

China Steel Corporation and Subsidiaries

**Consolidated Financial Statements for the
Nine Months Ended September 30, 2010 and 2009 and
Independent Accountants' Review Report**

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Stockholders
China Steel Corporation

We have reviewed the accompanying consolidated balance sheets of China Steel Corporation (the "Corporation") and its subsidiaries as of September 30, 2010 and 2009, and the related consolidated statements of income and cash flows for the nine months then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to issue a report on these consolidated financial statements based on our reviews.

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

Investments in certain subsidiaries (all with shares having no quoted prices) included in the consolidated financial statements were unreviewed. As of September 30, 2010 and 2009, these subsidiaries' total assets amounted to NT\$64,348,060 thousand and NT\$180,545,047 thousand, or 12% and 40%, respectively, of total consolidated assets, and their total liabilities amounted to NT\$26,258,529 thousand and NT\$82,278,847 thousand, or 10% and 40%, respectively, of total consolidated liabilities. For the nine months ended September 30, 2010 and 2009, their net sales amounted to NT\$35,123,625 thousand and NT\$34,412,302 thousand, or 14% and 19%, respectively, of consolidated net operating revenues, and their related net income amounted to NT\$5,136,159 thousand and NT\$4,435,116 thousand, or 14% and 97%, respectively, of consolidated net income. As discussed in Note 14 to the accompanying consolidated financial statements, the aggregate carrying value of the Corporation's investments accounted for by the equity-method amounted to NT\$3,243,014 thousand and NT\$3,314,305 thousand, as of September 30, 2010 and 2009, respectively, and the net investment loss amounted to NT\$44,697 thousand and NT\$467,115 thousand for the nine months ended September 30, 2010 and 2009, respectively. These investment amounts were based on the investees' unreviewed financial statements for the same reporting period as that of the Corporation.

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

As stated in Note 3 to the accompanying consolidated financial statements, starting January 1, 2009, the Corporation and its subsidiaries adopted the newly revised Statement of Financial Accounting Standards No. 10 - "Accounting for Inventories", issued by the ARDF in November 2007.

October 12, 2010

Notice to Readers

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

For the convenience of readers, the accountants' review report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language accountants' review report and consolidated financial statements shall prevail.

CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30, 2010 AND 2009

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

(Reviewed, Not Audited)

