

China Steel Corporation

**Financial Statements for the
Six Months Ended June 30, 2011 and 2010 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
China Steel Corporation

We have audited the accompanying balance sheets of China Steel Corporation (the "Corporation") as of June 30, 2011 and 2010, and the related statements of income, changes in stockholders' equity and cash flows for the six months then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Corporation as of June 30, 2011 and 2010, and the results of its operations and its cash flows for the six months then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

July 22, 2011

Notice to Readers

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

For the convenience of readers, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail. Also, as stated in Note 2 to the financial statements, the additional footnote disclosures that are not required under generally accepted accounting principles were not translated into English.

CHINA STEEL CORPORATION

BALANCE SHEETS

JUNE 30, 2011 AND 2010

(Amounts In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2011		2010		LIABILITIES AND STOCKHOLDERS' EQUITY	2011		2010	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents	\$ 2,169,635	1	\$ 7,109,166	2	Short-term loans and overdraft	\$ 13,145,257	3	\$ 1,794,105	-
Financial assets at fair value through profit or loss - current	-	-	6,118,239	2	Commercial paper payable	6,397,371	2	-	-
Available-for-sale financial assets - current	2,103,011	-	1,765,131	1	Hedging derivative liabilities - current	2,429	-	4,673	-
Hedging derivative assets - current	-	-	24,261	-	Accounts payable	5,643,379	1	6,110,307	2
Notes receivable	810,980	-	526,230	-	Accounts payable - related parties	1,688,377	-	4,372,616	1
Notes receivable - related parties	613,337	-	612,219	-	Income tax payable	2,820,573	1	1,842,534	-
Accounts receivable	2,903,749	1	2,237,197	1	Accrued expenses	11,116,365	3	11,346,562	3
Accounts receivable - related parties	720,027	-	838,278	-	Dividends payable	27,275,047	7	13,546,115	4
Other receivables	3,578,560	1	2,276,286	1	Other payables	6,309,163	1	3,627,492	1
Other financial assets - current	2,156,583	1	1,001,491	-	Bonds payable - current portion	5,599,499	1	8,098,044	2
Inventories	62,156,567	15	42,635,504	11	Long-term debt - current portion	-	-	4,502,716	1
Deferred income tax assets - current	662,237	-	549,273	-	Others	3,259,790	1	3,130,198	1
Restricted assets - current	4,650,004	1	4,650,002	1					
Others	2,312,520	1	1,573,182	-	Total current liabilities	83,257,250	20	58,375,362	15
Total current assets	84,837,210	21	71,916,459	19	LONG-TERM LIABILITIES				
INVESTMENTS					Hedging derivative liabilities - noncurrent	11,126	-	3,791	-
Available-for-sale financial assets - noncurrent	3,323,540	1	2,796,548	1	Bonds payable	29,583,115	7	35,175,475	10
Financial assets carried at cost - noncurrent	7,391,813	2	5,746,210	1	Long-term debt	24,352,993	6	18,836,238	5
Bond investments with no active market - noncurrent	-	-	103,000	-	Long-term notes payable	3,748,475	1	4,496,761	1
Investments accounted for by the equity method	124,223,515	30	120,380,770	32	Total long-term liabilities	57,695,709	14	58,512,265	16
Prepaid long-term stock investments	-	-	7,197	-	RESERVE FOR LAND VALUE INCREMENT TAX	8,673,466	2	8,673,466	2
Other financial assets - noncurrent	2,464,664	1	1,114,491	-	OTHER LIABILITIES				
Total investments	137,403,532	34	130,148,216	34	Deferred income tax liabilities - noncurrent	542,313	-	566,712	-
PROPERTY, PLANT AND EQUIPMENT					Deferred credits - gain from affiliates	2,053,384	1	1,963,841	1
Land	10,976,123	3	10,877,244	3	Total other liabilities	2,595,697	1	2,530,553	1
Land improvements	4,223,646	1	4,223,646	1	Total liabilities	152,222,122	37	128,091,646	34
Buildings	44,844,743	11	42,572,287	11	CAPITAL STOCK - NT\$10 PAR VALUE, AUTHORIZED 17,000,000 THOUSAND SHARES				
Machinery and equipment	277,042,416	68	265,350,755	70	Common shares - issued 13,527,901 thousand shares and 13,094,519 thousand shares as of June 30, 2011 and 2010, respectively	135,279,009	34	130,945,189	35
Transportation equipment	1,746,493	-	1,763,101	-	Preferred shares - issued 38,268 thousand shares	382,680	-	382,680	-
Other equipment	5,053,803	1	4,776,133	1	Total capital stock	135,661,689	34	131,327,869	35
Spare parts	7,031,329	2	7,162,408	2	CAPITAL SURPLUS	20,125,417	5	19,604,464	5
Total cost	350,918,553	86	336,725,574	88	RETAINED EARNINGS	82,685,699	20	84,903,315	22
Revaluation increment	42,962,522	11	43,656,295	12	OTHER EQUITY				
Cost and revaluation increment	393,881,075	97	380,381,869	100	Unrealized revaluation increment	21,865,924	5	21,912,852	5
Less: Accumulated depreciation	254,764,641	63	243,382,901	64	Unrealized gain on financial instruments	2,481,703	1	3,040,124	1
Constructions in progress and prepayments for equipment	139,116,434	34	136,998,968	36	Cumulative translation adjustments	(390,033)	-	463,051	-
	41,659,029	10	38,195,495	10	Net loss not recognized as pension cost	(79,210)	-	(42,243)	-
Net property, plant and equipment	180,775,463	44	175,194,463	46	Treasury stock - 278,842 thousand shares and 285,700 thousand shares as of June 30, 2011 and 2010, respectively	(8,002,155)	(2)	(8,400,279)	(2)
INTANGIBLE ASSETS	205,216	-	247,682	-	Total other equity	15,876,229	4	16,973,505	4
OTHER ASSETS					Total stockholders' equity	254,349,034	63	252,809,153	66
Assets leased to others, net	3,112,839	1	3,219,371	1	TOTAL	\$ 406,571,156	100	\$ 380,900,799	100
Refundable deposits	215,090	-	160,307	-					
Restricted assets - noncurrent	21,806	-	14,301	-					
Total other assets	3,349,735	1	3,393,979	1					
TOTAL	\$ 406,571,156	100	\$ 380,900,799	100					

