asset if its credit risk has increased significantly since initial recognition and is not low. However, a loss allowance for full-lifetime expected credit losses is required for accounts receivable that do not constitute a financing transaction.

For originated credit-impaired financial assets, the Corporation takes into account the expected credit losses on initial recognition in calculating the credit-adjusted effective interest rate. Subsequently, any changes in expected losses are recognized as a loss allowance with a corresponding gain or loss recognized in profit or loss.

The Corporation has performed a preliminary assessment in which it will apply the simplified approach to recognize full-lifetime expected credit losses for accounts receivable, contract assets and lease receivables. In relation to financial guarantee contracts, the Corporation will assess whether there has been a significant increase in credit risk to determine whether to recognize 12-month or full-lifetime expected credit losses.

The Corporation elects not to restate prior reporting periods when applying the requirements for the classification, measurement and impairment of financial assets under IFRS 9 with the cumulative effect of the initial application recognized at the date of initial application.

The anticipated impact on assets, liabilities and equity of retrospective application of the requirements for the classification, measurement and impairment of financial assets on January 1, 2018 is set out below:

	<b>Carrying Amount as of December 31, 2017</b>	<b>Adjustments Arising from Initial Application</b>	<b>Adjusted Carrying Amount as of January 1, 2018</b>
<u>Impact on assets, liabilities and equity</u>			
Financial assets at fair value through other comprehensive income - current	\$ -	\$ 111,603	\$ 111,603
Available-for-sale financial assets - current	111,603	(111,603)	-
Derivative financial assets for hedging - current	44,469	(44,469)	-
Financial assets for hedging - current	-	963,877	963,877
Other financial assets - current	6,869,408	(919,408)	5,950,000
Financial assets at fair value through profit or loss - noncurrent	-	1,556,068	1,556,068
Financial assets at fair value through other comprehensive income - noncurrent	-	16,418,690	16,418,690
Available-for-sale financial assets - noncurrent	16,418,690	(16,418,690)	-
Derivative financial assets for hedging - noncurrent	12,583	(12,583)	-
Financial assets for hedging - noncurrent	-	12,583	12,583
Debt investments with no active market - noncurrent	1,761,421	(1,761,421)	-
Investments accounted for using equity method	207,523,641	686	207,524,327
Deferred tax assets	<u>3,371,609</u>	<u>(217,793)</u>	<u>3,153,816</u>
Total effect on assets	<u>\$ 236,113,424</u>	<u>\$ (422,460)</u>	<u>\$ 235,690,964</u>
Derivative financial liabilities for hedging - current	\$ 20,674	\$ (20,674)	\$ -
Financial liabilities for hedging - current	-	9,881,289	9,881,289
Current portion of long-term bank borrowings	9,860,615	(9,860,615)	-

(Continued)

	Carrying Amount as of December 31, 2017	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2018
Derivative financial liabilities for hedging			
- noncurrent	\$ 8,112	\$ (8,112)	\$ -
Financial liabilities for hedging - noncurrent	-	20,661,132	20,661,132
Long-term bank borrowings	20,653,020	(20,653,020)	-
Deferred tax liabilities	<u>10,715,281</u>	<u>(407)</u>	<u>10,714,874</u>
Total effect on liabilities	<u>\$ 41,257,702</u>	<u>\$ (407)</u>	<u>\$ 41,257,295</u>
Retained earnings	\$ 109,227,145	\$ 3,842,218	\$ 113,069,363
Exchange differences on translating foreign operations	(2,110,593)	(4,005,260)	(6,115,853)
Unrealized gains and losses on financial assets at fair value through other comprehensive income	-	5,251,741	5,251,741
Unrealized gains and losses on available-for-sale financial assets	9,614,863	(9,614,863)	-
The effective portion of gains and losses on hedging instruments in a cash flow hedge	(131,335)	131,335	-
Gains and losses on hedging instruments	<u>-</u>	<u>3,972,776</u>	<u>3,972,776</u>
Total effect on equity	<u>\$ 116,600,080</u>	<u>\$ (422,053)</u>	<u>\$ 116,178,027</u> (Concluded)

#### Hedge accounting

The main changes in hedge accounting amended the application requirements for hedge accounting to better reflect an entity's risk management activities. Compared with IAS 39, the main changes include: (1) enhancing types of transactions eligible for hedge accounting, specifically broadening the risks eligible for hedge accounting of non-financial items; (2) changing the way the hedging cost of derivative instruments are accounted for to reduce profit or loss volatility; and (3) replacing retrospective effectiveness assessment with the principle of economic relationship between the hedging instrument and the hedged item. The assessment of the Corporation's current hedging relationships indicates that they will qualify as continuing hedging relationships upon application of IFRS 9.

#### 2) IFRS 15 "Revenue from Contracts with Customers" and related amendments

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersede IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations.

When applying IFRS 15, the Corporation recognizes revenue by applying the following steps:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;

- Allocate the transaction price to the performance obligations in the contract; and
- Recognize revenue when the Corporation satisfies a performance obligation.

In identifying performance obligations, IFRS 15 and related amendment require that a good or service is distinct if it is capable of being distinct (for example, the Corporation regularly sells it separately) and the promise to transfer it is distinct within the context of the contract (i.e. the nature of the promise in the contract is to transfer each of those goods or services individually rather than to transfer combined items).

For the manufacturing of customer-specific goods, if the customer controls the goods when they are created or enhanced, and the customer would compensate the Corporation to recover the costs incurred plus a reasonable profit margin whenever the contract is terminated by the customer, revenue will be recognized over time under IFRS 15. Currently, the Corporation recognizes revenue when goods are delivered.

Under IFRS 15, the net effect of revenue recognized and consideration received and receivable is recognized as a contract asset or a contract liability. Currently, the net effect of the progress billings, cost incurred and recognized profit (loss) of a construction contract is recognized as amounts due from (to) customers for construction contracts under IAS 11.

If the contract with the customer becomes onerous, the Corporation will recognize provisions for onerous contracts. Currently, the expected loss on construction contracts is recognized and adjusted to amounts due from (to) customers for construction contracts under IAS 11.

The Corporation elects to retrospectively apply IFRS 15 to contracts that are not complete on January 1, 2018 and recognize the cumulative effect of the change in retained earnings on January 1, 2018. In addition, the Corporation will disclose the difference between the amount that results from applying IFRS 15 and the amount that results from applying current standards for 2018.

The anticipated impact on assets, liabilities and equity when retrospectively applying IFRS 15 on January 1, 2018 is set out below:

	<b>Carrying Amount as of December 31, 2017</b>	<b>Adjustments Arising from Initial Application</b>	<b>Adjusted Carrying Amount as of January 1, 2018</b>
Effect on assets - contract assets - current	\$ -	\$ 67,555	\$ 67,555
Contract liabilities - current	\$ -	\$ 2,543,412	\$ 2,543,412
Other payables	16,253,268	(1,755,008)	14,498,260
Provisions - current	2,239,559	910,877	3,150,436
Refund liabilities - current	-	1,824,472	1,824,472
Other current liabilities	3,910,313	(3,456,198)	454,115
Contract liabilities - noncurrent	-	59,580	59,580
Other noncurrent liabilities	<u>59,580</u>	<u>(59,580)</u>	<u>-</u>
Total effect on liabilities	<u>\$ 22,462,720</u>	<u>\$ 67,555</u>	<u>\$ 22,530,275</u>

Except for the above impact, as of the date the standalone financial statements were authorized for issue, the Corporation assessed that there would be no material impact of the initial application of other standards and the amendments to interpretations on its financial position and results of operations.

c. New IFRSs in issue but not yet endorsed and issued into effect by the FSC

<b>New IFRSs</b>	<b>Effective Date Announced by IASB (Note 1)</b>
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 “Prepayment Features with Negative Compensation”	January 1, 2019 (Note 2)
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 16 “Leases”	January 1, 2019 (Note 3)
IFRS 17 “Insurance Contracts”	January 1, 2021
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement ”	January 1, 2019 (Note 4)
Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures”	January 1, 2019
IFRIC 23 “Uncertainty Over Income Tax Treatments”	January 1, 2019

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The FSC permits the election for early adoption of the amendments starting from 2018.

Note 3: On December 19, 2017, the FSC announced that IFRS 16 will take effect starting from January 1, 2019.

Note 4: The Corporation shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

1) IFRS 16 “Leases”

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 and a number of related interpretations.

Under IFRS 16, if the Corporation is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the standalone balance sheets except for low-value and short-term leases. The Corporation may elect to apply the accounting method similar to the accounting for operating leases under IAS 17 to low-value and short-term leases. On the standalone statements of comprehensive income, the Corporation should present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed by using the effective interest method. On the standalone statements of cash flows, cash payments for the principal portion and interest portion of lease liabilities are classified within financing activities.

The application of IFRS 16 is not expected to have a material impact on the accounting of the Corporation as lessor and lessee.

When IFRS 16 becomes effective, the Corporation may elect to apply this standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the initial application of this standard recognized at the date of initial application.

The Corporation are still assessing the effect of the application of the standard as lessee.

## 2) IFRIC 23 “Uncertainty Over Income Tax Treatments”

IFRIC 23 clarifies that when there is uncertainty over income tax treatments, the Corporation should assume that the taxation authority will have full knowledge of all related information when making related examinations. If the Corporation concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the Corporation should determine the taxable profit, tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatments used or planned to be used in its income tax filings. If it is not probable that the taxation authority will accept an uncertain tax treatment, the Corporation should make estimates using either the most likely amount or the expected value of the tax treatment, depending on which method the entity expects to better predict the resolution of the uncertainty. The Corporation has to reassess its judgments and estimates if facts and circumstances change.

On initial application, the Corporation shall apply IFRIC 23 either retrospectively to each prior reporting period presented, if this is possible without the use of hindsight, or retrospectively with the cumulative effect of the initial application of IFRIC 23 recognized at the date of initial application.

As of the date the standalone financial statements were authorized for issue, the Corporation is in the process of assessing the impact of the impending initial application of the aforementioned and other standards and the amendments to interpretations on their financial position and results of operations. Disclosures will be provided after a detailed review of the impact has been completed.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

For readers’ convenience, the accompanying standalone 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 standalone 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.

### a. Statement of compliance

The standalone financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

### b. Basis of preparation

The standalone financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair value and net defined benefit liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets.

The fair value measurements, which are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and based on the significance of the inputs to the fair value measurement in its entirety, are described as follows:

- 1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- 3) Level 3 inputs are unobservable inputs for the asset or liability.

The subsidiaries and associates are incorporated in the standalone financial statements under the equity method. To make net profit for the year, other comprehensive income and equity in the standalone financial statements equal to those attributed to owners of the Corporation on consolidated financial statements, the effect of the differences between basis of standalone and basis of consolidation are adjusted in the investments accounted for using equity method, the related share of the profit or loss, the related share of other comprehensive income of subsidiaries and associates and related equity.

c. Classification of current and noncurrent assets and liabilities

Current assets include:

- 1) Assets held primarily for the purpose of trading;
- 2) Assets expected to be realized within twelve months after the reporting period; and
- 3) Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Current liabilities include:

- 1) Liabilities held primarily for the purpose of trading;
- 2) Liabilities due to be settled within 12 months after the reporting period, even if an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the standalone financial statements are authorized for issue; and
- 3) Liabilities for which the Corporation does not have an unconditional right to defer settlement for at least 12 months after the reporting period.

Assets and liabilities that are not classified as current are classified as noncurrent.

d. Foreign currencies

In preparing the standalone financial statements of the Corporation, transactions in currencies other than the Corporation's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the closing rates. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise except for exchange differences on transactions entered into in order to hedge certain foreign currency risks.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary items are recognized in profit or loss for the period except for exchange difference arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

For the purposes of presenting standalone financial statements, the investments of the Corporation's foreign operations (including subsidiaries and associates operating in other countries or using currencies different from the Corporation's) are translated into the presentation currency - New Taiwan dollars as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; income and expense items are translated at the average exchange rates for the year. The

resulting currency translation differences are recognized in other comprehensive income.

On the disposal of a foreign operation (i.e. a disposal of the Corporation's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation are reclassified to profit or loss.

In relation to a partial disposal of a subsidiary that does not result in the Corporation losing control over the subsidiary, the proportionate share of accumulated exchange differences is reassigned to non-controlling interest but not recognized in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences recognized in other comprehensive income is reclassified to profit or loss.

e. Inventories

Inventories consist of raw materials, supplies, finished goods, work-in-process, etc. Inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made by item, except where it may be appropriate to group similar or related items. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. Inventories are recorded at moving average cost.

f. Investments in subsidiaries

The Corporation uses the equity method to account for its investments in subsidiaries.

Subsidiary is an entity that is controlled by the Corporation. Under the equity method, an investment is initially recognized at cost and adjusted thereafter to recognize the Corporation's share of the profit or loss and other comprehensive income of the subsidiary. The Corporation also recognizes the changes in the share of other equity of subsidiaries.

Changes in the Corporation's ownership interests in subsidiaries that do not result in the Corporation losing of control over the subsidiary are accounted for as equity transaction. Differences between the carrying amounts of the investment and the fair value of consideration paid or received are directly recognized in equity.

Any excess of the cost of acquisition over the Corporation's share of the net fair value of the identifiable assets and liabilities of a subsidiary recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Corporation's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

The entire carrying amount of the investment is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is deducted from investment and the carrying amount is net of impairment loss. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases. An impairment loss recognized on goodwill cannot be reversed in a subsequent period.

When the Corporation loses control of a subsidiary, it recognizes the investment retained in the former subsidiary at its fair value at the date when control is lost. The difference between the fair value of the retained investment plus any consideration received and the carrying amount of previous investment at the date when control is lost is recognized as a gain or loss in profit or loss. Besides, the Corporation accounts for all amounts previously recognized in other comprehensive income in relation to that subsidiary on the same basis as would be required if the Corporation had directly disposed of the related assets or liabilities.

Unrealized profits or losses on downstream transactions with subsidiaries are eliminated in the standalone financial statements. Profits and losses on transactions with subsidiaries other than downstream are recognized in standalone financial statements only to the extent of interests in the subsidiary that are not related to the Corporation.

g. Investment in associates

An associate is an entity over which the Corporation has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The Corporation uses equity method to account for investment in associates. Under the equity method, an investment is initially recognized at cost and adjusted thereafter to recognize the Corporation's share of the profit or loss and other comprehensive income of the associate. The Corporation also recognizes the changes in the share of equity of associates.

Any excess of the cost of acquisition over the Corporation's share of the net fair value of the identifiable assets and liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Corporations' share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

When the Corporation subscribes for additional new shares of the associate, at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Corporation's proportionate interest in the associate. The Corporation records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus. If the Corporation's ownership interest is reduced due to non-subscription of the new shares of associate, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate is reclassified to profit or loss on the same basis as would be required if the investee had directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for using equity method is insufficient, the shortage is debited to retained earnings.

When the Corporation's share of losses of an associate equals or exceeds its interest in that associate (which includes any carrying amount of the investment accounted for using the equity method and long-term interests that, in substance, form part of the Corporation's net investment in the associate), the Corporation discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Corporation has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate.

When impairment loss is evaluated, the entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is deducted from the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment has subsequently increased.

When the Corporation ceases to have significant influence over the associate, the Corporation will measure the retained investment at fair value at that date. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. The Corporation accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities.

When the Corporation transacts with its associates, profits or losses on these transactions are recognized in the standalone financial statements only to the extent of interests in the associate that are not related to the Corporation.

