

China Steel Corporation

**Financial Statements for the
Three Months Ended March 31, 2012 and 2011 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 March 31, 2012 and 2011, and the related statements of income and cash flows for the three 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 11 to the accompanying financial statements, investments in certain equity-method investees were NT\$40,266,227 thousand and NT\$38,939,762 thousand as of March 31, 2012 and 2011, respectively. The related net investment income were NT\$1,090,790 thousand and NT\$1,104,509 thousand for the three months ended March 31, 2012 and 2011, respectively. These investment amounts were based on the investees' unreviewed financial statements for the same reporting period 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 three months ended March 31, 2012 and 2011 on which we issued a qualified review report.

April 26, 2012

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.

CHINA STEEL CORPORATION

BALANCE SHEETS

MARCH 31, 2012 AND 2011

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

(Reviewed, Not Audited)

ASSETS	2012		2011		LIABILITIES AND STOCKHOLDERS' EQUITY	2012		2011	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash	\$ 1,480,602	-	\$ 2,769,787	1	Short-term loans and overdraft	\$ 10,819,689	2	\$ 5,494,926	1
Available-for-sale financial assets - current	2,472,931	1	2,056,406	1	Commercial paper payable	16,394,259	4	3,899,253	1
Hedging derivative assets - current	28,779	-	-	-	Hedging derivative liabilities - current	15,811	-	1,857	-
Notes receivable	815,757	-	760,827	-	Accounts payable	5,967,733	1	4,983,190	1
Notes receivable - related parties	590,210	-	571,878	-	Accounts payable - related parties	1,107,438	-	1,809,400	1
Accounts receivable	2,902,947	1	2,176,543	1	Income tax payable	2,520,677	1	5,482,363	1
Accounts receivable - related parties	586,148	-	698,333	-	Accrued expenses	6,243,506	1	8,247,256	2
Other receivables	3,796,127	1	983,572	-	Other payables	4,550,795	1	5,347,472	1
Other financial assets - current	3,816,336	1	1,750,124	-	Bonds payable - current portion	11,296,314	3	13,698,709	4
Inventories	63,224,285	15	52,731,377	13	Long-term debt - current portion	7,995,005	2	-	-
Deferred income tax assets - current	1,603,023	-	615,705	-	Others	2,898,032	1	3,212,394	1
Restricted assets - current	5,667,381	1	4,651,000	1					
Others	1,458,393	-	1,774,848	1	Total current liabilities	69,809,259	16	52,176,820	13
Total current assets	88,442,919	20	71,540,400	18	LONG-TERM LIABILITIES				
INVESTMENTS					Hedging derivative liabilities - noncurrent	1,606	-	-	-
Available-for-sale financial assets - noncurrent	3,431,374	1	3,350,829	1	Bonds payable	37,971,305	8	29,581,631	8
Hedging derivative assets - noncurrent	34,328	-	-	-	Long-term debt	16,462,324	4	23,092,266	6
Financial assets carried at cost - noncurrent	7,459,003	1	3,247,228	1	Long-term notes payable	11,992,953	3	4,497,426	1
Bond investments with no active market - noncurrent	3,592,000	1	3,653,000	1	Total long-term liabilities	66,428,188	15	57,171,323	15
Investments accounted for by the equity method	142,876,308	33	125,950,340	32	RESERVE FOR LAND VALUE INCREMENT TAX	10,011,916	2	8,673,466	2
Other financial assets - noncurrent	511,646	-	363,326	-	OTHER LIABILITIES				
Total investments	157,904,659	36	136,564,723	35	Accrued pension cost	51,491	-	-	-
PROPERTY, PLANT AND EQUIPMENT					Deferred income tax liabilities - noncurrent	369,976	-	533,055	-
Land	9,225,591	2	10,877,244	3	Deferred credits - gain from affiliates	2,132,997	1	1,992,844	1
Land improvements	4,223,646	1	4,223,646	1	Total other liabilities	2,554,464	1	2,525,899	1
Buildings	44,722,076	10	44,785,436	11	Total liabilities	148,803,827	34	120,547,508	31
Machinery and equipment	278,004,783	64	277,238,009	71	CAPITAL STOCK - NT\$10 par value, authorized 17,000,000 thousand shares				
Transportation equipment	1,835,367	1	1,746,746	-	Common shares - issued 15,046,209 thousand shares and 13,527,901 thousand shares as of March 31, 2012 and 2011, respectively	150,462,093	35	135,279,009	34
Other equipment	5,205,149	1	5,053,450	1	Preferred shares - issued 38,268 thousand shares	382,680	-	382,680	-
Spare parts	7,093,670	2	6,905,382	2	Total capital stock	150,844,773	35	135,661,689	34
Total cost	350,310,282	81	350,829,913	89	CAPITAL SURPLUS	36,264,390	8	20,112,661	5
Revaluation increment	48,884,885	11	42,986,657	11	RETAINED EARNINGS				
Cost and revaluation increment	399,195,167	92	393,816,570	100	Legal reserve	52,829,209	12	49,070,526	12
Less: Accumulated depreciation	262,641,252	60	251,456,955	64	Special reserve	7,615,701	2	7,615,701	2
Construction in progress and prepayments for equipment	136,553,915	32	142,359,615	36	Unappropriated earnings	19,606,971	4	37,651,735	10
	48,743,927	11	39,263,978	10	Net income (loss) for the three months ended March 31	(712,179)	-	6,676,102	2
Net property, plant and equipment	185,297,842	43	181,623,593	46	Total retained earnings	79,339,702	18	101,014,064	26
INTANGIBLE ASSETS	173,533	-	215,842	-	OTHER EQUITY				
OTHER ASSETS					Unrealized revaluation increment	26,757,490	6	21,866,410	5
Assets leased to others, net	4,892,592	1	3,212,381	1	Unrealized gain on financial instruments	3,336,422	1	2,442,201	1
Refundable deposits	94,434	-	131,243	-	Cumulative translation adjustments	(164,538)	-	(230,196)	-
Restricted assets - noncurrent	19,823	-	12,095	-	Net loss not recognized as pension cost	(230,766)	-	(79,210)	-
Total other assets	5,006,849	1	3,355,719	1	Treasury stock - 295,163 thousand shares and 280,140 thousand shares as of March 31, 2012 and 2011, respectively	(8,125,498)	(2)	(8,034,850)	(2)
TOTAL	\$ 436,825,802	100	\$ 393,300,277	100	Total other equity	21,573,110	5	15,964,355	4
					Total stockholders' equity	288,021,975	66	272,752,769	69
					TOTAL	\$ 436,825,802	100	\$ 393,300,277	100

