China Steel Corporation

Financial Statements for the Years Ended December 31, 2012 and 2011 and Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

The Board of Directors and the Stockholders
China Steel Corporation

We have audited the accompanying balance sheets of China Steel Corporation (the "Corporation") as of December 31, 2012 and 2011, and the related statements of income, changes in stockholders' equity and cash flows for the years 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 December 31, 2012 and 2011, and the results of its operations and its cash flows for the years 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.

We have also audited the consolidated financial statements of the Corporation and its subsidiaries as of and for the years ended December 31, 2012 and 2011 on which we expressed an unqualified opinion.

March 22, 2013

<u>*Notice to Readers*</u>

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. 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
DECEMBER 31, 2012 AND 2011
(In Thousands of New Taiwan Dollars, Except Par Value)

	2012		2011	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash (Note 4)	$ 1,733,583	1	$ 683,607	-
Available-for-sale financial assets - current (Notes 2, 6 and 28)	1,645,451	-	2,207,870	1
Hedging derivative assets - current (Notes 2, 7 and 28)	33,120	-	22,630	-
Notes receivable	476,696	-	866,772	-
Notes receivable - related parties (Note 29)	519,453	-	468,399	-
Accounts receivable (Notes 2, 3 and 8)	2,712,325	1	2,764,299	1
Accounts receivable - related parties (Notes 2, 3 and 29)	830,895	-	553,216	-
Other receivables (Notes 11 and 25)	879,092	-	1,162,430	-
Other financial assets - current (Notes 2, 13 and 28)	2,721,077	1	2,399,287	1
Inventories (Notes 2 and 9)	47,510,017	11	67,340,540	16
Deferred income tax assets - current (Notes 2 and 25)	857,148	-	1,379,334	-
Restricted assets - current (Notes 4 and 30)	5,669,636	1	5,678,750	1
Others	1,986,003	1	1,712,543	1
Total current assets	67,574,496	16	87,239,677	21
INVESTMENTS				
Available-for-sale financial assets - noncurrent (Notes 2, 6 and 28)	3,259,169	-	3,260,406	1
Hedging derivative assets - noncurrent (Notes 2, 7 and 28)	4,042	-	89,387	-
Financial assets carried at cost - noncurrent (Notes 2,10 and 28)	8,068,823	2	7,421,220	2
Bond investments with no active market - noncurrent (Notes 2, 11 and 28)	3,364,000	1	3,906,000	1
Investments accounted for by the equity method (Notes 2, 12 and 28)	148,970,411	35	127,252,843	30
Other financial assets - noncurrent (Notes 2, 13 and 28)	33,943	-	2,119,688	-
Total investments	163,700,388	38	144,049,544	34
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 7, 13, 14, 29 and 30)				
Land	9,364,677	2	11,024,276	2
Land improvements	4,222,124	1	4,223,646	1
Buildings	53,040,845	12	44,939,092	11
Machinery and equipment	310,518,644	73	278,296,503	66
Transportation equipment	1,880,782	1	1,804,682	-
Other equipment	5,273,280	1	5,118,133	1
Spare parts	7,326,242	2	6,918,272	2
Total cost	391,626,594	92	352,324,604	83
Revaluation increment	48,664,692	11	48,885,858	12
Cost and revaluation increment	440,291,286	103	401,210,462	95
Less: Accumulated depreciation	274,041,941	64	260,114,511	62
	166,249,345	39	141,095,951	33
Construction in progress and prepayments for equipment	23,256,873	5	46,045,195	11
Net property, plant and equipment	189,506,218	44	187,141,146	44
INTANGIBLE ASSETS (Note 2)	141,888	-	184,081	-
OTHER ASSETS				
Assets leased to others, net (Notes 2 and 15)	4,743,179	1	3,063,360	1
Refundable deposits (Note 28)	144,807	-	223,215	-
Deferred income tax assets - noncurrent (Notes 2 and 25)	1,420,555	1	-	-
Restricted assets - noncurrent (Notes 4 and 30)	34,242	-	33,817	-
Total other assets	6,342,783	2	3,320,392	1
TOTAL	$ 427,265,773	100	$ 421,934,840	100

	2012		2011	
LIABILITIES AND STOCKHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Short-term loans and overdraft (Notes 16 and 30)	$ 8,868,560	2	$ 6,467,626	1
Commercial paper payable (Note 17)	13,294,434	3	3,595,877	1
Hedging derivative liabilities - current (Notes 2, 7 and 28)	11,752	-	7,620	-
Accounts payable	3,516,165	1	4,665,602	1
Accounts payable - related parties (Note 29)	496,968	-	851,314	-
Income tax payable (Notes 2 and 25)	1,368,313	-	2,520,677	1
Accrued expenses (Notes 18 and 22)	6,505,403	1	8,306,109	2
Other payables (Notes 2 and 29)	8,552,322	2	4,976,046	1
Bonds payable - current portion (Notes 19 and 28)	11,297,543	3	11,295,086	3
Long-term debt - current portion (Notes 20, 28 and 30)	7,940,886	2	3,682,227	1
Others	2,596,340	1	3,086,241	1
Total current liabilities	64,448,686	15	49,454,425	12
LONG-TERM LIABILITIES				
Hedging derivative liabilities - noncurrent (Notes 2, 7 and 28)	451	-	421	-
Bonds payable (Notes 19 and 28)	46,657,982	11	37,969,340	9
Long-term debt (Notes 20, 28 and 30)	15,180,409	4	21,284,765	5
Long-term notes payable (Notes 21 and 28)	10,494,163	2	11,989,008	3
Total long-term liabilities	72,333,005	17	71,243,534	17
RESERVE FOR LAND VALUE INCREMENT TAX (Note 14)	10,011,916	2	10,011,916	2
OTHER LIABILITIES				
Accrued pension cost (Note 22)	69,313	-	51,491	-
Deferred income tax liabilities - noncurrent (Notes 2 and 25)	-	-	446,254	-
Deferred credits - gain from affiliates (Note 23)	2,050,786	1	2,140,211	1
Total other liabilities	2,120,099	1	2,637,956	1
Total liabilities	148,913,706	35	133,347,831	32
CAPITAL STOCK - NT$10 par value, authorized 17,000,000 thousand shares (Note 24)				
Common shares - issued 15,272,477 thousand shares and 15,046,209 thousand shares as of December 31, 2012 and 2011, respectively	152,724,765	36	150,462,093	36
Preferred shares - issued 38,268 thousand shares	382,680	-	382,680	-
Total capital stock	153,107,445	36	150,844,773	36
CAPITAL SURPLUS (Notes 2 and 24)	36,673,528	8	36,247,705	8
RETAINED EARNINGS (Notes 2 and 24)	68,356,193	16	80,051,881	19
OTHER EQUITY				
Unrealized revaluation increment (Note 24)	26,750,124	6	26,757,590	6
Unrealized gain on financial instruments (Notes 7, 13 and 24)	2,458,247	1	3,020,919	1
Cumulative translation adjustments (Notes 2 and 24)	(393,229)	-	17,192	-
Net loss not recognized as pension cost	(184,893)	-	(230,590)	-
Treasury stock - 309,816 thousand shares and 295,065 thousand shares as of December 31, 2012 and 2011, respectively (Notes 2 and 24)	(8,415,348)	(2)	(8,122,461)	(2)
Total other equity	20,214,901	5	21,442,650	5
Total stockholders' equity	278,352,067	65	288,587,009	68
TOTAL	$ 427,265,773	100	$ 421,934,840	100

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

CHINA STEEL CORPORATION

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2012 AND 2011
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2012		2011	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUES (Notes 2 and 29)				
Sales	$ 201,072,107	97	$ 234,417,553	98
Other operating revenues	6,120,998	3	5,958,466	2
Total operating revenues	207,193,105	100	240,376,019	100
OPERATING COSTS (Notes 2, 9, 26 and 29)				
Cost of goods sold	194,223,145	94	215,021,873	89
Other operating costs	4,006,120	2	3,760,102	2
Total operating costs	198,229,265	96	218,781,975	91
GROSS PROFIT	8,963,840	4	21,594,044	9
REALIZED (UNREALIZED) GAIN FROM AFFILIATES, NET	(36,337)	-	61,894	-
REALIZED GROSS PROFIT	8,927,503	4	21,655,938	9
OPERATING EXPENSES (Notes 26 and 29)				
Research and development	1,378,211	1	1,437,899	1
Selling	2,412,224	1	2,414,478	1
General and administrative	2,447,494	1	3,204,580	1
Total operating expenses	6,237,929	3	7,056,957	3
OPERATING INCOME	2,689,574	1	14,598,981	6
NONOPERATING INCOME AND GAINS				
Interest income (Note 28)	109,872	-	121,480	-
Investment income recognized under equity method, net (Notes 2 and 12)	2,353,103	1	5,151,451	2
Gain on sale of investments (Notes 2 and 6)	1,140,690	1	1,101	-
Exchange gain (Note 2)	329,097	-	403,480	-
Valuation gain on financial assets (Notes 2 and 5)	-	-	2,828	-
Others (Notes 2, 11 and 29)	1,341,516	1	1,194,643	1
Total nonoperating income and gains	5,274,278	3	6,874,983	3
NONOPERATING EXPENSES AND LOSSES				
Interest expense (Notes 14 and 28)	1,358,092	1	769,406	1
Others (Notes 2, 26 and 29)	475,189	-	419,865	-

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CHINA STEEL CORPORATION

STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2012 AND 2011
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2012		2011	
	Amount	**%**	**Amount**	**%**
Total nonoperating expenses and losses	$ 1,833,281	1	$ 1,189,271	1
INCOME BEFORE INCOME TAX	6,130,571	3	20,284,693	8
INCOME TAX (Notes 2 and 25)	319,081	-	791,014	-
NET INCOME	$ 5,811,490	3	$ 19,493,679	8

	2012		2011	
	Before Income Tax	**After Income Tax**	**Before Income Tax**	**After Income Tax**
EARNINGS PER SHARE (Note 27)				
Basic	$ 0.41	$ 0.38	$ 1.40	$ 1.34
Diluted	$ 0.40	$ 0.38	$ 1.39	$ 1.33

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

	2012	2011
Net income	$ 6,123,244	$ 20,153,180
Basic earnings per share based on weighted-average number of outstanding common shares aggregating 15,272,477 thousand shares and 14,782,477 thousand shares for the years ended December 31, 2012 and 2011, respectively	$0.40	$1.36
Diluted earnings per share based on weighted-average number of outstanding common shares aggregating 15,311,456 thousand shares and 14,911,740 thousand shares for the years ended December 31, 2012 and 2011, respectively	$0.40	$1.35

The accompanying notes are an integral part of the financial statements. (Concluded)

CHINA STEEL CORPORATION

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2012 AND 2011
(In Thousands of New Taiwan Dollars, Except Dividends Per Share)

	Issued			Retained Earnings				Other Equity					
	Common Shares	Preferred Shares	Capital Surplus	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 (Note 24)													
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)
Stock dividends to preferred stockholders - NT$0.5 per share	19,134	-	-	-	-	(19,134)	(19,134)	-	-	-	-	-	-
Stock dividends to common stockholders - NT$0.5 per share	6,763,950	-	-	-	-	(6,763,950)	(6,763,950)	-	-	-	-	-	-
Issuance of common stock for cash (Note 24)	8,400,000	-	15,338,755	-	-	-	-	-	-	-	-	-	23,738,755
Compensation cost of share-based payment	-	-	98,826	-	-	-	-	-	-	-	-	-	98,826
Net income in 2011	-	-	-	-	-	19,493,679	19,493,679	-	-	-	-	-	19,493,679
Change in unrealized gain on available-for-sale financial assets	-	-	-	-	-	-	-	-	141,223	-	-	-	141,223
Change in unrealized revaluation increment (Note 14)	-	-	-	-	-	-	-	4,739,111	-	-	-	-	4,739,111
Adjustment from changes in equity recognized under equity method	-	-	78,147	-	-	-	-	144,539	251,529	-	(113,575)	83	360,723
Foreign exchange gain on translation of foreign-currency financial statements	-	-	-	-	-	-	-	-	-	180,788	-	-	180,788
Foreign exchange loss on hedge of a net investment in a foreign operation	-	-	-	-	-	-	-	-	-	(62,153)	-	-	(62,153)
Change in unrealized gain on financial instruments for cash flow hedging	-	-	-	-	-	-	-	-	253,790	-	-	-	253,790
Disposal of the Corporation's shares held by subsidiaries (Note 24)	-	-	106,638	-	-	-	-	-	-	-	-	404,810	511,448
Cash dividends paid by the Corporation to its subsidiaries	-	-	552,863	-	-	-	-	-	-	-	-	-	552,863
Purchase of the Corporation's shares by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(375,733)	(375,733)
BALANCE, DECEMBER 31, 2011	150,462,093	382,680	36,247,705	52,829,209	7,615,701	19,606,971	80,051,881	26,757,590	3,020,919	17,192	(230,590)	(8,122,461)	288,587,009
Appropriation of 2011 earnings (Note 24)													
Legal reserve	-	-	-	1,949,368	-	(1,949,368)	-	-	-	-	-	-	-
Cash dividends to preferred stockholders - NT$1.25 per share	-	-	-	-	-	(47,835)	(47,835)	-	-	-	-	-	(47,835)
Cash dividends to common stockholders - NT$1.01 per share	-	-	-	-	-	(15,196,671)	(15,196,671)	-	-	-	-	-	(15,196,671)
Stock dividends to preferred stockholders -NT$0.15 per share	5,740	-	-	-	-	(5,740)	(5,740)	-	-	-	-	-	-
Stock dividends to common stockholders - NT$0.15 per share	2,256,932	-	-	-	-	(2,256,932)	(2,256,932)	-	-	-	-	-	-
Net income in 2012	-	-	-	-	-	5,811,490	5,811,490	-	-	-	-	-	5,811,490
Change in unrealized gain on available-for-sale financial assets	-	-	-	-	-	-	-	-	(292,373)	-	-	-	(292,373)
Change in unrealized revaluation increment (Note 14)	-	-	-	-	-	-	-	(3,699)	-	-	-	-	(3,699)
Adjustment from changes in equity recognized under equity method	-	-	114,069	-	-	-	-	(3,767)	6,430	-	45,697	(7,462)	154,967
Foreign exchange loss on translation of foreign-currency financial statements	-	-	-	-	-	-	-	-	-	(688,584)	-	-	(688,584)
Foreign exchange gain on hedge of a net investment in a foreign operation	-	-	-	-	-	-	-	-	-	278,163	-	-	278,163
Change in unrealized gain on financial instruments for cash flow hedging	-	-	-	-	-	-	-	-	(276,729)	-	-	-	(276,729)
Disposal of the Corporation's shares held by subsidiaries (Note 24)	-	-	3,200	-	-	-	-	-	-	-	-	18,493	21,693
Cash dividends paid by the Corporation to its subsidiaries	-	-	308,554	-	-	-	-	-	-	-	-	-	308,554
Purchase of the Corporation's shares by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(303,918)	(303,918)
BALANCE, DECEMBER 31, 2012	$ 152,724,765	$ 382,680	$ 36,673,528	$ 54,778,577	$ 7,615,701	$ 5,961,915	$ 68,356,193	$ 26,750,124	$ 2,458,247	$ (393,229)	$ (184,893)	$ (8,415,348)	$ 278,352,067