#### h. Property, Plant, and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation.

Property, plant, and equipment in the course of construction are carried at cost. Cost includes professional fees and borrowing costs eligible for capitalization. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use and depreciated accordingly.

Except that depreciation of the rollers (spare parts) is calculated based on their level of wear, other depreciation is recognized using the straight-line method. Each significant component is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at each balance sheet date, with the effect of any changes in estimate accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

#### i. Investment Properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation. Depreciation is recognized using the straight-line method.

On derecognition of an investment property, the difference between the net disposal proceeds and the carrying amount of the asset is included in profit or loss.

#### j. Impairment of Tangible and Intangible Assets

At the end of each reporting period, the Corporation reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Corporation estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to the individual cash-generating units; otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount with the resulting impairment loss recognized in profit or loss.

When an impairment loss subsequently is reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined for the asset or cash-generating unit (net of amortization and depreciation) had no impairment loss been recognized in prior years. A reversal of an impairment loss is recognized in profit or loss.

#### k. Financial instruments

Financial assets and financial liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instruments.

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

#### 1) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

##### a) Measurement category

Financial assets held by the Corporation include available-for-sale financial assets and loans and receivables.

##### i Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are measured at fair value. Changes in the carrying amount of available-for-sale monetary financial assets relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when the investment is disposed of or is determined to be impaired.

Dividends on available-for-sale equity investments are recognized when the Corporation's right to receive the dividends is established.

##### ii Loans and receivables

Loans and receivables (including cash and cash equivalents, notes and accounts receivable, net (including related parties), other receivables (including loans to related parties), debt investments with no active market, refundable deposits and other financial assets) are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalents include time deposits, commercial papers and bonds with repurchase agreements with original maturity within three months from the date of acquisition, high liquidity, readily convertible to a known amount of cash and subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

##### b) Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are 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 financial asset, the estimated future cash flows of the investment have been affected.

Financial assets carried at amortized cost, such as accounts receivable, are assessed for impairment on a collective basis even if there is no objective evidence of impairment individually. Objective evidence of impairment for a portfolio of receivables could include the Corporation's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables. The amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at amortized cost, if, in the subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss shall be reversed either directly or by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal shall be recognized in profit or loss.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value below its cost is considered to be objective evidence of impairment. For all other financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, breach of contract, such as a default or delinquency in interest or principal payments, higher probability that the borrower will enter bankruptcy or financial re-organization, or the disappearance of an active market for that financial asset because of financial difficulties.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period. In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss is not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account.

#### c) Derecognition of financial assets

The Corporation derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

#### 2) Equity instruments

Debt and equity instruments issued by the Corporation are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments issued by the Corporation are recognized at the proceeds received, net of direct issue costs.

### 3) Financial liabilities

#### a) Subsequent measurement

Financial liabilities are measured at amortized cost using the effective interest method.

#### b) Derecognition of financial liabilities

The Corporation derecognizes financial liabilities only when the obligations are discharged, canceled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

### 4) Derivative financial instruments

The Corporation enters the derivative financial instruments and foreign exchange forward contracts, to manage its exposure to foreign exchange rate risks.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. When the fair value of derivative financial instruments is positive, the derivative is recognized as a financial asset; when the fair value of derivative financial instruments is negative, the derivative is recognized as a financial liability.

## 1. Hedge Accounting

The Corporation designates certain hedging instruments, which include derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

### 1) Fair value hedges

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in profit or loss in the line item relating to the hedged item.

Hedge accounting is discontinued prospectively when the Corporation revokes the designated hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when the hedging instrument no longer meets the criteria for hedge accounting. The fair value adjustment to the carrying amount of the hedged instrument arising from the hedged risk for which the effective interest method is used is amortized to profit or loss from the date the hedge accounting is discontinued. The adjustment which is based on a recalculated effective interest rate at the date amortization begins is amortized fully by maturity of the financial instrument.

### 2) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognized in other comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognized in profit or loss.

The associated gains or losses that were recognized in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment in the line item relating to the hedged item in the same period when the hedged item affects profit or loss. If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the associated gains and losses that were recognized in other comprehensive income are removed from equity and are included in the initial cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued prospectively when the Corporation revokes the designated hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised (the replacement or rollover of a hedging instrument into another hedging instrument is not an expiration or termination if it formed part of the Corporation's documented hedging strategy from inception), or when the hedging instrument no longer meets the criteria for hedge accounting. The cumulative gain or loss on the hedging instrument that has been previously recognized in other comprehensive income from the period when the hedge was effective remains separately in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

### 3) Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in other comprehensive income and accumulated under the heading of foreign currency translation reserve. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

Gains and losses on the hedging instrument relating to the effective portion of the hedge accumulated in the foreign currency translation reserve are reclassified to profit or loss on the disposal or partial disposal of the foreign operation.

### m. Provisions

Provisions are measured at the best estimate of the discounted cash flows of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

### n. Treasury Shares

Share of the Corporation held by the subsidiaries are reclassified to treasury shares from investments accounted for using equity method at the acquisition cost.

### o. Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. Allowance for sales returns and liability for returns are recognized at the time of sale based on the seller's reliable estimate of future returns and based on past experience and other relevant factors.

#### 1) Sale of goods

Revenues from the sale of goods are recognized when the significant risks and rewards of ownership of the goods are transferred to the customers as follows: domestic sales - when products are move out of the Corporation's premises for delivery to customers; exports - when products are loaded onto vessels. Revenues are recognized because the earning process is accomplished and revenue is realized or realizable.

Revenues are measured at the 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.

2) Rendering of services

Service revenue is recognized according to the contract and the percentage of completion of the services. 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.

p. Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other than those stated above, all borrowing costs are recognized in profit or loss in the year in which they are incurred.

q. Employee benefits

1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

2) Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost, past service cost, as well as gains and losses on settlements) and net interest on the net defined benefit liability are recognized as employee benefits expense in the period they occur. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling, and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liability represents the actual deficit in the Corporation's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

3) Other long-term employee benefits

Other long-term employee benefits are accounted for in the same way as the accounting required for defined benefit plan except that remeasurement is recognized in profit or loss.

#### 4) Termination benefits

A liability for a termination benefit is recognized at the earlier of when the Corporation can no longer withdraw the offer of the termination benefit and when the Corporation recognizes any related restructuring costs.

#### r. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

##### 1) Current tax

Current tax is the amount of tax at statutory rate calculated on the taxable profit at the balance sheet date. 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.

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

##### 2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the standalone financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences and unused tax credits for purchases of machinery, equipment and technology, and research and development expenditures to the extent that it is probable that taxable profits will be available against which those deductible differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, except where the Corporation is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Corporation expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

##### 3) Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are

recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

- 4) According to Income Tax Law and related regulations, the Corporation files a consolidated tax return with its 100% owned subsidiary. The appropriation of the income tax relating to the subsidiary is recognized as other receivables or other payables.

## 5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Corporation's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. The effect of a change in an accounting estimate shall be recognized prospectively by including it in profit or loss in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

### a. Valuation of inventory

Inventories are stated at the lower of cost or net realizable value, and the Corporation uses judgment and estimate to determine the net realizable value of inventory at the end of the reporting period. Since the net realizable value of inventory is mainly determined on the basis of future selling price, it might be adjusted significantly.

### b. Fair value of emerging market shares and unlisted equity securities and assets impairment

As described in Note 27, the Corporation applied valuation techniques commonly used by market practitioners to evaluate fair value of the financial instruments that do not have listed market price in an active market. The measurement for the fair value of emerging market shares and equity securities includes assumptions not based on observable market prices or interest rates; therefore, unlisted fair value may change significantly.

When there is objective evidence of impairment loss on available-for-sale financial assets and the carrying amount may not be recoverable, the Corporation takes into consideration the estimation of future cash flows, the market conditions and industry development to evaluate the impairment loss.

## 6. CASH AND CASH EQUIVALENTS

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Cash on hand	\$ 18,698	\$ 20,705
Checking accounts and demand deposits	1,613,494	952,867
Cash equivalents		
Time deposits with original maturities less than three months	-	100,000
Commercial papers with repurchase agreements	914,418	1,299,174
Bonds with repurchase agreements	<u>377,300</u>	<u>105,000</u>
	<u>\$ 2,923,910</u>	<u>\$ 2,477,746</u>

## 7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
<u>Current</u>		
Domestic investments		
Listed shares	\$ <u>111,603</u>	\$ <u>780,716</u>
<u>Noncurrent</u>		
Domestic investments		
Listed shares	\$ 8,886,307	\$ 6,835,483
Emerging market shares and unlisted shares	<u>821,594</u>	<u>1,287,029</u>
	<u>9,707,901</u>	<u>8,122,512</u>
Foreign investments		
Listed shares	2,112,543	2,434,099
Unlisted shares	<u>4,598,246</u>	<u>4,994,765</u>
	<u>6,710,789</u>	<u>7,428,864</u>
	<u>\$ 16,418,690</u>	<u>\$ 15,551,376</u>

## 8. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
<u>Derivative financial assets for hedging - current</u>		
Foreign exchange forward contracts	\$ <u>44,469</u>	\$ <u>32,094</u>
<u>Derivative financial assets for hedging - noncurrent</u>		
Foreign exchange forward contracts	\$ <u>12,583</u>	\$ <u>2,142</u>
<u>Derivative financial liabilities for hedging - current</u>		
Foreign exchange forward contracts	\$ <u>20,674</u>	\$ <u>8,965</u>
<u>Derivative financial liabilities for hedging - noncurrent</u>		
Foreign exchange forward contracts	\$ <u>8,112</u>	\$ <u>6,904</u>

The Corporation entered into foreign exchange forward contracts to manage cash flow risk arising from exchange rate fluctuations on foreign-currency capital expenditures and sales contracts. The outstanding foreign exchange forward contracts of the Corporation at the balance sheet date were as follows:

	<b>Currency</b>	<b>Period for Generating Cash Flows and Maturity Date</b>	<b>Contract Amount (In Thousands)</b>
<u>December 31, 2017</u>			
Buy	NTD/USD	2018.03-2020.04	NTD405,923/USD12,959
Buy	NTD/EUR	2018.01-2021.12	NTD1,977,488/EUR56,877
Buy	NTD/JPY	2018.12	NTD12,797/JPY47,432
<u>December 31, 2016</u>			
Buy	NTD/USD	2017.05-2020.02	NTD1,258,412/USD40,201
Buy	NTD/EUR	2017.01-2018.10	NTD598,719/EUR17,485

Movements of derivative financial instruments for hedging were as follows:

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Balance, beginning of year	\$ 18,367	\$ 88,816
Recognized in other comprehensive income	(19,756)	(71,295)
Transferred to construction in progress and equipment to be inspected	33,151	(1,346)
Transferred to construction contract	(3,496)	(266)
Transferred to operating revenues	-	3,267
Recognized in other gains and losses	-	(809)
Balance, end of year	<u>\$ 28,266</u>	<u>\$ 18,367</u>

## 9. NOTES AND ACCOUNTS RECEIVABLE, NET (INCLUDING RELATED PARTIES)

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Notes receivable - operating	\$ 904,974	\$ 796,650
Notes receivable - non-operating	-	-
	<u>904,974</u>	<u>796,650</u>
Less: Allowance for doubtful accounts	-	-
	<u>\$ 904,974</u>	<u>\$ 796,650</u>
Accounts receivable	\$ 4,772,758	\$ 3,073,056
Less: Allowance for doubtful accounts	-	-
	<u>\$ 4,772,758</u>	<u>\$ 3,073,056</u>

The allowance for doubtful accounts was recognized based on estimated irrecoverable amounts determined by reference to the account aging analysis, past default experience of the customers and analysis of customers' current financial position. In determining the recoverability of notes and accounts receivable, the corporation considered any change in the credit quality of the notes and accounts receivable since the date credit was initially granted to the end of the reporting period. If not collected after demanding, the past due notes and accounts receivable would be fully recognized with allowance for doubtful accounts.

The Corporation had not recognized an allowance for some notes receivable and accounts receivable that are past due at the balance sheet date because there had not been a significant change in credit quality and the amounts were still considered recoverable. The Corporation did not hold any collateral or other credit enhancement for these balances.

The aging analysis of notes and accounts receivable was as follows (the past due notes and accounts receivable were unimpaired):

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Not past due	\$ 5,535,818	\$ 3,861,574
1-30 days	141,914	8,117
31-60 days	-	3
61-365 days	<u>-</u>	<u>12</u>
	<u>\$ 5,677,732</u>	<u>\$ 3,869,706</u>

Above aging analysis of notes and accounts receivable was based on the past due days from end of credit term.

The Corporation entered into accounts receivable factoring agreements (without recourse) with Mega Bank, Bank of Taiwan, Taishin Bank and Chinatrust Commercial Bank (CTBC 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 was as follows. Advances received at year-end denominated in US Dollars were converted to NT Dollars at the closing rate.

Counterparty	Advances Received at Year - Beginning	Receivables Sold	Amounts Collected by Bank	Advances Received at Year - End	Annual Interest Rate on Advances Received (%)	Credit Line
For the Year Ended December 31, 2017						
Mega Bank	\$ 3,407,655	\$ 10,454,377	\$ 9,915,395	\$ 3,946,637	1.02-1.68	NT\$9 billion
Bank of Taiwan	1,305,411	4,022,227	3,853,764	1,473,874	1.02-1.68	NT\$3 billion
Bank of Taiwan	658,609	5,912,848	5,921,942	649,515	1.84-2.49	USD130,000 thousand
Taishin Bank	1,944,923	7,724,850	8,043,560	1,626,213	1.59-2.00	USD123,000 thousand
CTBC Bank	552,811	2,567,555	2,443,121	677,245	1.59-2.02	USD40,000 thousand
	<u>\$ 7,869,409</u>	<u>\$ 30,681,857</u>	<u>\$ 30,177,782</u>	<u>\$ 8,373,484</u>		
For the Year Ended December 31, 2016						
Mega Bank	\$ 2,742,114	\$ 8,983,818	\$ 8,318,277	\$ 3,407,655	1.04-1.68	NT\$9 billion
Bank of Taiwan	1,256,796	3,385,315	3,336,700	1,305,411	1.04-1.68	NT\$3 billion
Bank of Taiwan	785,395	3,546,130	3,672,916	658,609	1.64-2.61	USD130,000 thousand
Taishin Bank	1,178,084	5,675,101	4,908,262	1,944,923	1.29-1.99	USD110,000 thousand
CTBC Bank	118,633	1,364,966	930,788	552,811	1.29-1.59	USD30,000 thousand
	<u>\$ 6,081,022</u>	<u>\$ 22,955,330</u>	<u>\$ 21,166,943</u>	<u>\$ 7,869,409</u>		

## 10. INVENTORIES

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Finished goods	\$ 12,097,386	\$ 8,771,483
Work in progress	16,280,300	15,474,003
Raw materials	8,914,391	8,971,344
Supplies	3,636,407	3,378,187
Raw materials and supplies in transit	6,981,833	5,791,353
By-products	<u>113,914</u>	<u>120,091</u>
	<u>\$ 48,024,231</u>	<u>\$ 42,506,461</u>

The cost of inventories recognized as operating costs for the years ended December 31, 2017 and 2016 was NT\$181,850,825 thousand and NT\$143,177,939 thousand, respectively, including reversal of loss on inventories NT\$551,871 thousand and NT\$2,919,280 thousand, respectively.