(With Deloitte & Touche review report dated April 26, 2012)

CHINA STEEL CORPORATION

STATEMENTS OF INCOME

THREE MONTHS ENDED MARCH 31, 2012 AND 2011

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

(Reviewed, Not Audited)

	2012		2011	
	Amount	%	Amount	%
OPERATING REVENUES	\$ 53,606,027	100	\$ 56,506,086	100
OPERATING COSTS	<u>53,613,687</u>	<u>100</u>	<u>49,782,498</u>	<u>88</u>
GROSS PROFIT (LOSS)	(7,660)	-	6,723,588	12
REALIZED GAIN FROM AFFILIATES, NET	<u>2,003</u>	<u>-</u>	<u>71,080</u>	<u>-</u>
REALIZED GROSS PROFIT (LOSS)	<u>(5,657)</u>	<u>-</u>	<u>6,794,668</u>	<u>12</u>
OPERATING EXPENSES				
Research and development	306,442	1	313,588	1
Selling	559,339	1	601,589	1
General and administrative	<u>595,553</u>	<u>1</u>	<u>713,941</u>	<u>1</u>
Total operating expenses	<u>1,461,334</u>	<u>3</u>	<u>1,629,118</u>	<u>3</u>
OPERATING INCOME (LOSS)	<u>(1,466,991)</u>	<u>(3)</u>	<u>5,165,550</u>	<u>9</u>
NONOPERATING INCOME AND GAINS				
Interest income	28,299	-	17,591	-
Investment income recognized under equity method,				
net	531,857	1	2,042,667	4
Exchange gain	106,054	-	169,536	-
Others	<u>239,884</u>	<u>1</u>	<u>190,610</u>	<u>-</u>
Total nonoperating income and gains	<u>906,094</u>	<u>2</u>	<u>2,420,404</u>	<u>4</u>
NONOPERATING EXPENSES AND LOSSES				
Interest expense	255,119	1	170,232	-
Others	<u>161,613</u>	<u>-</u>	<u>99,713</u>	<u>-</u>
Total nonoperating expenses and losses	<u>416,732</u>	<u>1</u>	<u>269,945</u>	<u>-</u>
INCOME (LOSS) BEFORE INCOME TAX	(977,629)	(2)	7,316,009	13
INCOME TAX EXPENSE (BENEFIT)	<u>(265,450)</u>	<u>(1)</u>	<u>639,907</u>	<u>1</u>
NET INCOME (LOSS)	<u>\$ (712,179)</u>	<u>(1)</u>	<u>\$ 6,676,102</u>	<u>12</u>