ASSETS	2010		2009	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents	\$ 16,498,230	3	\$ 15,779,391	3
Financial assets at fair value through profit or loss - current	4,921,154	1	4,853,963	1
Available-for-sale financial assets - current	5,300,017	1	4,912,910	1
Held-to-maturity financial assets - current	-	-	407,464	-
Hedging derivative assets - current	162,264	-	579,958	-
Notes receivable, net	1,705,622	-	1,045,452	-
Accounts receivable, net	8,609,093	2	7,312,179	2
Other receivables	2,692,364	-	2,558,594	1
Other financial assets - current	3,054,032	1	5,675,372	1
Inventories	84,002,209	16	50,007,942	11
Spare parts - current	8,762,091	2	8,097,524	2
Investment classified as held for disposal	-	-	89,936	-
Deferred income tax assets - current	1,752,616	-	2,470,652	1
Restricted assets - current	5,684,168	1	4,635,345	1
Others	6,725,248	1	5,712,699	1
Total current assets	<u>149,869,108</u>	<u>28</u>	<u>114,139,381</u>	<u>25</u>
FUNDS AND INVESTMENTS				
Available-for-sale financial assets - noncurrent	3,501,104	1	3,379,730	1
Held-to-maturity financial assets - noncurrent	249,080	-	455,375	-
Hedging derivative assets - noncurrent	142,858	-	199,544	-
Financial assets carried at cost - noncurrent	8,762,544	2	8,319,019	2
Bond investments with no active market - noncurrent	240,562	-	144,491	-
Investments accounted for by the equity method	3,243,014	-	3,314,305	-
Investments in real estate	219,205	-	219,205	-
Prepaid long-term stock investments	-	-	77,883	-
Other financial assets - noncurrent	625,856	-	3,499,771	1
Total funds and investments	<u>16,984,223</u>	<u>3</u>	<u>19,609,323</u>	<u>4</u>
PROPERTY, PLANT AND EQUIPMENT				
Land	17,152,986	3	16,805,003	4
Land improvements	6,111,262	1	4,291,679	1
Buildings	74,330,569	14	51,470,448	11
Machinery and equipment	420,928,557	78	300,917,288	67
Transportation equipment	19,745,104	4	19,927,731	4
Other equipment	15,045,456	3	12,854,449	3
Total cost	553,313,934	103	406,266,598	90
Revaluation increment	43,623,754	8	43,673,414	10
Cost and revaluation increment	596,937,688	111	449,940,012	100
Less: Accumulated depreciation	291,862,187	54	273,218,171	61
Accumulated impairment	1,045,277	-	1,026,646	-
	304,030,224	57	175,695,195	39
Construction in progress and prepayments for equipment	52,651,568	10	128,275,102	29
Total property, plant and equipment, net	<u>356,681,792</u>	<u>67</u>	<u>303,970,297</u>	<u>68</u>
INTANGIBLE ASSETS	<u>1,816,936</u>	<u>-</u>	<u>1,841,889</u>	<u>1</u>
OTHER ASSETS				
Assets leased to others, net	456,583	-	442,696	-
Idle assets, net	5,260,390	1	4,332,077	1
Refundable deposits	387,620	-	265,181	-
Deferred income tax assets - noncurrent	1,424,550	-	2,912,766	1
Restricted assets - noncurrent	156,106	-	177,298	-
Spare parts - noncurrent	1,720,268	1	1,501,786	-
Deferred charge and others	1,238,211	-	975,172	-
Total other assets	<u>10,643,728</u>	<u>2</u>	<u>10,606,976</u>	<u>2</u>
TOTAL	<u>\$ 535,995,787</u>	<u>100</u>	<u>\$ 450,167,866</u>	<u>100</u>