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

CHINA STEEL CORPORATION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011
(In Thousands of New Taiwan Dollars)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 5,811,490	$ 19,493,679
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	17,708,945	16,064,667
Amortization	42,193	42,364
Pension cost	17,822	51,491
Deferred income tax	(1,287,186)	(913,703)
Provision for loss on inventories	1,880,058	3,060,921
Gain on sale of investments	(1,140,690)	(1,101)
Investment income recognized under equity method, net	(2,353,103)	(5,151,451)
Unrealized (realized) gain from affiliates, net	36,337	(61,894)
Cash dividends received from equity method investees	5,120,219	5,582,492
Valuation gain on financial assets	-	(2,828)
Compensation cost of share-based payment	-	98,826
Loss on purchase commitments	362,891	15,478
Others	(228,350)	(119,705)
Net changes in operating assets and liabilities		
Notes receivable	390,076	(160,697)
Notes receivable - related parties	(51,054)	68,809
Accounts receivable	51,974	(866,891)
Accounts receivable - related parties	(277,679)	36,315
Other receivables	215,058	124,373
Inventories	18,288,165	(23,289,268)
Other current assets	(273,460)	(215,013)
Notes payable - related parties	-	(23,163)
Accounts payable	(1,149,437)	34,802
Accounts payable - related parties	(354,346)	(458,350)
Income tax payable	(1,084,084)	(2,478,813)
Accrued expenses	(1,800,706)	(2,426,521)
Other payables	1,433,349	2,223,410
Other current liabilities	(580,381)	(576,170)
Net cash provided by operating activities	40,778,101	10,152,059
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	1,292,350	-
Acquisition of financial assets carried at cost	(811,558)	(4,085,903)
Proceeds from disposal of financial assets carried at cost	52,500	1,101
Proceeds from the capital reduction on financial assets carried at cost	10,176	14,911
Acquisition of investments accounted for by the equity method	(25,012,997)	(3,324,396)
Acquisition of property, plant and equipment	(20,094,040)	(17,189,295)
Proceeds from disposal of property, plant and equipment	-	1,267
Proceeds from disposal of assets leased to others	-	5,000

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CHINA STEEL CORPORATION

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011
(In Thousands of New Taiwan Dollars)

	2012	2011
Decrease (increase) in other financial assets	$ 1,509,563	$ (2,476,273)
Decrease (increase) in refundable deposits	78,408	(106,697)
Decrease (increase) in restricted assets	8,689	(1,031,100)
Net cash used in investing activities	(42,966,909)	(28,188,557)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term loans and overdraft	2,485,755	5,125,862
Increase (decrease) in commercial paper payable	9,698,557	(103,762)
Issuance of bonds payable	20,000,000	19,700,000
Repayments of bonds payable	(11,300,000)	(13,700,000)
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)	7,500,000
Cash dividends	(15,236,472)	(26,990,933)
Issuance of common stock for cash	-	23,738,755
Net cash provided by financing activities	3,238,784	16,549,489
NET INCREASE (DECREASE) IN CASH	1,049,976	(1,487,009)
CASH, BEGINNING OF YEAR	683,607	2,170,616
CASH, END OF YEAR	$ 1,733,583	$ 683,607
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	$ 1,546,515	$ 1,439,066
Capitalized interest	(283,655)	(644,909)
Interest paid (excluding capitalized interest)	$ 1,262,860	$ 794,157
Income tax paid	$ 2,690,351	$ 4,183,530
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	$ 21,866,042	$ 16,081,479
Decrease (increase) in payable for equipment purchased	(1,772,002)	1,107,816
	$ 20,094,040	$ 17,189,295
Cash dividends paid to stockholders		
Total cash dividends payable to stockholders	$ 15,244,506	$ 26,996,676
Increase in dividends payable	(8,034)	(5,743)
	$ 15,236,472	$ 26,990,933
NON-CASH FINANCING ACTIVITIES		
Current portion of long-term liabilities	$ 19,238,429	$ 14,977,313

The accompanying notes are an integral part of the financial statements. (Concluded)

1. ORGANIZATION AND OPERATIONS

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 Corporation's shares have been listed on the Taiwan Stock Exchange since December 1974. As of December 31, 2012 and 2011, the Ministry of Economic Affairs ("MOEA"), Republic of China owned both 20.05% of the Corporation's issued common stock.

As of December 31, 2012 and 2011, the Corporation had about 9,800 and 9,500 employees, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Business Accounting Law, Guidelines Governing Business Accounting, and accounting principles generally accepted in the Republic of China ("ROC GAAP").

For readers' convenience, the accompanying 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 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.

Significant accounting policies are summarized as follows:

Foreign-currency Transactions

Non-derivative foreign-currency transactions are recorded in New Taiwan dollars at the exchange rates in effect when the transactions occur. Exchange differences arising from settlement of foreign-currency assets and liabilities are recognized in profit or loss.

At the balance sheet date, foreign-currency monetary assets and liabilities are revalued using prevailing exchange rates and the exchange differences are recognized in profit or loss.

At the balance sheet date, foreign-currency nonmonetary assets and liabilities that are measured at fair value are revalued using prevailing exchange rates, with the exchange differences treated as follows:

a. Recognized in stockholders' equity if the changes in fair value are recognized in stockholders' equity;

b. Recognized in profit and loss if the changes in fair value are recognized in profit or loss.

Foreign-currency nonmonetary assets and liabilities that are carried at cost continue to be stated at historical exchange rates at trade dates.

If the functional currency of an equity-method investee is a foreign currency, translation adjustments will result from the translation of the investee's financial statements into the reporting currency of the Corporation. Such adjustments are accumulated and reported as a separate component of stockholders' equity.

Accounting Estimates

Under above guidelines, law and principles, certain estimates and assumptions have been used for the allowance for doubtful accounts, provision for loss on inventories, depreciation, impairment loss on assets, loss on commitments, pension, income tax, bonuses to employees and remuneration to directors and supervisors, etc. Actual results may differ from these estimates.

Current and Noncurrent Assets and Liabilities

Current assets include cash and those assets held primarily for trading purposes or to be realized, sold or consumed within one year from the balance sheet date. All other assets such as property, plant and equipment and intangible assets are classified as noncurrent. Current liabilities are obligations incurred for trading purposes or to be settled within one year from the balance sheet date. All other liabilities are classified as noncurrent.

Financial Assets at Fair Value Through Profit or Loss

Financial instruments classified as financial assets at fair value through profit or loss ("FVTPL") include financial assets held for trading and those designated as at FVTPL on initial recognition. The Corporation recognizes financial assets on its balance sheet when the Corporation becomes a party to the contractual provisions of the financial instrument. A financial asset is derecognized when the Corporation has lost control of its contractual rights over the financial asset.

Financial instruments at FVTPL are initially measured at fair value. Transaction costs directly attributable to the acquisition of financial assets at FVTPL are recognized immediately in profit or loss. At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are remeasured at fair value, with changes in fair value recognized directly in profit or loss in the year in which they arise. On derecognition of a financial asset, the difference between its carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

Fair value of open-end funds is based on net asset value on balance sheet date.

Available-for-sale Financial Assets

Available-for-sale financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are remeasured at fair value, with changes in fair value recognized in equity until the financial assets are disposed of, at which time, the cumulative gain or loss previously recognized in equity is included in profit or loss for the year. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Fair value is based on the closing price on balance sheet date for listed stocks. For stocks acquired by private placement and not transferred freely in public market, the fair value is determined using valuation techniques.

The recognition and derecognition bases of available-for-sale financial assets are the same with those of financial assets at FVTPL.

Cash dividends are recognized as investment income on the ex-dividend date, except for dividends distributed from the pre-acquisition profit, which are treated as a reduction of investment cost. Stock dividends are not recognized as investment income but are recorded as an increase in the number of shares. The total number of shares subsequent to the increase is used for recalculation of cost per share.

An impairment loss is recognized when there is objective evidence that the financial asset is impaired. Any subsequent decrease in impairment loss for an equity instrument classified as available-for-sale is recognized directly in equity. If the fair value of a debt instrument classified as available-for-sale subsequently increases as a result of an event which occurred after the impairment loss was recognized, the decrease in impairment loss is reversed to profit.

Hedge Accounting

Derivatives and other financial assets that are designated and effective as hedging instruments are measured at fair value, with subsequent changes in fair value recognized either in profit or loss, or in shareholders' equity, depending on the nature of the hedging relationship.

Hedge accounting recognizes the offsetting effects on profit or loss arising from the changes in the fair values of the hedging instrument and the hedged item as follows:

a. Fair value hedge

   The Corporation uses non-derivative financial instruments to hedge exchange rate fluctuations of investments. The gain or loss from remeasuring the hedging instrument at fair value and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss.

b. Cash flow hedge

   The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in stockholders' equity. The amount recognized in stockholders' equity is recognized as the original cost of the asset if the hedged forecast transaction results in the recognition of the non-financial asset or recognized in profit or loss if the hedged forecast transaction affects profit or loss. However, if all or a portion of a loss recognized in stockholders' equity is not expected to be recovered in the future period, the amount that is not expected to be recovered is reclassified into current profit or loss.

c. Hedge of a net investment in a foreign operation

   The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized in stockholders' equity. The amount recognized in stockholders' equity is recognized in profit or loss upon the disposal of the foreign operation.

The Corporation uses the hedge activities to control the risk of the exchange rate fluctuations.

Financial Assets Carried at Cost

Investments in non-publicly traded stocks, stocks traded in the Emerging Stock Market, and certificates of entitlement are measured at their original cost. The accounting treatment for dividends on financial assets carried at cost is the same with that for dividends on available-for-sale financial assets. An impairment loss is recognized when there is objective evidence that the asset is impaired. A reversal of this impairment loss is disallowed.

Bond Investments with No Active Market

Bond investments with fixed or determinable payments and with no quoted prices in active market are carried at amortized cost. These financial assets are initially recognized at fair value plus transaction cost that are directly attributable to the acquisition. Profit or loss is recognized when the financial assets are derecognized, impaired or amortized.

An impairment loss is recognized when there is objective evidence that the investment is impaired. The impairment loss is reversed if an increase in the investment's recoverable amount is due to an event which occurred after the impairment loss was recognized; however, the adjusted carrying amount of the investment may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the investment in prior years.

Impairment and Factoring of Accounts Receivable

a. Impairment of Accounts Receivable

Accounts receivable are assessed for impairment at the end of each reporting period and 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 accounts receivable, the estimated future cash flows of the asset have been affected. Objective evidence of impairment includes:

1) Significant financial difficulty of the debtor;
2) Occurrence of overdue accounts receivable;
3) High probability of bankruptcy or financial re-organization of the debtor.

Accounts receivable that are assessed as not impaired individually are further assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of accounts receivable could include the Corporation's past experience of collecting payments, an increase in the number of delayed payments, as well as observable changes in national or regional economic conditions that correlate with defaults on receivables.

The amount of impairment loss recognized is the difference between the asset carrying amount and the present value of estimated future cash flows, after taking into account the related collateral or guarantees, discounted at the receivable's original effective interest rate. The carrying amount of the accounts receivable is reduced through the use of an allowance account.

b. Factoring of Accounts Receivable

Factoring of accounts receivable would be accounted for as a sale of receivables if the following three conditions are met:

1) The accounts receivable have been isolated from the Corporation - put presumptively beyond the control of the Corporation.

2) The transferees have obtained the right to pledge or exchange the accounts receivable, and there is no condition which constrains the transferees from taking advantage of its right to pledge or exchange and provides more than a trivial benefit to the Corporation.

3) The transferor does not maintain effective control over the transferred assets through either of the following: (i) an agreement that both entitles and obligates the transferor to repurchase or redeem them before their maturity and (ii) the ability to unilaterally cause the holder to return specific assets.

If the three conditions are met, the difference between the proceeds and the carrying value of the accounts receivable is recognized as a loss and recorded as nonoperating expenses and losses.

Impairment of Assets

If the recoverable amount of an asset (mainly property, plant and equipment, intangible assets and investments accounted for by the equity method) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is charged to earnings unless the asset is carried at a revalued amount, in which case the impairment loss is first treated as a deduction to the unrealized revaluation increment and any remaining loss is charged to earnings.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased accordingly, but the increased carrying amount may not exceed the carrying amount that would have been determined had no impairment loss been recognized on the asset in prior years. A reversal of an impairment loss is recognized in earnings, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is first recognized as gains to the extent that an impairment loss on the same revalued asset was previously charged to earnings. Any excess amount is treated as an increase in the unrealized revaluation increment.

For equity method investments on which the Corporation has significant influence but with no control, the carrying amount (including goodwill) of each investment is compared with its own recoverable amount to determine impairment loss.

Allowance for Sales Discount

An allowance for sales discount, recorded as other payables, is recognized on the basis of management's judgment and relevant factors.

Inventories

Inventories consist of raw materials, supplies, fuel, finished products, work in process and etc. Inventories are stated at the lower of cost or net realizable value. Inventory write-downs are made on item by item basis. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and expenses necessary to make the sale. Inventories are recorded at moving average cost. Unallocated fixed overheads on idle capacity are currently recognized as operating costs when actual production is significantly lower than normal production or the equipment is idle.

Investments Accounted for by the Equity Method

Investments in which the Corporation holds 20 percent or more of the investees' voting rights or exercises significant influence over the investees' operating and financial decisions are accounted for by the equity method.

