

China Steel Corporation

**Financial Statements for the
Nine Months Ended September 30, 2011 and 2010 and
Independent Accountants' Review Report**

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Stockholders
China Steel Corporation

We have reviewed the accompanying balance sheets of China Steel Corporation (the "Corporation") as of September 30, 2011 and 2010, and the related statements of income and cash flows for the nine months then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to issue a report on these financial statements based on our reviews.

Except for the matters described in the third paragraph, we conducted our reviews in accordance with Statement of Auditing Standards No. 36 - "Engagements to Review Financial Statements" issued by the Accounting Research and Development Foundation ("ARDF") of the Republic of China. A review consists principally of applying analytical procedures to financial data and of making inquiries of officers responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of China, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

As discussed in Note 12 to the accompanying financial statements, investments in certain equity-method investees were NT\$37,713,462 thousand and NT\$36,125,840 thousand as of September 30, 2011 and 2010, respectively. The related net investment income was NT\$2,971,774 thousand and NT\$4,589,708 thousand for the nine months ended September 30, 2011 and 2010, respectively. These investment amounts were based on the investees' unreviewed financial statements for the same reporting periods as that of the Corporation.

Based on our reviews, except for the effects of any adjustments that might have been determined to be necessary had the financial statements of the investees referred to in the preceding paragraph been reviewed, we are not aware of any material modifications that should be made to the financial statements of the Corporation for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

We have also reviewed the consolidated financial statements of China Steel Corporation and its subsidiaries as of and for the nine months ended September 30, 2011 and 2010 on which we issued a qualified review report.

October 17, 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 review such financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the accountants' review 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 accountants' review 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

SEPTEMBER 30, 2011 AND 2010

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

(Reviewed, Not Audited)