## 11. DEBT INVESTMENTS WITH NO ACTIVE MARKET - NONCURRENT

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Unlisted preference shares - overseas		
East Asia United Steel Corporation (EAUS) - Preference A	<u>\$ 1,761,421</u>	<u>\$ 1,837,425</u>

In July 2003, the Corporation and Sumitomo Metal Industries, Ltd. (renamed as Nippon Steel & Sumitomo Metal Corp. in October 2012) and Sumitomo Corporation established the joint venture company EAUS in Japan. The Corporation invested JPY10 billion in EAUS to acquire 10,000 shares of preference A. The Corporation also signed a long-term purchase agreement with EAUS and promised to purchase certain amount of slabs annually. In 2015, the Corporation sold 3,333 shares of preference A of EAUS to Nippon Steel & Sumitomo Metal Corp.

## 12. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Investments in subsidiaries	\$ 204,006,310	\$ 205,297,618
Investments in associates	<u>3,517,331</u>	<u>3,247,923</u>
	<u>\$ 207,523,641</u>	<u>\$ 208,545,541</u>

### a. Investments in subsidiaries

	<b>December 31</b>			
	<b>2017</b>		<b>2016</b>	
	<b>Amount</b>	<b>% of Owner - ship</b>	<b>Amount</b>	<b>% of Owner - ship</b>
Listed companies				
Chung Hung Steel Corporation Ltd. (CHSC)	\$ 4,886,391	41	\$ 3,874,362	41
China Steel Chemical Corporation (CSCC)	1,955,790	29	1,950,504	29

(Continued)

	<b>December 31</b>			
	<b>2017</b>		<b>2016</b>	
	<b>Amount</b>	<b>% of Owner - ship</b>	<b>Amount</b>	<b>% of Owner - ship</b>
China Steel Structure Co., Ltd. (CSSC)	\$ 1,358,447	33	\$ 1,326,140	33
China Ecotek Corporation (CEC)	1,201,380	45	1,246,732	45
CHC Resources Corporation (CHC)	<u>776,888</u>	20	<u>760,007</u>	20
	10,178,896		9,157,745	
Less: Shares held by subsidiaries accounted for as treasury shares	<u>2,036,818</u>		<u>2,043,880</u>	
	<u>8,142,078</u>		<u>7,113,865</u>	
<b>Unlisted companies</b>				
Dragon Steel Corporation (DSC)	101,500,932	100	99,354,903	100
China Steel Asia Pacific Holdings Pte Ltd. (CSAPH)	36,127,072	100	39,218,733	100
CSC Steel Australia Holdings Pty Ltd. (CSCAU)	15,753,650	100	16,566,147	100
China Steel Express Corporation (CSE)	11,129,193	100	11,812,497	100
C. S. Aluminium Corporation (CSAC)	8,696,161	100	8,943,205	100
Gains Investment Corporation (GIC)	7,040,641	100	6,693,670	100
China Steel Sumikin Vietnam Joint Stock Company (CSVC)	6,896,002	56	7,438,362	56
China Prosperity Development Corporation (CPDC)	3,695,653	100	3,688,033	100
China Steel Corporation India Pvt. Ltd. (CSCI)	2,228,405	100	2,217,610	100
China Steel Global Trading Corporation (CSGT)	2,111,723	100	1,890,621	100
Kaohsiung Rapid Transit Corporation (KRTC)	1,312,936	43	1,292,762	43
China Steel Resources Corporation (CSRC)	994,103	100	990,395	100
China Steel Machinery Corporation (CSMC)	956,927	74	948,625	74
CSC Precision Metal Industrial Corporation (CSCPM)	842,328	100	860,415	100
InfoChamp Systems Corporation (ICSC)	756,401	100	740,772	100
White Biotech Corporation (WBC)	722,626	87	793,307	87
CSC Solar Corporation (CSCSC)	657,994	55	329,316	55
China Steel Security Corporation (CSS)	529,945	100	526,323	100
Himag Magnetic Corporation (HMC)	390,505	69	394,815	69
China Steel Management Consulting Corporation (CSMCC)	<u>16,606</u>	100	<u>16,204</u>	100
	202,359,803		204,716,715	
Less: Shares held by subsidiaries accounted for as treasury shares	<u>6,495,571</u>		<u>6,532,962</u>	
	<u>195,864,232</u>		<u>198,183,753</u>	
	<u>\$ 204,006,310</u>		<u>\$ 205,297,618</u>	

(Concluded)

In January 2016, the Corporation invested in CSAPH amounting to NT\$11,063,857 thousand (USD329,135 thousand), and CSAPH invested all of the capital injection in Formosa Ha Tinh (Cayman) Limited. In addition, the Corporation invested in CSAPH amounting to NT\$32,493 thousand (USD1,000 thousand) in May 2016 and CSAPH invested all of the capital injection in HC&C Auto Parts Co., Ltd. and acquired 10% of the shareholding. In July 2017, the subsidiary CSAPH did not participate in cash capital increase of Formosa Ha Tinh (Cayman) Limited and decreased its shareholding. Since the Corporation and its subsidiary CSAPH have no right to participate in the financial and operating policy decisions of Formosa Ha Tinh (Cayman) Limited, they have no significant influence over Formosa Ha Tinh (Cayman) Limited and the investment was reclassified to available-for-sale financial assets.

The subsidiary CSGT engaged in the capital reduction dated September 1, 2016. The total reduction amounted to NT\$999,968 thousand where the total shareholding remained unchanged.

In September 2016, the Corporation invested NT\$330,000 thousand to start a joint venture with its subsidiaries to establish CSCSC and acquired 55% of the shareholding. The main business of the company is solar power generation. In December 2017, the Corporation increased investment in CSCSC by NT\$330,000 thousand and acquired 330,000 thousand common shares where the total shareholding remains unchanged.

In June 2017, the subsidiary WBC's board of directors resolved to change WBC's operating strategy. The Corporation thus recognized an impairment loss of NT\$40,311 thousand after an assessment.

Fair values (Level 1) of the listed companies accounted for using equity method with available published price quotation are summarized as follows:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
CSCC	<u>\$ 8,770,366</u>	<u>\$ 8,185,675</u>
CHSC	<u>\$ 7,225,147</u>	<u>\$ 5,547,048</u>
CHC	<u>\$ 2,643,715</u>	<u>\$ 2,370,382</u>
CEC	<u>\$ 2,365,287</u>	<u>\$ 2,542,545</u>
CSSC	<u>\$ 1,306,486</u>	<u>\$ 1,419,515</u>

The above market prices are calculated on the basis of the closing price at the end of the reporting period.

b. Investments in associates

	<b>December 31</b>			
	<b>2017</b>		<b>2016</b>	
	<b>Amount</b>	<b>% of Owner - ship</b>	<b>Amount</b>	<b>% of Owner - ship</b>
Taiwan Rolling Stock Co., Ltd. (TRSCL)	\$ 1,194,880	48	\$ 699,342	36
Honley Auto. Parts Co., Ltd. (HAPC)	655,653	38	722,718	38
Kaohsiung Arena Development Corporation (KADC)	500,091	18	492,320	18
Eminent II Venture Capital Corporation (EVCC II)	435,370	46	644,183	46
Hsin Hsin Cement Enterprise Corp. (HHCEC)	361,293	31	363,905	31
Dyna Rechi Co., Ltd. (DRC)	305,297	25	309,402	25
Overseas Investment & Development Corp. (OIDC)	50,326	6	-	-
TaiAn Technologies Corporation (TTC)	<u>14,421</u>	17	<u>16,053</u>	17
	<u>\$ 3,517,331</u>		<u>\$ 3,247,923</u>	

In July 2017, the Corporation increased its investment in TRSCL by NT\$449,498 thousand, and increased the total shareholding from 36% to 48%.

In August 2017, the subsidiaries CSMC and Union Steel Development Corp. increased investments in OIDC where the Corporation's total equity in OIDC increases to 21%, including 6% directly owned and 15% indirectly owned through CSMC and Union Steel Development Corp. As a result, the investment was reclassified from available-for-sale financial assets to investments accounted for using equity method.

The Corporation's total equity in KADC is 29%, including 18% directly owned and 11% indirectly owned through United Steel Construction Corporation and CPDC. The Corporation's total equity in TTC is 22%, including 17% directly owned and 5% indirectly owned through CSCC.

The above associates are not individually material. The related summarized information was as follows:

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
The Corporation's share of		
Net profit (loss) for the year	\$ (28,919)	\$ 31,752
Other comprehensive income	<u>(229,723)</u>	<u>(212,670)</u>
 Total comprehensive income	 <u>\$ (258,642)</u>	 <u>\$ (180,918)</u>

The above investments accounted for using equity method and the Corporation's share of profit and other comprehensive income were based on the audited financial statements of the subsidiaries and associates for the same reporting period.

### 13. OTHER FINANCIAL ASSETS

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
<u>Current</u>		
Pledged time deposits (Note 29)	\$ 5,850,000	\$ 5,650,000
Hedging foreign-currency deposits	919,408	872,457
Time deposits with original maturities more than three months	<u>100,000</u>	<u>100,000</u>
	<u>\$ 6,869,408</u>	<u>\$ 6,622,457</u>
<u>Noncurrent</u>		
Deposits for projects	<u>\$ 319,234</u>	<u>\$ 1,073,565</u>

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 foreign exchange forward contracts. As of December 31, 2017 and 2016, the balance of the foreign-currency deposits, which were designated as hedging instruments and were settlements of expired foreign exchange forward contracts, was NT\$919,408 thousand (USD16,310 thousand, EUR10,793 thousand and JPY189,728 thousand) and NT\$872,457 thousand (USD21,382 thousand and EUR5,395 thousand). As of December 31, 2017 and 2016 cash outflows would be expected from aforementioned contracts for the period through 2018 and through 2017, respectively.

Movements of hedging foreign-currency deposits were as follows:

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Balance, beginning of year	\$ 872,457	\$ 854,939
Increase	87,402	16,429
Recognized in other comprehensive income	(36,814)	12,917

(Continued)

**For the Year Ended December 31**  
**2017**                      **2016**

Transferred to construction in progress and equipment to be inspected	\$ (4,434)	\$ (11,828)
Transferred to construction contract	<u>797</u>	<u>-</u>
Balance, end of year	<u>\$ 919,408</u>	<u>\$ 872,457</u> (Concluded)

**14. PROPERTY, PLANT AND EQUIPMENT**

For the Year Ended December 31, 2017

<u>Cost</u>	Land	Land Improvements	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Spare Parts	Construction in Progress and Equipment to be Inspected	Total
Balance at January 1, 2017	\$ 49,110,712	\$ 4,716,932	\$ 65,814,949	\$ 355,016,570	\$ 2,086,543	\$ 6,260,801	\$ 6,790,392	\$ 12,706,157	\$ 502,503,056
Additions	3,153,296	-	422,099	3,973,872	150,943	461,970	578,753	3,076,717	11,817,650
Disposals	-	-	(3,136)	(2,219,831)	(98,805)	(146,342)	(1,044,048)	-	(3,512,162)
Reclassification	<u>100</u>	<u>-</u>	<u>(26,732)</u>	<u>(447)</u>	<u>-</u>	<u>447</u>	<u>-</u>	<u>-</u>	<u>(26,632)</u>
Balance at December 31, 2017	<u>\$ 52,264,108</u>	<u>\$ 4,716,932</u>	<u>\$ 66,207,180</u>	<u>\$ 356,770,164</u>	<u>\$ 2,138,681</u>	<u>\$ 6,576,876</u>	<u>\$ 6,325,097</u>	<u>\$ 15,782,874</u>	<u>\$ 510,781,912</u>
<u>Accumulated depreciation</u>									
Balance at January 1, 2017	\$ -	\$ 4,449,953	\$ 33,730,800	\$ 286,889,119	\$ 1,673,159	\$ 5,222,191	\$ 2,905,672	\$ -	\$ 334,870,894
Depreciation	-	47,639	2,184,308	13,786,131	125,484	434,405	795,031	-	17,372,998
Disposals	-	-	(1,794)	(2,213,626)	(98,575)	(143,979)	(1,044,048)	-	(3,502,022)
Reclassification	<u>-</u>	<u>-</u>	<u>(2,181)</u>	<u>(168)</u>	<u>-</u>	<u>168</u>	<u>-</u>	<u>-</u>	<u>(2,181)</u>
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ 4,497,592</u>	<u>\$ 35,911,133</u>	<u>\$ 298,461,456</u>	<u>\$ 1,700,068</u>	<u>\$ 5,512,785</u>	<u>\$ 2,656,655</u>	<u>\$ -</u>	<u>\$ 348,739,689</u>
Carrying amount at December 31, 2017	<u>\$ 52,264,108</u>	<u>\$ 219,340</u>	<u>\$ 30,296,047</u>	<u>\$ 58,308,708</u>	<u>\$ 438,613</u>	<u>\$ 1,064,091</u>	<u>\$ 3,668,442</u>	<u>\$ 15,782,874</u>	<u>\$ 162,042,223</u>

For the Year Ended December 31, 2016

<u>Cost</u>	Land	Land Improvements	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Spare Parts	Construction in Progress and Equipment to be Inspected	Total
Balance at January 1, 2016	\$ 49,111,359	\$ 4,716,932	\$ 64,823,135	\$ 348,695,797	\$ 2,046,986	\$ 6,109,547	\$ 6,947,485	\$ 11,642,383	\$ 494,093,624
Additions	-	-	976,624	7,508,081	57,582	265,103	735,999	1,063,774	10,607,163
Disposals	-	-	-	(1,176,126)	(27,103)	(115,953)	(893,092)	-	(2,212,274)
Reclassification	<u>(647)</u>	<u>-</u>	<u>15,190</u>	<u>(11,182)</u>	<u>9,078</u>	<u>2,104</u>	<u>-</u>	<u>-</u>	<u>14,543</u>
Balance at December 31, 2016	<u>\$ 49,110,712</u>	<u>\$ 4,716,932</u>	<u>\$ 65,814,949</u>	<u>\$ 355,016,570</u>	<u>\$ 2,086,543</u>	<u>\$ 6,260,801</u>	<u>\$ 6,790,392</u>	<u>\$ 12,706,157</u>	<u>\$ 502,503,056</u>
<u>Accumulated depreciation</u>									
Balance at January 1, 2016	\$ -	\$ 4,392,692	\$ 31,603,730	\$ 273,271,321	\$ 1,572,336	\$ 4,913,918	\$ 2,918,866	\$ -	\$ 318,672,863
Depreciation	-	57,261	2,126,512	14,773,946	127,776	422,492	879,898	-	18,387,885
Disposals	-	-	-	(1,156,148)	(26,953)	(114,219)	(893,092)	-	(2,190,412)
Reclassification	<u>-</u>	<u>-</u>	<u>558</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>558</u>
Balance at December 31, 2016	<u>\$ -</u>	<u>\$ 4,449,953</u>	<u>\$ 33,730,800</u>	<u>\$ 286,889,119</u>	<u>\$ 1,673,159</u>	<u>\$ 5,222,191</u>	<u>\$ 2,905,672</u>	<u>\$ -</u>	<u>\$ 334,870,894</u>
Carrying amount at December 31, 2016	<u>\$ 49,110,712</u>	<u>\$ 266,979</u>	<u>\$ 32,084,149</u>	<u>\$ 68,127,451</u>	<u>\$ 413,384</u>	<u>\$ 1,038,610</u>	<u>\$ 3,884,720</u>	<u>\$ 12,706,157</u>	<u>\$ 167,632,162</u>

