

China Steel Corporation

**Financial Statements for the
Nine Months Ended September 30, 2012 and 2011 and
Independent Accountants' Review Report**

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and the Stockholders
China Steel Corporation

We have reviewed the accompanying balance sheets of China Steel Corporation (the "Corporation") as of September 30, 2012 and 2011, 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 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\$45,511,426 thousand and NT\$37,713,462 thousand as of September 30, 2012 and 2011, respectively. The related net investment income was NT\$3,580,806 thousand and NT\$2,971,774 thousand for the nine months ended September 30, 2012 and 2011, 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, 2012 and 2011 on which we issued a qualified review report.

October 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

SEPTEMBER 30, 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	\$ 1,293,875	-	\$ 932,286	-	Short-term loans and overdraft	\$ 7,299,977	2	\$ 13,157,423	3
Available-for-sale financial assets - current	2,625,832	1	2,038,930	1	Commercial paper payable	8,497,963	2	5,997,250	1
Hedging derivative assets - current	44,909	-	20,501	-	Hedging derivative liabilities - current	14,726	-	1,738	-
Notes receivable	685,014	-	926,057	-	Accounts payable	5,674,478	1	3,472,404	1
Notes receivable - related parties	450,561	-	563,754	-	Accounts payable - related parties	595,353	-	1,032,617	-
Accounts receivable	2,207,290	-	2,007,786	-	Income tax payable	1,210,021	-	3,593,336	1
Accounts receivable - related parties	778,011	-	646,863	-	Accrued expenses	6,774,785	1	8,296,350	2
Other receivables	1,369,606	-	2,254,238	1	Other payables	9,207,905	2	4,841,105	1
Other financial assets - current	3,009,224	1	2,413,829	1	Bonds payable - current portion	11,298,771	3	5,599,799	1
Inventories	56,528,092	13	70,606,821	17	Long-term debt - current portion	8,536,889	2	2,666,667	1
Deferred income tax assets - current	2,459,571	1	668,056	-	Others	2,601,022	1	3,049,377	1
Restricted assets - current	5,669,624	1	4,651,691	1					
Others	2,290,653	1	1,620,205	-	Total current liabilities	61,711,890	14	51,708,066	12
Total current assets	79,412,262	18	89,351,017	21	LONG-TERM LIABILITIES				
INVESTMENTS					Hedging derivative liabilities - noncurrent	1,087	-	-	-
Available-for-sale financial assets - noncurrent	3,191,168	1	3,437,296	1	Bonds payable	57,952,887	13	29,584,600	7
Hedging derivative assets - noncurrent	4,309	-	92,830	-	Long-term debt	15,199,294	4	22,398,754	5
Financial assets carried at cost - noncurrent	7,888,734	2	3,809,602	1	Long-term notes payable	10,496,222	2	14,295,149	4
Bond investments with no active market - noncurrent	3,777,000	1	3,975,000	1					
Investments accounted for by the equity method	146,336,762	33	126,504,915	31	Total long-term liabilities	83,649,490	19	66,278,503	16
Other financial assets - noncurrent	51,764	-	2,386,538	-	RESERVE FOR LAND VALUE INCREMENT TAX	10,011,916	2	8,673,466	2
Total investments	161,249,737	37	140,206,181	34	OTHER LIABILITIES				
PROPERTY, PLANT AND EQUIPMENT					Accrued pension cost	51,491	-	-	-
Land	9,364,677	2	10,976,123	3	Deferred income tax liabilities - noncurrent	223,094	-	525,041	-
Land improvements	4,222,124	1	4,223,646	1	Deferred credits - gain from affiliates	2,042,893	1	2,044,246	1
Buildings	53,036,465	12	44,871,656	11					
Machinery and equipment	308,174,740	71	277,022,021	67	Total other liabilities	2,317,478	1	2,569,287	1
Transportation equipment	1,848,516	1	1,730,012	-	Total liabilities	157,690,774	36	129,229,322	31
Other equipment	5,177,423	1	5,010,966	1	CAPITAL STOCK - NT\$10 par value, authorized 17,000,000 thousand shares				
Spare parts	7,290,633	2	6,848,396	2	Common shares - issued 15,272,477 thousand shares and 15,046,209 thousand shares as of September 30, 2012 and 2011, respectively	152,724,765	35	150,462,093	36
Total cost	389,114,578	90	350,682,820	85	Preferred shares - issued 38,268 thousand shares	382,680	-	382,680	-
Revaluation increment	48,668,948	11	42,816,301	10					
Cost and revaluation increment	437,783,526	101	393,499,121	95	Total capital stock	153,107,445	35	150,844,773	36
Less: Accumulated depreciation	269,878,365	62	256,705,094	62	CAPITAL SURPLUS	36,652,352	9	36,147,304	9
	167,905,161	39	136,794,027	33	RETAINED EARNINGS				
Construction in progress and prepayments for equipment	21,144,919	5	43,763,083	11	Legal reserve	54,778,577	12	52,829,209	13
Net property, plant and equipment	189,050,080	44	180,557,110	44	Special reserve	7,615,701	2	7,615,701	2
INTANGIBLE ASSETS	152,435	-	194,635	-	Unappropriated earnings	150,425	-	113,292	-
OTHER ASSETS					Net income for the nine months ended September 30	3,808,200	1	20,067,096	5
Assets leased to others, net	4,746,622	1	3,112,176	1					
Refundable deposits	190,217	-	273,168	-	Total retained earnings	66,352,903	15	80,625,298	20
Restricted assets - noncurrent	49,462	-	27,307	-	OTHER EQUITY				
Total other assets	4,986,301	1	3,412,651	1	Unrealized revaluation increment	26,753,711	6	22,008,259	5
					Unrealized gain on financial instruments	3,169,117	1	3,234,911	1
					Cumulative translation adjustments	(229,262)	-	62,716	-
					Net loss not recognized as pension cost	(230,591)	-	(79,210)	-
					Treasury stock - 309,835 thousand shares and 304,500 thousand shares as of September 30, 2012 and 2011, respectively	(8,415,634)	(2)	(8,351,779)	(2)
					Total other equity	21,047,341	5	16,874,897	4
					Total stockholders' equity	277,160,041	64	284,492,272	69
TOTAL	\$ 434,850,815	100	\$ 413,721,594	100	TOTAL	\$ 434,850,815	100	\$ 413,721,594	100