ASSETS	2011		2010		LIABILITIES AND STOCKHOLDERS' EQUITY	2011		2010	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents	\$ 932,286	-	\$ 3,736,078	1	Short-term loans and overdraft	\$ 13,157,423	3	\$ 1,066,024	-
Available-for-sale financial assets - current	2,038,930	1	1,805,909	1	Commercial paper payable	5,997,250	1	3,699,309	1
Hedging derivative assets - current	20,501	-	-	-	Hedging derivative liabilities - current	1,738	-	4,694	-
Notes receivable	926,057	-	616,879	-	Accounts payable	3,472,404	1	2,986,407	1
Notes receivable - related parties	563,754	-	458,626	-	Accounts payable - related parties	1,032,617	-	4,665,194	1
Accounts receivable	2,007,786	-	2,824,784	1	Income tax payable	3,593,336	1	3,225,455	1
Accounts receivable - related parties	646,863	-	903,393	-	Accrued expenses	8,296,350	2	11,073,756	3
Other receivables	2,254,238	1	1,169,636	-	Other payables	4,841,105	1	7,266,156	2
Other financial assets - current	2,413,829	1	784,888	-	Bonds payable - current portion	5,599,799	1	8,098,532	2
Inventories	70,606,821	17	47,124,939	12	Long-term debt - current portion	2,666,667	1	456,646	-
Deferred income tax assets - current	668,056	-	671,526	-	Others	3,049,377	1	4,024,928	1
Restricted assets - current	4,651,691	1	4,651,000	1					
Others	1,620,205	-	1,678,963	1	Total current liabilities	51,708,066	12	46,567,101	12
Total current assets	89,351,017	21	66,426,621	17	LONG-TERM LIABILITIES				
INVESTMENTS					Hedging derivative liabilities - noncurrent	-	-	896	-
Available-for-sale financial assets - noncurrent	3,437,296	1	3,126,178	1	Bonds payable	29,584,600	7	35,177,260	10
Hedging derivative assets - noncurrent	92,830	-	-	-	Long-term debt	22,398,754	5	23,037,402	6
Financial assets carried at cost - noncurrent	7,784,602	2	5,765,236	2	Long-term notes payable	14,295,149	4	4,493,372	1
Bond investments with no active market - noncurrent	-	-	103,000	-					
Investments accounted for by the equity method	126,504,915	31	123,096,113	32	Total long-term liabilities	66,278,503	16	62,708,930	17
Other financial assets - noncurrent	2,386,538	-	625,856	-	RESERVE FOR LAND VALUE INCREMENT TAX	8,673,466	2	8,673,466	2
Total investments	140,206,181	34	132,716,383	35	OTHER LIABILITIES				
PROPERTY, PLANT AND EQUIPMENT					Deferred income tax liabilities - noncurrent	525,041	-	559,011	-
Land	10,976,123	3	10,877,244	3	Deferred credits - gain from affiliates	2,044,246	1	2,013,740	1
Land improvements	4,223,646	1	4,223,646	1					
Buildings	44,871,656	11	44,475,202	12	Total other liabilities	2,569,287	1	2,572,751	1
Machinery and equipment	277,022,021	67	277,295,714	73	Total liabilities	129,229,322	31	120,522,248	32
Transportation equipment	1,730,012	-	1,770,260	-	CAPITAL STOCK - NT\$10 PAR VALUE, AUTHORIZED 17,000,000 THOUSAND SHARES				
Other equipment	5,010,966	1	4,914,381	1	Common shares - issued				
Spare parts	6,848,396	2	7,341,381	2	15,046,209 thousand shares and				
Total cost	350,682,820	85	350,897,828	92	13,527,901 thousand shares as of September 30, 2011 and				
Revaluation increment	42,816,301	10	43,610,892	11	2010, respectively	150,462,093	36	135,279,009	35
Cost and revaluation increment	393,499,121	95	394,508,720	103	Preferred shares - issued 38,268 thousand shares	382,680	-	382,680	-
Less: Accumulated depreciation	256,705,094	62	247,165,714	64					
	136,794,027	33	147,343,006	39	Total capital stock	150,844,773	36	135,661,689	35
Construction in progress and prepayments for equipment	43,763,083	11	32,422,658	8	CAPITAL SURPLUS	36,147,304	9	19,966,634	5
Net property, plant and equipment	180,557,110	44	179,765,664	47	RETAINED EARNINGS				
INTANGIBLE ASSETS	194,635	-	237,061	-	Legal reserve	52,829,209	13	49,070,526	13
OTHER ASSETS					Special reserve	7,615,701	2	7,615,701	2
Assets leased to others, net	3,112,176	1	3,218,708	1	Unappropriated earnings	113,292	-	64,909	-
Refundable deposits	273,168	-	124,578	-	Net income for the nine months ended September 30	20,067,096	5	33,055,568	9
Restricted assets - noncurrent	27,307	-	8,275	-					
Total other assets	3,412,651	1	3,351,561	1	Total retained earnings	80,625,298	20	89,806,704	24
TOTAL	\$ 413,721,594	100	\$ 382,497,290	100	OTHER EQUITY				
					Unrealized revaluation increment	22,008,259	5	21,914,205	6
					Unrealized gain on financial instruments	3,234,911	1	2,767,998	-
					Cumulative translation adjustments	62,716	-	350,198	-
					Net loss not recognized as pension cost	(79,210)	-	(42,243)	-
					Treasury stock - 304,500 thousand shares and 297,213 thousand shares as of September 30, 2011 and 2010, respectively	(8,351,779)	(2)	(8,450,143)	(2)
					Total other equity	16,874,897	4	16,540,015	4
					Total stockholders' equity	284,492,272	69	261,975,042	68
					TOTAL	\$ 413,721,594	100	\$ 382,497,290	100

(With Deloitte & Touche review report dated October 17, 2011)

CHINA STEEL CORPORATION

STATEMENTS OF INCOME

NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

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

(Reviewed, Not Audited)