The following items of property, plant and equipment are depreciated on a straight-line basis over the following useful lives:

Land improvements	
Drainage system	40 years
Wharf	20-40 years
Wall	20-40 years
Disposal site	7 years
	(Continued)

Buildings	
Main structure	2-60 years
Facility	8-40 years
Mechanical and electrical facilities	10-15 years
Trellis and corrugated iron building	3-20 years
Road	7-8 years
Machinery and equipment	
Power equipment	2-25 years
Process equipment	8-18 years
Lifting equipment	8-12 years
Electrical equipment	3-16 years
High-temperature equipment	3-17 years
Examination equipment	3-10 years
Transportation equipment	
Railway equipment	5-20 years
Telecommunication equipment	5-6 years
Transportation equipment	3-10 years
Other equipment	
Office and extinguishment equipment	5-10 years
Computer equipment	3-10 years
Air condition equipment	5-8 years
	(Concluded)

## 15. INVESTMENT PROPERTIES

For the Year Ended December 31, 2017

	<b>Land</b>	<b>Buildings</b>	<b>Total</b>
<u>Cost</u>			
Balance at January 1, 2017	\$ 6,130,871	\$ 1,213,799	\$ 7,344,670
Transferred from property, plant and equipment	-	26,732	26,732
Transferred to property, plant and equipment	<u>(100)</u>	<u>-</u>	<u>(100)</u>
Balance at December 31, 2017	<u>\$ 6,130,771</u>	<u>\$ 1,240,531</u>	<u>\$ 7,371,302</u>
<u>Accumulated depreciation</u>			
Balance at January 1, 2017	\$ -	\$ 217,450	\$ 217,450
Depreciation	-	21,879	21,879
Transferred from property, plant and equipment	<u>-</u>	<u>2,181</u>	<u>2,181</u>
Balance at December 31, 2017	<u>\$ -</u>	<u>\$ 241,510</u>	<u>\$ 241,510</u>
Carrying amount at December 31, 2017	<u>\$ 6,130,771</u>	<u>\$ 999,021</u>	<u>\$ 7,129,792</u>

For the Year Ended December 31, 2016

	<b>Land</b>	<b>Buildings</b>	<b>Total</b>
<u>Cost</u>			
Balance at January 1, 2016	\$ 6,130,224	\$ 1,228,989	\$ 7,359,213
Transferred from property, plant and equipment	647	15,461	16,108
Transferred to property, plant and equipment	<u>-</u>	<u>(30,651)</u>	<u>(30,651)</u>
Balance at December 31, 2016	<u>\$ 6,130,871</u>	<u>\$ 1,213,799</u>	<u>\$ 7,344,670</u>
<u>Accumulated depreciation</u>			
Balance at January 1, 2016	\$ -	\$ 196,176	\$ 196,176
Depreciation	-	21,832	21,832
Transferred from property, plant and equipment	-	706	706
Transferred to property, plant and equipment	<u>-</u>	<u>(1,264)</u>	<u>(1,264)</u>
Balance at December 31, 2016	<u>\$ -</u>	<u>\$ 217,450</u>	<u>\$ 217,450</u>
Carrying amount at December 31, 2016	<u>\$ 6,130,871</u>	<u>\$ 996,349</u>	<u>\$ 7,127,220</u>

The following items of investment properties are depreciated on a straight-line basis over the following useful lives:

**Buildings**

Main structure 10-60 years

The Corporation participated in “Qianzhen Residential Building Project” conducted by the subsidiary CPDC and signed the land sales agreements with its employees. According to the agreements, payment for the land received from employees were deposited in the Bank of Taiwan and recognized as other financial assets - noncurrent while other noncurrent liabilities were recognized, simultaneously.

The fair value of the investment properties was arrived at on the basis of valuation carried out in January 2013, September 2013, December 2014, April 2015, December 2015, March 2017 and July 2017 by independent appraisers, who are not related parties. Lands were valued under market approach, income approach and land developing analysis approach. Buildings were evaluated using Level 3 inputs under market approach, cost approach and income approach. In December 2016, due to the significant change in the present value assessed for several pieces of land, the Corporation, based on the actual land sale prices in the vicinity, reappraised the land value. The important assumptions and fair value were as follows:

	<u>December 31</u>	
	<b>2017</b>	<b>2016</b>
Fair value	<u>\$ 24,625,526</u>	<u>\$ 24,547,890</u>
Depreciation rate (%)	1.90-2.71	1.90-3.60
Discount rate (%)	0.99-2.56	0.99-2.56

All of the Corporation’s investment properties were held under freehold interests.

## 16. BORROWINGS

### a. Short-term borrowings and bank overdraft

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Unsecured loans - interest at 0.42%-0.45% p.a. and 0.35%-0.55% p.a. as of December 31, 2017 and 2016, respectively	\$ 7,490,000	\$ 5,700,000
Bank overdraft (Note 29) - interest at 0.14%-0.27% p.a. and 0.14%-0.36% p.a. as of December 31, 2017 and 2016, respectively	2,094,688	1,605,331
Export bill loans - interest at 0.37%-6.45% p.a. as of December 31, 2017	780,207	-
Loans from related parties (Note 28) - interest at 0.50%-0.51% p.a. and 0.49%-0.50% p.a. as of December 31, 2017 and 2016, respectively	350,000	1,540,000
Letters of credit - interest at 0% p.a. as of December 31, 2017 and 2016	<u>7,871</u>	<u>6,178</u>
	<u>\$ 10,722,766</u>	<u>\$ 8,851,509</u>

### b. Short-term bills payable - As of December 31, 2017

	<b>Amount</b>
Commercial paper - interest at 0.39%-0.43% p.a.	\$ 6,300,000
Less: Unamortized discounts	<u>3,247</u>
	<u>\$ 6,296,753</u>

The above commercial paper was unsecured.

### c. Long-term bills payable

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Commercial paper - interest at 0.52%-0.72% p.a. and 0.41%-0.72% p.a. as of December 31, 2017 and 2016, respectively	\$ 5,900,000	\$ 5,900,000
Less: Unamortized discounts	<u>898</u>	<u>645</u>
	<u>\$ 5,899,102</u>	<u>\$ 5,899,355</u>

The Corporation entered into unsecure commercial paper contracts with Cathay United Bank, CTBC Bank and Taishin Bank in February 2016, March 2016 and May 2016, respectively. The duration of the contracts is four years. In the fourth year, the contracts can only be issued after negotiating between the counterparties. During the cycle of issuance, the Corporation only has to pay service fees and interests. Therefore, the Corporation recorded those commercial papers issued as long-term bills payable.

d. Long-term borrowings

	<u>December 31</u>	
	2017	2016
Unsecured loans		
Due on various dates through April 2021, interest at 0.28%-2.57% p.a. and 0.31%-2.81% p.a. as of December 31, 2017 and 2016, respectively	\$ 11,181,049	\$ 16,201,252
Syndicated bank loans		
Banks of Taiwan and other banks		
Repayable in several installments from February 2020, USD 500,000 thousand with interest at 2.94% p.a. and 2.42% p.a. as of December 31, 2017 and 2016, respectively	14,880,000	16,125,000
Mizuho Bank and other banks		
Repayable in August 2018, USD 150,000 thousand with interest at 2.50%-2.57% p.a. and 1.97%-1.99% p.a. as of December 31, 2017 and 2016, respectively	<u>4,464,000</u>	<u>4,837,500</u>
	30,525,049	37,163,752
Less: Syndicated loan fee	11,414	17,578
Current portion	<u>9,860,615</u>	<u>4,195,825</u>
	<u>\$ 20,653,020</u>	<u>\$ 32,950,349</u>

In July and August 2015, the Corporation entered into syndicated credit facility agreements with Mizuho Bank along with 7 other banks and Bank of Taiwan along with 14 other banks for USD150,000 thousand and USD500,000 thousand unsecured non-revolving credit lines, respectively. Under the agreements, the Corporation should meet some financial ratios and criteria which were based on reviewed consolidated financial statements for the six months ended June 30 and audited annual consolidated financial statements. If the Corporation breaches the financial ratios or the agreements, the management bank can, based on the decision by majority of banks, immediately terminate the credit line, declare the Corporation's outstanding principal and interest to maturity as due, and request the Corporation to settle immediately. The above syndicated bank loans were obtained by the Corporation to hedge the exchange rate fluctuations on equity investments in CSAPH. The Corporation was in compliance with the syndicated credit facility agreements based on its consolidated financial statements for the years ended December 31, 2017 and 2016.

The amount of USD933,548 thousand and JPY10.38 billion (NT\$30,525,049 thousand), which is included in the above bank loans and syndicated bank loans as of December 31, 2017 and the amount of USD933,548 thousand, JPY10.38 billion and AUD180,194 thousand (NT\$37,163,752 thousand), which is included in the above bank loans as of December 31, 2016 were used to hedge the exchange rate fluctuations on equity investments in EAUS, CSAPH, CSVC, CSCAU, and on the available-for-sale financial assets, including Maruichi Steel Tube Ltd. and Yodogawa Steel Works, Ltd.

**17. BONDS PAYABLE**

	<u>December 31</u>	
	2017	2016
7-year unsecured bonds - issued at par in:		
October 2011; repayable in October 2017 and October 2018; interest at 1.57% p.a., payable annually	\$ 5,200,000	\$ 10,400,000
August 2012; repayable in August 2018 and August 2019; interest at 1.37% p.a., payable annually	5,000,000	5,000,000
		(Continued)

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
July 2013; repayable in July 2019 and July 2020; interest at 1.44% p.a., payable annually	\$ 6,300,000	\$ 6,300,000
January 2014; repayable in January 2020 and January 2021; interest at 1.75% p.a., payable annually	6,900,000	6,900,000
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	15,000,000
July 2013; repayable in July 2022 and July 2023; interest at 1.60% p.a., payable annually	9,700,000	9,700,000
January 2014; repayable in January 2023 and January 2024; interest at 1.95% p.a., payable annually	7,000,000	7,000,000
15-year unsecured bonds - issued at par in:		
July 2013; repayable 30% in July 2026 and July 2027, and 40% in July 2028; interest at 1.88% p.a., payable annually	3,600,000	3,600,000
January 2014; repayable 30% in January 2027 and January 2028, and 40% in January 2029; interest at 2.15% p.a., payable annually	<u>9,000,000</u>	<u>9,000,000</u>
	67,700,000	72,900,000
Less: Issuance cost of bonds payable	33,836	43,256
Current portion	<u>7,698,974</u>	<u>5,199,253</u>
	<u>\$ 59,967,190</u>	<u>\$ 67,657,491</u>

(Concluded)

## 18. OTHER PAYABLES

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Salaries and incentive bonus	\$ 3,982,131	\$ 4,320,325
Purchase of equipment	3,013,928	3,047,339
Sales returns and discounts	1,755,008	1,327,779
Employee compensation and remuneration of directors	1,236,147	1,345,116
Consignment payable	939,626	1,014,575
Interest payable	804,809	824,247
Outsourced repair and construction	784,534	523,851
Others	<u>3,737,085</u>	<u>2,525,932</u>
	<u>\$ 16,253,268</u>	<u>\$ 14,929,164</u>

## 19. PROVISIONS - CURRENT

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Onerous contracts (a)	\$ 2,210,635	\$ 2,404,802
Sales discounts (b)	28,469	-
Construction warranties (c)	<u>455</u>	<u>-</u>
	<u>\$ 2,239,559</u>	<u>\$ 2,404,802</u>

	<b>Onerous Contracts</b>	<b>Sales Discounts</b>	<b>Construction Warranties</b>	<b>Total</b>
Balance at January 1, 2017	\$ 2,404,802	\$ -	\$ -	\$ 2,404,802
Recognized	6,222,607	967,906	455	7,190,968
Paid	<u>(6,416,774)</u>	<u>(939,437)</u>	<u>-</u>	<u>(7,356,211)</u>
Balance at December 31, 2017	<u>\$ 2,210,635</u>	<u>\$ 28,469</u>	<u>\$ 455</u>	<u>\$ 2,239,559</u>
Balance at January 1, 2016	\$ 1,699,678	\$ -	\$ -	\$ 1,699,678
Recognized	6,552,255	700,350	-	7,252,605
Paid	<u>(5,847,131)</u>	<u>(700,350)</u>	<u>-</u>	<u>(6,547,481)</u>
Balance at December 31, 2016	<u>\$ 2,404,802</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,404,802</u>

- a. The provision for onerous contracts represents the present value of the future payments that the Corporation was presently obligated to make under non-cancellable onerous purchase contracts, less revenue expected to be earned on the contracts.
- b. The provision for sales discounts, recognized as a reduction of operating revenues, represents the annual rewards estimated on the basis of historical experience, management's judgments and other known reasons.
- c. The provision for construction warranties represents the present value of management's best estimate of the future outflow of economic benefits that will be required under the Corporation's obligations for warranties. The estimate had been made on the basis of historical warranty trends.

## 20. RETIREMENT BENEFIT PLANS

### a. Defined contribution plans

The Corporation adopted a pension plan under the Labor Pension Act (the LPA), which is a state-managed defined contribution plan. Based on the LPA, the Corporation makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

### b. Defined benefit plans

The Corporation adopted the defined benefit plan under the Labor Standards Law, under which pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Corporation makes contributions, equal to a certain percentage of total monthly salaries, to a pension fund, which is deposited in the Bank of Taiwan in the name of and administered by the pension fund monitoring committee. Before the end of each year, the Corporation assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Corporation is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (the Bureau); the Corporation has no right to influence the investment policy and strategy. Starting from August 1999, the Corporation has also made contributions, equal to a certain percentage of salaries of management personnel (vice president above), to another pension fund, which are deposited and administered by the officers' pension fund management committee. The Corporation has also set up rules of consolation payment and holiday benefits, which are defined benefit plans.