The cost of an investment shall be analyzed and the cost of investment in excess of the fair value of identifiable net assets acquired, representing goodwill, shall not be amortized. The fair value of the net identifiable assets of the investee in excess of the investment cost is used to reduce the fair value of each of the noncurrent assets of the investee (except for financial assets other than investments accounted for by the equity method, deferred income tax assets, prepaid pension or other postretirement benefit) in proportion to the respective fair values of the noncurrent assets, with any excess recognized as an extraordinary gain.

Profits from downstream transactions with an equity-method investee are eliminated in proportion to the Corporation's percentage of ownership in the investee; however, if the Corporation has control over the investee, all the profits are eliminated. Profits from upstream transactions with an equity-method investee are eliminated in proportion to the Corporation's percentage of ownership in the investee.

When the Corporation subscribes for its investee's newly issued shares at a percentage different from its current percentage of ownership in the investee, the Corporation records the change in its equity in the investee's net assets as an adjustment to investments, with a corresponding amount credited or debited to capital surplus. When the adjustment should be debited to capital surplus, but the capital surplus from long-term investments is insufficient, the shortage is debited to retained earnings.

When the Corporation's share in losses of an investee over which the Corporation has significant influence equals its investment in that investee plus any advances made to the investee, the Corporation discontinues applying the equity method. The Corporation continues to recognize its share in losses of the investee if (a) the Corporation commits to provide further financial support to the investee or (b) the losses of the investee are considered to be temporary and sufficient evidence shows forthcoming return to profitability.

When the Corporation and its investee have mutual equity holdings, the investment income or loss is accounted for by the treasury stock method.

The Corporation's shares held by subsidiaries are recorded as treasury stock. The Corporation's dividends distributed to subsidiaries are debited to investment income and adjusted to capital surplus - treasury stock transaction.

Property, Plant and Equipment

Property, plant and equipment, except for land, are stated at cost or cost plus revaluation increment less accumulated depreciation. Borrowing costs directly attributable to the acquisition or construction of property, plant and equipment are capitalized as part of the cost of those assets. Major additions, renewals and improvements are capitalized, while costs of maintenance and repairs are expensed currently.

Spare parts are intended for use in the repairs of machinery and equipment. Depreciation of major spare parts is calculated by the straight-line method over the shorter of useful lives of supported equipment or their own useful lives, whereas depreciation of rollers is calculated based on their level of wear.

Depreciation is calculated by the straight-line method over service lives estimated as follows: land improvements, 15 to 40 years; buildings, 5 to 60 years; machinery and equipment, 3 to 25 years; transportation equipment, 3 to 20 years; and other equipment, 3 to 10 years. Depreciation of revalued assets is provided on a straight-line basis over their remaining estimated useful lives determined at the time of revaluation. Property, plant and equipment still in use beyond their original estimated useful lives are further depreciated over their new estimated useful lives.

Upon disposal of property, plant and equipment, the related cost (including revaluation increment) and accumulated depreciation are derecognized. Any gain or loss on disposal of the asset is included in nonoperating gains or losses in the year of disposal. The related unrealized revaluation increment is transferred to nonoperating income and gains.

Intangible Assets

Identifiable intangible assets (mainly computer software, leasehold, patents and trademarks) acquired are initially recorded at cost and are amortized over estimated useful lives ranging from 5 to 20 years.

Assets Leased to Others

Assets leased to others are stated at the lower of carrying value or recoverable value. Depreciation is calculated by the working-hours method or the straight-line method over 8 to 60 years.

Loss on Purchase Commitments

The Corporation recognizes accrued losses on purchase commitments under noncancelable purchasing contracts for raw materials when the unavoidable costs of meeting the obligations under the contracts are in excess of the expected profit from the contracts. The accrued losses on purchase commitments are recorded as other payables. The estimated loss is recognized as operating costs.

Pension Cost

Pension cost under defined benefit plan is determined by actuarial valuations and recorded as expenses.

Contributions made under a defined contribution plan are recognized as pension cost during the year in which employees render services.

Income Tax

The Corporation applies the intra-year and inter-year allocation methods to income tax, whereby (1) a portion of income tax expense is charged or credited directly to shareholders' equity; and (2) deferred income tax assets and liabilities are recognized for the tax effects of temporary differences and unused tax credits. Valuation allowance is provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. A deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred income tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled.

If the Corporation can control the timing of the reversal of a temporary difference arising from the difference between the book value and the tax basis of a long-term equity investment in a foreign subsidiary or joint venture and if the temporary difference is not expected to reverse in the foreseeable future and will, in effect, exist indefinitely, then a deferred tax liability or asset is not recognized.

Any tax credit arising from purchases of machinery, equipment and technology, and expenditures of research and development and employee training is recognized using the flow-through method.

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

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.

Share-based Compensation

Employee stock options granted on or after January 1, 2008 are accounted for under SFAS No. 39, "Accounting for Share-based Payment." Under the statement, the value of the stock options granted, which is equal to the best available estimate of the number of stock options expected to vest multiplied by the grant-date fair value, is expensed on a straight-line basis over the vesting year, with a corresponding adjustment to capital surplus - employee stock options. The estimate is revised if subsequent information indicates that the number of stock options expected to vest differs from previous estimates.

Treasury Stock

Reacquired issued shares of the Corporation are recorded as treasury stock at cost and shown as a deduction in stockholders' equity.

The Corporation accounts for its stock held by subsidiaries as treasury stock. The recorded cost of the stock is based on its carrying amount as of January 1, 2002 and reclassified to treasury stock. Shares of the Corporation that were acquired and held by less than 50%-owned subsidiaries of the Corporation after January 1, 2002 are reclassified to treasury stock at the acquisition cost.

Revenue Recognition

Revenues from sales of goods are recognized when the significant risks and rewards of ownership of the goods are transferred to customers as follows: domestic sales - when products are delivered out of the Corporation's premises to customers; exports - when products are loaded onto vessels.

Revenues are measured at 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.

Service revenues are recognized according to the contract and the percentage of completion of the service. 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.

3. EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES

Financial Instruments

Starting January 1, 2011, the Corporation adopted the newly revised Statement of Financial Accounting Standards ("SFAS") No. 34, "Financial Instruments: Recognition and Measurement." The main revisions are as follows: (1) impairment of finance lease receivables is now covered by SFAS No. 34; (2) the scope of the applicability of SFAS No. 34 to insurance contracts is amended; (3) loans and receivables originated by the enterprise are now covered by SFAS No. 34; (4) additional guidelines on impairment of financial assets carried at amortized cost when the debtor has financial difficulties and the terms of obligations have been modified; and (5) accounting treatment by a debtor for modifications in the terms of obligations is included. This accounting change did not have a significant impact on the Corporation's financial statements as of and for the year ended December 31, 2011.

Operating Segments

Starting January 1, 2011, the Corporation adopted the newly issued SFAS No. 41, "Operating Segments." The requirements of the statement are based on the information about the components of the Corporation and its subsidiaries that management uses to make decisions about operating matters. SFAS No. 41 requires identification of operating segments on the basis of internal reports that are regularly reviewed by the Corporation's chief operating decision maker in order to allocate resources to the segments and assess their performance. This statement supersedes SFAS No. 20, "Segment Reporting" and the Corporation conformed to the disclosure requirement.

4. CASH

	December 31	
	2012	2011
Cash on hand	$ 7,193	$ 15,459
Checking accounts and demand deposits	1,161,750	568,148
Time deposits	564,640	100,000
	$ 1,733,583	$ 683,607

Foreign bank deposits of the Corporation were as follows:

	December 31	
	2012	2011
Japan - IYO Bank and Mega International Commercial Bank (in thousands of JPY)	￥ 2,817	￥ 1,877
Singapore - Daiwa Securities SMBC (in thousands of JPY)	37,218	37,221
	￥ 40,035	￥ 39,098
India - Standard Chartered Bank (in thousands of INR)	Rs 3,392	Rs -
Represented by N.T. dollars (in thousands)	$ 15,265	$ 15,272

The Corporation cooperated with the MOEA on "Advanced TE Conversion Materials and Systems used in Waste Heat Recovery of Steel Making Industry" and other projects. Deposits for these projects were NT$45,059 thousand (NT$19,636 thousand recorded as restricted assets - current and NT$25,423 thousand recorded as restricted assets - noncurrent) and NT$53,748 thousand (NT$28,750 thousand recorded as restricted assets - current and NT$24,998 thousand recorded as restricted assets - noncurrent) as of December 31, 2012 and 2011, respectively.

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS - CURRENT (ONLY FOR THE YEAR ENDED DECEMBER 31, 2011)

The financial assets designated as at FVTPL represent open-end bond funds. The purpose of classifying open-end bond funds to this account is to reduce the accounting inconsistency between investment income and interest expense. Those assets are managed as a group and the performance is evaluated on fair value basis, in accordance with the Corporation's documented risk management or investment strategy. Net gain on financial assets designated as at FVTPL for the year ended December 31, 2011 was NT$2,828 thousand.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2012	2011
Domestic quoted stocks	$ 2,926,708	$ 3,488,606
Overseas quoted stocks	1,530,620	1,602,241
Private-placement domestic shares	447,292	377,429
	4,904,620	5,468,276
Less: Current portion	(1,645,451)	(2,207,870)
	$ 3,259,169	$ 3,260,406

The Corporation continually sold the shares of Taiwan Semiconductor Manufacturing Company from September 2012 and the gain on sale of the investment was NT$1,091,815 thousand, recorded as nonoperation income and gains.

The Corporation borrowed foreign-currency bank loans to hedge exchange rate fluctuation risks on the overseas quoted stocks in Maruichi Steel Tube Ltd. and Yodogawa Steel Works, Ltd. (Notes 20 and 28). Adjustments for change in valuation arising from exchange difference were recognized in profit or loss.

In September 2010, the Corporation invested in Reichi Precision Co., Ltd. through its private placement. According to the Securities Exchange Act, the securities which the Corporation acquired by private placement could be transferred freely in public market only after holding those shares for three years starting from the delivery date.

7. HEDGING DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation entered into forward exchange contracts to manage cash flow exposures arising from exchange rate fluctuations on foreign-currency capital expenditure contracts and sales contracts.

Outstanding forward exchange contracts as of December 31, 2012 and 2011 were as follows:

	Currency	Period for Generating Cash Flows and Maturity Date	Contract Amount (In Thousands)
December 31, 2012			
Buy	NTD/USD	January 2013 - September 2015	NTD2,031,467/USD70,729
Buy	NTD/EUR	July 2013 - January 2014	NTD67,767/EUR1,728
Sell	JPY/NTD	January 2013	JPY1,000,000/NTD339,200
December 31, 2011			
Buy	NTD/USD	January 2012 - September 2015	NTD2,421,149/USD84,579
Buy	NTD/EUR	March 2012 - October 2013	NTD133,699/EUR3,216

Movements of hedging derivative financial instruments for the years ended December 31, 2012 and 2011 were as follows:

	Years Ended December 31	
	2012	2011
Balance, beginning of year	$ 103,976	$ (6,414)
Unrealized gain (loss) of valuation	(73,379)	110,481
Transferred to construction in progress and prepayments for equipment	(5,638)	(91)
Balance, end of year	$ 24,959	$ 103,976

As of December 31, 2012 and 2011, the balances of hedging derivative assets (liabilities) were as follows:

	December 31	
	2012	2011
Hedging derivative assets - current	$ 33,120	$ 22,630
Hedging derivative assets - noncurrent	4,042	89,387
Hedging derivative liabilities - current	(11,752)	(7,620)
Hedging derivative liabilities - noncurrent	(451)	(421)
	$ 24,959	$ 103,976

The valuation gain (loss) was recognized as unrealized gain on financial instruments in stockholders' equity.

8. ACCOUNTS RECEIVABLE

The Corporation entered into accounts receivable factoring agreements (without recourse) with Mega International Commercial Bank, Bank of Taiwan and Taipei Fubon 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 for the years ended December 31, 2012 and 2011 was as follows:

Transaction Counter-party	Advances Received at Year - beginning	Receivables Sold	Amounts Collected by Bank	Advances Received at Year-end	Interest Rate on Advances Received (%)	Credit Line (In Billions of NTD)
Year ended December 31, 2012						
Mega International Commercial Bank	$ 3,565,502	$ 9,202,121	$ 9,675,878	$ 3,091,745	1.24-1.52	$9.0
Bank of Taiwan	1,509,756	3,428,554	3,695,356	1,242,954	1.24-1.52	3.0
	$ 5,075,258	$ 12,630,675	$ 13,371,234	$ 4,334,699		
Year ended December 31, 2011						
Mega International Commercial Bank	$ 4,300,199	$ 10,256,117	$ 10,990,814	$ 3,565,502	1.06-1.51	$9.0
Bank of Taiwan	923,545	3,417,866	2,831,655	1,509,756	1.14-1.51	3.0
Taipei Fubon Bank	63,716	-	63,716	-	-	0.4
	$ 5,287,460	$ 13,673,983	$ 13,886,185	$ 5,075,258		

9. INVENTORIES

	December 31 2012	December 31 2011
Finished products	$ 9,864,295	$ 11,556,342
Work in process	19,106,948	29,285,142
Raw materials	10,659,455	18,617,096
Supplies	4,806,213	4,510,559
Raw materials and supplies in transit	2,450,026	2,479,581
Fuel	202,295	285,713
Others	420,785	606,107
	$ 47,510,017	$ 67,340,540

As of December 31, 2012 and 2011, the allowance for inventory devaluation was NT$3,060,178 thousand and NT$4,034,124 thousand, respectively, and recorded as reduction in inventories. The cost of inventories recognized as operating costs for the years ended December 31, 2012 and 2011 was NT$198,229,265 thousand and NT$218,781,975 thousand, respectively, which included the following items:

	Years Ended December 31 2012	Years Ended December 31 2011
Provision for loss on inventories	$ 1,880,058	$ 3,060,921
Loss on purchase commitments	362,891	15,478
Gain on physical inventory	(337,700)	(154,684)
Income from scrap sales	(225,771)	(226,561)
	$ 1,679,478	$ 2,695,154

10. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

	December 31 2012	December 31 2011
Unquoted common stocks		
Nacional Minerios S.A.	$ 3,268,550	$ 3,268,550
Dongbu Metal Co., Ltd.	1,276,092	1,276,092
Industrial Bank of Taiwan	1,000,000	1,000,000
CDIB & Partners Investment Holding Corporation	500,000	500,000
Taiwan Rolling Stock Co., Ltd.	202,048	202,048
TaiGen Biopharmaceuticals Holdings Limited	85,118	103,000
Overseas Investment & Development Corporation	50,000	50,000
CDIB BioScience Ventures I, Inc.	40,704	50,880
Mega I Venture Capital Co., Ltd.	17,400	17,400
Adimmune Corporation (AC)	-	135,897
Taiwan High Speed Rail Corporation (THSRC)	-	-
Certificate of entitlement		
Formosa Ha Tinh Steel Corporation	1,628,911	817,353
	$ 8,068,823	$ 7,421,220

The above equity investments, which were unquoted stocks and certificate of entitlement and over which the Corporation had no significant influence, were carried at cost.