LIABILITIES AND STOCKHOLDERS' EQUITY	2010		2009	
	Amount	%	Amount	%
CURRENT LIABILITIES				
Short-term loans and overdraft	\$ 44,549,746	8	\$ 51,019,521	11
Commercial paper payable	14,041,930	3	24,627,231	6
Financial liabilities at fair value through profit or loss - current	418	-	701	-
Hedging derivative liabilities - current	204,571	-	-	-
Notes payable	674,065	-	457,944	-
Accounts payable	10,631,220	2	5,141,341	1
Income tax payable	4,503,906	1	2,206,064	1
Accrued expenses	14,814,156	3	8,959,118	2
Other payables	16,100,978	3	4,583,487	1
Purchase commitments payable	303,616	-	3,565,434	1
Bonds payable - current portion	8,098,532	1	-	-
Long-term debt - current portion	1,613,154	-	10,627,192	2
Reorganized loans payable - current portion	400,000	-	400,000	-
Long-term notes payable - current portion	-	-	199,995	-
Others	9,041,754	2	4,978,283	1
Total current liabilities	<u>124,978,046</u>	<u>23</u>	<u>116,766,311</u>	<u>26</u>
LONG-TERM LIABILITIES				
Hedging derivative liabilities - noncurrent	150,488	-	-	-
Bonds payable	35,127,260	7	43,216,696	10
Long-term debt - bank	71,054,013	13	24,968,426	6
Long-term notes payable	5,393,188	1	6,597,906	1
Reorganized loans payable	4,368,204	1	4,763,427	1
Total long-term liabilities	<u>116,093,153</u>	<u>22</u>	<u>79,546,455</u>	<u>18</u>
RESERVE FOR LAND VALUE INCREMENT TAX	<u>8,673,466</u>	<u>2</u>	<u>8,673,466</u>	<u>2</u>
OTHER LIABILITIES				
Accrued pension cost	526,944	-	837,552	-
Others	1,012,298	-	854,103	-
Total other liabilities	<u>1,539,242</u>	<u>-</u>	<u>1,691,655</u>	<u>-</u>
Total liabilities	<u>251,283,907</u>	<u>47</u>	<u>206,677,887</u>	<u>46</u>
STOCKHOLDERS' EQUITY OF PARENT COMPANY				
Capital stock - authorized 17,000,000 thousand shares and 14,000,000 thousand shares at NT\$10 par value as of September 30, 2010 and 2009, respectively				
Common shares - issued 13,527,901 thousand shares and 13,094,519 thousand shares as of September 30, 2010 and 2009, respectively	135,279,009	25	130,945,189	29
Preferred shares - issued 38,268 thousand shares	382,680	-	382,680	-
Total capital stock	<u>135,661,689</u>	<u>25</u>	<u>131,327,869</u>	<u>29</u>
Capital surplus	19,966,634	4	18,842,759	4
Retained earnings				
Legal reserve	49,070,526	9	47,117,709	10
Special reserve	7,615,701	2	7,615,701	2
Unappropriated earnings	64,909	-	15,440	-
Net income of parent company for the nine months ended September 30	33,055,568	6	3,916,228	1
Total retained earnings	<u>89,806,704</u>	<u>17</u>	<u>58,665,078</u>	<u>13</u>
Other equity				
Unrealized revaluation increment	21,914,205	4	21,913,197	5
Unrealized gain on financial instruments	2,767,998	1	4,686,578	1
Cumulative translation adjustments	350,198	-	150,880	-
Net loss not recognized as pension cost	(42,243)	-	(32,385)	-
Treasury stock - 297,213 thousand shares and 392,167 thousand shares as of September 30, 2010 and 2009, respectively	(8,450,143)	(2)	(10,812,752)	(2)
Total other equity	<u>16,540,015</u>	<u>3</u>	<u>15,905,518</u>	<u>4</u>
Total stockholders' equity of parent company	261,975,042	49	224,741,224	50
MINORITY INTEREST	<u>22,736,838</u>	<u>4</u>	<u>18,748,755</u>	<u>4</u>
Total stockholders' equity	<u>284,711,880</u>	<u>53</u>	<u>243,489,979</u>	<u>54</u>
TOTAL	<u>\$ 535,995,787</u>	<u>100</u>	<u>\$ 450,167,866</u>	<u>100</u>

(With Deloitte & Touche review report dated October 12, 2010)

CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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

(Reviewed, Not Audited)

	2010		2009	
	Amount	%	Amount	%
OPERATING REVENUES	\$ 254,824,654	100	\$ 177,383,787	100
OPERATING COSTS	<u>201,065,227</u>	<u>79</u>	<u>168,738,726</u>	<u>95</u>
GROSS PROFIT	53,759,427	21	8,645,061	5
REALIZED GAIN FROM AFFILIATES	<u>22,839</u>	<u>-</u>	<u>22,839</u>	<u>-</u>
REALIZED GROSS PROFIT	<u>53,782,266</u>	<u>21</u>	<u>8,667,900</u>	<u>5</u>
OPERATING EXPENSES				
Research and development	1,202,800	-	967,687	-
Selling	3,462,246	1	3,238,581	2
General and administrative	<u>4,003,655</u>	<u>2</u>	<u>3,108,020</u>	<u>2</u>
Total operating expenses	<u>8,668,701</u>	<u>3</u>	<u>7,314,288</u>	<u>4</u>
OPERATING INCOME	<u>45,113,565</u>	<u>18</u>	<u>1,353,612</u>	<u>1</u>
NONOPERATING INCOME AND GAINS				
Interest income	213,186	-	214,124	-
Dividend income	225,892	-	155,530	-
Exchange gain, net	188,558	-	61,533	-
Gain on disposal of property, plant and equipment	1,477	-	1,263,610	1
Gain on disposal of investments, net	19,855	-	1,683,470	1
Reversal of impairment loss	1,369	-	1,145,693	1
Others	<u>322,079</u>	<u>1</u>	<u>679,753</u>	<u>-</u>
Total nonoperating income and gains	<u>972,416</u>	<u>1</u>	<u>5,203,713</u>	<u>3</u>
NONOPERATING EXPENSES AND LOSSES				
Interest expense	994,479	1	1,163,259	1
Investment loss recognized under equity method, net	39,940	-	460,273	-
Others	<u>668,714</u>	<u>-</u>	<u>301,903</u>	<u>-</u>
Total nonoperating expenses and losses	<u>1,703,133</u>	<u>1</u>	<u>1,925,435</u>	<u>1</u>
CONSOLIDATED INCOME BEFORE INCOME TAX	44,382,848	18	4,631,890	3