The amount of defined benefit plans included in the standalone balance sheets was as follows:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Present value of defined benefit obligation	\$ 22,864,140	\$ 23,398,429
Fair value of plan assets	<u>(16,739,964)</u>	<u>(18,525,309)</u>
Deficit	6,124,176	4,873,120
Net defined benefit liabilities - recognized in other payables	<u>(75,202)</u>	<u>(87,294)</u>
Net defined benefit liabilities	<u>\$ 6,048,974</u>	<u>\$ 4,785,826</u>

Movements of net defined benefit liability were as follows:

	<b>Present Value of the Defined Benefit Obligation</b>	<b>Fair Value of the Plan Assets</b>	<b>Net Defined Benefit Liability</b>
Balance at January 1, 2017	<u>\$ 23,398,429</u>	<u>\$ (18,525,309)</u>	<u>\$ 4,873,120</u>
Service cost			
Current service cost	617,383	-	617,383
Interest expense (income)	<u>204,736</u>	<u>(164,495)</u>	<u>40,241</u>
Recognized in profit or loss	<u>822,119</u>	<u>(164,495)</u>	<u>657,624</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(11,631)	(11,631)
Actuarial loss - changes in demographic assumptions	948	-	948
Actuarial loss - changes in financial assumptions	498,915	-	498,915
Actuarial loss - experience adjustments	<u>690,892</u>	<u>-</u>	<u>690,892</u>
Recognized in other comprehensive income	<u>1,190,755</u>	<u>(11,631)</u>	<u>1,179,124</u>
Contributions from the employer	-	(541,849)	(541,849)
Benefits paid	(2,550,296)	2,506,453	(43,843)
Contributions of employee returning to the Corporation	<u>3,133</u>	<u>(3,133)</u>	<u>-</u>
	<u>(2,547,163)</u>	<u>1,961,471</u>	<u>(585,692)</u>
Balance at December 31, 2017	<u>\$ 22,864,140</u>	<u>\$ (16,739,964)</u>	<u>\$ 6,124,176</u>
Balance at January 1, 2016	<u>\$ 23,883,562</u>	<u>\$ (19,750,838)</u>	<u>\$ 4,132,724</u>
Service cost			
Current service cost	637,677	-	637,677
Interest expense (income)	<u>298,545</u>	<u>(250,194)</u>	<u>48,351</u>
Recognized in profit or loss	<u>936,222</u>	<u>(250,194)</u>	<u>686,028</u>

(Continued)

	<b>Present Value of the Defined Benefit Obligation</b>	<b>Fair Value of the Plan Assets</b>	<b>Net Defined Benefit Liability</b>
<b>Remeasurement</b>			
Return on plan assets (excluding amounts included in net interest)	\$ -	\$ 115,049	\$ 115,049
Actuarial loss - changes in demographic assumptions	2,587	-	2,587
Actuarial loss - changes in financial assumptions	12,209	-	12,209
Actuarial loss - experience adjustments	<u>527,264</u>	<u>-</u>	<u>527,264</u>
Recognized in other comprehensive income	<u>542,060</u>	<u>115,049</u>	<u>657,109</u>
Contributions from the employer	-	(546,185)	(546,185)
Benefits paid	(1,985,114)	1,929,587	(55,527)
Contributions of employee returning to the Corporation	<u>21,699</u>	<u>(22,728)</u>	<u>(1,029)</u>
	<u>(1,963,415)</u>	<u>1,360,674</u>	<u>(602,741)</u>
Balance at December 31, 2016	<u>\$ 23,398,429</u>	<u>\$ (18,525,309)</u>	<u>\$ 4,873,120</u> (Concluded)

An analysis by function of the amounts recognized in profit or loss in respect of the defined benefit plans is as follows:

	<b><u>For the Year Ended December 31</u></b>	
	<b><u>2017</u></b>	<b><u>2016</u></b>
Operating costs	\$ 478,765	\$ 508,582
Operating expenses	178,659	177,281
Others	<u>200</u>	<u>165</u>
	<u>\$ 657,624</u>	<u>\$ 686,028</u>

Through the defined benefit plans under the Labor Standards Law, the Corporation is exposed to the following risks:

1) Investment risk

The plan assets are invested in domestic and foreign equity, debt securities, and bank deposits, etc. The investment is conducted at the discretion of the Bureau of Labor Funds, Ministry of Labor or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.

2) Interest risk

A decrease in the government and corporate bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.

### 3) Salary risk

The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligations were carried out by qualified actuaries. The principal assumptions used for the purposes of the actuarial valuations were as follows:

	<u>December 31</u>	
	<b>2017</b>	<b>2016</b>
Discount rate (%)	0.875	0.875
Expected rate of salary increase (%)	1.875	1.500
Turnover rate (%)	0.000-0.100	0.000-0.200

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

	<u>December 31</u>	
	<b>2017</b>	<b>2016</b>
Discount rate		
0.25% increase	<u>\$ (341,787)</u>	<u>\$ (355,068)</u>
0.25% decrease	<u>\$ 351,621</u>	<u>\$ 365,295</u>
Expected rate of salary increase		
0.25% increase	<u>\$ 342,358</u>	<u>\$ 356,100</u>
0.25% decrease	<u>\$ (334,519)</u>	<u>\$ (347,906)</u>

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	<u>December 31</u>	
	<b>2017</b>	<b>2016</b>
The expected contributions to the plan for the next year	<u>\$ 535,793</u>	<u>\$ 548,354</u>
The average duration of the defined benefit obligation	6.3 years	6.4 years

## 21. EQUITY

### a. Share capital

	<u>December 31</u>	
	<b>2017</b>	<b>2016</b>
Number of shares authorized (in thousands)	<u>17,000,000</u>	<u>17,000,000</u>
Shares authorized	<u>\$ 170,000,000</u>	<u>\$ 170,000,000</u>

(Continued)

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Number of shares issued and fully paid (in thousands)		
Ordinary shares (in thousands)	15,734,861	15,734,861
Preference shares (in thousands)	<u>38,268</u>	<u>38,268</u>
	<u>15,773,129</u>	<u>15,773,129</u>
Shares issued		
Ordinary shares	\$ 157,348,610	\$ 157,348,610
Preference shares	<u>382,680</u>	<u>382,680</u>
	<u>\$ 157,731,290</u>	<u>\$ 157,731,290</u>

(Concluded)

1) Ordinary shares

Fully paid ordinary shares, which have a par value of NT\$10, carry one vote per share and the right to dividends.

2) Preference shares

Preference shareholders have the following entitlements or rights:

- a) 14% annual dividends, with dividend payments ahead of those to ordinary shareholders;
- b) Preference over ordinary shares in future payment of dividends in arrears;
- c) The sequence and percentage of appropriation of residual property are the same with ordinary shares;
- d) The same rights as ordinary shareholders, except the right to vote for directors; and
- e) Redeemable by the Corporation and convertible to ordinary shares by preference shareholders with the ratio of 1:1.

3) 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 MOEA, the largest shareholder of the Corporation, the Corporation issued 126,512,550 units of GDR. The depositary receipts then increased by 6,924,354 units resulting from the capital increase out of retained earnings. Each unit represents 20 shares of the Corporation's ordinary shares and the issued GDRs account for the Corporation's ordinary shares totaling 2,668,738,370 shares (including 290 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, 2017 and 2016, the outstanding depositary receipts were 1,019,241 units and 1,055,002 units, equivalent to 20,385,130 ordinary shares (including 310 fractional shares) and 21,100,350 ordinary shares (including 310 fractional shares), which both represented 0.13% of the outstanding ordinary shares.

b. Capital surplus

	<u>December 31</u>	
	<u>2017</u>	<u>2016</u>
May be used to offset deficits, distribute cash or transfer to share capital (see 1 below)		
Additional paid-in capital	\$ 31,154,766	\$ 31,154,766
Treasury share transactions	329,296	301,230
Others	<u>8,099</u>	<u>8,099</u>
	<u>31,492,161</u>	<u>31,464,095</u>
May be used to offset deficits only (see 2 below)		
Treasury share transactions	6,148,057	5,880,812
Share of change in equity of subsidiaries	467,953	441,368
Share of change in equity of associates	<u>102,911</u>	<u>21,191</u>
	<u>6,718,921</u>	<u>6,343,371</u>
	<u>\$ 38,211,082</u>	<u>\$ 37,807,466</u>

- 1) The capital surplus could be used to offset a deficit and distribute as cash dividends or transfer to capital when the Corporation has no deficit (limited to a certain percentage of the Corporation's paid-in capital and once a year).
- 2) The capital surplus included the share of change in equity of subsidiaries recognized without any actual acquisition or disposal of subsidiaries' share by the Corporation or the adjustments to capital surplus of subsidiaries under equity method.

c. Retained earnings and dividend policy

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

- 1) 10% as legal reserve;
- 2) Preference share dividends at 14% of par value;
- 3) Ordinary share dividends at 14% of par value; and
- 4) The remainder, if any, as additional dividends divided equally between the holders of preference and ordinary shares.

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

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 shares.

Appropriation of earnings to legal reserve could be made until the legal reserve equals the Corporation's paid-in capital. Legal reserve may be used to offset deficit. If the Corporation has no deficit 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.

Under Rule issued by the FSC and the directive titled “Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs”, the Corporation should appropriate or reverse a special reserve. In addition, if the market price of the Corporation’s ordinary 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. Any special reserve appropriated may be reversed to the extent of the increase in valuation.

Except for non-ROC resident shareholders, all shareholders receiving the dividends are entitled to a tax credit equal to their proportionate share of the income tax paid by the Corporation.

The appropriations of earnings for 2016 and 2015 had been approved in the shareholders’ meeting in June 2017 and 2016, respectively. The appropriations and dividends per share were as follows:

	<b>Appropriation of Earnings</b>		<b>Dividend Per Share (NT\$)</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Appropriation of legal reserve	\$ 1,603,837	\$ 760,472		
Appropriation (reversal) of special reserve	(2,130,614)	2,654,116		
Preference shares				
Cash dividends	53,575	53,575	<u>\$ 1.40</u>	<u>\$ 1.40</u>
Ordinary shares				
Cash dividends	13,374,632	7,867,430	<u>\$ 0.85</u>	<u>\$ 0.50</u>

The appropriations of earnings for 2017 had been proposed by the Corporation’s board of directors on March 28, 2018 as follows:

	<b>Appropriations of Earnings</b>	<b>Dividends Per Share (NT\$)</b>
Appropriation of legal reserve	\$ 1,690,558	
Reversal of special reserve	(5,992)	
Preference shares		
Cash dividends	53,575	<u>\$ 1.40</u>
Ordinary shares		
Cash dividends	13,846,677	<u>\$ 0.88</u>

The appropriations of earnings for 2017 are subject to the resolution of the shareholders’ meeting to be held in June 2018.

d. Special reserves

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Balance, beginning of year	\$ 29,786,846	\$ 27,132,983
Appropriation in respect of		
The difference between market value and carrying amount of the Corporation’s shares held by subsidiaries	-	2,654,116
Reversal of special reserve		
The rise in market value of the Corporation’s shares held by subsidiaries	(2,130,614)	-
Disposal of property, plant and equipment	<u>(363)</u>	<u>(253)</u>
Balance, end of year	<u>\$ 27,655,869</u>	<u>\$ 29,786,846</u>

e. Other equity items

1) Exchange differences on translating foreign operations

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Balance, beginning of year	\$ (32,048)	\$ 1,198,796
Exchange differences arising on translating the net investment in foreign operations	(4,015,339)	(1,819,963)
Gains and losses on hedging instruments designated in hedges of the net investment in foreign operations	2,288,725	952,457
Share of exchange difference of subsidiaries and associates accounted for using the equity method	<u>(351,931)</u>	<u>(363,338)</u>
Balance, end of year	<u>\$ (2,110,593)</u>	<u>\$ (32,048)</u>

2) Unrealized gains and losses on available-for-sale financial assets

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Balance, beginning of year	\$ 8,650,573	\$ 6,573,348
Unrealized gains on available-for-sale financial assets	1,134,199	3,048,382
Reclassified to profit or loss on disposal of available-for-sale financial assets	(771,464)	(603,519)
Impairment loss on available-for-sale financial assets	532,792	488,299
Share of unrealized gains and losses on available-for-sale financial assets of subsidiaries and associates accounted for using the equity method	<u>68,763</u>	<u>(855,937)</u>
Balance, end of year	<u>\$ 9,614,863</u>	<u>\$ 8,650,573</u>

3) The effective portion of gains and losses on hedging instruments in a cash flow hedge

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Balance, beginning of year	\$ 62,181	\$ 152,264
Fair value changes of hedging instruments	(56,570)	(58,378)
Income tax relating to fair value changes	9,617	9,924
Fair value changes of hedging instruments transferred to profit or loss	-	2,458
Income tax relating to amounts transferred to profit or loss	-	(418)
Fair value changes of hedging instruments transferred to adjust carrying amount of hedged items	26,018	(13,440)
Income tax relating to amounts transferred to adjust carrying amount of hedged items	(4,423)	2,285
Share of cash flow hedge of subsidiaries and associates accounted for using the equity method	<u>(168,158)</u>	<u>(32,514)</u>
Balance, end of year	<u>\$ (131,335)</u>	<u>\$ 62,181</u>

f. Treasury shares

Purpose of Treasury Shares	Thousand Shares			December 31	
	Beginning of Year	Addition	Reduction	Thousand Shares	Book Value
For the year ended December 31, 2017					
Shares held by subsidiaries reclassified from investments accounted for using equity method to treasury shares	<u>318,007</u>	<u>804</u>	<u>3,645</u>	<u>315,166</u>	<u>\$8,532,389</u>
For the year ended December 31, 2016					
Shares held by subsidiaries reclassified from investments accounted for using equity method to treasury shares	<u>318,036</u>	<u>-</u>	<u>29</u>	<u>318,007</u>	<u>\$8,576,842</u>

The Corporation's shares acquired and held by subsidiaries for the purpose of investment are accounted for as treasury shares (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 ordinary shareholders. The increase of treasury shares was due to acquisition of the Corporation's shares by subsidiaries in which the Corporation has less than 50% shareholding. The decrease of treasury shares was mainly due to subsidiaries' sale of the Corporation's shares and change in percentage of ownership.

For the year ended December 31, 2017, a total of 4,490 thousand shares of the Corporation held by its subsidiaries were sold for proceeds of NT\$114,019 thousand. Calculated by shareholding percentage, the proceeds of treasury shares sold were NT\$92,114 thousand, and after deducting book values, the remainders amounted to NT\$28,066 thousand, recorded as addition to the capital surplus. As of December 31, 2017 and 2016, the market values of the treasury shares calculated by combined shareholding percentage were NT\$7,801,566 thousand and NT\$7,840,025 thousand, respectively.

## 22. OPERATING REVENUES

	For the Year Ended December 31	
	2017	2016
Revenues from the sale of goods	\$ 201,669,087	\$ 163,894,831
Revenues from the rendering of services	1,524,437	1,590,451
Other revenues	<u>3,905,106</u>	<u>3,441,793</u>
	<u>\$ 207,098,630</u>	<u>\$ 168,927,075</u>

## 23. PROFIT BEFORE INCOME TAX

Profit before income tax consisted of following items:

a. Other income

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Rental income	\$ 418,182	\$ 395,808
Dividend income	335,909	350,156
Interest income	146,636	124,145
Royalty income	125,314	119,479
Others	<u>357,435</u>	<u>333,349</u>
	<u>\$ 1,383,476</u>	<u>\$ 1,322,937</u>

b. Other gains and losses

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Gain on disposal of investments	\$ 771,464	\$ 603,519
Net foreign exchange gain	423,946	187,062
Impairment loss	(573,103)	(488,299)
Loss on disposal of property, plant and equipment	(9,721)	(21,862)
Other losses	<u>(343,668)</u>	<u>(314,649)</u>
	<u>\$ 268,918</u>	<u>\$ (34,229)</u>

The components of net foreign exchange gain were as follows:

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Foreign exchange gain	\$ 1,197,237	\$ 888,972
Foreign exchange loss	<u>(773,291)</u>	<u>(701,910)</u>
Net exchange gain	<u>\$ 423,946</u>	<u>\$ 187,062</u>

The components of impairment loss were as follows:

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Available-for-sale financial assets	\$ 532,792	\$ 488,299
Investments accounted for using equity method	<u>40,311</u>	<u>-</u>
	<u>\$ 573,103</u>	<u>\$ 488,299</u>

c. Finance costs

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Interest of bonds payable	\$ 1,209,980	\$ 1,281,429
Interest of short-term borrowings and bank overdraft	770,132	780,590
Interest of bills payable	<u>88,964</u>	<u>59,060</u>

(Continued)

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Total interest expense for financial liabilities measured at amortized cost	\$ 2,069,076	\$ 2,121,079
Less: Amounts included in the cost of qualifying assets	<u>150,022</u>	<u>131,027</u>
	<u>\$ 1,919,054</u>	<u>\$ 1,990,052</u> (Concluded)

Information about capitalized interest was as follows:

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Capitalized amounts	\$ 150,022	\$ 131,027
Capitalized annual rates (%)	1.27-1.55	1.25-1.57

d. Depreciation and amortization

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Property, plant and equipment	\$ 17,372,998	\$ 18,387,885
Investment properties	21,879	21,832
Intangible assets	<u>9,975</u>	<u>10,951</u>
	<u>\$ 17,404,852</u>	<u>\$ 18,420,668</u>
An analysis of depreciation by function		
Operating costs	\$ 16,299,935	\$ 17,428,786
Operating expenses	1,072,979	958,919
Others	<u>21,963</u>	<u>22,012</u>
	<u>\$ 17,394,877</u>	<u>\$ 18,409,717</u>
An analysis of amortization by function		
Operating costs	\$ 9,956	\$ 10,923
Operating expenses	<u>19</u>	<u>28</u>
	<u>\$ 9,975</u>	<u>\$ 10,951</u>

e. Operating expenses directly related to investment properties

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Direct operating expenses of investment properties that generated rental income	<u>\$ 53,852</u>	<u>\$ 53,529</u>

f. Employee benefits

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Short-term employee benefits		
Salaries	\$ 16,978,709	\$ 16,980,848
Labor and health insurance	928,497	914,804
Others	<u>551,301</u>	<u>477,983</u>
	<u>18,458,507</u>	<u>18,373,635</u>
Post-employment benefits		
Defined contribution plans	233,755	206,846
Defined benefit plans (Note 20)	<u>657,624</u>	<u>686,028</u>
	<u>891,379</u>	<u>892,874</u>
Termination benefits	<u>77,106</u>	<u>88,947</u>
	<u>\$ 19,426,992</u>	<u>\$ 19,355,456</u>
An analysis by function		
Operating costs	\$ 15,916,983	\$ 15,728,465
Operating expenses	3,344,099	3,468,832
Others	<u>165,910</u>	<u>158,159</u>
	<u>\$ 19,426,992</u>	<u>\$ 19,355,456</u>

As of December 31, 2017 and 2016, the Corporation's number of employees were 10,236 and 10,287, respectively, and the headcount basis was the same as the basis of employee benefits expenses.