In November 2011, the Corporation acquired 4,751 thousand common shares (1% shareholding) of Nacional Minerios S.A. by investing NT$3,268,550 thousand (JPY8.5 billion). Nacional Minerios S.A. mainly engages in iron ore mining.

AC's shares held by the Corporation were listed on the Taiwan Stock Exchange in May 2012; therefore, this investment was reclassified as available-for-sale financial assets - current.

In September 2003, the Corporation acquired 100,000 thousand Preferred B shares (representing 4% of ownership) of THSRC for NT$1,000,000 thousand. Dividend on these shares is at 5%, payable on a nonparticipating and cumulative basis. These shares with six years duration could be extended for 13 months prior to 3 months from the due date. In April 2005 and August 2004, the Corporation acquired additional 505,370 thousand Preferred C shares of THSRC for NT$3,199,944 thousand and NT$1,499,997 thousand, respectively. These shares, representing 19% of ownership, which may be converted to common shares within four years from the issue date, have a 9.5% dividend in the first two years and zero percent in the next two years. At the end of four years, if the Corporation does not convert the Preferred C shares into common shares and THSRC cannot redeem the shares, the unredeemed shares would be entitled to receive 4.71% dividends. In the second half of 2008, the Corporation evaluated and recognized an impairment loss of NT$4,738,926 thousand on the investments in preferred shares of THSRC. In order to use tax credits under the Act for Promotion of Private Participation in Infrastructure Projects, the Corporation converted THSRC's preferred shares to 605,370 thousand common shares in August 2009. THSRC mainly builds and operates public transportation systems.

From June 2011, the Corporation continually invested a total of NT$1,628,911 thousand (USD 55,000 thousand) in Formosa Ha Tinh Steel Corporation and acquired 5% ownership. The main business of Formosa Ha Tinh Steel Corporation is manufacture and trading of steel products.

11. BOND INVESTMENTS WITH NO ACTIVE MARKET - NONCURRENT

	December 31	
	2012	2011
Unquoted preferred stocks - overseas		
East Asia United Steel Corporation (EAUS) - Preferred A	$ 3,364,000	$ 3,906,000

In May 2003, the Corporation signed a slab production joint-venture contract with Sumitomo Metal Industries, Ltd. (had changed title to Nippon Steel & Sumitomo Metal Corporation in October 2012) and Sumitomo Corporation. In July 2003, the joint venture company EAUS was established. The Corporation invested in EAUS JPY10 billion (Notes 20 and 28). The Corporation thus has a stable supply of slab from this joint venture. The Corporation also signed a contract with the subsidiary, Chung Hung Steel Corporation (CHSC), to transfer the purchasing right of slabs from EAUS, and the Corporation receives royalty on this contract based on the volume purchased by CHSC. The amounts of royalty income for the years ended December 31, 2012 and 2011 were NT$315,590 thousand and NT$324,593 thousand, respectively (recorded as nonoperating income and gains). As of December 31, 2012 and 2011, the royalty receivable was NT$82,328 thousand and NT$85,692 thousand, respectively (recorded as other receivables).

12. INVESTMENTS ACCOUNTED FOR BY THE EQUITY METHOD

	December 31			
	2012		2011	
	Amount	% of Ownership	Amount	% of Ownership
Quoted companies				
Chung Hung Steel Corporation (CHSC)	$ 2,510,525	29	$ 3,509,256	29
China Steel Chemical Corporation (CSCC)	1,911,866	29	1,863,351	29
China Steel Structure Co., Ltd. (CSSC)	1,475,367	33	1,463,032	33
China Ecotek Corporation (CEC)	1,034,347	48	854,575	49
China Hi-Ment Corporation (CHC)	710,808	20	713,721	20
	7,642,913		8,403,935	
Less: Shares held by subsidiaries accounted for as treasury stock	1,595,851		1,589,487	
	6,047,062		6,814,448	
Unquoted companies				
Dragon Steel Corporation (DSC)	93,871,635	100	80,358,899	100
China Steel Express Corporation (CSE)	10,786,189	100	10,332,777	100
C. S. Aluminum Corporation (CAC)	9,168,266	100	8,654,634	100
China Steel Sumikin Vietnam Joint Stock Company (CSVC)	8,397,725	51	3,054,014	51
Gains Investment Corporation (GIC)	6,402,205	100	6,019,844	100
China Prosperity Development Corporation (CPDC)	5,058,928	100	4,894,483	100
China Steel Asia Pacific Holdings Pte Ltd. (CSAPH)	4,552,908	100	4,411,728	100
China Steel Global Trading Corporation (CSGT)	2,565,530	100	2,664,337	100
CSC Steel Australia Holdings Pty Ltd. (CSCAU)	2,059,395	100	708,535	100
China Steel Corporation India Pvt. Ltd. (CSCI)	1,446,174	100	-	-
China Steel Machinery Corporation (CSMC)	1,268,646	74	1,334,974	74
Info-Champ Systems Corporation (ICSC)	763,604	100	703,152	100
Kaohsiung Arena Development Corporation (KADC)	479,622	18	478,310	18
Kaohsiung Rapid Transit Corporation (KRTC)	466,249	31	814,035	31
Horng Yih Investment Corporation (HYI)	433,259	100	571,364	100
Long Yuan Fa Investment Corporation (LYFI)	427,794	100	565,559	100
Goang Yaw Investment Corporation (GYI)	424,057	100	558,685	100
China Steel Security Corporation (CSS)	412,890	100	392,109	100
Hsin Hsin Cement Enterprise Corp. (HHCEC)	332,138	31	298,414	31
Eminent II Venture Capital Corporation (EVCC II)	247,510	46	-	-
Hi-mag Magnetic Corporation (HMC)	117,863	50	121,222	50

(Continued)

	December 31			
	2012		2011	
	Amount	% of Ownership	Amount	% of Ownership
White Biotech Corporation (WBC)	$ 26,952	50	$ -	-
China Steel Management Consulting Corporation (CSMCC)	24,223	100	25,850	100
TaiAn Technologies Corporation (TTC)	9,084	17	8,444	17
	149,742,846		126,971,369	
Less: Shares held by subsidiaries accounted for as treasury stock	6,819,497		6,532,974	
	142,923,349		120,438,395	
	$ 148,970,411		$ 127,252,843	

(Concluded)

The Corporation's total equity in CHSC is 41%, including 29% directly owned and 12% indirectly owned through LYFI, HYI and GYI. The Corporation's total equity in CSSC is 37%, including 33% directly owned and 4% indirectly owned through Ever Wealthy Investment Corporation, CEC and DSC. The Corporation's total equity in KADC is 29%, including 18% directly owned and 11% indirectly owned through United Steel Construction Corporation and CPDC. In December 2011, the Corporation increased its investment in HHCEC by NT$155,919 thousand. Consequently, the Corporation's total equity in HHCEC is 39%, including 31% directly owned and 8% indirectly owned through CHC. The Corporation's total equity in TTC is 22%, including 17% directly owned and 5% indirectly owned through CSCC.

In April and August 2010, the Corporation participated in DSC's and CSSC's private subscription, respectively. In January 2012, the Corporation invested additional NT$16,000,000 thousand in DSC through its private subscription, with the ownership percentage unchanged. Under the Securities Exchange Act, the securities which the Corporation acquired by private subscription could be transferred freely in public market only after holding for three years, starting from the delivery date.

In April 2011 and the year 2012, the Corporation continually invested additional NT$1,279,566 thousand (USD43,911 thousand) and NT$5,667,959 thousand (USD190,281 thousand) in CSVC without changing the percentage of ownership.

In January 2011 and December 2012, in order to invest in Changzhou China Steel Precision Materials Corporation (originally Changzhou Xinzhong Precision Alloy Forging Products Co. Ltd., changed on March 1, 2011) and Qingdao China Steel Precision Metals Co., Ltd., the Corporation invested additional NT$888,941 thousand (USD30,520 thousand) and NT$156,940 thousand (USD 5,400 thousand), respectively, in CSAPH without changing the percentage of ownership.

In November 2011, the Corporation invested additional NT$999,970 thousand in CSGT without changing the percentage of ownership.

In July 2012, the Corporation invested additional NT$1,422,376 thousand (AUD45,858 thousand) in CSCAU without changing the percentage of ownership.

In 2012, the Corporation acquired 276,000 thousand common shares (100% shareholding) of CSCI by continually investing NT$1,488,722 thousand (USD50,307 thousand). CSCI mainly engages in sale of steel products.

The market values of listed equity-method investments as of December 31, 2012 and 2011 were as follows:

	December 31	
	2012	2011
CSCC	$ 8,942,334	$ 7,944,920
CHSC	3,901,285	3,632,943
CEC	3,661,486	2,969,072
CHC	2,177,704	1,765,464
CSSC	1,909,621	1,603,644
	$ 20,592,430	$ 17,916,043

The market values of the above listed stocks are calculated at their closing prices on balance sheet date, except for stocks acquired by private subscription and not transferred freely in public market that are stated at market values determined by using valuation techniques.

Investment income (loss) recognized under the equity method for the years ended December 31, 2012 and 2011 was as follows:

	Years Ended December 31	
	2012	2011
CSE	$ 3,091,422	$ 2,447,058
CAC	633,462	863,846
CSCC	563,541	640,095
CSMC	433,841	352,019
CSGT	411,076	498,217
CEC	322,743	227,791
GIC	295,573	15,127
ICSC	176,316	167,304
CPDC	161,462	139,564
CSSC	157,186	176,706
CHC	130,605	128,039
DSC	(2,327,988)	947,442
CHSC	(1,041,010)	(783,194)
KRTC	(347,786)	(464,698)
HYI	(143,955)	(109,624)
LYFI	(143,601)	(110,381)
GYI	(140,333)	(106,942)
Others	120,549	123,082
	$ 2,353,103	$ 5,151,451

The Corporation has prepared consolidated financial statements including all majority-owned and controlled-in-substance subsidiaries in accordance with the related accounting standards.

The Corporation's Board of Directors approved plans for additional investments in CSCAU, Formosa Ha Tinh Steel Corporation and other companies. The related subscription schedule depends on the investees' capital increase requirements. As of December 31, 2012, the Corporation's unexecuted investments in these investees aggregated NT$21,148,986 thousand.

The Corporation adopted the purchase method to account for the acquisition of DSC equity. The difference between the investment cost and the Corporation's share in the investee's net assets represents depreciable assets and goodwill. In 2009, the Corporation's total equity in HHCEC was 26% and the fair value of identifiable net assets exceeded the investment cost; the excess had been deducted to reduce the carrying amounts of non-current assets in proportion to their fair values.

Movements of the difference between the cost of investment and the Corporation's share in investees' net assets allocated to depreciable assets and goodwill were as follows:

	Depreciable Assets	Non-depreciabl e Assets	Goodwill
Year ended December 31, 2012			
Balance, beginning of year	$ 832,969	$ (1,924)	$ 401,018
Reduction	(71,334)	5,911	-
Balance, end of year	$ 761,635	$ 3,987	$ 401,018
Year ended December 31, 2011			
Balance, beginning of year	$ 917,351	$ (1,924)	$ 401,018
Reduction	(84,382)	-	-
Balance, end of year	$ 832,969	$ (1,924)	$ 401,018

The depreciable assets comprised of property, plant and equipment, franchise from Carbon credit and Nox credit, developed technology, customer relationship, etc. Non-depreciable assets comprised of land and investments accounted for by the equity method.

13. OTHER FINANCIAL ASSETS

	December 31	
	2012	2011
Foreign-currency time deposits	$ 1,999,035	$ 4,297,684
Foreign-currency demand deposits	755,985	221,291
	2,755,020	4,518,975
Less: Current portion	2,721,077	2,399,287
	$ 33,943	$ 2,119,688

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 forward exchange contracts (Note 7). As of December 31, 2012 and 2011, the balance of the foreign-currency deposits, which were designated as hedging instruments and were purchased for expired forward exchange contracts, was NT$2,755,020 thousand (JPY0.8 billion, USD79,766 thousand and EUR 4,404 thousand) and NT$4,518,975 thousand (JPY1.6 billion, USD125,941 thousand and EUR 2,039 thousand), respectively.

The unrealized loss of NT$188,525 thousand and the unrealized gain of NT$173,396 thousand arising from the above deposits designated as hedging instruments were recognized as unrealized gain on financial instruments in stockholders' equity for the years ended December 31, 2012 and 2011, respectively. The unrealized gain on financial instruments of NT$65,867 thousand and the unrealized loss on financial instruments of NT$21,985 thousand in stockholders' equity were transferred to construction in progress and prepayments for equipment for the years ended December 31, 2012 and 2011, respectively.

As of December 31, 2012 and 2011, cash outflows would be expected from aforementioned contracts during the periods from 2013 to 2015 and from 2012 to 2015, respectively.