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CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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

(Reviewed, Not Audited)

	2010		2009	
	Amount	%	Amount	%
INCOME TAX EXPENSE	\$ 7,159,418	3	\$ 48,894	-
CONSOLIDATED NET INCOME	\$ 37,223,430	15	\$ 4,582,996	3
ATTRIBUTABLE TO				
The Corporation's stockholders	\$ 33,055,568	13	\$ 3,916,228	2
Minority interest	4,167,862	2	666,768	1
	\$ 37,223,430	15	\$ 4,582,996	3
	2010		2009	
	Before Tax	After Tax	Before Tax	After Tax
EARNINGS PER SHARE				
Basic	\$ 2.86	\$ 2.50	\$ 0.17	\$ 0.30
Diluted	\$ 2.84	\$ 2.47	\$ 0.17	\$ 0.29

(With Deloitte & Touche review report dated October 12, 2010)

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CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	\$ 37,223,430	\$ 4,582,996
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	16,043,777	12,533,874
Amortization	280,291	193,261
Deferred income tax	2,438,173	(1,137,154)
Realized gain from affiliates	(22,839)	(22,839)
Provision for loss on inventories, net	169,997	799,972
Investment loss recognized under equity method, net	44,697	467,115
Cash dividends received from equity method investees	47,190	33,369
Loss (gain) on disposal of property, plant and equipment, net	158,504	(1,207,032)
Gain on disposal of investments	(227,210)	(1,883,559)
Loss on disposal of investments accounted for by equity method	18,452	-
Valuation loss (gain) on financial instruments	83,443	(499,278)
Impairment loss on financial assets	62,652	43,847
Reversal of impairment loss on idle assets	(1,369)	(1,145,693)
Loss on purchase commitments	303,616	2,112,722
Others	(239,701)	45,299
Net changes in operating assets and liabilities		
Financial instruments held for trading	336,447	(433,440)
Notes receivable	(292,211)	2,130,557
Accounts receivable	(1,369,998)	(40,996)
Other receivables	(1,051,053)	240,244
Inventories	(28,369,699)	32,957,915
Other current assets	(2,563,806)	(1,813,615)
Notes payable	97,928	(129,930)
Accounts payable	4,012,724	(2,153,444)
Income tax payable	3,565,550	(6,877,048)
Accrued expenses	3,219,958	(122,138)
Purchase commitments payable and other payables	1,502,769	(9,464,184)
Other current liabilities	<u>3,171,689</u>	<u>791,048</u>
Net cash provided by operating activities	<u>38,643,401</u>	<u>30,001,869</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets designated as at fair value through profit or loss	(19,296,493)	(5,952,787)
Proceeds from disposal of financial assets designated as at fair value through profit or loss	23,903,870	14,445,904
Acquisition of available-for-sale financial assets	(8,938,816)	(6,684,673)
Proceeds from disposal of available-for-sale financial assets	9,070,038	9,954,912
Acquisition of held-to-maturity financial assets	(81,445)	(1,287,442)
Proceeds from disposal of held-to-maturity financial assets	242,046	1,129,007
Acquisition of financial assets carried at cost	(297,273)	(126,176)
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CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	2010	2009
Proceeds from disposal of financial assets carried at cost	\$ 44,535	\$ 21,015
Proceeds from capital reduction on financial assets carried at cost	6,532	5,264