The Corporation distributed employees' compensation and remuneration of directors at the rates no less than 0.1% and no higher than 0.15%, respectively, of the pre-tax profit prior to deducting employees' compensation and remuneration of directors.

The employees' compensation and remuneration of directors for the years ended December 31, 2017 and 2016 which have been approved by the Corporation's board of directors in March 2018 and 2017, respectively, were as follows:

Amount

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Employees' compensation	\$ 1,213,396	\$ 1,320,926
Remuneration of directors	22,751	24,767

Accrual Rate

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Employees' compensation (%)	6.14	6.82
Remuneration of directors (%)	0.12	0.13

If there is a change in the proposed amounts after the annual standalone financial statements are authorized for issue, the difference is recorded as a change in accounting estimate.

There was no difference between the actual amounts of employees' compensation and remuneration of directors paid and the amounts recognized in the standalone financial statements for the years ended December 31, 2016 and 2015.

Information on the employees' compensation and remuneration of directors resolved by the board of directors in 2018 and 2017 are available at the Market Observation Post System website of the Taiwan Stock Exchange.

## 24. INCOME TAX

### a. Income tax recognized in profit or loss

The major components of income tax were as follows:

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Current tax		
In respect of the current year	\$ 1,880,933	\$ 1,550,757
Income tax on unappropriated earnings	229,337	-
In respect of prior years	(181,498)	242,076
Deferred tax		
In respect of the current year	(115,766)	204,180
In respect of prior years	<u>(197,930)</u>	<u>(2,171)</u>
	<u>\$ 1,615,076</u>	<u>\$ 1,994,842</u>

The reconciliation of accounting profit and income tax expense was as follows:

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Profit before income tax	<u>\$ 18,520,664</u>	<u>\$ 18,033,211</u>
Income tax expense calculated at the statutory rate	\$ 3,148,513	\$ 3,065,646
Non-deductible expenses in determining taxable income	9,945	8,868
Tax-exempt income	(1,383,223)	(1,311,022)
Income tax on unappropriated earnings	229,337	-
Investment credits in respect of the current year	(10,068)	(8,555)
Adjustments for prior years' tax in respect of the current year	<u>(379,428)</u>	<u>239,905</u>
	<u>\$ 1,615,076</u>	<u>\$ 1,994,842</u>

The applicable tax rate used by the Corporation is 17%.

In February 2018, the President announced that the Income Tax Act of the Republic of China was amended. Starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. Deferred tax assets and deferred tax liabilities recognized as of December 31, 2017 are expected to be adjusted and would increase by NT\$556,556 thousand and NT\$124,051 thousand, respectively. In addition, the tax rate applicable to unappropriated earnings of 2018 will be reduced from 10% to 5%.

As the status of appropriations of earnings for 2018 is uncertain, the potential income tax consequences of 2017 unappropriated earnings are not reliably determinable.

b. Income tax recognized directly in equity

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Current tax		
Reversal of special reserve due to disposal of property, plant and equipment	\$ 92	\$ 64
Deferred tax		
Reversal of special reserve due to disposal of property, plant and equipment	(92)	(64)
	<u>\$ -</u>	<u>\$ -</u>

c. Income tax benefit recognized in other comprehensive income

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Fair value changes of cash flow hedges	\$ 9,617	\$ 9,924
Fair value changes of hedging instruments in cash flow hedges transferred to profit or loss	-	(418)
Remeasurement on defined benefit plan	200,451	111,708
Fair value changes of hedging instruments in cash flow hedges transferred to adjust carrying amounts of hedged items	(4,423)	2,285
	<u>\$ 205,645</u>	<u>\$ 123,499</u>

d. Current tax

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Current tax liabilities		
Income tax payable	<u>\$ 2,103,954</u>	<u>\$ 1,529,584</u>

e. Deferred tax assets and liabilities

Movements of deferred tax assets and liabilities were as follows:

For the Year Ended December 31, 2017

	<b>Balance, Beginning of Year</b>	<b>Recognized in Profit or Loss</b>	<b>Recognized in Other Comprehensive Income</b>	<b>Recognized Directly in Equity</b>	<b>Balance, End of Year</b>
<u>Deferred tax assets</u>					
Temporary differences					
Unrealized loss on inventories	\$ 737,346	\$ (93,818)	\$ -	\$ -	\$ 643,528
Defined benefit pension plan	828,430	12,229	200,451	-	1,041,110
Impairment loss on financial assets	126,361	90,574	-	-	216,935
Provision	408,816	(33,008)	-	-	375,808
Unrealized gain on the transactions with subsidiaries and associates	190,516	(25,018)	-	-	165,498

(Continued)

	Balance, Beginning of Year	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Recognized Directly in Equity	Balance, End of Year
Unrealized settlement loss on foreign exchange forward for hedging	\$ 85,239	\$ (13,520)	\$ -	\$ -	\$ 71,719
Unrealized construction loss	-	231,932	-	-	231,932
Estimated preferential severance pay	20,214	(1,617)	-	-	18,597
Foreign investment loss	461,423	81,355	-	-	542,778
Others	78,129	(14,425)	-	-	63,704
	<u>\$ 2,936,474</u>	<u>\$ 234,684</u>	<u>\$ 200,451</u>	<u>\$ -</u>	<u>\$ 3,371,609</u>
<b>Deferred tax liabilities</b>					
Temporary differences					
Land value increment tax	\$ 10,011,916	\$ -	\$ -	\$ -	\$ 10,011,916
Difference between tax reporting and financial reporting - depreciation methods	669,334	(84,397)	-	-	584,937
Unrealized exchange gains, net	54,670	9,334	-	-	64,004
Unrealized gain on revaluation increment	32,868	-	-	(92)	32,776
Unrealized gain on cash flow hedge	13,056	-	(5,194)	-	7,862
Others	17,735	(3,949)	-	-	13,786
	<u>\$ 10,799,579</u>	<u>\$ (79,012)</u>	<u>\$ (5,194)</u>	<u>\$ (92)</u>	<u>\$ 10,715,281</u>

(Concluded)

**For the Year Ended December 31, 2016**

	Balance, Beginning of Year	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Recognized Directly in Equity	Balance, End of Year
<b>Deferred tax assets</b>					
Temporary differences					
Unrealized loss on inventories	\$ 1,233,624	\$ (496,278)	\$ -	\$ -	\$ 737,346
Defined benefit pension plan	702,563	14,159	111,708	-	828,430
Impairment loss on financial assets	43,350	83,011	-	-	126,361
Provision	288,945	119,871	-	-	408,816
Unrealized gain on the transactions with subsidiaries and associates	125,143	65,373	-	-	190,516
Unrealized settlement loss on foreign exchange forward for hedging	93,805	(8,566)	-	-	85,239
Estimated preferential severance pay	28,989	(8,775)	-	-	20,214
Foreign investment loss	264,405	197,018	-	-	461,423
Others	59,135	18,994	-	-	78,129
	2,839,959	(15,193)	111,708	-	2,936,474
Investment credits	301,020	(301,020)	-	-	-
	<u>\$ 3,140,979</u>	<u>\$ (316,213)</u>	<u>\$ 111,708</u>	<u>\$ -</u>	<u>\$ 2,936,474</u>
<b>Deferred tax liabilities</b>					
Temporary differences					
Land value increment tax	\$ 10,011,916	\$ -	\$ -	\$ -	\$ 10,011,916
Difference between tax reporting and financial reporting - depreciation methods	782,383	(113,049)	-	-	669,334
Unrealized exchange gains, net	51,991	2,679	-	-	54,670
Unrealized gain on revaluation increment	32,932	-	-	(64)	32,868
Unrealized gain on cash flow hedge	24,847	-	(11,791)	-	13,056
Others	21,569	(3,834)	-	-	17,735
	<u>\$ 10,925,638</u>	<u>\$ (114,204)</u>	<u>\$ (11,791)</u>	<u>\$ (64)</u>	<u>\$ 10,799,579</u>

f. Integrated income tax

	<u>December 31</u>	
	<b>2017</b>	<b>2016</b>
Unappropriated earnings		
Before January 1, 1998	Note	\$ 15,954
On and after January 1, 1998	Note	<u>17,180,087</u>
		<u>\$ 17,196,041</u>
Imputation credit accounts (ICA)	Note	<u>\$ 484,021</u>
	<b><u>For the Year Ended December 31</u></b>	
	<b>2017</b>	<b>2016</b>
Tax creditable ratio for distribution of earnings (%)	Note	14.21

Note: Since the amended Income Tax Act announced in February 2018 abolished the imputation tax system, the related information about integrated income tax in 2017 is no longer applicable.

g. Income tax assessments

The Corporation's income tax returns through 2015 have been assessed by the tax authorities.

## 25. EARNINGS PER SHARE

The net profit and weighted average number of ordinary shares outstanding in the computation of earnings per share were as follows:

Net profit for the year

	<b><u>For the Year Ended December 31</u></b>	
	<b>2017</b>	<b>2016</b>
Net profit for the year	\$ 16,905,588	\$ 16,038,369
Less: Dividends on preference shares	<u>53,575</u>	<u>53,575</u>
Net profit used in computation of basic earnings per share	<u>\$ 16,852,013</u>	<u>\$ 15,984,794</u>

Weighted average number of ordinary shares outstanding (in thousand shares)

	<b><u>For the Year Ended December 31</u></b>	
	<b>2017</b>	<b>2016</b>
Weighted average number of ordinary shares in computation of basic earnings per share	15,420,290	15,416,854
Effect of dilutive potential ordinary shares:		
Employees' compensation	<u>60,344</u>	<u>56,949</u>
Weighted average number of ordinary shares used in computation of diluted earnings per share	<u>15,480,634</u>	<u>15,473,803</u>

Preference shares were not included in the calculation of diluted earnings per share for the years ended December 31, 2017 and 2016 because of their anti-dilutive effect.

Since the Corporation is allowed to settle the compensation paid to employees by cash or shares, the Corporation presumes that the entire amount of the compensation would be settled in shares and the resulting potential shares are included in the weighted average number of shares outstanding used in the computation of diluted earnings per share, as the shares have a dilutive effect. Such dilutive effect of the potential shares is included in the computation of diluted earnings per share until the shareholders resolve the number of shares to be distributed to employees at their meeting in the following year.

## 26. CAPITAL MANAGEMENT

The management of the Corporation optimized the balances of working capital, debt and equity as well as the related cost through monitoring the Corporation's capital structure and capital demand by reviewing quantitative data and considering industry characteristics, domestic and international economic environment, interest rate fluctuation, strategies for development, etc.

Except for Note 16, the Corporation is not subject to any externally imposed capital requirements.

## 27. FINANCIAL INSTRUMENTS

### a. Fair value of financial instruments that are not measured at fair value

The management believes the carrying amounts of financial instruments that are not measured at fair value, such as cash and cash equivalent, receivables and payables approximate their fair values.

### b. Fair value of financial instruments that are measured at fair value on a recurring basis

#### 1) Fair value hierarchy

	Level 1	Level 2	Level 3	Total
<u>December 31, 2017</u>				
Available-for-sale financial assets				
Domestic listed shares	\$ 8,997,910	\$ -	\$ -	\$ 8,997,910
Foreign listed shares	2,112,543	-	-	2,112,543
Domestic emerging market shares and unlisted shares	-	-	821,594	821,594
Foreign unlisted shares	-	-	4,598,246	4,598,246
	<u>\$ 11,110,453</u>	<u>\$ -</u>	<u>\$ 5,419,840</u>	<u>\$ 16,530,293</u>
Derivative financial assets for hedging				
Foreign exchange forward contracts	<u>\$ -</u>	<u>\$ 57,052</u>	<u>\$ -</u>	<u>\$ 57,052</u>

(Continued)

	Level 1	Level 2	Level 3	Total
Derivative financial liabilities for hedging Foreign exchange forward contracts	\$ -	\$ 28,786	\$ -	\$ 28,786
<u>December 31, 2016</u>				
Available-for-sale financial assets				
Domestic listed shares	\$ 7,616,199	\$ -	\$ -	\$ 7,616,199
Foreign listed shares	2,434,099	-	-	2,434,099
Domestic emerging market shares and unlisted shares	-	-	1,287,029	1,287,029
Foreign unlisted shares	-	-	4,994,765	4,994,765
	<u>\$ 10,050,298</u>	<u>\$ -</u>	<u>\$ 6,281,794</u>	<u>\$ 16,332,092</u>
Derivative financial assets for hedging Foreign exchange forward contracts	\$ -	\$ 34,236	\$ -	\$ 34,236
Derivative financial liabilities for hedging Foreign exchange forward contracts	\$ -	\$ 15,869	\$ -	\$ 15,869
				(Concluded)

There was no transfer between Level 1 and Level 2 for the years ended December 31, 2017 and 2016.

2) Reconciliation of Level 3 fair value measurements of financial assets

	<u>For the Year Ended December 31</u>	
	2017	2016
Balance, beginning of year	\$ 6,281,794	\$ 7,994,052
Recognized in profit or loss - other gains and losses	(532,792)	(488,299)
Recognized in other comprehensive income - unrealized gains and losses on available-for-sale financial assets	471,487	2,478,780
Purchases	-	193,268
Reclassification	(50,000)	-
Transfer out of Level 3	(749,365)	(3,893,740)
Capital reduction	(1,284)	(2,267)
Balance, end of year	<u>\$ 5,419,840</u>	<u>\$ 6,281,794</u>

3) Valuation techniques and inputs applied for the purpose of measuring Level 2 fair value measurement.