14. PROPERTY, PLANT AND EQUIPMENT

	Land	Land Improvements	Buildings	Machinery and Equipment	Transportation Equipment	Other Equipment	Spare Parts	Construction in Progress and Prepayments for Equipment	Total
Year ended December 31, 2012									
Cost									
Balance, beginning of year	$ 11,024,276	$ 4,223,646	$ 44,939,092	$ 278,296,503	$ 1,804,682	$ 5,118,133	$ 6,918,272	$ 46,045,195	$ 398,369,799
Addition	-	-	8,349,714	34,616,801	96,948	289,935	1,300,966	(22,788,322)	21,866,042
Reclassification	(1,659,599)	-	(118,167)	(82,985)	-	-	-	-	(1,860,751)
Disposal	-	(1,522)	(129,794)	(2,311,675)	(20,848)	(134,788)	(892,996)	-	(3,491,623)
Balance, end of year	9,364,677	4,222,124	53,040,845	310,518,644	1,880,782	5,273,280	7,326,242	23,256,873	414,883,467
Revaluation increment									
Balance, beginning of year	38,842,185	492,990	2,403,001	7,107,073	8,991	31,618	-	-	48,885,858
Disposal	-	(914)	(2,729)	(216,520)	(973)	(30)	-	-	(221,166)
Balance, end of year	38,842,185	492,076	2,400,272	6,890,553	8,018	31,588	-	-	48,664,692
Accumulated depreciation									
Balance, beginning of year	-	4,151,424	24,218,069	224,083,724	1,368,043	4,004,767	2,288,484	-	260,114,511
Depreciation	-	64,316	1,641,742	14,436,868	99,997	427,653	1,026,451	-	17,697,027
Reclassification	-	-	(90,625)	(78,389)	-	-	-	-	(169,014)
Disposal	-	(2,432)	(50,143)	(2,502,537)	(21,702)	(130,773)	(892,996)	-	(3,600,583)
Balance, end of year	-	4,213,308	25,719,043	235,939,666	1,446,338	4,301,647	2,421,939	-	274,041,941
Net book value, end of year	$ 48,206,862	$ 500,892	$ 29,722,074	$ 81,469,531	$ 442,462	$ 1,003,221	$ 4,904,303	$ 23,256,873	$ 189,506,218
Year ended December 31, 2011									
Cost									
Balance, beginning of year	$ 10,877,244	$ 4,223,646	$ 44,640,508	$ 278,377,356	$ 1,773,975	$ 5,011,842	$ 6,780,271	$ 35,888,973	$ 387,573,815
Addition	-	-	351,596	3,943,791	89,496	282,648	1,257,726	10,156,222	16,081,479
Reclassification	147,032	-	-	232,196	-	-	(232,196)	-	147,032
Disposal	-	-	(53,012)	(4,256,840)	(58,789)	(176,357)	(887,529)	-	(5,432,527)
Balance, end of year	11,024,276	4,223,646	44,939,092	278,296,503	1,804,682	5,118,133	6,918,272	46,045,195	398,369,799
Revaluation increment									
Balance, beginning of year	32,754,016	492,990	2,405,255	7,729,939	18,108	31,644	-	-	43,431,952
Addition	6,088,169	-	-	-	-	-	-	-	6,088,169
Disposal	-	-	(2,254)	(622,866)	(9,117)	(26)	-	-	(634,263)
Balance, end of year	38,842,185	492,990	2,403,001	7,107,073	8,991	31,618	-	-	48,885,858
Accumulated depreciation									
Balance, beginning of year	-	4,082,253	22,892,140	215,996,833	1,344,836	3,712,438	2,016,964	-	250,045,464
Depreciation	-	69,171	1,349,347	12,930,190	90,994	463,263	1,159,049	-	16,062,014
Disposal	-	-	(23,418)	(4,843,299)	(67,787)	(170,934)	(887,529)	-	(5,992,967)
Balance, end of year	-	4,151,424	24,218,069	224,083,724	1,368,043	4,004,767	2,288,484	-	260,114,511
Net book value, end of year	$ 49,866,461	$ 565,212	$ 23,124,024	$ 61,319,852	$ 445,630	$ 1,144,984	$ 4,629,788	$ 46,045,195	$ 187,141,146

Information about capitalized interest on the purchase of property, plant and equipment for the years ended December 31, 2012 and 2011 was disclosed as follows:

	Years Ended December 31	
	2012	2011
Interest expense before capitalization	$ 1,662,652	$ 1,394,216
Less: Capitalized interest - construction in progress and prepayments for equipment	304,560	624,810
Interest expense through income statement	$ 1,358,092	$ 769,406
Capitalization annual rates	1.33%-1.60%	1.36%-1.89%

Information about the revaluation increment of property, plant and equipment and patents was disclosed as follows:

	Revaluation Increment	Reserve for Land Value Increment Tax	Unrealized Revaluation Increment
In 1981 and 1994, the Corporation revalued its property, plant and equipment and patents	$ 17,662,343	$ 3,370,813	$ 14,291,530
In 2005, the government revised the land value increment tax law to reduce the tax rate	-	(1,196,189)	1,196,189
In 2008, the Corporation revalued its land in accordance with current assessed land value	26,913,284	6,502,342	20,410,942
Capitalization as capital stock	-	-	(13,952,356)

(Continued)

	Revaluation Increment	Reserve for Land Value Increment Tax	Unrealized Revaluation Increment
Retirement or sale	$ (1,143,675)	$ (3,500)	$ (37,974)
Tax effect	-	-	(36,576)
Balance, January 1, 2011	43,431,952	8,673,466	21,871,755
In 2011, the Corporation revalued its land in accordance with current assessed land value	6,088,169	1,338,450	4,749,719
Retirement or sale in 2011	(634,263)	-	(10,608)
Balance, December 31, 2011	48,885,858	10,011,916	26,610,866
Retirement or sale in 2012	(221,166)	-	(3,699)
Balance, December 31, 2012	$ 48,664,692	$ 10,011,916	$ 26,607,167

(Concluded)

15. ASSETS LEASED TO OTHERS, NET

	December 31	
	2012	2011
Cost		
Land	$ 4,592,544	$ 2,932,945
Buildings	279,983	161,816
Machinery and equipment	82,985	-
	4,955,512	3,094,761
Accumulated depreciation		
Buildings	132,250	31,401
Machinery and equipment	80,083	-
	212,333	31,401
Net book value, end of year	$ 4,743,179	$ 3,063,360

Some of the Corporation’s land, buildings and machinery and equipment are leased to its related parties (Note 29). The depreciation was NT$11,918 thousand and NT$2,653 thousand for the years ended December 31, 2012 and 2011, respectively.

16. SHORT-TERM LOANS AND OVERDRAFT

	December 31	
	2012	2011
Credit loans - interest at 0.73044%-0.87% p.a. and 0.93%-0.95% p.a. as of December 31, 2012 and 2011, respectively	$ 8,125,526	$ 3,700,000
Bank overdraft - both 0.5%-0.6607% interest p.a. as of December 31, 2012 and 2011	667,727	2,764,996
Letters of credit - due within 180 days; interest at 0.5338%-0.7532% p.a. and 0.7357%-1.4157% p.a. as of December 31, 2012 and 2011, respectively	75,307	2,630
	$ 8,868,560	$ 6,467,626

The above credit loans as of December 31, 2012, which included USD131,733 thousand (NT$3,825,526 thousand), were used to hedge the exchange rate fluctuations on investment in CSVC (Note 28).

17. COMMERCIAL PAPER PAYABLE

	December 31 2012	December 31 2011
Commercial paper - interest at 0.73%-0.785% p.a. and 0.45%-0.89% p.a. as of December 31, 2012 and 2011, respectively	$ 13,300,000	$ 3,600,000
Less: Unamortized discounts	5,566	4,123
	$ 13,294,434	$ 3,595,877

The above commercial paper payable of NT$1,200,000 thousand as of December 31, 2011 was secured by Mega Bills Finance Corporation and the rest was unsecured.

18. ACCRUED EXPENSES

	December 31 2012	December 31 2011
Salaries and incentive bonus	$ 3,141,568	$ 3,683,711
Repair and construction	612,444	1,019,581
Utility fee	531,345	471,097
Bonus to employees, and remuneration to directors and supervisors	419,886	1,425,875
Severance pay	327,728	499,632
Others	1,472,432	1,206,213
	$ 6,505,403	$ 8,306,109

19. BONDS PAYABLE

	December 31 2012	December 31 2011
5-year unsecured bonds - issued at par in:		
December 2008; repayable in December 2012 and December 2013; interest at 2.08% p.a., payable annually	$ 6,500,000	$ 13,000,000
December 2008; repayable in December 2012 and December 2013; interest at 2.42% p.a., payable annually	4,800,000	9,600,000
October 2011; repayable in October 2015 and October 2016; interest at 1.36% p.a., payable annually	9,300,000	9,300,000
7-year unsecured bonds - issued at par in:		
December 2008; repayable in December 2014 and December 2015; interest at 2.30% p.a., payable annually	7,000,000	7,000,000
October 2011; repayable in October 2017 and October 2018; interest at 1.57% p.a., payable annually	10,400,000	10,400,000
August 2012; repayable in August 2018 and August 2019; interest at 1.37% p.a., payable annually	5,000,000	-

(Continued)

	December 31	
	2012	2011
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	$ -
	58,000,000	49,300,000
Less: Issuance cost of bonds payable	44,475	35,574
Current portion	11,297,543	11,295,086
	$ 46,657,982	$ 37,969,340

(Concluded)

20. LONG-TERM DEBT

	December 31	
	2012	2011
Mortgage loans		
Repayable in 6 semiannual installments from July 2012 (NT$16 billion); interest at 1.46511% p.a. and 1.42706% p.a. as of December 31, 2012 and 2011, respectively	$ 13,333,333	$ 16,000,000
Credit loans		
Repayable in February 2013 (USD58,548 thousand); interest at 0.9769% - 1.01919% p.a. and 0.67712% - 0.71941% p.a. as of December 31, 2012 and 2011, respectively	1,700,234	1,772,541
Repayable in July 2015 (JPY4.95 billion); interest at 0.54379% p.a. and 0.55133% p.a. as of December 31, 2012 and 2011, respectively	1,665,180	1,933,470
Repayable in July 2015 (JPY4.95 billion); interest at 0.56282% p.a. and 0.57036% p.a. as of December 31, 2012 and 2011, respectively	1,665,180	1,933,470
Repayable in April 2014 (USD43,911 thousand); interest at 0.93753% p.a. and 0.89641% p.a. as of December 31, 2012 and 2011, respectively	1,275,175	1,329,406
Repayable in December 2012 (JPY2.6 billion) originally but extended to December 2015; interest at 0.91152% p.a. and 0.56571% p.a. as of December 31, 2012 and 2011, respectively	874,640	1,015,560
Repayable in April 2015 (USD 29,274 thousand); interest at 0.7323% p.a.	850,117	-
Repayable in April 2015 (USD 29,274 thousand); interest at 0.9659% p.a.	850,117	-
Repayable in July 2013 (AUD16,540 thousand); interest at 4.78964% p.a. and 5.65328% p.a. as of December 31, 2012 and 2011, respectively	498,929	508,357
Repayable in November 2013 (JPY1.214 billion); interest at 0.50229% p.a. and 0.535% p.a. as of December 31, 2012 and 2011, respectively	408,390	474,188
	23,121,295	24,966,992
Less: Current portion	7,940,886	3,682,227
	$ 15,180,409	$ 21,284,765

The Corporation obtained long-term bank loans in Japanese yen, Australian dollar and U.S. dollar to hedge the exchange rate fluctuations on investments in EAUS, CSCAU and CSVC (Note 28) and on the available-for-sale financial assets in Maruichi Steel Tube Ltd. and Yodogawa Steel Works, Ltd. (Notes 6 and 28). The NT dollar loan was made to meet fund requirements.

21. LONG-TERM NOTES PAYABLE

	December 31	
	2012	**2011**
Long-term notes - interest at 0.9%-1.127% p.a. and 0.902%-1.123% p.a. as of December 31, 2012 and 2011, respectively	$ 10,500,000	$ 12,000,000
Less: Unamortized discounts	5,837	10,992
	$ 10,494,163	$ 11,989,008

The Corporation entered into commercial paper contracts with Mega Bills Finance Corporation, China Bills Finance Corporation, International Bills Finance Corporation, Grand Bills Finance Corp. and Taiwan Cooperative Bills Finance Corporation in September 2011. The duration of the contracts is four years and the cycle of issuance is thirty to sixty days, during which the Corporation only has to pay service fees and interests. Therefore, the Corporation recorded those commercial papers issued as long-term notes payable.

22. RETIREMENT BENEFIT PLAN

The pension plan under the Labor Pension Act (the "LPA") is a defined contribution plan. Based on the LPA, the Corporation makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages. Such pension costs were NT$123,070 thousand and NT$106,862 thousand for the years ended December 31, 2012 and 2011, respectively.

The Corporation has a retirement plan in accordance with the Labor Standards Law. Retirement benefits are based on employee's length of service and his/her average salaries and wages of the last six months before retirement.

The Corporation makes contributions, equal to a certain percentage of salaries, to a pension fund, which is deposited in the Bank of Taiwan in the name of, and administered by the employees' pension fund administration committee. According to above regulation, pension cost for the years ended December 31, 2012 and 2011 was NT$773,070 thousand and NT$1,058,256 thousand, respectively.

Since August 1999, the Corporation also makes contributions, equal to a certain percentage of salaries of management personnel (vice presidents and above), to another pension fund, which is deposited in The Mega International Commercial Bank in the name of, and administered by the officers' pension fund management committee. Pension cost for the years ended December 31, 2012 and 2011 was NT$4,134 thousand and NT$6,196 thousand, respectively.

Under SFAS No. 18, pension information based on actuarial calculation was as follows:

a. Components of net pension cost

	Years Ended December 31	
	2012	2011
Service cost	$ 657,228	$ 718,114
Interest cost	430,341	505,981
Projected return on plan assets	(379,133)	(375,862)
Amortization	50,946	164,728
Settlement loss	17,822	51,491
Net pension cost	$ 777,204	$ 1,064,452

b. Reconciliation of the funded status of the plan and accrued pension cost

	December 31	
	2012	2011
Benefit obligation		
Vested benefit obligation	$ 18,121,224	$ 16,979,251
Non-vested benefit obligation	1,590,691	1,880,807
Accumulated benefit obligation	19,711,915	18,860,058
Additional benefits based on future salaries	3,086,811	3,132,653
Projected benefit obligation	22,798,726	21,992,711
Fair value of plan assets	(19,561,193)	(19,094,675)
Funded status	3,237,533	2,898,036
Unrecognized net asset at transition	13,855	23,432
Unamortized net loss	(3,052,850)	(2,742,137)
Accrued pension cost	198,538	179,331
Recorded as accrued expense	129,225	127,840
Recorded as accrued pension cost	$ 69,313	$ 51,491
Vested benefits	$ 19,961,597	$ 19,463,815

c. Actuarial assumptions

	December 31	
	2012	2011
Discount rate used in determining present values	1.50%	2.00%
Future salary increase rate	2.00%	2.00%
Expected rate of return on plan assets	1.75%	2.00%

	Years Ended December 31	
	2012	2011
d. Contributions to the fund	$ 770,541	$ 923,269
e. Payments from the fund	$ 490,635	$ 940,318

23. DEFERRED CREDITS - GAIN FROM AFFILIATES

	December 31 2012	December 31 2011
Gain on disposal of land	$ 1,136,164	$ 1,136,164
Gain on contracted projects	914,622	968,765
Gain on disposal of stocks	-	35,282
	$ 2,050,786	$ 2,140,211

A deferred income of NT$1,405,040 thousand was recorded for the unrealized gain from the sale of land to CPDC in February 1999. The Corporation repurchased some of the land in January 2005 for construction of its office building and thus the deferred credits decreased by NT$268,876 thousand. The remaining deferred credits will be recognized as income when CPDC sells the rest of the land to third parties.