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

CHINA STEEL CORPORATION

STATEMENTS OF INCOME

NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

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

(Reviewed, Not Audited)

	2012		2011	
	Amount	%	Amount	%
OPERATING REVENUES	\$ 160,817,367	100	\$ 182,006,302	100
OPERATING COSTS	<u>154,459,136</u>	<u>96</u>	<u>160,014,734</u>	<u>88</u>
GROSS PROFIT	6,358,231	4	21,991,568	12
REALIZED GAIN FROM AFFILIATES, NET	<u>17,655</u>	<u>-</u>	<u>53,328</u>	<u>-</u>
REALIZED GROSS PROFIT	<u>6,375,886</u>	<u>4</u>	<u>22,044,896</u>	<u>12</u>
OPERATING EXPENSES				
Research and development	1,007,493	1	1,058,186	1
Selling	1,733,301	1	1,837,600	1
General and administrative	<u>1,771,683</u>	<u>1</u>	<u>2,249,119</u>	<u>1</u>
Total operating expenses	<u>4,512,477</u>	<u>3</u>	<u>5,144,905</u>	<u>3</u>
OPERATING INCOME	<u>1,863,409</u>	<u>1</u>	<u>16,899,991</u>	<u>9</u>
NONOPERATING INCOME AND GAINS				
Interest income	84,678	-	88,923	-
Valuation gain on financial assets	-	-	2,828	-
Investment income recognized under equity method, net	1,952,739	1	5,515,873	3
Gain on sale of investments	250,417	-	-	-
Exchange gain	282,523	-	363,644	-
Others	<u>923,740</u>	<u>1</u>	<u>749,961</u>	<u>1</u>
Total nonoperating income and gains	<u>3,494,097</u>	<u>2</u>	<u>6,721,229</u>	<u>4</u>
NONOPERATING EXPENSES AND LOSSES				
Interest expense	985,890	1	555,763	1
Others	<u>382,836</u>	<u>-</u>	<u>359,384</u>	<u>-</u>
Total nonoperating expenses and losses	<u>1,368,726</u>	<u>1</u>	<u>915,147</u>	<u>1</u>
INCOME BEFORE INCOME TAX	3,988,780	2	22,706,073	12
INCOME TAX	<u>180,580</u>	<u>-</u>	<u>2,638,977</u>	<u>1</u>
NET INCOME	<u>\$ 3,808,200</u>	<u>2</u>	<u>\$ 20,067,096</u>	<u>11</u>

(Continued)

CHINA STEEL CORPORATION

STATEMENTS OF INCOME

NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

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

(Reviewed, Not Audited)

	2012		2011	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE				
Basic	\$ 0.26	\$ 0.25	\$ 1.58	\$ 1.40
Diluted	\$ 0.26	\$ 0.25	\$ 1.57	\$ 1.39

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	\$ 4,119,954	\$ 20,681,901
Basic earnings per share based on weighted-average number of outstanding common shares aggregating 15,272,477 thousand and 14,619,144 thousand shares for the nine months ended September 30, 2012 and 2011, respectively	\$0.27	\$1.41
Diluted earnings per share based on weighted-average number of outstanding common shares aggregating 15,318,814 thousand and 14,764,015 thousand shares for the nine months ended September 30, 2012 and 2011, respectively	\$0.27	\$1.40