Derivative instruments - A discounted cash flow analysis was performed using the applicable yield curve for the duration of the derivative instruments for foreign exchange forward contracts. The estimates and assumptions used by the Corporation were consistent with those that market

participants would use in setting a price for the financial instrument.

4) Valuation techniques and inputs applied for the purpose of measuring Level 3 fair value measurement

- a) For emerging market shares, fair values were estimated on the basis of the closing price and liquidity.
- b) For domestic unlisted shares and some foreign unlisted shares, fair values were determined based on industry types, valuations of similar companies and operations, or by using the net worth of companies.
- c) For other foreign unlisted shares, fair values were measured under income approach and calculated by the present value of the expected return by using discounted cash flow model. Significant unobservable inputs were as follows; if the long-term pre-tax operating income rate increased or discount rate decreased, the fair value of the investments would increase.

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Long-term pre-tax operating income rate (%)	11.08-52.06	19.13-51.68
Discount rate (%)	6.52-10.37	6.52-8.24

If the below input to the valuation model was changed to reflect reasonably possible alternative assumptions while all other variables were held constant, the fair value of the equity investment would increase (decrease) as follows:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Long-term pre-tax operating income rate		
Increase 1%	<u>\$ 199,149</u>	<u>\$ 104,370</u>
Decrease 1%	<u>\$ (200,299)</u>	<u>\$ (124,143)</u>
Discount rate		
Increase 1%	<u>\$ (579,987)</u>	<u>\$ (511,318)</u>
Decrease 1%	<u>\$ 716,859</u>	<u>\$ 637,710</u>

c. Categories of financial instruments

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
<b>Financial assets</b>		
Derivative instruments in designated hedge accounting relationships	\$ 57,052	\$ 34,236
Loans and receivables 1)	25,814,046	24,287,988
Available-for-sale financial assets	16,530,293	16,332,092
<b>Financial liabilities</b>		
Derivative instruments in designated hedge accounting relationships	28,786	15,869
Measured at amortized cost 2)	144,693,866	146,507,246

- 1) The balances included loans and receivables measured at amortized cost, which comprise cash and cash equivalents, notes and accounts receivable (including related parties), other receivables (including loans to related parties), debts investments with no active market, refundable deposits and other financial assets.
- 2) The balances included financial liabilities measured at amortized cost, which comprise short-term borrowings and bank overdraft, short-term bills payable, accounts payable (including related parties), other payables, bonds payable, long-term bank borrowings, long-term bills payable and deposits received.

d. Financial risk management objectives and policies

The Corporation places great emphasis on financial risk management. By tracking and managing the market risk, credit risk, and liquidity risk efficiently, the management ensured that the Corporation was equipped with sufficient and lower cost working capital, which reduced financial uncertainty that may have adverse effects on the operations.

The significant financial activities of the Corporation are reviewed by the board of directors in accordance with relevant regulations and internal controls. The finance department follows the accountability and related financial risk control procedures required by the Corporation for executing financial projects. Compliance with policies and exposure limits is continually reviewed by the internal auditors. The Corporation did not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

1) Market risk

a) Foreign currency risk

The Corporation was exposed to foreign currency risk due to sales, purchases, construction undertaking, capital expenditures and equity investments denominated in foreign currencies. Exchange rate exposures were managed within approved policy parameters utilizing foreign exchange forward contracts, foreign deposits or foreign borrowings.

The carrying amounts of the significant non-functional currency monetary assets and liabilities at the end of the reporting period were referred to Note 31.

The Corporation was mainly exposed to the currency USD. The following table details the sensitivity to a 1% increase in NTD against the relevant foreign currency.

	<b>USD Impact</b>	
	<b>For the Year Ended</b>	
	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Pre-tax profit or loss	\$ 9,302 i	\$ 30,640 i
Equity	272,970 ii	294,173 ii

i. These were mainly attributable to the exposure of cash, outstanding receivables and payables, deposits received and short-term borrowings which were not hedged at the balance sheet date.

ii. These were attributable to other financial assets, which were designated as hedging instruments in cash flow hedges, and changes in fair value of designated hedging instruments of hedges of net investments in foreign operations.

In management's opinion, the sensitivity analysis was unrepresentative of the inherent foreign exchange risk because the exposure at the balance sheet date did not reflect the exposure during the period.

b) Interest rate risk

The Corporation was exposed to interest rate risk because the Corporation borrowed funds at both fixed and floating interest rates. The risk is managed by the Corporation by maintaining an appropriate mix of fixed and floating rate borrowings.

The carrying amounts of the Corporation's financial liabilities with exposure to interest rates at the balance sheet date were as follows:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
Fair value interest rate risk		
Financial liabilities	\$ 73,962,917	\$ 72,856,744
Cash flow interest rate risk		
Financial liabilities	47,135,503	51,897,038

If interest rates had been 1% higher/lower and all other variables were held constant, the Corporation's pre-tax profit for the years ended December 31, 2017 and 2016 would have been lower/higher by NT\$471,355 thousand and NT\$518,970 thousand, respectively.

c) Other price risk

The Corporation was exposed to equity price risk through its investments in domestic and foreign listed shares.

If equity prices had been 1% higher/lower, the pre-tax other comprehensive income for the years ended December 31, 2017 and 2016 would have been higher/lower by NT\$111,105 thousand and NT\$100,503 thousand, respectively, as a result of the fair value changes of available-for-sale financial assets.

2) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Corporation. As at the balance sheet date, the Corporation's maximum exposure to credit risk is the carrying amount of the financial assets on the standalone balance sheets and the amount of contingent liabilities in relation to financial guarantee issued by the Corporation.

The Corporation does not expect significant credit risk because the counterparties are creditworthy financial institutions and companies. The Corporation did transactions with a large number of unrelated customers and no concentration of credit risk was observed.

As of December 31, 2017 and 2016, the maximum credit risk of off-balance-sheet guarantees provided to subsidiaries and investees of co-investment for procurement and investment compliance was NT\$27,224,137 thousand and NT\$17,304,533 thousand.

3) Liquidity risk

The management of the Corporation continuously monitors the movement of cash flows, net cash position, significant capital expenditures and the utilization of bank loan commitments to control proportion of the long-term and short-term bank loans or issue bonds payable, and ensures

compliance with loan covenants.

The following table details the undiscounted cash flows of the Corporation's remaining contractual maturity for its non-derivative financial liabilities from the earliest date on which they can be required to pay. The tables included both interest and principal cash flows. Specifically, bank loans with a repayment on demand clause were included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities were based on the agreed repayment dates.

	<b>Less Than 1 Year</b>	<b>1-5 Years</b>	<b>Over 5 Years</b>	<b>Total</b>
<u>December 31, 2017</u>				
Non-derivative financial liabilities				
Non-interest bearing liabilities	\$ 21,407,773	\$ -	\$ -	\$ 21,407,773
Variable interest rate liabilities	21,375,942	27,193,868	-	48,569,810
Fixed interest rate liabilities	15,818,304	38,722,498	25,881,204	80,422,006
Financial guarantee liabilities	<u>191,898</u>	<u>12,491,760</u>	<u>14,540,479</u>	<u>27,224,137</u>
	<u>\$ 58,793,917</u>	<u>\$ 78,408,126</u>	<u>\$ 40,421,683</u>	<u>\$ 177,623,726</u>
<u>December 31, 2016</u>				
Non-derivative financial liabilities				
Non-interest bearing liabilities	\$ 19,216,365	\$ -	\$ -	\$ 19,216,365
Variable interest rate liabilities	13,983,728	39,922,061	-	53,905,789
Fixed interest rate liabilities	7,145,324	34,599,345	38,813,783	80,558,452
Financial guarantee liabilities	<u>4,108,256</u>	<u>197,622</u>	<u>12,998,655</u>	<u>17,304,533</u>
	<u>\$ 44,453,673</u>	<u>\$ 74,719,028</u>	<u>\$ 51,812,438</u>	<u>\$ 170,985,139</u>

The amounts included above for financial guarantee contracts were the maximum amounts the Corporation could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Corporation considers that it is more likely than not that none of the amount will be payable under the arrangement.

## 28. TRANSACTIONS WITH RELATED PARTIES

- a. The name of the company and its relationship with the Corporation

<u>Company</u>	<u>Relationship</u>
C. S. Aluminium Corporation (CSAC)	Subsidiaries
China Steel Express Corporation (CSE)	Subsidiaries
China Steel Chemical Corporation (CSCC)	Subsidiaries
China Steel Global Trading Corporation (CSGT)	Subsidiaries
CHC Resources Corporation (CHC)	Subsidiaries

(Continued)

Company	Relationship
China Ecotek Corporation (CEC)	Subsidiaries
China Steel Structure Co., Ltd. (CSSC)	Subsidiaries
Chung Hung Steel Corporation Ltd. (CHSC)	Subsidiaries
China Steel Machinery Corporation (CSMC)	Subsidiaries
Gains Investment Corporation (GIC)	Subsidiaries
China Steel Security Corporation (CSS)	Subsidiaries
China Prosperity Development Corp. (CPDC)	Subsidiaries
InfoChamp Systems Corporation (ICSC)	Subsidiaries
China Steel Management Consulting Corporation	Subsidiaries
Himag Magnetic Corporation	Subsidiaries
Dragon Steel Corporation (DSC)	Subsidiaries
China Steel Sumikin Vietnam Joint Stock Company (CSVC)	Subsidiaries
Chung Mao Trading (BVI) Co., Ltd.	Subsidiaries
Chung Mao Trading (Samoa) Co., Ltd.	Subsidiaries
CSGT (Singapore) Pte. Ltd.	Subsidiaries
CSE Transport Corporation (Panama) (CSEP)	Subsidiaries
Mentor Consulting Corporation	Subsidiaries
Steel Castle Technology Corporation	Subsidiaries
Union Steel Development Corp.	Subsidiaries
Betacera Inc. (BETA)	Subsidiaries
Wabo Global Trading Corporation	Subsidiaries
Universal Exchange Inc.	Subsidiaries
United Steel Engineering & Construction Corp. (USECC)	Subsidiaries
Thintech Materials Technology Co., Ltd. (TMTC)	Subsidiaries
CSGT International Corporation	Subsidiaries
CSGT Metals Vietnam Joint Stock Company	Subsidiaries
CSC Steel Sdn. Bhd. (CSCSSB)	Subsidiaries
Group Steel Corp. (M) Sdn. Bhd.	Subsidiaries
CSGT Japan Co., Ltd.	Subsidiaries
CSGT Hong Kong Limited	Subsidiaries
CSGT (Shanghai) Co., Ltd.	Subsidiaries
Changzhou China Steel Precision Materials Co., Ltd. (CCSPMC)	Subsidiaries
China Steel Corporation India Pvt. Ltd. (CSCI)	Subsidiaries
China Steel Precision Metals-Qingdao Co., Ltd. (QCSPMC)	Subsidiaries
CSEI Transport Corporation (Panama) (CSEIP)	Subsidiaries
Hung Li Steel Corporation Ltd (HLSC)	Subsidiaries
China Steel Precision Metals Kunshan Co., Ltd. (CSMK)	Subsidiaries
Hung Kao Investment Corporation	Subsidiaries
White Biotech Corporation (WBC)	Subsidiaries
CSC Precision Metal Industrial Corporation (CSCPM)	Subsidiaries
China Steel Resources Corporation	Subsidiaries
CK Japan Co., Ltd.	Subsidiaries
China Steel Management and Maintenance for Buildings Corporation	Subsidiaries
Kaohsiung Rapid Transit Corporation (KRTC)	Subsidiaries
Kaohsiung Port Cargo Handling Services Corporation	Subsidiaries
Pao Good Industrial Co., Ltd.	Subsidiaries
CSC Sonoma Pty. Ltd	Subsidiaries
China Steel Machinery Vietnam Co., Ltd.	Subsidiaries
CSC Solar Corporation	Subsidiaries

(Continued)

<b>Company</b>	<b>Relationship</b>
Changzhou China Steel New Materials Technology Co., Ltd.	Subsidiaries
China Ecotek Construction Corporation	Subsidiaries
CSC Educational Foundation	Other related parties
HC&C Auto Parts Co., Ltd.	Associates
TaiAn Technologies Corporation	Associates
Hsin Hsin Cement Enterprise Corporation	Associates
Dyna Rechi (Jiujiang) Co., Ltd.	Associates
Tatt Giap Steel Centre Sdn. Bhd.	Associates
Formosa Ha Tinh (Cayman) Limited	Other related parties (associates before July 2017)
Formosa Ha Tinh Steel Corporation	Other related parties (associates before July 2017)
TSK Steel Company Limited	Associates
Fukuta Electric & Machinery Co., Ltd.	
PT. MICS Steel Indonesia	Associates
Honley Auto. Parts Co., Ltd.	Associates
Changchun CECK Auto. Parts Co., Ltd.	Associates
Mahindra Auto Steel Private Limited	Associates
iPASS Corporation	Associates
Taiwan Rolling Stock Company Ltd.	Associates
Eminent II Venture Capital Corporation	Associates
CSBC Corporation, Taiwan	The Corporation as key management personnel of other related parties
CDIB Bioscience Ventures I, Inc.	The Corporation as key management personnel of other related parties
Rechi Precision Co., Ltd.	The Corporation as key management personnel of other related parties
TCL Rechi (Huizhou) Refrigeration Equipment Ltd.	The Corporation as key management personnel of other related parties
Rechi Refrigeration (Dongguan) Co, Ltd.	The Corporation as key management personnel of other related parties
East Asia United Steel Corporation	The Corporation as key management personnel of other related parties
Taiwan High Speed Rail Corporation	The Corporation as key management personnel of other related parties
CSC Labor Union	Other related parties as directors of the Corporation
Hsin Kuang Steel Co., Ltd.	Other related parties as supervisors of the Corporation before July 2016
Overseas Investment & Development Corp.	Associates (the Corporation as key management personnel of other related parties before September 2017)

(Concluded)

b. Operating revenues

Account Items	Related Parties Types / Names	For the Year Ended December 31	
		2017	2016
Revenues from sales of goods	Subsidiaries		
	CHSC	\$ 20,235,517	\$ 19,588,016
	Others	16,359,851	13,359,506
	The Corporation as key management personnel of other related parties	1,531,828	2,504,955
	Supervisors of the Corporation	-	866,217
	Associates of the Corporation	1,051,740	682,840
	Other related parties	<u>370,729</u>	<u>-</u>
		<u>\$ 39,549,665</u>	<u>\$ 37,001,534</u>

Sales to related parties were made at arm's length applied to similar transactions in the market except for terms of sales to CSCI and CSVK, for which the receivables were collected either by account receivable factoring or within 90 days after shipment date, for terms of sales to QCSPMC, for which the receivables were collected within 60 days after shipment date, terms of sales to CSMK, for which the receivables were collected within 85 days after shipment date and term of sales to some subsidiaries without similar transactions with other unrelated parties.

c. Purchase of goods

Related Parties Types / Names	For the Year Ended December 31	
	2017	2016
Subsidiaries		
DSC	\$ 18,737,860	\$ 8,606,717
Others	11,800,539	9,433,050
Associates of the Corporation	180,258	159,181
Other related parties	<u>70,172</u>	<u>-</u>
	<u>\$ 30,788,829</u>	<u>\$ 18,198,948</u>

Purchased from related parties were made at arm's length applied to similar transactions in the market except for terms of purchases from some subsidiaries without similar transactions with other unrelated parties.

d. Receivables from related parties (not including loans to related parties)

Account Items	Related Parties Types / Names	December 31	
		2017	2016
Notes and accounts receivable	Subsidiaries		
	CHSC	\$ 1,104,920	\$ 1,090,429
	Others	1,277,146	724,800
			(Continued)

Account Items	Related Parties Types / Names	December 31	
		2017	2016
	The Corporation as key management personnel of other related parties	\$ 223,073	\$ 324,457
	Associates of the Corporation	-	170
	Other related parties	<u>144,061</u>	<u>-</u>
		<u>\$ 2,749,200</u>	<u>\$ 2,139,856</u> (Concluded)

No guarantee had been received for receivables from related parties. For the years ended December 31, 2017 and 2016, no impairment loss was recognized for receivables from related parties.

e. Payables to related parties (not including loans from related parties)

Account Items	Related Parties Types / Names	December 31	
		2017	2016
Accounts payable	Subsidiaries		
	CSE	\$ 937,726	\$ 552,819
	DSC	539,447	326,310
	Others	314,398	67,254
	Associates of the Corporation	<u>22,287</u>	<u>23,005</u>
		<u>\$ 1,813,858</u>	<u>\$ 969,388</u>

The outstanding accounts payable to related parties are unsecured.

f. Loans to related parties (recognized as other receivables - loans to related parties)

Related Parties Types / Names	December 31	
	2017	2016
Subsidiaries		
CSAC	\$ 3,600,000	\$ 3,600,000
CSSC	700,000	900,000
Others	<u>3,056,950</u>	<u>2,711,809</u>
	<u>\$ 7,356,950</u>	<u>\$ 7,211,809</u>

The Corporation provided short-term loans to its subsidiaries, with the interest rate calculated at the latest 30-day average rate of the Corporation's short-term loans in the same currencies from ordinary financial institutions. As of December 31, 2017 and 2016, the interest rate was 0.50%-4.22% p.a. and 0.45%-2.40% p.a., respectively.