The Corporation contracted engineering projects with KRTC, DSC, CAC and CHSC's subsidiary, Hung Li Steel Corporation Ltd., resulting in deferred gain. Such deferred credits are recognized as income over 8 to 28 years after completion of the constructions.

The Corporation sold its financial assets carried at cost to GIC, and recognized unrealized gain on disposal of investments, which will be realized when GIC disposes of the stock.

24. STOCKHOLDERS' EQUITY

a. Capital stock

In August 2012 and July 2011, the Corporation issued 226,268 thousand and 678,308 thousand common shares through capitalization of retained earnings of NT$2,262,672 thousand and NT$6,783,084 thousand, respectively; the capital increases have been registered with the government.

The Corporation's board of directors approved an issuance of 840,000 thousand new shares with NT$10 par value at issuance price of NT$28.3248 per share, and the record date of capital increase was on August 1, 2011. The capital increase has been registered with the government. Total proceeds, net of issuance cost, exceeded par value by NT$15,338,755 thousand, recorded as additional paid-in capital under capital surplus. The 763,668 thousand shares of the new shares were through issuance of 38,183,400 units of global depository receipts (GDR). Each unit represents 20 shares of the Corporation's common stock. The remaining 76,332 thousand shares were allocated for employees; for employees of the Corporation, 74,305 thousand shares, and for employees of the subsidiaries, 2,027 thousand shares. These options were vested immediately. In August 2011, all the above options were exercised.

In August 2011, options granted to employees were priced by the Black-Scholes model, and the inputs to the model were as follows:

Grant-date share price (NT$)	29.65
Transferred price (NT$)	28.3248
Expected volatility	7.19%
Expected duration life (day)	2
Risk-free interest rate	0.67%

In August 2011, the Corporation recognized compensation expense of NT$98,826 thousand and recognized a capital surplus of NT$2,437 thousand from granting stock option to employees of subsidiaries.

b. Treasury stock

Purpose of Treasury Stock	Thousand Shares			December 31	
	Beginning of Year	Addition	Reduction	Thousand Shares	Book Value
Year ended December 31, 2012					
Shares acquired and held by subsidiaries	295,065	15,552	801	309,816	$ 8,415,348
Year ended December 31, 2011					
Shares acquired and held by subsidiaries	284,762	26,679	16,376	295,065	$ 8,122,461

The Corporation's shares acquired and held by subsidiaries are accounted for as treasury stock (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 common stockholders. The increase of treasury stock was due to acquisition of the Corporation's shares by subsidiaries in which the Corporation has less than 50% shareholding and the Corporation's capital increase from retained earnings. The decrease of treasury stock was mainly due to subsidiaries' sale of the Corporation's shares and change in percentage of ownership.

For the years ended December 31, 2012 and 2011, the subsidiaries sold 1,769 thousand shares and 29,274 thousand shares of the Corporation for proceeds of NT$48,415 thousand and NT$916,090 thousand, respectively. For the years ended December 31, 2012 and 2011, the proceeds of treasury stock sold, calculated by shareholding percentage, amounted to NT$21,693 thousand and NT$511,448 thousand, and after deducting book values, resulted in the amounts of NT$3,200 thousand and NT$106,638 thousand, recorded as capital surplus, respectively. As of December 31, 2012 and 2011, the market values of the treasury shares calculated by combined holding percentage were NT$8,473,457 thousand and NT$8,497,875 thousand, respectively.

c. 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 ROC's MOEA, the largest shareholder of the Corporation, the Corporation issued 126,512,550 units of GDR. The depositary receipts then increased by 6,844,969 units resulting from the capital increase out of retained earnings. Each unit represents 20 shares of the Corporation's common stock and the issued GDRs account for the Corporation's common shares totaling 2,667,150,644 shares (including 264 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, 2012 and 2011, the outstanding depositary receipts were 2,930,471 units and 3,396,550 units, equivalent to 58,609,704 common shares (including 284 fractional shares) and 67,931,271 common shares (including 271 fractional shares), which represented 0.38% and 0.45% of the outstanding common shares, respectively.

d. Preferred stock

Preferred stockholders have the following entitlements and obligation:

1) 14% annual dividends, with dividend payments ahead of those to common stockholders;

2) Preference over common stock in future payment of dividends in arrears;

3) The sequence and percentage of appropriation of residual property are the same with common stocks;

4) The same rights as common stockholders, except the right to vote for directors and supervisors; and

5) Redeemable by the Corporation and convertible to common stock by preferred stockholders with the ratio of 1:1.

e. Capital surplus

Capital surplus comprised the following:

	December 31	
	2012	**2011**
Additional paid-in capital	$ 31,154,766	$ 31,154,766
Treasury stock transactions	4,947,307	4,635,553
Long-term stock investments	563,356	449,287
Others	8,099	8,099
	$ 36,673,528	$ 36,247,705

The capital surplus from shares issued in excess of par and treasury stock transactions may be used to offset a deficit; in addition, when the Corporation has no deficit, such capital surplus may be distributed as cash dividends or transferred to capital (limited to a certain percentage of the Corporation paid-in capital and once a year). The capital surplus for long-term stock investments accounted for under the equity method may not be used for any purpose

f. Appropriation of retained earnings and dividend policy

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

1) 10% as legal reserve;

2) Preferred stock dividends at 14% of par value;

3) Of the remainder, 0.15% as remuneration to directors and supervisors and 8% as bonus to employees.

4) Common stock dividends at 14% of par value; and

5) The remainder, if any, as additional dividends divided equally between the holders of preferred and common stocks.

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

The Corporation is required to appropriate a special reserve from annual earnings for any net debit balance resulting from adjustments to parts of the stockholders' equity (including unrealized revaluation increment, unrealized gain (loss) on financial instruments, unrecognized net loss on pension cost and cumulative translation adjustments, excluding treasury stock held by the Corporation). Besides, if the market price of the Corporation's common 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. The Corporation may release a portion of this special reserve when such debit balances are partially or fully reversed. As of December 31, 2012, the Corporation had fully reversed the special reserve for net debit balance for the adjustments to stockholders' equity, and the remaining unreversed special reserve was held for the capital demand of certain expansion projects.

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 stock.

Estimated bonus to employees and remuneration to directors and supervisors were as follows:

	Years Ended December 31	
	2012	**2011**
Bonus to employees	$ 414,141	$ 1,399,259
Remuneration to directors and supervisors	7,765	26,236
	$ 421,906	$ 1,425,495

The bonus to employees and remuneration to directors and supervisors were calculated based on the percentages provided by the Corporation's Articles of Incorporation and accrued based on past experiences. If the actual amounts subsequently resolved by the stockholders differ from the proposed amounts, the differences are recorded in the year of stockholders' resolution as a change in accounting estimate.

If bonus shares are resolved to be distributed to employees, the number of shares is determined by dividing the amount of bonus by the closing price (after considering the effect of cash and stock dividends) of the shares at the date preceding the stockholders' meeting.

Legal reserve shall be appropriated until it has reached the Corporation's paid-in capital. This reserve may be used to offset a deficit. When the Corporation incurs no loss 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.

The Corporation's stockholders in their June 2012 and 2011 meetings approved the following appropriations of the 2011 and 2010 earnings, respectively.

	Appropriation of Earnings		**Dividends Per Share (NT dollars)**	
	2011	**2010**	**2011**	**2010**
Legal reserve	$ 1,949,368	$ 3,758,683		
Preferred stocks				
Cash dividends	47,835	76,153	$ 1.25	$ 1.99
Stock dividends	5,740	19,134	0.15	0.50
			$ 1.40	$ 2.49
Common stocks				
Cash dividends	15,196,671	26,920,523	$ 1.01	$ 1.99
Stock dividends	2,256,932	6,763,950	0.15	0.50
	$ 19,456,546	$ 37,538,443	$ 1.16	$ 2.49

The bonus to employees and the remuneration to directors and supervisors for 2011 and 2010 approved in the aforementioned stockholders' meetings were as follows (settled by cash):

	Years Ended December 31			
	2011		2010	
	Bonus to Employees	Remuneration to Directors and Supervisors	Bonus to Employees	Remuneration to Directors and Supervisors
Amounts approved in stockholders' meetings	$ 1,399,259	$ 26,236	$ 2,701,965	$ 50,662
Amounts recognized in respective financial statements	1,399,259	26,236	2,701,965	50,662
Difference	$ -	$ -	$ -	$ -

The appropriations of earnings for 2012 had been proposed in the board of directors' meeting on March 22, 2013. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT Dollars)
Legal reserve	$ 581,149	
Preferred stocks		
Cash dividends	49,748	$ 1.3
Stock dividends	3,827	0.1
		$ 1.4
Common stocks		
Cash dividends	6,108,990	$ 0.4
Stock dividends	1,527,248	0.1
	$ 8,270,962	$ 0.5

On March 22, 2013, the board of directors proposed the bonus to employees of NT$414,141 thousand and the remuneration to directors and supervisors of NT$7,765 thousand for 2012. The amounts proposed were the same as the amounts recognized in the financial statements for the year ended December 31, 2012.

The 2012 appropriations of earnings, bonus to employees and remuneration to directors and supervisors will be resolved by the stockholders in their meeting scheduled for June 19, 2013.

Information about the appropriations of earnings, bonus to employees and remuneration to directors and supervisors is available on the Market Observation Post System website of the Taiwan Stock Exchange.

g. Unrealized revaluation increment

Unrealized revaluation increment comprised the following:

	December 31

	2012	2011
Revaluation increment of property, plant and equipment (Note 14)	$ 26,607,167	$ 26,610,866
Recognized in proportion to the ownership percentage in long-term stock investments	142,957	146,724
	$ 26,750,124	$ 26,757,590

h. Unrealized gain on financial instruments

For the years ended December 31, 2012 and 2011, movements of unrealized gain on financial instruments were as follows:

	Available-for-sale Financial Assets	Equity-method Investments	Unrealized Gain or Loss on Cash Flow Hedging	Total
Year ended December 31, 2012				
Balance, beginning of year	$ 3,079,773	$ (341,916)	$ 283,062	$ 3,020,919
Recognized in stockholders' equity	799,442	6,430	(217,380)	588,492
Transferred to profit or loss	(1,091,815)	-	-	(1,091,815)
Transferred to construction in progress and prepayments for equipment	-	-	(59,349)	(59,349)
Balance, end of year	$ 2,787,400	$ (335,486)	$ 6,333	$ 2,458,247
Year ended December 31, 2011				
Balance, beginning of year	$ 2,938,550	$ (593,445)	$ 29,272	$ 2,374,377
Recognized in stockholders' equity	141,223	251,529	235,618	628,370
Transferred to construction in progress and prepayments for equipment	-	-	18,172	18,172
Balance, end of year	$ 3,079,773	$ (341,916)	$ 283,062	$ 3,020,919

For the years ended December 31, 2012 and 2011, unrealized gain or loss on financial instruments in cash flow hedge was as follows:

	Years Ended December 31	
	2012	2011
Unrealized gain (loss) on cash flow hedging	$ (261,904)	$ 283,877
Tax effect	44,524	(48,259)
Net (recognized in stockholders' equity)	$ (217,380)	$ 235,618
Unrealized loss (gain) on cash flow hedging instruments transferred to construction in progress and prepayments for equipment	$ (71,505)	$ 21,894

Tax effect	12,156	(3,722)
Net (transferred out of stockholders' equity)	$ (59,349)	$ 18,172

i. Cumulative translation adjustments

Changes in composition of cumulative translation adjustments for the years ended December 31, 2012 and 2011 were as follows:

	Years Ended December 31	
	2012	**2011**
Balance, beginning of year	$ 17,192	$ (101,443)
Recognized in stockholders' equity	(410,421)	118,635
Balance, end of year	$ (393,229)	$ 17,192

25. INCOME TAX

a. A reconciliation of income tax based on income before income tax at the statutory rate of 17% and income tax was as follows:

	Years Ended December 31	
	2012	**2011**
Income tax at the statutory rate	$ 1,042,197	$ 3,448,398
Tax effect of adjusting items		
Permanent differences		
Investment income recognized under equity method - domestic investees	(409,267)	(877,828)
Unrealized gain on valuation of financial assets and on disposal of investments	(188,032)	(511)
Others	(8,217)	(8,592)
Temporary differences		
Difference between tax reporting and financial reporting - depreciation methods	110,967	112,983
Unrealized loss on purchase commitments	59,060	2,631
Unrealized (realized) provision for loss on inventories	(165,570)	515,177
Realized impairment loss of investees	(5,814)	(41,356)
Cash dividends - foreign investees	-	36,869
Others	(30,517)	(120,840)
Investment tax credits used	(14,082)	(1,533,465)
Additional 10% income tax on unappropriated earnings	3,713	4,838
Income tax currently payable	394,438	1,538,304
Adjustments for prior years' tax	1,211,829	166,413
Current income tax expense	1,606,267	1,704,717
Deferred tax		
Temporary differences	39,638	(543,311)
Investment tax credits	(1,326,824)	(370,392)
	$ 319,081	$ 791,014

b. Changes in income tax payable

	Years Ended December 31	
	2012	2011
Balance, beginning of year	$ 2,520,677	$ 4,834,790
Current income tax expense	1,606,267	1,704,717
Payment in the current year	(2,690,351)	(4,183,530)
Transferred to other receivables	(68,280)	164,700
Balance, end of year	$ 1,368,313	$ 2,520,677

The Corporation adopted the linked tax system for tax filing with subsidiary - DSC since 2009. Payments in 2012 and 2011 included payments of NT$694,722 thousand and NT$1,165,973 thousand, respectively, to DSC because the investment tax credits and loss carryforwards of DSC were used by the Corporation when the linked tax was filed.