(Continued)

CHINA STEEL CORPORATION

STATEMENTS OF INCOME

THREE MONTHS ENDED MARCH 31, 2012 AND 2011

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

(Reviewed, Not Audited)

	2012		2011	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS (LOSS) PER SHARE				
Basic	\$ (0.07)	\$ (0.05)	\$ 0.52	\$ 0.48
Diluted	\$ (0.07)	\$ (0.05)	\$ 0.52	\$ 0.48

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:

	2012	2011
Net income (loss)	\$ (710,150)	\$ 6,716,133
Basic earnings (loss) per share based on weighted-average number of outstanding common shares aggregating 15,046,209 thousand and 14,206,209 thousand shares for the three months ended March 31, 2012 and 2011, respectively	\$ (0.05)	\$ 0.47
Diluted earnings (loss) per share based on weighted-average number of outstanding common shares aggregating 15,046,209 thousand and 14,344,578 thousand shares for the three months ended March 31, 2012 and 2011, respectively	\$ (0.05)	\$ 0.47

(With Deloitte & Touche review report dated April 26, 2012)

(Concluded)

CHINA STEEL CORPORATION

STATEMENTS OF CASH FLOWS THREE MONTHS ENDED MARCH 31, 2012 AND 2011 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ (712,179)	\$ 6,676,102
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation	3,997,459	4,106,171
Amortization	10,548	10,603
Deferred income tax	(265,450)	(8,605)
Provision for (recovery of) loss on inventories	(436,919)	92,824
Investment income under equity method, net	(531,857)	(2,042,667)
Realized gain from affiliates, net	(2,003)	(71,080)
Others	145,798	(3,984)
Net changes in operating assets and liabilities		
Notes receivable	51,014	(54,752)
Notes receivable - related parties	(121,810)	(34,670)
Accounts receivable	(138,648)	(279,135)
Accounts receivable - related parties	(32,932)	(108,802)
Other receivables	24,112	143,531
Inventories	4,553,367	(5,866,149)
Other current assets	254,150	(277,318)
Notes payable - related parties	-	(23,163)
Accounts payable	1,302,131	352,390
Accounts payable - related parties	256,124	499,736
Income tax payable	-	647,573
Accrued expenses	(2,062,603)	(2,485,374)
Other payables	(397,489)	1,931,323
Other current liabilities	(193,420)	(588,198)
Net cash provided by operating activities	<u>5,699,393</u>	<u>2,616,356</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets carried at cost	(37,783)	-
Acquisition of investments accounted for by equity method	(18,098,396)	(888,941)
Acquisition of property, plant and equipment	(4,144,574)	(5,192,804)
Proceeds from disposal of property, plant and equipment	-	1,267
Decrease (increase) in other financial assets	46,257	(290,304)
Decrease (increase) in refundable deposits	128,781	(14,725)
Decrease in restricted assets	<u>25,363</u>	<u>18,372</u>
Net cash used in investing activities	<u>(22,080,352)</u>	<u>(6,367,135)</u>

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CHINA STEEL CORPORATION

STATEMENTS OF CASH FLOWS THREE MONTHS ENDED MARCH 31, 2012 AND 2011 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	2012	2011
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term loans and overdraft	\$ 4,381,922	\$ 4,153,162
Increase in commercial paper payable	12,798,382	199,614
Cash dividends	<u>(2,350)</u>	<u>(2,826)</u>
Net cash provided by financing activities	<u>17,177,954</u>	<u>4,349,950</u>
NET INCREASE IN CASH	796,995	599,171
CASH, BEGINNING OF PERIOD	<u>683,607</u>	<u>2,170,616</u>
CASH, END OF PERIOD	<u>\$ 1,480,602</u>	<u>\$ 2,769,787</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 176,662	\$ 104,147
Capitalized interest	<u>(66,102)</u>	<u>(49,544)</u>
Interest paid (excluding capitalized interest)	<u>\$ 110,560</u>	<u>\$ 54,603</u>
Income tax paid	<u>\$ 2,229</u>	<u>\$ 939</u>
INVESTING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS		
Cash paid for acquisition of property, plant and equipment		
Acquisition of property, plant and equipment	\$ 4,074,999	\$ 4,772,548
Decrease in payable for equipment purchased	<u>69,575</u>	<u>420,256</u>
	<u>\$ 4,144,574</u>	<u>\$ 5,192,804</u>
NON-CASH FINANCING ACTIVITIES		
Current portion of long-term liabilities	<u>\$ 19,291,319</u>	<u>\$ 13,698,709</u>

(With Deloitte & Touche review report dated April 26, 2012)

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