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

(Concluded)

CHINA STEEL CORPORATION

STATEMENTS OF CASH FLOWS NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 3,808,200	\$ 20,067,096
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	13,114,581	11,988,372
Amortization	31,646	31,810
Deferred income tax	(1,258,260)	(135,965)
Provision for loss on inventories	2,361,074	165,676
Gain on sale of investments	(250,417)	-
Investment income under equity method, net	(1,952,739)	(5,515,873)
Realized gain from affiliates, net	(17,655)	(53,328)
Cash dividends received from equity method investees	5,120,219	5,492,071
Valuation gain on financial assets	-	(2,828)
Compensation cost of share-based payment	-	98,826
Others	22,824	18,349
Net changes in operating assets and liabilities		
Notes receivable	181,758	(219,982)
Notes receivable - related parties	17,838	(26,546)
Accounts receivable	557,009	(110,378)
Accounts receivable - related parties	(224,795)	(57,332)
Other receivables	(275,456)	(877,014)
Inventories	8,540,650	(23,775,150)
Other current assets	(578,110)	(122,675)
Notes payable - related parties	-	(23,163)
Accounts payable	1,008,876	(1,158,396)
Accounts payable - related parties	(255,961)	(277,047)
Income tax payable	(547,654)	(1,406,154)
Accrued expenses	(1,531,324)	(2,436,280)
Other payables	1,879,509	1,882,335
Other current liabilities	(534,066)	(717,565)
Net cash provided by operating activities	<u>29,217,747</u>	<u>2,828,859</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets designated as at fair value through profit or loss	-	(8,000,000)
Proceeds from disposal of financial assets designated as at fair value through profit or loss	-	8,002,828
Proceeds from disposal of available-for-sale financial assets	247,310	-
Acquisition of financial assets carried at cost	(621,293)	(468,585)
Proceeds from disposal of financial assets carried at cost	52,500	-
Proceeds from the capital reduction on financial assets carried at cost	-	9,211
Acquisition of investments accounted for by equity method	(22,542,094)	(2,168,507)
Acquisition of property, plant and equipment	(15,189,796)	(12,451,492)
Proceeds from disposal of property, plant and equipment	-	1,267
Proceeds from disposal of assets leased to others	-	5,000
		(Continued)

CHINA STEEL CORPORATION

STATEMENTS OF CASH FLOWS

NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	2012	2011
Decrease (increase) in other financial assets	\$ 1,267,416	\$ (2,693,145)
Decrease (increase) in refundable deposits	32,998	(156,650)
Decrease (increase) in restricted assets	<u>(6,519)</u>	<u>2,469</u>
Net cash used in investing activities	<u>(36,759,478)</u>	<u>(17,917,604)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term loans and overdraft	883,580	11,815,659
Increase in commercial paper payable	4,902,086	2,297,611
Issuance of bonds payable	20,000,000	-
Repayments of bonds payable	-	(8,100,000)
Proceeds from long-term debt	1,757,611	1,279,567
Repayments of long-term debt	(2,666,667)	-
Increase (decrease) in long-term notes payable	(1,500,000)	9,800,000
Cash dividends	(15,224,611)	(26,981,177)
Capital increase by cash	<u>-</u>	<u>23,738,755</u>
Net cash provided by financing activities	<u>8,151,999</u>	<u>13,850,415</u>
NET INCREASE (DECREASE) IN CASH	610,268	(1,238,330)
CASH, BEGINNING OF PERIOD	<u>683,607</u>	<u>2,170,616</u>
CASH, END OF PERIOD	<u>\$ 1,293,875</u>	<u>\$ 932,286</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 473,831	\$ 536,704
Capitalized interest	<u>(92,793)</u>	<u>(243,939)</u>
Interest paid (excluding capitalized interest)	<u>\$ 381,038</u>	<u>\$ 292,765</u>
Income tax paid	<u>\$ 1,986,494</u>	<u>\$ 4,181,096</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	\$ 16,811,427	\$ 11,555,532
Decrease (increase) in payable for equipment purchased	<u>(1,621,631)</u>	<u>895,960</u>
	<u>\$ 15,189,796</u>	<u>\$ 12,451,492</u>
Cash dividends paid to stockholders		
Total cash dividends payable to stockholders	\$ 15,244,506	\$ 26,996,676
Increase in dividends payable	<u>(19,895)</u>	<u>(15,499)</u>
	<u>\$ 15,224,611</u>	<u>\$ 26,981,177</u>
NON-CASH FINANCING ACTIVITIES		
Current portion of long-term liabilities	<u>\$ 19,835,660</u>	<u>\$ 8,266,466</u>

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

(Concluded)