Under Article 10 of the Statute for Industrial Innovation (SII) passed by the Legislative Yuan in April 2010, a profit-seeking enterprise may deduct up to 15% of its research and development expenditures from its income tax payable for the fiscal year in which these expenditures are incurred, but this deduction should not exceed 30% of the income tax payable for that fiscal year. This incentive took effect from January 1, 2010 and is effective till December 31, 2019, and the investment tax credits under earlier regulations can be used in the current and next four years. The investment tax credits used every year shall not exceed 50% of the total tax payable, but the full remaining creditable amount can be used at the expiration year.

c. Deferred income tax assets and liabilities were as follows:

	December 31	
	2012	2011
Current		
Deferred income tax assets		
Unrealized provision for loss on inventories	$ 518,610	$ 684,180
Unrealized loss on service commitments	172,599	221,163
Unrealized loss on purchase commitments	61,691	2,631
Estimated preferential severance pay	55,681	84,905
Unrealized gain from affiliates	25,067	9,686
Investment tax credits	-	370,392
Others	40,565	27,613
	874,213	1,400,570
Deferred income tax liabilities		
Difference between tax reporting and financial reporting - inventory	(17,065)	(21,236)
Total deferred income tax assets - current, net	857,148	1,379,334
Noncurrent		
Deferred income tax assets		
Investment tax credits	1,697,216	-
Impairment loss	938,658	944,472
Unrealized gain from affiliates	155,486	164,690
Unrealized settlement gain on hedging of forward exchange	103,375	91,220
Others	45,026	46,364
	2,939,761	1,246,746

(Continued)

	December 31	
	2012	2011
Deferred income tax liabilities		
Difference between tax reporting and financial reporting - depreciation methods	$ (1,094,613)	$ (1,206,068)
Foreign investment income	(338,503)	(347,743)
Unrealized exchange gains, net	(51,146)	(46,808)
Unrealized gain on revaluation increment	(33,647)	(34,404)
Unrealized gain on cash flow hedge	(1,297)	(57,977)
	(1,519,206)	(1,693,000)
Total deferred income tax assets (liabilities) - noncurrent, net	1,420,555	(446,254)
Total deferred income tax assets	$ 2,277,703	$ 933,080

(Concluded)

Under the Statute for Upgrading Industries, the Corporation recognized investment tax credits from purchases of machinery and equipment. The expiry year of the tax credits is 2016.

Temporary difference for depreciation between tax reporting and financial reporting mainly resulted from the adoption of accelerated depreciation method in the filing of income tax returns.

The Corporation's income tax returns through 2008 have been examined by the tax authorities.

d. Information about integrated income tax was as follows:

	December 31	
	2012	2011
Imputation credit account (ICA)	$ 24,717	$ 211,179
Unappropriated earnings generated before January 1, 1998	15,440	15,440

The creditable ratio for distribution of 2012 and 2011 earnings was 7.05% (estimated) and 17.84%, respectively.

For distribution of earnings generated after January 1, 1998, the ratio for the imputation credits allocated to domestic shareholders of the Corporation is based on the balance of the ICA as of the date of dividend distribution. Nonresident stockholders, including holders of overseas depository receipts, are allowed only a tax credit from the 10% income tax on unappropriated earnings, which can be used to offset withholding income tax on dividends paid. The estimated creditable ratio for the 2012 earnings may be adjusted, depending on the ICA balance on the date of dividend distribution.

26. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	Years Ended December 31							
	2012				2011			
	Operating Cost	Operating Expense	Others	Total	Operating Cost	Operating Expense	Others	Total
Personnel								
Salary	$ 11,374,235	$ 2,011,250	$ 203,279	$ 13,588,764	$ 13,651,003	$ 2,448,189	$ 249,154	$ 16,348,346
Labor and health insurance	676,285	112,963	7,227	796,475	630,039	104,047	6,087	740,173
Pension and consolation costs	733,011	226,917	28,198	988,126	931,492	269,025	10,953	1,211,470
Others	369,871	206,763	16,623	593,257	405,329	164,097	14,795	584,221
	$ 13,153,402	$ 2,557,893	$ 255,327	$ 15,966,622	$ 15,617,863	$ 2,985,358	$ 280,989	$ 18,884,210

Depreciation	$ 17,321,688	$ 375,339	$ 11,918	$ 17,708,945	$ 15,694,226	$ 367,788	$ 2,653	$ 16,064,667
Amortization	42,006	187	-	42,193	42,007	357	-	42,364

27. EARNINGS PER SHARE

	Amount (Numerator)		Shares (Denominator) (Thousand)	Earnings Per Share (NT dollars)	
	Before Tax	After Tax		Before Tax	After Tax
Year ended December 31, 2012					
Net income	$ 6,130,571	$ 5,811,490			
Less: Dividends on preferred shares	(56,517)	(53,575)			
Basic EPS					
Net income attributable to common stockholders	6,074,054	5,757,915	14,962,661	$ 0.41	$ 0.38
Effect of dilutive potential common stock					
Add: Bonus to employees	-	-	38,979		
Diluted EPS					
Net income attributable to common stockholders plus effect of potential dilutive common stock	$ 6,074,054	$ 5,757,915	15,001,640	0.40	0.38
Year ended December 31, 2011					
Net income	$ 20,284,693	$ 19,493,679			
Less: Dividends on preferred shares	(55,749)	(53,575)			
Basic EPS					
Net income attributable to common stockholders	20,228,944	19,440,104	14,482,986	1.40	1.34
Effect of dilutive potential common stock					
Add: Dividends on preferred shares	55,749	53,575	38,268		
Bonus to employees	-	-	92,101		
Diluted EPS					
Net income attributable to common stockholders plus effect of potential dilutive common stock	$ 20,284,693	$ 19,493,679	14,613,355	1.39	1.33

Preferred shares were not included in the calculation of diluted EPS for the year ended December 31, 2012 because of their anti-dilutive effect.

The Accounting Research Development Foundation(ARDF) issued Interpretation 2007-052 that requires corporations to recognize bonuses paid to employees, directors and supervisors as compensation expenses beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings. If the Corporation may settle the bonus to employees by cash or shares, the Corporation should presume that the entire amount of the bonus will be settled in shares and the resulting potential shares should be included in the weighted average number of shares outstanding used in the calculation of diluted EPS, if the shares have a dilutive effect. The number of shares is estimated by dividing the amount of bonus by the closing price of the shares at the balance sheet date. The dilutive effect of the shares should be considered until the stockholders resolve the number of shares to be distributed to employees in their meeting in the following year.

The weighted-average number of shares outstanding for EPS calculation has been retroactively adjusted for the issuance of stock bonus distributed out of earnings for the year ended December 31, 2011. The adjustment caused the basic and diluted after income tax EPS for the year ended December 31, 2011 to decrease from NT$1.36 to NT$1.34 and from NT$1.35 to NT$1.33, respectively.

28. FINANCIAL INSTRUMENTS

a. As of December 31, 2012 and 2011, the information of fair values was as follows:

	December 31			
	2012		2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Non-derivative financial instruments				
Assets				
Available-for-sale financial assets (including noncurrent)	$ 4,904,620	$ 4,904,620	$ 5,468,276	$ 5,468,276
Financial assets carried at cost	8,068,823		7,421,220	
Bond investments with no active market	3,364,000	3,364,000	3,906,000	3,906,000
Other financial assets (including noncurrent)	2,755,020	2,755,020	4,518,975	4,518,975
Refundable deposits	144,807	144,807	223,215	223,215
Liabilities				
Bonds payable (including current portion)	57,955,525	58,295,428	49,264,426	49,978,155
Long-term debt (including current portion)	23,121,295	23,121,295	24,966,992	24,966,992
Long-term notes payable	10,494,163	10,494,163	11,989,008	11,989,008
Derivative financial instrument				
Hedging derivative assets (including noncurrent)	37,162	37,162	112,017	112,017
Hedging derivative liabilities (including noncurrent)	12,203	12,203	8,041	8,041

b. Methods and assumptions used to estimate the fair values of financial instruments were as follows:

1) The carrying values of cash, notes and accounts receivable (including related parties), other receivables (excluding tax refund receivable), restricted assets, short-term loans and overdraft, commercial paper payable, accounts payable (including related parties), accrued expenses and other payables, approximate fair value because of the short maturities of these instruments.

2) The fair values of available-for-sale financial assets and hedging derivative financial instruments are determined at their market value. If there is no market value available for reference, the fair values are determined through valuation techniques. For stocks acquired through private placement and not transferred freely in public market, fair values are determined by using valuation techniques adopted by the Corporation based on information from the Market Observation Post System, the Taiwan Stock Exchange and etc., and calculated by using the Black-Scholes Model. For hedging derivative instruments, the information used by the Corporation for determining assumptions applied in valuation is consistent with that used by market participants and is obtained from financial institutions. For fair values of financial instruments denominated in foreign currencies and foreign exchange contracts, the translation to New Taiwan dollars used exchange rates based on the buying rates quoted by the Central Bank and on the rates quoted by Reuters.

3) The fair values of long-term liabilities and other financial assets are determined by the present values of future cash flows. If there is market price available for reference, the fair values are determined based on the market price. If there is no market price available for reference, the values are discounted at the interest rates of similar long-term debt and the floating-rate of foreign currency deposits available to the Corporation. Discount rates as of December 31,

2012 and 2011 were from 0.2% to 4.78964% and from 0.35% to 5.65328%, respectively.

4) Financial assets carried at cost issued by non-public corporations have no active market price and their verifiable fair value cannot be determined at a reasonable cost. Therefore, no fair value is presented.

5) The fair value of bond investments with no active market is determined at their carrying values.

6) The fair values of refundable deposits are determined at their carrying values.

c. Fair values of the financial assets and financial liabilities based on quoted market prices or using valuation technique were as follows:

	Amount Determined by Quoted Market Price		Amount Determined by Using Valuation Technique	
	December 31		December 31	
	2012	2011	2012	2011
Assets				
Available-for-sale financial assets (including noncurrent)	$ 4,457,328	$ 5,090,847	$ 447,292	$ 377,429
Bond investments with no active market	-	-	3,364,000	3,906,000
Other financial assets (including noncurrent)	-	-	2,755,020	4,518,975
Hedging derivative assets (including noncurrent)	-	-	37,162	112,017
Refundable deposits	-	-	144,807	223,215
Liabilities				
Hedging derivative liabilities (including noncurrent)	-	-	12,203	8,041
Bonds payables (including current portion)	58,295,428	49,978,155	-	-
Long-term debt (including current portion)	-	-	23,121,295	24,966,992
Long-term notes payable	-	-	10,494,163	11,989,008

d. There was no gain or loss from changes in fair value by using valuation technique for the years ended December 31, 2012 and 2011.

e. As of December 31, 2012 and 2011, financial liabilities exposed to cash flow interest rate risk amounted to NT$42,484,018 thousand and NT$43,423,626 thousand, respectively, and financial liabilities exposed to fair value interest rate risk amounted to NT$71,249,959 thousand and NT$52,860,303 thousand, respectively.

f. The Corporation's total interest income and expenses (inclusive of capitalized interest) which were incurred from other than financial assets and liabilities at fair value through profit or loss were NT$109,872 thousand and NT$1,662,652 thousand, respectively, for the year ended December 31, 2012 and NT$121,480 thousand and NT$1,394,216 thousand, respectively, for the year ended December 31, 2011.

g. Financial risks

1) Market risk

Market risk includes exchange rate risk, fair value risk of interest rate change, and market price risk. The Corporation had loans in foreign currencies to hedge the exchange rate fluctuations on its long term investment in foreign currencies, thus, the exchange rate risk can be hedged naturally. The Corporation issues bonds with fixed interest rate, but the fair value of the bonds payable may be influenced by market interest rate change. If market interest rate increases or decreases by 1%, the fair value of bonds payable will decrease or increase by about NT$2,701,796 thousand.

The Corporation's available-for-sale financial assets are subject to market price risk. If the share price increases or decreases by 1%, the fair value will increase or decrease by about NT$49,046 thousand.

2) Credit risk

Credit risk represents the potential loss that would be incurred by the Corporation if the counter-parties breach contracts. Financial instruments with positive fair values at the balance sheet date are evaluated for credit risk. The counter-parties to the foregoing financial instruments are reputable financial institutions and business organizations. Management does not expect the Corporation's exposure to default by those parties to be material.

As of December 31, 2012, the maximum credit risk of off-balance-sheet guarantees provided to DSC for procurement compliance and CSCAU for investment compliance was NT$22,503,365 thousand (USD399,565 thousand and AUD359,314 thousand).

3) Liquidity risk

The Corporation has sufficient operating capital to meet future cash needs. Therefore, the cash flow risk is low.

Available-for-sale financial assets could be sold readily in the active market at prices approximating fair value. There are liquidity risks for stocks acquired through private placement and not transferred freely in the public market, financial assets carried at cost and bond investments with no active market because no quoted active market prices are available.

4) Cash flow interest rate risk

Market interest rate change will influence the effective interest rate of the financial instruments which have cash flow risk of the interest rate change, and make future cash flow fluctuate. If the market interest rate increases by 1%, the Corporation's cash outflow will increase by about NT$424,840 thousand.

h. Fair value, net investment in foreign operation and cash flow hedge

The Corporation has debts denominated in foreign currencies to effectively hedge the exchange rate fluctuations on the investments in EAUS, Maruichi Steel Tube Ltd., Yodogawa Steel Works Ltd., CSCAU and CSVC; the Corporation purchased bank deposits - foreign currency and forward contracts to effectively hedge the exchange rate fluctuations on capital expenditures and sales contracts.