CHINA STEEL CORPORATION

STATEMENTS OF INCOME

SIX MONTHS ENDED JUNE 30, 2011 AND 2010

(Amounts In Thousands of New Taiwan Dollars, Except Share Data)

	2011		2010	
	Amount	%	Amount	%
OPERATING REVENUE	\$ 120,134,316	100	\$ 112,508,620	100
OPERATING COSTS	<u>103,970,109</u>	<u>87</u>	<u>86,423,894</u>	<u>77</u>
GROSS PROFIT	16,164,207	13	26,084,726	23
UNREALIZED GAIN FROM AFFILIATES, NET	<u>(91,327)</u>	<u>-</u>	<u>(155,063)</u>	<u>-</u>
REALIZED GROSS PROFIT	<u>16,072,880</u>	<u>13</u>	<u>25,929,663</u>	<u>23</u>
OPERATING EXPENSES				
Research and development	715,635	1	687,621	1
Selling	1,261,218	1	1,357,879	1
General and administrative	<u>1,577,981</u>	<u>1</u>	<u>1,365,882</u>	<u>1</u>
Total operating expenses	<u>3,554,834</u>	<u>3</u>	<u>3,411,382</u>	<u>3</u>
OPERATING INCOME	<u>12,518,046</u>	<u>10</u>	<u>22,518,281</u>	<u>20</u>
NONOPERATING INCOME AND GAINS				
Interest income	40,559	-	51,717	-
Valuation gain on financial assets	-	-	8,691	-
Investment income recognized under equity method, net	4,498,411	4	4,993,346	5
Exchange gain, net	307,913	-	-	-
Others	<u>488,615</u>	<u>1</u>	<u>341,258</u>	<u>-</u>
Total nonoperating income and gains	<u>5,335,498</u>	<u>5</u>	<u>5,395,012</u>	<u>5</u>
NONOPERATING EXPENSES AND LOSSES				
Interest expense	352,764	-	335,996	1
Others	<u>197,186</u>	<u>-</u>	<u>125,608</u>	<u>-</u>
Total nonoperating expenses and losses	<u>549,950</u>	<u>-</u>	<u>461,604</u>	<u>1</u>
INCOME BEFORE INCOME TAX	17,303,594	15	27,451,689	24
INCOME TAX	<u>1,959,181</u>	<u>2</u>	<u>3,633,330</u>	<u>3</u>
NET INCOME	<u>\$ 15,344,413</u>	<u>13</u>	<u>\$ 23,818,359</u>	<u>21</u>