Loans to the Corporation's subsidiaries were unsecured loans with interest income of NT\$60,482 thousand and NT\$51,146 thousand for the years ended December 31, 2017 and 2016, respectively.

- g. Loans from related parties (recognized as short-term borrowings and bank overdraft)

Related Parties Types / Names	December 31	
	2017	2016
Subsidiaries		
CSCPM	\$ 300,000	\$ 300,000
CSS	50,000	-
CSE	-	900,000
WBC	-	340,000
	<u>\$ 350,000</u>	<u>\$ 1,540,000</u>

The rate of loans from subsidiaries is calculated at the latest 30-day average rate of the Corporation's short-term loans in the same currencies from ordinary financial institutions and adjusted based on the circumstances. As of December 31, 2017 and 2016, the interest rate was 0.50%-0.51% p.a. and 0.49%-0.50% p.a., respectively.

Loans from the Corporation's subsidiaries were unsecured loans and with interest expense of NT\$7,002 thousand and NT\$6,807 thousand for the years ended December 31, 2017 and 2016, respectively.

- h. Other related parties transactions

- 1) The Corporation signed brokerage contract with its subsidiary DSC. For the years ended December 31, 2017 and 2016, the commission revenue was NT\$193,400 thousand and NT\$462,107 thousand, respectively.

The balances of consignment payable to related parties, which were included in other payables, were as follows:

Related Parties Types / Names	December 31	
	2017	2016
Subsidiary		
DSC	<u>\$ 939,626</u>	<u>\$ 1,014,575</u>

- 2) Other revenues which pertained to services, processing of products, utilities, construction, royalties and other services to related parties were recognized as operating revenues and non-operating income as follows.

Related Parties Types	For the Year Ended December 31	
	2017	2016
Subsidiaries	\$ 1,025,109	\$ 938,041
Other related parties	110,020	-
Associates of the Corporation	249,958	320,531
The Corporation as key management personnel of other related parties	7,140	3,908
Others	<u>44</u>	<u>44</u>
	<u>\$ 1,392,271</u>	<u>\$ 1,262,524</u>

- 3) Other expenditures paid to related parties which pertained to commissions for processing services, maintenance and repairs, commissions for export and import services, etc. were recognized as operating costs, manufacturing expenses, operating expenses and non-operating expenses.

	<b>Related Parties Types</b>	<b>For the Year Ended December 31</b>	
		<b>2017</b>	<b>2016</b>
	Subsidiaries	\$ 8,291,547	\$ 6,842,612
	Others	<u>109,802</u>	<u>5,154</u>
		<u>\$ 8,401,349</u>	<u>\$ 6,847,766</u>

4) Capital expenditures

	<b>Related Parties Types / Names</b>	<b>For the Year Ended December 31</b>	
		<b>2017</b>	<b>2016</b>
	Subsidiaries		
	CSMC	\$ 2,149,334	\$ 2,103,016
	CEC	991,851	1,525,893
	ICSC	541,370	717,010
	Others	<u>6,134</u>	<u>301,642</u>
		<u>\$ 3,688,689</u>	<u>\$ 4,647,561</u>

The balances of outsourced repair and construction payable (recognized as other payables) were as follows:

	<b>Related Parties Types / Names</b>	<b>December 31</b>	
		<b>2017</b>	<b>2016</b>
	Subsidiaries		
	ICSC	\$ 572,521	\$ 475,767
	CSMC	446,111	335,832
	CEC	220,945	367,289
	Others	<u>119,183</u>	<u>65,147</u>
		<u>\$ 1,358,760</u>	<u>\$ 1,244,035</u>

5) As of December 31, 2017 and 2016, guarantees provided to the related parties for procurement and investment compliance were as follows:

	<b>Related Parties Types / Names</b>	<b>December 31</b>	
		<b>2017</b>	<b>2016</b>
	Other related parties - Formosa Ha Tinh (Cayman) Limited (former associates)		
	Amount endorsed	\$ 30,332,880	\$ 27,251,250
	Amount utilized	<u>(22,833,360)</u>	<u>(12,400,125)</u>
		<u>\$ 7,499,520</u>	<u>\$ 14,851,125</u>
	Subsidiaries		
	CSCAU		
	Amount endorsed	\$ 3,720,000	\$ 4,031,250
	Amount utilized	<u>(3,720,000)</u>	<u>(4,031,250)</u>
		<u>\$ -</u>	<u>\$ -</u>

(Continued)

Related Parties Types / Names	December 31	
	2017	2016
Others		
Amount endorsed	\$ -	\$ 77,006
Amount utilized	<u>-</u>	<u>(77,006)</u>
	<u>\$ -</u>	<u>\$ -</u>
The Corporation as key management personnel of other related parties		
Amount endorsed	\$ 927,582	\$ 807,392
Amount utilized	<u>(670,777)</u>	<u>(796,152)</u>
	<u>\$ 256,805</u>	<u>\$ 11,240</u> (Concluded)

i. Compensation of key management personnel

The remuneration of directors and other members of key management personnel were as follows:

	For the Year Ended December 31	
	2017	2016
Short-term employee benefits	\$ 92,973	\$ 87,813
Post-employment benefits	<u>758</u>	<u>1,107</u>
	<u>\$ 93,731</u>	<u>\$ 88,920</u>

## 29. ASSETS PLEDGED AS COLLATERAL OR SECURITY

As of December 31, 2017 and 2016, time deposits pledged as collateral for bank overdraft was NT\$5,850,000 thousand and NT\$5,650,000 thousand, respectively.

## 30. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

Significant commitments and contingencies of the Corporation as of December 31, 2017 were as follows:

- a. The Corporation provided letters of credits for NT\$5,830,978 thousand guaranteed by financial institutions for several construction and lease contracts.
- b. Unused letters of credit for importation of materials and machinery amounted to NT\$4.8 billion.
- c. Property purchase and construction contracts for NT\$3.2 billion were signed but not yet recorded.
- d. The Corporation entered into raw material purchase contracts with suppliers in Australia, Brazil, Canada, China, Japan, Philippines, Vietnam, Indonesia and domestic companies with contract terms of 1 to 5 years. Contracted annual purchases of 6,560,000 metric tons of coal, 15,010,000 metric tons of iron ore, and 2,180,000 metric tons of limestone are at prices negotiable with the counterparties. Purchase commitments as of December 31, 2017 were USD3.9 billion (including 6,510,000 metric tons of coal, 35,530,000 metric tons of iron ore, and 590,000 metric tons of limestone).

- e. In December 2011, the subsidiary CHSC entered into a syndicated credit facility agreement with Bank of Taiwan and 11 other banks for NT\$16 billion credit line. Under the agreement, the Corporation and its related parties should collectively hold at least 30% of CHSC's issued shares and control CHSC's operation. As of December 31, 2017, the Corporation held 41% equity of CHSC and held over half of the seats in the board of directors and controlled its operations.
- f. In July 2012, the subsidiary DSC entered into a syndicated credit facility agreement with Bank of Taiwan and 17 other banks for a NT\$35 billion credit line; in February 2008, DSC entered into another syndicated credit facility agreement with Bank of Taiwan and 13 other banks for a NT\$51.7 billion credit line. Under the agreements, the Corporation and its related parties should collectively hold at least 80% and 40% of DSC's issued shares and hold half or more of the seats in the board of directors. As of December 31, 2017, the Corporation held 100% equity of DSC and held all of the seats in the board of directors.
- g. In October 2012, the subsidiary CSVC entered into a syndicated credit facility agreement with Mega Bank and 11 other banks for a USD246,000 thousand credit line. The syndicated credit facility agreement has been re-signed in December 2017 for a USD94,500 thousand credit line. In addition, the subsidiary CSVC continually entered into several short-term financing contracts with Standard Chartered Bank and other banks for a total amount of USD25,000 thousand (or the equal amount in VND, the credit line remained unchanged) and USD32,500 thousand credit line. Under the agreements, the Corporation should hold at least 51% and 56% of CSVC's issued shares and hold half or more of the seats in the board of directors. As of December 31, 2017, the Corporation held 56% equity of CSVC and half or more of the seats in the board of directors.
- h. Starting from May 2014, the subsidiary CSCI entered into several short-term financing contracts with CTBC Bank and other banks for totaling INR2.06 billion credit lines as well as USD110,000 thousand syndicated credit facility agreement. The syndicated credit facility agreement has been re-signed, with the credit line remained unchanged. Under the agreements, the Corporation should hold at least 60% and 75% of CSCI's issued shares and hold half or more and two-thirds or more of the seats in the board of directors, respectively. If CSCI expands or invites new strategic investors, the Corporation should hold at least 60% of CSCI's issued shares and hold half or more of the seats in the board of directors. As of December 31, 2017, the Corporation held 100% equity of CSCI and all of the seats in the board of directors.
- i. Starting from January 2016, the subsidiary CCSPMC entered into several credit facility agreements with ANZ Bank and other banks for total amount of USD35,000 thousand (or the equal amount in RMB, the credit line remained unchanged) and RMB102,000 thousand. Under the agreements, the Corporation and its subsidiaries should collectively hold over 50% of the CCSPMC's equity and half of the seats in the board of directors and supervisors. As of December 31, 2017, the subsidiary CSAPH held 70% equity of CCSPMC and three-quarters of the seats in the board of directors and supervisors.
- j. In September 2016, the subsidiary QCSPMC entered into short-term financing contracts with MUFG Bank (China) and Sumitomo Mitsui Bank (China) for USD10,000 thousand (or the equal amount in RMB, the credit line remained unchanged) credit lines, respectively. Under the agreements, the Corporation and its subsidiaries should collectively hold at least 70% of the QCSPMC's issued shares and half of the seats in the board of directors. As of December 31, 2017, the subsidiaries CSAPH and CSGT collectively held 70% equity of QCSPMC and four-fifths of the seats in the board of directors.
- k. Starting from August 2014, the associate Chang-Chun Ceck Auto. Parts Co., Ltd. (CCCA) entered into several credit facility agreements with CTBC Bank and other banks for USD10,000 thousand (or the equal amount in EUR, the credit line remained unchanged) and USD 14,000 thousand short and medium term credit lines. Under the agreement, the Corporation and its associates should collectively hold at least 38% or 30% of CCCA's issued shares and one seat in the board of directors. As of December 31, 2017, the Corporation indirectly held 38% equity of CCCA and one seat in the board of directors.

- l. In November 2014, the associate HAPC entered into a credit facility agreement with Shanghai Commercial and Savings Bank for a NT\$295,000 thousand factory building loan commitment which had been transferred to long-term credit line in March 2016. Under the agreements, the Corporation and its associates should collectively hold at least 30% of HAPC's issued shares and two seats in the board of directors. As of December 31, 2017, the Corporation held 38% equity of HAPC and two seats in the board of directors.
- m. Starting from March 2015, the subsidiary CSMK entered into several short-term financing contracts with CTBC Bank and other banks for USD45,000 thousand long, medium and short term credit line (or the equal amount in RMB, the credit line remained unchanged) and RMB50,000 thousand short term credit line. Under the agreements, the Corporation and its subsidiaries should collectively hold 100% of CSMK's issued shares and all of the seats in the board of directors. As of December 31, 2017, the subsidiary CSAPH and CSGT collectively held 100% equity of CSMK and all of the seats in the board of directors.
- n. The amount utilized for guarantees provided to related parties and investees of co-investment for procurement and investment compliances was NT\$27,224,137 thousand.

### 31. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

The following information was aggregated by the foreign currencies other than functional currencies of the Corporation and the exchange rates between foreign currencies and respective functional currencies were disclosed.

The significant assets and liabilities denominated in foreign currencies were as follows:

	<b>Foreign Currencies (In Thousands)</b>	<b>Exchange Rate</b>	<b>Carrying Amount (In Thousands of New Taiwan Dollars)</b>
<u>December 31, 2017</u>			
Monetary foreign currency assets			
USD	\$ 130,471	29.7600	\$ 3,882,779
JPY	7,592,275	0.2642	2,005,879
Non-monetary foreign currency assets			
Available-for-sales financial assets			
USD	87,920	29.7600	2,616,509
JPY	7,996,000	0.2642	2,112,543
MYR	280,223	7.0720	1,981,737
Investments accounted for using equity method			
USD	1,445,806	29.7600	43,023,074
AUD	679,476	23.1850	15,753,650
INR	4,793,299	0.4649	2,228,405
Monetary foreign currency liabilities			
USD	1,078,963	29.7600	32,109,945
JPY	11,425,187	0.2642	3,018,534

(Continued)

	<b>Foreign Currencies (In Thousands)</b>	<b>Exchange Rate</b>	<b>Carrying Amount (In Thousands of New Taiwan Dollars)</b>
<u>December 31, 2016</u>			
Monetary foreign currency assets			
JPY	\$ 6,854,064	0.2756	\$ 1,888,980
USD	58,131	32.2500	1,874,880
AUD	199	23.2850	4,627
Non-monetary foreign currency assets			
Available-for-sales financial assets			
USD	82,871	32.2500	2,672,590
JPY	8,832,000	0.2756	2,434,099
MYR	255,987	6.9050	1,767,588
Investments accounted for using equity method			
USD	1,447,829	32.2500	46,657,095
AUD	711,451	23.2850	16,566,147
INR	4,656,887	0.4762	2,217,610
Monetary foreign currency liabilities			
USD	1,065,309	32.2500	34,356,217
AUD	180,194	23.2850	4,195,825
JPY	10,782,013	0.2756	2,974,049
			(Concluded)

For the years ended December 31, 2017 and 2016, realized and unrealized net foreign exchange gains were NT\$423,946 thousand and NT\$187,062 thousand, respectively. It is impractical to disclose net foreign exchange gains and losses by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies.

### 32. SEGMENT INFORMATION

Disclosure of the segment information in standalone financial statements is waived.



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