Acquisition of bond investments with no active market	(125,470)	(4,170)
Proceeds from disposal of bond investments with no active market	99,878	-
Acquisition of investments accounted for by equity method	(40,994)	(59,958)
Proceeds from disposal of investments accounted for by the equity method	15,931	7,438
Proceeds from capital reduction of investment accounted for by equity method	51,780	130,600
Increase in prepaid long-term stock investments	-	(77,883)
Decrease in other financial assets	1,070,699	3,296,178
Acquisition of property, plant and equipment	(52,973,427)	(54,794,637)
Proceeds from disposal of property, plant and equipment	12,846	1,768,795
Decrease (increase) in refundable deposits	(114,918)	33,087
Increase in restricted assets	(515,557)	(108,695)
Increase in intangible assets	(36,174)	(127,164)
Increase in other assets	<u>(265,338)</u>	<u>(649,561)</u>
Net cash used in investing activities	<u>(48,167,750)</u>	<u>(39,080,946)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term loans and overdraft	(5,572,097)	13,239,917
Increase (decrease) in commercial paper payable	(4,579,595)	2,398,120
Increase in long-term debt	33,119,965	2,900,000
Repayments of long-term debt and reorganized loans payable	(2,976,609)	(4,591,649)
Increase (decrease) in long-term notes payable	(1,401,119)	4,751,456
Increase in other liabilities	199,783	16,525
Cash dividends paid by parent company	(12,801,138)	(15,630,897)
Purchase of parent company's shares held by subsidiaries	(390,832)	(323,631)
Disposal of parent company's shares held by subsidiaries	-	296,007
Increase (decrease) in minority interest	(1,904,088)	1,754,952
Others	<u>(56,000)</u>	<u>(21,765)</u>
Net cash provided by financing activities	<u>3,638,270</u>	<u>4,789,035</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,886,079)	(4,290,042)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>22,384,309</u>	<u>20,069,433</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 16,498,230</u>	<u>\$ 15,779,391</u>

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CHINA STEEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	2010	2009
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid	\$ 1,090,466	\$ 1,229,212
Capitalized interest	<u>(436,863)</u>	<u>(550,227)</u>
Interest paid (excluding capitalized interest)	<u>\$ 653,603</u>	<u>\$ 678,985</u>
Income tax paid	<u>\$ 1,155,695</u>	<u>\$ 8,063,096</u>
INVESTING AND FINANCING ACTIVITIES AFFECTING BOTH CASH AND NON-CASH ITEMS		
Cash Paid for Acquisition of Property, Plant and Equipment		
Acquisition of property, plant and equipment	\$ 63,105,761	\$ 53,619,620
Decrease (Increase) in payable for equipment purchased	<u>(10,132,334)</u>	<u>1,175,017</u>
	<u>\$ 52,973,427</u>	<u>\$ 54,794,637</u>
Cash Dividends Paid to Stockholders		
Total cash dividends payable to stockholders	\$ 13,266,411	\$ 16,234,154
Acquisition of cash dividends distributed by parent company	<u>(472,637)</u>	<u>(579,540)</u>
Decrease (increase) in dividends payable	<u>7,364</u>	<u>(23,717)</u>
	<u>\$ 12,801,138</u>	<u>\$ 15,630,897</u>
NON-CASH FINANCING ACTIVITIES		
Current portion of long-term liabilities	<u>\$ 6,238,255</u>	<u>\$ 8,301,247</u>

(With Deloitte & Touche review report dated October 12, 2010)

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