(Continued)

CHINA STEEL CORPORATION

STATEMENTS OF INCOME

SIX MONTHS ENDED JUNE 30, 2011 AND 2010

(Amounts In Thousands of New Taiwan Dollars, Except Share Data)

	2011		2010	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE				
Basic	<u>\$ 1.30</u>	<u>\$ 1.16</u>	<u>\$ 2.07</u>	<u>\$ 1.80</u>
Diluted	<u>\$ 1.29</u>	<u>\$ 1.14</u>	<u>\$ 2.05</u>	<u>\$ 1.78</u>

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

	2011	2010
Net income	\$ 15,344,413	\$ 23,818,359
Basic earnings per share based on weighted-average number of outstanding common shares aggregating 13,527,901 thousand shares for the six months ended June 30, 2011 and 2010	<u>\$ 1.14</u>	<u>\$ 1.76</u>
Diluted earnings per share based on weighted-average number of outstanding common shares aggregating 13,686,073 thousand shares and 13,682,082 thousand shares for the six months ended June 30, 2011 and 2010, respectively	<u>\$ 1.13</u>	<u>\$ 1.74</u>

(Concluded)

CHINA STEEL CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY SIX MONTHS ENDED JUNE 30, 2011 AND 2010 (Amounts In Thousands of New Taiwan Dollars, Except Dividends Per Share)