	2011		2010	
	Amount	%	Amount	%
OPERATING REVENUES	\$ 182,006,302	100	\$ 177,466,771	100
OPERATING COSTS	<u>160,014,734</u>	<u>88</u>	<u>141,389,359</u>	<u>80</u>
GROSS PROFIT	21,991,568	12	36,077,412	20
REALIZED (UNREALIZED) GAIN FROM AFFILIATES, NET	<u>53,328</u>	<u>-</u>	<u>(193,309)</u>	<u>-</u>
REALIZED GROSS PROFIT	<u>22,044,896</u>	<u>12</u>	<u>35,884,103</u>	<u>20</u>
OPERATING EXPENSES				
Research and development	1,058,186	1	1,039,836	1
Selling	1,837,600	1	2,022,607	1
General and administrative	<u>2,249,119</u>	<u>1</u>	<u>2,185,035</u>	<u>1</u>
Total operating expenses	<u>5,144,905</u>	<u>3</u>	<u>5,247,478</u>	<u>3</u>
OPERATING INCOME	<u>16,899,991</u>	<u>9</u>	<u>30,636,625</u>	<u>17</u>
NONOPERATING INCOME AND GAINS				
Interest income	88,923	-	71,264	-
Valuation gain on financial assets	2,828	-	12,005	-
Investment income recognized under equity method, net	5,515,873	3	7,411,199	4
Gain on sale of investments	-	-	8,019	-
Exchange gain	363,644	-	40,450	-
Others	<u>749,961</u>	<u>1</u>	<u>711,767</u>	<u>1</u>
Total nonoperating income and gains	<u>6,721,229</u>	<u>4</u>	<u>8,254,704</u>	<u>5</u>
NONOPERATING EXPENSES AND LOSSES				
Interest expense	555,763	1	480,989	-
Others	<u>359,384</u>	<u>-</u>	<u>459,062</u>	<u>-</u>
Total nonoperating expenses and losses	<u>915,147</u>	<u>1</u>	<u>940,051</u>	<u>-</u>
INCOME BEFORE INCOME TAX	22,706,073	12	37,951,278	22
INCOME TAX	<u>2,638,977</u>	<u>1</u>	<u>4,895,710</u>	<u>3</u>
NET INCOME	<u>\$ 20,067,096</u>	<u>11</u>	<u>\$ 33,055,568</u>	<u>19</u>

(Continued)

CHINA STEEL CORPORATION

STATEMENTS OF INCOME

NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

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

(Reviewed, Not Audited)

	2011		2010	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE				
Basic	\$ 1.61	\$ 1.42	\$ 2.73	\$ 2.38
Diluted	\$ 1.60	\$ 1.41	\$ 2.70	\$ 2.35

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

	2011	2010
Net income	\$ 20,681,901	\$ 33,344,129
Basic earnings per share based on weighted-average number of outstanding common shares aggregating 14,392,876 thousand and 14,206,209 thousand shares for the nine months ended September 30, 2011 and 2010, respectively	\$1.43	\$2.34
Diluted earnings per share based on weighted-average number of outstanding common shares aggregating 14,537,747 thousand and 14,359,926 thousand shares for the nine months ended September 30, 2011 and 2010, respectively	\$1.42	\$2.32

(With Deloitte & Touche review report dated October 17, 2011)

(Concluded)