		Designated Hedging Instrument		
			Changes in Fair Value	
			Years Ended December 31	
Hedge Type	**Hedged Item**	**Financial Instrument**	**2012**	**2011**
Fair value hedge	Investments in EAUS Corporation (recorded as bond investments with no active market - noncurrent)	Debt in JPY	$ 536,580	$ (320,265)
Fair value hedge	Investments in Maruichi Steel Tube Ltd. (recorded as available-for-sale financial assets - noncurrent)	Debt in JPY	140,920	(84,110)
Fair value hedge	Investments in Yodogawa Steel Works, Ltd. (recorded as available-for-sale financial assets - noncurrent)	Debt in JPY	65,798	(39,273)
Hedge of a net investment in a foreign operation	Investment in CSCAU (recorded as investments accounted for by the equity method)	Debt in AUD	9,428	(17,466)
Hedge of a net investment in a foreign operation	Investment in CSVC (recorded as investments accounted for by the equity method)	Debt in USD	268,735	(44,687)

Cash flow hedge	Contracts for purchasing machinery and equipment	Bank deposits-foreign - currency	(188,525)	173,396
Cash flow hedge	Contracts for selling goods and contracts for purchasing machinery and equipment	Forward contracts	(73,379)	110,481

The fair value of the above hedging instruments would approximate their carrying values. The exchange rate fluctuations of the above fair value hedged items and financial instrument were recorded as gain or loss in the current year. The exchange rate fluctuations of hedged items and financial instrument on hedge of a net investment in a foreign operation and cash flow were recorded as adjustment to stockholders' equity.

As of December 31, 2012 and 2011, the fair values of the above foreign currency deposits on cash flow hedge were NT$2,755,020 thousand and NT$4,518,975 thousand, respectively, recorded as other financial assets (including noncurrent) (Note 13).

29. RELATED PARTY TRANSACTIONS

a. Related parties

Related Parties	Relationship with the Corporation
C. S. Aluminum Corporation (CAC)	Affiliate
China Steel Express Corporation (CSE)	Affiliate
China Steel Chemical Corporation (CSCC)	Affiliate
China Steel Global Trading Corporation	Affiliate
China Hi-Ment Corporation (CHC)	Affiliate
China Ecotek Corporation (CEC)	Affiliate
China Steel Structure Co., Ltd. (CSSC)	Affiliate
Chung Hung Steel Corporation (CHSC)	Affiliate
China Steel Machinery Corporation (CSMC)	Affiliate
Gains Investment Corporation	Affiliate
China Steel Security Corporation	Affiliate
China Prosperity Development Corporation	Affiliate
Info-Champ Systems Corporation (ICSC)	Affiliate
China Steel Management Consulting Corporation	Affiliate
Hi-mag Magnetic Corporation (HMC)	Affiliate
Long Yuan Fa Investment Corporation	Affiliate
Horng Yih Investment Corporation	Affiliate
Goang Yaw Investment Corporation	Affiliate
Dragon Steel Corporation (DSC)	Affiliate
China Steel Sumikin Vietnam Joint Stock Company	Affiliate
CSC Steel Australia Holdings Pty Ltd. (CSCAU)	Affiliate
Chung Mao Trading (BVI) Corp.	Affiliate
Chung Mao Trading (SAMOA) Co.	Affiliate
CSGT (Singapore) Pte. Ltd.	Affiliate
CSE Transport Corp. (Panama) (CSEP)	Affiliate
Mentor Consulting Corporation	Affiliate
Steel Castle Technology Corporation	Affiliate
Union Steel Development Corp.	Affiliate
Betacera Inc.	Affiliate
Wabo Globe Trading Corporation	Affiliate
Universal Exchange Inc.	Affiliate
United Steel Construction Corporation	Affiliate
Thintech Materials Technology Co., Ltd.	Affiliate
Pao Good Industrial Co., Ltd.	Affiliate
CSGT International Corp.	Affiliate
CSGT Metals Vietnam Joint Stock Company	Affiliate
CSC Steel Sdn. Bhd.	Affiliate
Group Steel Corp. (M) Sdn. Bhd.	Affiliate

(Continued)

Related Parties	Relationship with the Corporation
CSGT JAPAN Co., Ltd.	Affiliate
CSGT Hong Kong Limited	Affiliate
CSGT (SHANGHAI) Co., Ltd.	Affiliate
Ever Glory International Co., Ltd.	Affiliate
CSC Sonoma Pty Ltd.	Affiliate
Changzhou China Steel Precision Materials Corporation	Affiliate
Kaohsiung Rapid Transit Corporation	Equity method investee
TaiAn Technologies Corporation	Equity method investee
Hsin Hsin Cement Enterprise Corp.	Equity method investee
Kaohsiung Port Cargo Handling Services Corp.	Equity method investee of the Corporation's affiliate
CSBC Corporation Taiwan (CSBC)	CSBC's director
Tang Eng Iron Works Co., Ltd. (TEI)	TEI's director
Rechi Precision Co., Ltd.	Rechi Precision Co., Ltd.'s director
CSC Educational Foundation	Foundation established mainly from the Corporation's donation
Others	Substantial control and significant influence over investees, but no material transaction

(Concluded)

b. Significant related-party transactions were as follows:

Sales

Sales to related parties were NT$17,678,400 thousand (9%, including CSBC, CSSC and CSCC, etc.) and NT$18,597,483 thousand (8%, including CSBC, CSSC and CSCC, etc.) respectively, for the years ended December 31, 2012 and 2011.

Purchase

Purchases from related parties were NT$19,107,363 thousand (14%, including CSEP, DSC and CSE, etc.) and NT$25,327,323 thousand (14%, including DSC, CSEP and CAC, etc.) respectively, for the years ended December 31, 2012 and 2011.

Except for selling product to CSCC and purchasing product from CSEP, DSC, CSE and CAC which the Corporation had no similar transaction with other unrelated parties, sales to and purchases from related parties were made under normal terms applied to similar transactions in the market.

Commission revenue

The Corporation signed the brokerage contract with DSC. For the years ended December 31, 2012 and 2011, the commission revenue was NT$351,656 thousand and NT$403,924 thousand, respectively.

Assets lease

The Corporation leases its land and machinery equipment to CAC, CSMC, CSCC, HMC and CHC, etc. Rentals were calculated at 3% p.a. of current assessed land value, 4% to 10% p.a. of land assessed value as published by the government or under normal terms. Rentals were collected semiannually, except for rental from CAC on land and machinery and from CSCC on the storage tank and pipelines, which are collected monthly. Lease information was as follows:

	Expiry of Contracts	Rental Income for the Years Ended December 31			
		2012		2011	
		Amount	%	Amount	%
CSMC	November 2016	$ 68,141	39	$ 30,155	20
CAC	February 2016	37,080	21	39,142	26
CSCC	June 2019	23,714	13	23,078	15
Others	October 2017	20,858	12	28,919	18
		$ 149,793	85	$ 121,294	79

Other revenues

Other revenues pertained to professional services, processing of products, utilities, construction, royalties and other services to related parties. These were recorded in other operating revenues and nonoperating income and gains as follows:

	Other Operating Revenue	%	Nonoperating Income and Gains	%	Total
Year ended December 31, 2012					
DSC	$ 854,555	14	$ 3,549	1	$ 858,104
TEI	661,359	11	125	-	661,484
CHSC (Note 11)	68,268	1	315,926	37	384,194
Others	992,903	16	78,321	9	1,071,224
	$ 2,577,085	42	$ 397,921	47	$ 2,975,006
Year ended December 31, 2011					
DSC	$ 1,344,688	23	$ 10,483	2	$ 1,355,171
TEI	707,547	12	125	-	707,672
CHSC (Note 11)	60,766	1	321,659	40	382,425
Others	609,629	10	98,016	12	707,645
	$ 2,722,630	46	$ 430,283	54	$ 3,152,913

Other expenditures

Other expenditures paid to related parties for the years ended December 31, 2012 and 2011 (including CEC, CHC and CSMC, etc.) were NT$4,968,768 thousand and NT$4,983,283 thousand, respectively. Other expenditures that pertained to commissions for processing services, maintenance and repairs, commissions for export and import services, etc., were recorded in other operating costs, manufacturing expenses, operating expenses and nonoperating expenses and losses.

Other expenditures paid to related parties were made under normal terms applied to similar transactions in the market.

Capital expenditures

	Years Ended December 31			
	2012		2011	
	Amount	%	Amount	%
CEC	$ 2,169,414	10	$ 1,029,230	7
CSMC	1,910,546	8	1,928,664	13
Others	2,196,389	10	1,189,566	7
	$ 6,276,349	28	$ 4,147,460	27

Guarantees

As of December 31, 2012, guarantees provided to DSC for procurement compliance and to CSCAU for investment compliance were NT$22,503,365 thousand (USD399,565 thousand and AUD359,314 thousand); as of December 31, 2011, guarantees provided to DSC for procurement compliance were NT$13,803,860 thousand (USD 455,197 thousand).

Balances at year-end

	December 31			
	2012		2011	
	Amount	%	Amount	%
Notes receivable - related parties				
CSBC	$ 519,433	52	$ 468,369	35
Others	20	-	30	-
	$ 519,453	52	$ 468,399	35
Accounts receivable - related parties				
CSCC	$ 303,385	8	$ 278,479	9
DSC	289,865	8	119,663	4
Others	237,645	7	155,074	4
	$ 830,895	23	$ 553,216	17
Accounts payable - related parties				
CSE	$ 168,359	4	$ 206,972	3
CSEP	122,289	3	378,810	7
Others	206,320	5	265,532	5
	$ 496,968	12	$ 851,314	15
Consignment payable (recorded as other payables)				
DSC	$ 816,401	10	$ 345,327	7
Repair and construction payable (recorded as other payables)				
CSMC	$ 625,537	7	$ 388,975	8
ICSC	449,665	5	280,612	6
CEC	416,375	5	235,616	5
Others	230,140	3	85,316	1

	$ 1,721,717	20	$ 990,519	20

c. Compensation of directors, supervisors and management personnel

	Years Ended December 31	
	2012	2011
Salaries	$ 55,415	$ 78,527
Incentives	8,231	21,307
Bonus	6,222	21,534
	$ 69,868	$ 121,368

30. PLEDGED ASSETS

Time deposits of NT$5,658,819 thousand (recorded as restricted assets - current and noncurrent) as of both December 31, 2012 and 2011, have been pledged mainly as collaterals for bank overdraft, etc. As of both December 31, 2012 and 2011, land with book value (including revaluation increment) of NT$18,875,450 thousand, had been pledged as collateral for a long-term debt.

31. SIGNIFICANT COMMITMENTS AND CONTINGENCIES AS OF DECEMBER 31, 2012

a. The Corporation provide letters of credits of NT$463,722 thousand guaranteed by Mega International Commercial Bank, Shanghai Commercial and Savings Bank and the Land Bank of Taiwan for several construction, lease and payment contracts.

b. Unused letters of credit to import materials and machinery amounted to NT$6 billion.

c. Property purchase and construction contracts of NT$6.8 billion were signed but not yet recorded.

d. The Corporation entered into raw material purchase contracts with suppliers in Australia, Brazil, Canada, Japan and domestic companies with contract terms of 1 to 10 years. Contracted current year purchases of 7,380,000 metric tons of coal, 17,600,000 metric tons of iron ore, and 2,120,000 metric tons of limestone are at prices negotiable by the counter parties. Purchase commitments as of December 31, 2012 were USD10.3 billion (including 9,890,000 metric tons of coal; 70,400,000 metric tons of iron ore; and 550,000 metric tons of limestone).

e. In December 2011, CHSC entered into a syndicated credit facility agreement with Bank of Taiwan and 11 other banks. Under the agreement, the Corporation and its related parties should collectively hold at least 30% of CHSC's outstanding shares and control of its operations. In September 2006, CHSC entered into a syndicated credit facility agreement with Mega International Commercial Bank and 20 other banks. Under the agreement, the Corporation and its related parties should collectively hold at least 30% of CHSC's outstanding shares and should hold no less than half of CHSC's board seats as well as control of its operations. As of December 31, 2012, the Corporation directly and indirectly had total shareholdings in CHSC of 41% and held all seats in the Board of Directors and control on its operations with subsidiaries.

f. DSC entered into two syndicated credit facility agreements for NT$20 billion and NT$51.7 billion, with the Bank of Taiwan and other banks in December 2009 and February 2008, respectively. Under the agreements, the Corporation and its related parties should collectively hold at least 80% and 40%, respectively, of DSC's outstanding shares and should hold no less than half of DSC's board seats. As of December 31, 2012, the Corporation's equity in DSC aggregated 100% and held all board seats.

g. Guarantees provided to related parties for procurement and investment compliances were NT$22,503,365 thousand (USD399,565 thousand and AUD359,314 thousand) (Note 29).

32. OPERATING SEGMENT INFORMATION

The Corporation disclosed its operating segment information in the consolidated financial statements; thus, disclosure in these financial statements is waived.

33. EXCHANGE RATE INFORMATION OF FOREIGN-CURRENCY FINANCIAL ASSETS AND LIABILITIES

The significant foreign-currency financial assets and liabilities were as follows:

	December 31					
	2012			2011		
	Foreign Currencies (Thousands)	Exchange Rate	New Taiwan Dollars (Thousands)	Foreign Currencies (Thousands)	Exchange Rate	New Taiwan Dollars (Thousands)
Monetary financial assets						
USD	$ 180,715	29.04	$ 5,247,974	$ 177,733	30.275	$ 5,380,863
JPY	11,181,621	0.3364	3,761,470	12,508,348	0.3906	4,885,761
EUR	4,461	38.49	171,697	2,059	39.18	80,658
Non-monetary financial assets						
JPY	4,550,000	0.3364	1,530,620	4,102,000	0.3906	1,602,241
Investments accounted for by the equity method						
USD	445,958	29.04	12,950,633	246,598	30.275	7,465,742
AUD	68,271	30.165	2,059,395	23,053	30.735	708,535
INR	2,729,660	0.5298	1,446,174	-	-	-
Monetary financial liabilities						
USD	390,794	29.04	11,348,733	258,417	30.275	7,823,574
JPY	14,008,891	0.3364	4,712,591	13,899,203	0.3906	5,429,029
AUD	16,540	30.165	498,929	16,540	30.735	508,357
EUR	586	38.49	22,555	142	39.18	5,554

Derivative Financial Instruments

	Currency	Contract Exchange Rate	Contract Amount (In Thousands)
December 31, 2012			
Forward exchange contracts - buy	NTD/USD	27.208-29.896	NTD2,031,467/USD70,729
Forward exchange contracts - buy	NTD/EUR	38.865-40.58	NTD67,767/EUR1,728
Forward exchange contracts - sell	JPY/NTD	0.3385-0.3401	JPY1,000,000/NTD339,200
December 31, 2011			
Forward exchange contracts - buy	NTD/USD	27.208-30.238	NTD2,421,149/USD84,579
Forward exchange contracts - buy	NTD/EUR	40.58-42.915	NTD133,699/EUR3,216