	Issued		Capital Surplus	Retained Earnings				Other Equity					
	Common Shares	Preferred Shares		Legal Reserve	Special Reserve	Unappropriated Earnings	Total	Unrealized Revaluation Increment	Unrealized Gain on Financial Instruments	Cumulative Translation Adjustments	Net Loss Not Recognized As Pension Cost	Treasury Stock	Total Stockholders' Equity
BALANCE, JANUARY 1, 2011	\$ 135,279,009	\$ 382,680	\$ 20,072,476	\$ 49,070,526	\$ 7,615,701	\$ 37,651,735	\$ 94,337,962	\$ 21,873,940	\$ 2,374,377	\$ (101,443)	\$ (117,015)	\$ (8,151,621)	\$ 265,950,365
Appropriation of 2010 earnings													
Legal reserve	-	-	-	3,758,683	-	(3,758,683)	-	-	-	-	-	-	-
Cash dividends to preferred stockholders - NT\$1.99 per share	-	-	-	-	-	(76,153)	(76,153)	-	-	-	-	-	(76,153)
Cash dividends to common stockholders - NT\$1.99 per share	-	-	-	-	-	(26,920,523)	(26,920,523)	-	-	-	-	-	(26,920,523)
Net income for the six months ended June 30, 2011	-	-	-	-	-	15,344,413	15,344,413	-	-	-	-	-	15,344,413
Change in unrealized available-for-sale financial assets	-	-	-	-	-	-	-	-	226,458	-	-	-	226,458
Change in unrealized revaluation increment	-	-	-	-	-	-	-	(7,851)	-	-	-	-	(7,851)
Adjustment from changes in equity recognized under equity method	-	-	155	-	-	-	-	(165)	(63,471)	-	37,805	83	(25,593)
Foreign exchange loss on translation of foreign-currency financial statements	-	-	-	-	-	-	-	-	-	(383,760)	-	-	(383,760)
Foreign exchange gain on hedge of a net investment in a foreign operation	-	-	-	-	-	-	-	-	-	95,170	-	-	95,170
Change in unrealized loss on financial instruments for cash flow hedging	-	-	-	-	-	-	-	-	(55,661)	-	-	-	(55,661)
Disposal of the Corporation's shares held by subsidiaries	-	-	52,786	-	-	-	-	-	-	-	-	149,383	202,169
BALANCE, JUNE 30, 2011	<u>\$ 135,279,009</u>	<u>\$ 382,680</u>	<u>\$ 20,125,417</u>	<u>\$ 52,829,209</u>	<u>\$ 7,615,701</u>	<u>\$ 22,240,789</u>	<u>\$ 82,685,699</u>	<u>\$ 21,865,924</u>	<u>\$ 2,481,703</u>	<u>\$ (390,033)</u>	<u>\$ (79,210)</u>	<u>\$ (8,002,155)</u>	<u>\$ 254,349,034</u>
BALANCE, JANUARY 1, 2010	\$ 130,945,189	\$ 382,680	\$ 19,598,511	\$ 47,117,709	\$ 7,615,701	\$ 19,617,957	\$ 74,351,367	\$ 21,913,148	\$ 4,216,431	\$ 183,001	\$ (42,133)	\$ (8,189,031)	\$ 243,359,163
Appropriation of 2009 earnings													
Legal reserve	-	-	-	1,952,817	-	(1,952,817)	-	-	-	-	-	-	-
Cash dividends to preferred stockholders - NT\$1.07 per share	-	-	-	-	-	(40,947)	(40,947)	-	-	-	-	-	(40,947)
Cash dividends to common stockholders - NT\$1.01 per share	-	-	-	-	-	(13,225,464)	(13,225,464)	-	-	-	-	-	(13,225,464)
Net income for the six months ended June 30, 2010	-	-	-	-	-	23,818,359	23,818,359	-	-	-	-	-	23,818,359
Change in unrealized available-for-sale financial assets	-	-	-	-	-	-	-	-	(598,106)	-	-	-	(598,106)
Change in unrealized revaluation increment	-	-	-	-	-	-	-	(296)	-	-	-	-	(296)
Adjustment from changes in equity recognized under equity method	-	-	5,953	-	-	-	-	-	(188,280)	-	(110)	-	(182,437)
Foreign exchange gain on translation of foreign-currency financial statements	-	-	-	-	-	-	-	-	-	276,828	-	-	276,828
Foreign exchange gain on hedge of a net investment in a foreign operation	-	-	-	-	-	-	-	-	-	3,222	-	-	3,222
Change in unrealized loss on financial instruments for cash flow hedging	-	-	-	-	-	-	-	-	(389,921)	-	-	-	(389,921)
Purchase of the Corporation's shares by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(211,248)	(211,248)
BALANCE, JUNE 30, 2010	<u>\$ 130,945,189</u>	<u>\$ 382,680</u>	<u>\$ 19,604,464</u>	<u>\$ 49,070,526</u>	<u>\$ 7,615,701</u>	<u>\$ 28,217,088</u>	<u>\$ 84,903,315</u>	<u>\$ 21,912,852</u>	<u>\$ 3,040,124</u>	<u>\$ 463,051</u>	<u>\$ (42,243)</u>	<u>\$ (8,400,279)</u>	<u>\$ 252,809,153</u>