CHINA STEEL CORPORATION

STATEMENTS OF CASH FLOWS

NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

(Amounts In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 20,067,096	\$ 33,055,568
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	11,988,372	11,498,415
Amortization	31,810	64,394
Deferred income tax	(135,965)	1,639,378
Provision for (recovery of) loss on inventories	165,676	(29,144)
Gain on sale of investments	-	(8,019)
Investment income under equity method, net	(5,515,873)	(7,411,199)
Unrealized (realized) gain from affiliates, net	(53,328)	193,309
Cash dividends received from equity method investees	5,492,071	6,770,245
Loss on disposal of property, plant and equipment	69,955	12,784
Valuation gain on financial assets	(2,828)	(12,005)
Compensation cost of share-based payment	98,826	-
Others	(51,606)	(146,013)
Net changes in operating assets and liabilities		
Notes receivable	(219,982)	(188,810)
Notes receivable - related parties	(26,546)	(236,195)
Accounts receivable	(110,378)	(922,586)
Accounts receivable - related parties	(57,332)	26,509
Other receivables	(877,014)	(281,015)
Inventories	(23,775,150)	(12,307,863)
Other current assets	(122,675)	(768,573)
Notes payable - related parties	(23,163)	-
Accounts payable	(1,158,396)	978,723
Accounts payable - related parties	(277,047)	1,560,749
Income tax payable	(1,406,154)	3,225,455
Accrued expenses	(2,436,280)	2,579,618
Other payables	1,882,335	2,432,835
Other current liabilities	(717,565)	1,453,640
Net cash provided by operating activities	<u>2,828,859</u>	<u>43,180,200</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets designated as at fair value through profit or loss	(8,000,000)	(11,660,059)
Proceeds from disposal of financial assets designated as at fair value through profit or loss	8,002,828	15,734,908
Acquisition of available-for-sale financial assets	-	(251,988)
Acquisition of financial assets carried at cost	(468,585)	(7,197)
Proceeds from disposal of financial assets carried at cost	-	146,701
Proceeds from the capital reduction on financial assets carried at cost	9,211	5,721
Acquisition of investments accounted for by equity method	(2,168,507)	(20,713,569)
Acquisition of property, plant and equipment	(12,451,492)	(24,963,270)
Proceeds from disposal of property, plant and equipment	1,267	404

(Continued)

CHINA STEEL CORPORATION

STATEMENTS OF CASH FLOWS

NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

(Amounts In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	2011	2010
Proceeds from disposal of assets leased to others	\$ 5,000	\$ -
Decrease (increase) in other financial assets	(2,693,145)	3,153,081
Decrease (increase) in refundable deposits	(156,650)	13,746
Decrease (increase) in restricted assets	2,469	(494,972)
Increase in intangible assets	-	(90)
Net cash used in investing activities	<u>(17,917,604)</u>	<u>(39,036,584)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term loans and overdraft	11,815,659	(5,191,740)
Increase (decrease) in commercial paper payable	2,297,611	(4,300,468)
Repayments of bonds payable	(8,100,000)	-
Proceeds from long-term debt	1,279,567	20,945,295
Repayments of long-term debt	-	(3,025,331)
Increase (decrease) in long-term notes payable	9,800,000	(750,000)
Cash dividends	(26,981,177)	(13,273,775)
Cash capital increase	<u>23,738,755</u>	<u>-</u>
Net cash provided by (used in) financing activities	<u>13,850,415</u>	<u>(5,596,019)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,238,330)	(1,452,403)
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>\$ 932,286</u>	<u>\$ 3,736,078</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 536,704	\$ 405,438
Capitalized interest	(243,939)	(201,530)
Interest paid (excluding capitalized interest)	<u>\$ 292,765</u>	<u>\$ 203,908</u>
Income tax paid	<u>\$ 4,181,096</u>	<u>\$ 30,877</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	\$ 11,555,532	\$ 26,265,058
Decrease (increase) in payable for equipment purchased	<u>895,960</u>	<u>(1,301,788)</u>
	<u>\$ 12,451,492</u>	<u>\$ 24,963,270</u>
Cash dividends paid to stockholders		
Total cash dividends payable to stockholders	\$ 26,996,676	\$ 13,266,411
Decrease (increase) in dividends payable	<u>(15,499)</u>	<u>7,364</u>
	<u>\$ 26,981,177</u>	<u>\$ 13,273,775</u>
NON-CASH FINANCING ACTIVITIES		
Current portion of long-term liabilities	<u>\$ 8,266,466</u>	<u>\$ 8,555,178</u>

(With Deloitte & Touche review report dated October 17, 2011)

(Concluded)