CHINA STEEL CORPORATION

STATEMENTS OF CASH FLOWS SIX MONTHS ENDED JUNE 30, 2011 AND 2010 (Amounts In Thousands of New Taiwan Dollars)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 15,344,413	\$ 23,818,359
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	8,150,687	7,376,833
Amortization	21,229	53,773
Deferred income tax	(37,731)	1,769,332
Provision for loss on inventories	133,835	96,331
Investment income under equity method, net	(4,498,411)	(4,993,346)
Unrealized gain from affiliates, net	91,327	155,063
Cash dividends received from equity method investees	3,227,318	5,081,683
Loss on disposal of property, plant and equipment	14,326	11,957
Valuation gain on financial assets	-	(8,691)
Others	(42,930)	(99,929)
Net changes in operating assets and liabilities		
Notes receivable	(104,905)	(98,161)
Notes receivable - related parties	(76,129)	(389,788)
Accounts receivable	(1,006,341)	(334,999)
Accounts receivable - related parties	(130,496)	91,624
Other receivables	(153,456)	(54,191)
Inventories	(15,293,280)	(7,944,446)
Other current assets	(814,989)	(662,792)
Notes payable - related parties	(23,163)	-
Accounts payable	1,012,579	4,102,623
Accounts payable - related parties	378,713	1,268,171
Income tax payable	(1,012,944)	1,842,534
Accrued expenses	383,735	2,852,424
Other payables	1,931,378	1,053,518
Other current liabilities	(642,669)	547,257
Net cash provided by operating activities	<u>6,852,096</u>	<u>35,535,139</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets designated as at fair value through profit or loss	-	(11,260,059)
Proceeds from disposal of financial assets designated as at fair value through profit or loss	-	9,213,355
Acquisition of financial assets carried at cost	(468,585)	-
Acquisition of investments accounted for by equity method	(2,168,507)	(20,000,000)
Increase in prepaid long-term stock investments	-	(7,197)
Acquisition of property, plant and equipment	(8,223,621)	(18,232,701)
Proceeds from disposal of property, plant and equipment	1,267	404
Proceeds from disposal of assets leased to others	5,000	-
Increase in refundable deposits	(98,572)	(21,983)
Decrease (increase) in other financial assets	(2,833,846)	2,518,506

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CHINA STEEL CORPORATION

STATEMENTS OF CASH FLOWS SIX MONTHS ENDED JUNE 30, 2011 AND 2010 (Amounts In Thousands of New Taiwan Dollars)

	2011	2010
Decrease (increase) in restricted assets	\$ 9,657	\$ (500,000)
Increase in intangible assets	<u>-</u>	<u>(90)</u>
Net cash used in investing activities	<u>(13,777,207)</u>	<u>(38,289,765)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term loans and overdraft	11,803,493	(4,463,659)
Increase (decrease) in commercial paper payable	2,697,732	(7,999,777)
Repayments of bonds payable	(8,100,000)	-
Decrease in long-term notes payable	(750,000)	(756,589)
Proceeds from long-term debt	1,279,567	17,919,965
Cash dividends	<u>(6,662)</u>	<u>(24,629)</u>
Net cash provided by financing activities	<u>6,924,130</u>	<u>4,675,311</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(981)	1,920,685
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>2,170,616</u>	<u>5,188,481</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 2,169,635</u>	<u>\$ 7,109,166</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 378,070	\$ 315,646
Capitalized interest	<u>(179,989)</u>	<u>(146,817)</u>
Interest paid (excluding capitalized interest)	<u>\$ 198,081</u>	<u>\$ 168,829</u>
Income tax paid	<u>\$ 3,009,856</u>	<u>\$ 21,464</u>
INVESTING AND FINANCING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS		
Cash paid for acquisition of property, plant and equipment		
Acquisition of property, plant and equipment	\$ 7,881,234	\$ 17,572,111
Decrease in payable for equipment purchased	<u>342,387</u>	<u>660,590</u>
	<u>\$ 8,223,621</u>	<u>\$ 18,232,701</u>
Cash dividends paid to stockholders		
Total cash dividends payable to stockholders	\$ 26,996,676	\$ 13,266,411
Increase in dividends payable	<u>(26,990,014)</u>	<u>(13,241,782)</u>
	<u>\$ 6,662</u>	<u>\$ 24,629</u>
NON-CASH FINANCING ACTIVITIES		
Current portion of long-term liabilities	<u>\$ 5,599,499</u>	<u>\$ 12,600,760</u>

(Concluded)